華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

- **Turnover rose by 12% to HK$25.3 billion, led by the retail and beverage businesses**
- **Earnings grew by 70% to HK$1,262 million with all operations under management showing improvement in profitability**
- **Excluding the after-tax effect of revaluation surplus of investment properties, net profit was up 26%**
- **Interim dividend of HK13¢ declared, a 18% increase**

FINANCIAL HIGHLIGHTS

	Six months ended 30 June	
	2005	2004
	(Unaudited)	(Unaudited & Restated)
	HK$'000	*HK$'000*
Turnover	**25,255,560**	22,640,634
Profit from operations	**1,773,572**	979,509
Share of net results of associates	**170,474**	195,348
Net profit attributable to shareholders of the Company	**1,262,360**	740,589
Basic earnings per share	**HK$0.59**	HK$0.35
Interim dividend per share	**HK$0.13**	HK$0.11

	At 30 June 2005	At 31 December 2004
	(Unaudited)	(Unaudited & Restated)
	HK$'000	*HK$'000*
Equity attributable to shareholders of the Company	**17,102,259**	15,124,827
Minority interests	**4,557,447**	4,811,653
Consolidated net borrowings	**3,883,111**	4,980,613
Gearing ratio[1]	**17.9%**	25.0%
Current ratio	**1.11**	1.26
Net assets per share of the Company: Book value	**HK$7.77**	HK$7.12

ANALYSIS OF TURNOVER AND PROFIT

	Six months ended 30 June			
	Turnover		**Profit Attributable to Shareholders**	
	2005	2004	**2005**	2004
	(Unaudited)	(Unaudited & Restated)	**(Unaudited)**	(Unaudited & Restated)
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*
Core Businesses				
– Retail	**7,930,337**	6,873,481	**104,933**	63,362
– Beverage	**3,204,273**	2,299,034	**59,892**	52,596
– Food Processing and Distribution	**2,836,239**	2,692,170	**246,767**	195,606
– Textile	**2,058,621**	1,700,749	**55,659**	42,093
– Property[2]	**147,023**	156,881	**429,224**	165,988
Subtotal	**16,176,493**	13,722,315	**896,475**	519,645
Other Businesses				
– Petroleum and Chemical Distribution	**9,187,980**	8,996,290	**302,032**	141,593
– Investments and Others	**–**	–	**168,243**	178,396
Subtotal	**9,187,980**	8,996,290	**470,275**	319,989
	25,364,473	22,718,605	**1,366,750**	839,634
Elimination of inter-segment transactions	**(108,913)**	(77,971)	**–**	–
Net corporate interest and expenses	**–**	–	**(104,390)**	(99,045)
Total	**25,255,560**	22,640,634	**1,262,360**	740,589

Notes:

1. Gearing ratio represents the ratio of consolidated net borrowings to equity attributable to shareholders of the Company and minority interests.
2. The results of the Property division comprise a net-of-tax valuation surplus of approximately HK$0.3 billion in respect of the rental properties portfolio.

CHAIRMAN'S STATEMENT

HALF YEAR RESULTS

The Group's unaudited consolidated turnover and profit attributable to the Company's shareholders for the six months ended 30 June 2005 amounted to approximately HK$25,255.6 million and HK$1,262.4 million respectively, representing an increase of 11.5% and 70.5% over that of last year. Earnings per share of the Group, on a weighted average basis, was HK$0.59 compared to HK$0.35 in 2004. Excluding the gain in property revaluation and its related deferred tax effects which are considered the major effects of changes in accounting policies, the Group's consolidated profit attributable to the Company's shareholders for the first half of 2005 was HK$936.5 million, 26.5% higher than that in the same period of 2004.

The encouraging performance was achieved amidst sustained economic recovery in Hong Kong, burgeoning growth of the Chinese Mainland consumer market and the Group's persistent efforts to enhance operational profitability.

INTERIM DIVIDEND

The Board has resolved to declare an interim dividend of HK$0.13 per share for the six months ended 30 June 2005 (2004: HK$0.11 per share) payable on or about 26 October 2005 to shareholders whose names appear on the Register of Members of the Company on 3 October 2005.

PROSPECTS

Our results in the first half of 2005 reflect solid profitability improvement attributable to steady revenue growth, disciplined cost management, while investing for the future, and improved efficiency. The Group has an objective of becoming the largest consumer company in China with business focus on retail, brewery, food and textile. Non-core assets will continue to be restructured or divested in a manner consistent with our shareholders' interests. The disposal of CRE Building and our stake in Xuzhou VV Food & Beverage during the period best demonstrates our commitment to this exercise. Therefore, to a large extent, the results also indicate the progress and strength of our transformation to focus on consumer-related businesses.

There has been considerable improvement in our supermarket operation following the introduction of various measures to optimise and rationalize the business. Taking advantage of the removal of foreign investment restrictions in retailing, the acquisition of the residual stakes in CR Vanguard and Suguo from our parent company was completed in May this year. This enables us to further promote the synergies derived from centralized management and enhanced bargaining power over suppliers. Concurrently, renovation of existing hypermarkets and ongoing store format remodelling will further distinguish us from competitors and gradually build up our core competence. The Group's brand-fashion distribution business has also performed well following the decision to terminate distribution of certain low profitability brands about two years ago. We will continue to take a prudent approach with emphasis on investment return but the expansion of some well-established brands will accelerate. The repositioning of our department store business in Hong Kong has also proven to be successful.

Over the past ten years, our brewery operation has been rapidly building up geographical coverage and market share. During this process, we are particularly encouraged by the development of our national brand, SNOW, being one of the fastest growing national brands in the mainland. Whilst market consolidation and brand marketing will remain crucial, we are targeting profitability as driver for future growth. Higher utilization rate, lower production costs, more effective branding strategy and stronger distribution channel management are at the core of this objective. We will continue to strengthen our presence in the existing districts so as to attain regional dominance. The acquisition of breweries in Jiangsu, Zhejiang and Anhui provinces last year has further boosted our production capacity and enhanced our capabilities to integrate for competitiveness.

The recent outbreak of the deadly bacterial diseases amongst livestock has temporarily affected fresh meat consumption in Hong Kong. However, as we also distribute other types of meat products, the overall impact has been mitigated. Over the long term, tighter control of hygiene in livestock farming and slaughtering following these incidents are expected to improve the prospects of our meat processing projects in the mainland as food safety will be further promulgated. On the other hand, general food distribution under the "Ng Fung" brand, including frozen food products, rice, dumplings and basic groceries, has been growing fast in Hong Kong and becoming a new driver for our food processing and distribution operation.

The Group has been deploying resources cautiously to balance opportunities and challenges. The removal of global textile quotas from 1 January 2005 has initially stimulated exports of textile products from the Chinese Mainland. However, subsequent imposition of protective quotas by the United States and European Union over concerns of dumping has created uncertainties in the market. Against the new competitive landscape, our textile operation will further develop through technology upgrade. By producing higher end textile products, our gross margin will be enhanced and our reliance on cotton prices be reduced. Similarly, our petroleum and chemical distribution business has benefited from the rising oil prices. Although oil prices would remain volatile, the operation's earnings base has been strengthened through investment in mainland piped gas projects which provide steady and growing income.

With leading presence already established in our business domains, the Group will focus on execution and organic growth, whilst at the same time, exploring the marketplace for attractive business opportunities. The robust economy of the Chinese Mainland and the recent revaluation of the Renminbi bode well for the domestic consumer market, where the Group has increasing exposure. The younger generation is embracing consumer activities as a form of entertainment and an intrinsic part of their lifestyle. This presents a unique opportunity for our brewery and retail businesses to develop their niche and growth platform. In Hong Kong, consumer spending will continue to benefit from the improving employment market, flourishing inbound tourism and a generally positive economic outlook. In sum, we are making great progress towards our strategic goals and are optimistic about the prospects for the remainder of the year.

INTERNAL CONTROL

The Group is committed to the establishment of a sound internal control system for achieving its business objectives and enhancing shareholders' value. The internal control system is designed to safeguard shareholders' investments, protect the Group's assets and assure against material financial misstatements. The Board has overall responsibilities for maintaining an adequate system of internal controls and reviewing its effectiveness through the Audit Committee. The Audit Committee meets with the senior management, internal and external auditors on a regular basis and makes recommendations wherever appropriate to the Board for control enhancement.

The Group's internal audit department adopts a risk-based approach in planning its internal audit activities. It aims to ensure proper internal controls are in place, both at the entity level as well as the transaction level. It also examines the operation's efficiency and compliance with the prescribed policies, procedures and local laws to make sure good business practices are applied consistently for all business units within the Group. Based on the assessment for the six months ended 30 June 2005, the Board has reviewed and is satisfied with the effectiveness of Group's internal control system.

INVESTOR RELATIONS

Investor relations management has become a crucial aspect in utilizing corporate resources. We strongly believe that the outlining of a comprehensive investor relations strategy is the key to success for healthy corporate development. The Group has always acknowledged an imperative importance of maintaining a transparent, impartial and interactive communications with its investors. The annual global roadshow in April 2005 provided an excellent opportunity for senior management of the Group to meet with worldwide investors from Europe, US, Japan and Singapore. The emphasis this year was on our brewery division and investors were able to acquire in-depth and latest information of the Group's brewery business. During the period under review, we met with over 400 analysts and fund managers in about 150 meetings for discussion of the Group's performance and development plans. It is our target to continue our devotion in maintaining a well-versed communication with our investors in coming future.

SOCIAL RESPONSIBILITY

As a responsible corporation, the Group has been participating actively in various community service programs, both in Hong Kong and the Chinese Mainland. Enthusiastic responses for the walkathon in January and the soccer game in August clearly demonstrated a caring culture rooted in our Hong Kong office. Business units in the Chinese Mainland also initiated many community service activities, ranging from fund raising charity functions, blood donation drive and even a "Clean the City" campaign. Equally, the Group has endeavored continuous efforts in environmental protection. All business units highly observed the practice of environmental protection throughout our operations.

APPRECIATION

On behalf of the Board of Directors, I would like to express my heartfelt gratitude to a team of dedicated staff for their unfailing service and to our shareholders for their enduring support to the Group.

SONG LIN
Chairman

Hong Kong, 8 September 2005

2005 INTERIM RESULTS

The Directors of China Resources Enterprise, Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2005 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

		Six months ended 30 June	
		2005	2004
		(Unaudited)	(Unaudited & Restated)
	Notes	***HK$'000***	*HK$'000*
Turnover	*4*	**25,255,560**	22,640,634
Cost of sales		**(20,729,128)**	(18,764,232)
Gross profit		**4,526,432**	3,876,402
Other revenue	*5*	**798,940**	201,862
Selling and distribution expenses		**(2,505,391)**	(2,063,330)
General and administrative expenses		**(1,046,409)**	(1,035,425)
Profit from operations		**1,773,572**	979,509
Finance costs	*6*	**(213,452)**	(152,175)
Share of net results of jointly controlled entities		**15,878**	–
Share of net results of associates		**170,474**	195,348
Profit before taxation	*7*	**1,746,472**	1,022,682
Taxation	*8*	**(284,808)**	(82,083)
Profit for the period		**1,461,664**	940,599
Attributable to :			
Shareholders of the Company		**1,262,360**	740,589
Minority interests		**199,304**	200,010
		1,461,664	940,599
Earnings per share	*10*		
Basic		**HK$0.59**	HK$0.35
Diluted		**HK$0.57**	HK$0.35

CONDENSED CONSOLIDATED BALANCE SHEET

	At 30 June 2005 (Unaudited)	At 31 December 2004 (Unaudited & Restated)
	HK$'000	*HK$'000*
Non-current assets		
Fixed assets		
– Investment properties	**5,589,600**	5,088,605
– Leasehold land and buildings	**6,072,031**	5,636,196
– Other fixed assets	**8,635,503**	8,490,255
Goodwill	**2,841,763**	2,319,217
Other intangible assets	**204,896**	211,025
Interests in jointly controlled entities	**687,816**	55,642
Interests in associates	**1,139,818**	1,530,417
Available for sale investments	**94,647**	128,612
Prepayments	**416,864**	959,920
Deferred taxation assets	**148,543**	167,192
	25,831,481	24,587,081
Current assets		
Stocks	**5,059,335**	5,069,792
Trade and other receivables	**4,915,264**	4,919,051
Derivative financial instruments	**71,260**	–
Taxation recoverable	**10,506**	16,163
Cash and bank balances	**5,819,842**	4,798,592
	15,876,207	14,803,598
Current liabilities		
Trade and other payables	**(9,018,998)**	(8,555,640)
Derivative financial instruments	**(57,252)**	–
Short term loans	**(4,981,523)**	(2,981,994)
Taxation payable	**(268,718)**	(182,123)
	(14,326,491)	(11,719,757)
Net current assets	**1,549,716**	3,083,841
	27,381,197	27,670,922
Non-current liabilities		
Long term liabilities	**(4,721,430)**	(6,797,211)
Deferred taxation liabilities	**(1,000,061)**	(937,231)
	21,659,706	19,936,480
Capital and reserve		
Share capital	**2,201,103**	2,123,009
Reserves	**14,901,156**	13,001,818
Equity attributable to shareholders of the Company	**17,102,259**	15,124,827
Minority interests	**4,557,447**	4,811,653
Total equity	**21,659,706**	19,936,480

Notes:

1. **Independent review**
The interim results for the half-year ended 30 June 2005 are unaudited and have been reviewed by the Group's Audit Committee.

2. **Basis of preparation**
The interim results announcement has been presented in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules").

A full set of unaudited condensed consolidated interim financial statements ("interim financial statements) which have been prepared in accordance with Hong Kong Accounting Standard 34 "Interim Financial Reporting" will be published as soon as practicable.

3. **Principal Accounting Polices**
The accounting policies used in the preparation of the interim financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2004 apart from the adoption of the new Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKAS") and Interpretations (collectively the "HKFRSs"), issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") that are effective for accounting periods beginning on or after 1 January 2005.

In connection with the adoption of the HKFRSs, the Group has applied certain new accounting policies in accordance with the transitional provisions as set out in the relevant HKFRSs. Where required, these new HKFRSs have been applied retrospectively. In addition, certain comparative figures have been reclassified to confirm with the current period presentation. The major changes to accounting policies and the effects on the Group's profit and loss account and shareholders' equity are set out as follows:

(a) *Investment Properties*
In previous periods, investment properties were measured at open market values, with revaluation surplus or deficits credited or charged to property valuation reserve unless the balance on this reserve was insufficient to cover a revaluation decrease, in which case the excess of the revaluation decrease over the balance on the property revaluation reserve was charged to the profit and loss account. Where a decrease had previously been charged to the profit and loss account and revaluation subsequently arose, that increase was credited to the profit and loss account to the extent of the decrease previously charged.

In accordance with HKAS 40 – "Investment Property", the Group has elected to use the fair value model to account for its investment properties which requires gains or losses arising from changes in fair value of investment properties to be recognised directly in the profit and loss account in the period in which they arise. Accordingly, an approximate amount of HK$395.0 million has been recognised in other revenue in the current period.

The Group has applied the relevant transitional provisions in HKAS 40 and elected to apply the standard from 1 January 2005 onwards. An approximate amount of HK$819.0 million held in the property valuation reserve as at 1 January 2005 has been transferred to the Group's retained profits. No adjustment has been made on 2004 comparative figures.

(b) *Deferred Taxation Related to Investment Properties*
In previous periods, deferred tax consequences in respect of revalued investment properties were assessed on the basis of the tax consequence that would follow from recovery of the carrying amount of the properties through sale. Upon the adoption of HKAS Interpretation 21 "Income Taxes – Recovery of Revalued Non-Depreciable Assets", the deferred tax consequences of the investment properties are assessed on the basis that reflect the tax consequences that would follow from the manner in which the Group expects to recover the property at each balance sheet date.

In the absence of any specific transitional provisions in HKAS Interpretation 21, this change in accounting policy has been applied retrospectively. As a result, the Group's net assets as at 31 December 2004 had been decreased by approximately HK$705.1 million, which represent the increase in deferred taxation liabilities. The deferred taxation directly charged to the profit and loss account for the six months ended 30 June 2005 has been increased by approximately HK$69.1 million (30 June 2004: nil).

(c) *Goodwill*
In previous periods, goodwill or negative goodwill arising on acquisitions prior to 1 January 2001 was written off against/credited to reserves and will be charged or will be released to the consolidated profit and loss account at the time of disposal of the relevant subsidiary or associate, or at such time as the goodwill is determined to be impaired. Goodwill arising on acquisitions on or after 1 January 2001 and prior to 1 January 2005 was capitalised and amortised over its estimated useful life of not more than twenty years and was stated in the consolidated balance sheet at cost less any accumulated amortisation and any impairment loss while negative goodwill arising from acquisitions in the same period was presented as a deduction from assets and released to the consolidated profit and loss account based on an analysis of the circumstance from which the balance resulted.

The Group has applied HKFRS 3 – "Business Combinations" prospectively from 1 January 2005. Goodwill arising from acquisitions on or after 1 January 2005 is capitalised on the balance sheet and will be assessed for impairment at the reporting date, whereas negative goodwill arising from acquisitions on or after 1 January 2005 is credited to the consolidated profit and loss account. No amortisation of goodwill has been made in the current period while a net amount of approximately HK$37.0 million has been charged to the consolidated profit and loss account in the same period of 2004. In accordance with the transitional provisions of HKFRS 3, for goodwill arising from acquisitions prior to 1 January 2005 and previously capitalised on the balance sheet, the Group discontinue amortising such goodwill and eliminate the carrying amount of the related accumulated amortisation with a corresponding decrease in goodwill. Such goodwill will be assessed for impairment at the reporting date. As for goodwill previously recognized as a deduction from equity, such goodwill should not be recognized in the consolidated profit and loss account when the Group disposes of all or part of the business to which that goodwill relates or when a cash-generating unit to which the goodwill relates becomes impaired. The carrying amount of negative goodwill that arose from acquisitions prior to 1 January 2005 should be derecognized with a corresponding increase in retained profits as at 1 January 2005.

(d) *Share-based Payment*

The Group has granted share options to certain employees and other participants for their services rendered to subscribe for shares of the Company in accordance with the Company's share option scheme. Prior to the application of HKFRS 2 "Share-based Payment", the Group did not recognise the financial effect of the share options until they were exercised.

In the current period, the Group has applied HKFRS 2 which requires an expense to be recognised where the Group buys goods or obtains services in exchange for shares or rights over shares ("equity-settled transactions"). The principal impact of HKFRS 2 on the Group is in relation to the expensing of the fair value of share options of the Company determined at the date of grant of the share options over the vesting period.

The Group has applied HKFRS 2 to share options granted on or after 1 January 2005. In accordance with the relevant transitional provisions, the Group has applied HKFRS 2 retrospectively to share options that were granted after 7 November 2002 and had not yet vested on 1 January 2005. Comparative figures have been restated.

This change has no effect on the Group's net assets. The effect of this change on the profit and loss account for the period ended 30 June 2005 and 2004 is to increase the general and administrative expenses of approximately HK$26.8 million and HK$44.2 million respectively.

(e) *Convertible bonds*

Convertible bonds were classified as liabilities on the balance sheet previously. In accordance with HKAS 32 – "Financial Instruments: Disclosure and Presentation", convertible bonds which are regarded as compound financial instruments are required to separate the liability and equity components on initial recognition and to account for these components separately. In subsequent periods, the liability component is carried at amortised cost using the effective interest method. The adoption of this accounting standard requires retrospective applications.

As a result of the adoption of HKAS 32, the Group's net assets as at 31 December 2004 and 30 June 2005 have been increased by approximately HK$57.4 million and HK$37.4 million respectively. The financial costs charged to the profit and loss account for the six months ended 30 June 2005 and 2004 have been increased by approximately HK$19.4 million and HK$17.2 million respectively.

(f) *Financial assets and liabilities*

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in a change in the accounting policy relating to the classification of financial assets and liabilities and their measurements.

Under the new accounting standards, financial assets are classified as "financial assets at fair value through profit or loss", "available-for-sale financial assets", "loans and receivables", or "held-to-maturity financial assets". The classification depends on the purpose for which the assets are acquired. "Financial assets at fair value through profit or loss" are carried at fair value, with changes in fair values recognised in the profit and loss account. "Loans and receivables" and "held-to-maturity financial assets" are measured at amortised cost using the effective interest method. "Available-for-sale financial assets" are carried at fair value with changes in fair value recognised in equity except for investments in equity securities, that do not have a quoted market price in an active market and whose fair value cannot be measured reliably and are stated at cost less impairment.

Financial liabilities are classified as "financial liabilities at fair value through profit or loss" or "financial liabilities other than financial liabilities at fair value through profit or loss (other financial liabilities)". "Other financial liabilities" are carried at amortised cost using the effective interest method.

On 1 January 2005, the Group classified and measured its financial assets and liabilities in accordance with the relevant transitional provisions of HKAS 39. As the financial effect is immaterial, no adjustment has been made to the carrying amounts of assets and liabilities and the Group's retained profits as at 1 January 2005.

(g) *Derivatives and hedging*

Under HKAS 39, derivatives are carried at fair value at each balance sheet date and are deemed as held-for-trading financial assets or financial liabilities, unless they are designated and qualified as effective hedging instruments. The corresponding adjustments on changes in fair values would depend on whether the derivatives are qualified as effective hedging instruments, and if so, the nature of the item being hedged. For derivatives that are deemed as held for trading, changes in fair values of such derivatives are recognised in the profit and loss account for the period in which they arise.

The Group designates derivatives as either: (1) hedges of the fair value of assets or liabilities or a firm commitment (fair value hedge) or (2) hedges of highly probable forecast transactions (cash flow hedges).

i. Fair value hedges

Changes in the fair value of the hedged items attributable to the relevant hedged risks and of the hedging instruments are recognised in the profit and loss account in the period in which fair value changes arise.

ii. Cash flow hedges

The portion of the gain or loss on the hedge instrument that is determined to be an effective hedge shall be recognised directly in equity through the statement of changes in equity; and the ineffective portion of the gain or loss on the hedging instrument are recognised in the profit and loss account.

As a result of the adoption of HKAS 39, an amount of approximately HK$7.9 million has been credited to the hedge reserve and the net profit has been reduced by the same amount in the current period.

In previous years, derivative financial instruments were not separately recorded in the financial statements. The adoption of the HKAS39 represents a change in accounting policy. The Group has applied the relevant transitional provisions in HKAS 39. For hedges that meet the requirements of hedge accounting set out in HKAS 39, the Group has, from 1 January 2005 onwards, applied hedge accounting in accordance with HKAS 39 to account for such hedges. For derivatives that are not held for hedging purposes, the difference between the previous carrying amount recognised on the balance sheet and the fair value on 1 January 2005 is immaterial, therefore no adjustment is made to the Group's retained profits as at 1 January 2005.

4. Segment information

Primary reporting format – business segments

	Retail *HK$000*	Beverage *HK$000*	Food Processing and Distribution *HK$000*	Textile *HK$000*	Property *HK$000*	Petroleum and Chemical Distribution *HK$000*	Investments and Others *HK$000*	Elimination *HK$000*	Total *HK$000*
For the six months ended 30 June 2005									
REVENUE									
External sales	7,884,357	3,200,437	2,789,801	2,058,621	134,364	9,187,980	–	–	25,255,560
Inter-segment sales	45,980	3,836	46,438	–	12,659	–	–	(108,913)	–
	7,930,337	3,204,273	2,836,239	2,058,621	147,023	9,187,980	–	(108,913)	25,255,560
Other revenue	53,774	19,362	81,707	62,881	404,750	112,507	–	–	734,981
	7,984,111	3,223,635	2,917,946	2,121,502	551,773	9,300,487	–	(108,913)	25,990,541
Segment result	236,656	248,866	301,078	104,996	517,395	354,508	(12,095)	–	1,751,404
Unallocated corporate expenses									(41,791)
Interest income									63,959
Profit from operations									1,773,572
Finance costs									(213,452)
Share of net results of jointly controlled entities	–	–	–	–	–	15,878	–	–	15,878
Share of net results of associates	(15)	–	11,980	235	–	(361)	158,635	–	170,474
Taxation									(284,808)
Profit for the period									1,461,664
For the six months ended 30 June 2004									
REVENUE									
External sales	6,849,012	2,299,034	2,658,661	1,700,749	136,888	8,996,290	–	–	22,640,634
Inter-segment sales	24,469	–	33,509	–	19,993	–	–	(77,971)	–
	6,873,481	2,299,034	2,692,170	1,700,749	156,881	8,996,290	–	(77,971)	22,640,634
Other revenue	42,707	15,073	47,830	42,331	7,715	14,289	–	–	169,945
	6,916,188	2,314,107	2,740,000	1,743,080	164,596	9,010,579	–	(77,971)	22,810,579
Segment result	138,195	208,538	250,698	84,733	131,918	173,030	(111)	–	987,001
Unallocated corporate expenses									(39,410)
Interest income									31,918
Profit from operations									979,509
Finance costs									(152,175)
Share of net results of associates	–	–	23,671	2,012	–	4,672	164,993	–	195,348
Taxation									(82,083)
Profit for the period									940,599

Secondary reporting format – geographical segments

	Hong Kong	Chinese Mainland	Other Countries	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
For the six months ended 30 June 2005				
Segment revenue				
Turnover	**10,051,168**	**13,892,412**	**1,311,980**	**25,255,560**
Other revenue	**478,442**	**253,332**	**3,207**	**734,981**
	10,529,610	**14,145,744**	**1,315,187**	**25,990,541**
For the six months ended 30 June 2004				
Segment revenue				
Turnover	8,979,223	11,507,892	2,153,519	22,640,634
Other revenue	68,263	99,473	2,209	169,945
	9,047,486	11,607,365	2,155,728	22,810,579

5. Other revenue

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Other revenue includes the following:		
Dividends from available for sale investments	**2,434**	1,846
Interest income	**63,959**	31,918
Profit on disposal of associates	**62,250**	28,856
Profit on disposal fixed assets	**20,824**	10,408
Gain on disposal of available for sale investments	**93,624**	219
Fair value gain on revaluation of investment properties	**394,984**	–

6. Finance costs

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Interest on finance leases	**453**	816
Interest on bank loans and other loans wholly repayable within five years	**187,321**	128,671
Interest on other loans not wholly repayable within five years	**2,758**	2,985
Financing charges	**22,920**	19,703
	213,452	152,175

7. Profit before taxation

	Six months ended 30 June	
	2005	2004
	HK$'000	*HK$'000*
Profit before taxation has been arrived at after charging:		
Depreciation and amortisation		
– Fixed assets	**656,683**	552,422
– Goodwill (included in general and administrative expenses)	**–**	50,565
– Other intangible assets	**14,791**	6,431
And after crediting:		
Negative goodwill recognised (included in other revenue)	**–**	6,773

8. Taxation

	Current Taxation	Deferred taxation	2005 Total	Current Taxation	Deferred taxation	2004 Total
	Six months ended 30 June					
	HK$'000	***HK$'000***	***HK$'000***	*HK$'000*	*HK$'000*	*HK$'000*
Hong Kong						
Company and subsidiaries	**90,248**	**62,228**	**152,476**	75,723	(60,819)	14,904
Chinese Mainland						
Subsidiaries	**113,086**	**19,245**	**132,331**	82,867	(15,645)	67,222
Overseas						
Subsidiaries	**1**	**–**	**1**	(43)	–	(43)
	203,335	**81,473**	**284,808**	158,547	(76,464)	82,083

Previously, share of jointly controlled entities and associates' taxation were included under taxation. As a result of change in requirements under HKAS 1 – Presentation of Financial Statements, share of jointly controlled entities and associates' taxation for the six months ended 30 June 2005 of HK$598,000 (30 June 2004: HK$nil) and HK$33,148,000 (30 June 2004: HK$35,474,000) respectively are included in the share of net results of jointly controlled entities and associates. Prior year comparatives have been restated accordingly.

Hong Kong Profits Tax is calculated at 17.5% (2004: 17.5%) on the estimated assessable profits for the period. 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, jointly controlled entities and associates in the Chinese Mainland. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

9. Dividends

At the meeting held on 8 April 2005, the directors proposed a final dividend of HK$0.16 per ordinary share for the year ended 31 December 2004. Such proposal was subsequently approved by shareholders on 2 June 2005.

On 8 September 2005, the directors declared an interim dividend of HK$0.13 per ordinary share (September 2004: Interim dividend of HK$0.11 per ordinary share). Based on the number of shares in issue at the date of the report, the aggregate amount of the dividend is estimated to be HK$287,946,000 (2004: HK$213,580,000).

10. Earnings per share

	Six months ended 30 June	
	2005 (Unaudited)	2004 (Unaudited & 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 of the Company for the purpose of calculating basic earnings per share	**1,262,360**	740,589
Interest saving on exercise of convertible bonds	**53,254**	50,317
Profit attributable to shareholders of the Company for the purpose of calculating diluted earnings per share	**1,315,614**	790,906

	2005	2004
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,148,948,013**	2,099,115,270
Effect of dilutive potential ordinary shares:		
– convertible bonds	**119,595,400**	119,595,400
– share options	**38,184,107**	30,225,897
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,306,727,520**	2,248,936,567

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Retail

The Group's retail division mainly comprises three business segments: (1) supermarket and logistics; (2) brand-fashion distribution in the Chinese Mainland and (3) other retail stores operation.

For the first half of 2005, the Group's retail operation reported a turnover of HK$7,930.3 million and attributable profit of HK$104.9 million, representing an increase of 15.4% and 65.6% over the same period of 2004.

While the pace of expansion has remained robust in the Chinese Mainland since the beginning of the year, favorable conditions for domestic spending with an overall improvement in the living standard, especially in the urban and sub-urban cities, resulted in strong domestic demand and sustainable growth in the retail industry. Fuelled by rising urbanization, increasing affluence and a quickening pace of living, organized one-stop retail sales in those major cities of China continued to enjoy a moderate annual growth.

Satisfactory growth in export of goods and services and strong trade flows with the Chinese Mainland in the second quarter of 2005 sustained the growth momentum for the Hong Kong economy. Continued rise in inbound tourists was recorded. On the local consumption front, market sentiment has been positive amid continued improvement in the employment rate and average household income. The retail industry in Hong Kong will be further boosted with the launch of a series of shopping promotional campaigns that run together with the opening of a theme park at the Lantau Island in the third quarter of 2005.

Supermarket and Logistics

Turnover of the supermarket and logistics operation for the first half of 2005 was HK$6,927.3 million, attributable profit for the period amounted to HK$59.7 million, resulting in an increase of 17.5% and 140.9% respectively over the same period of 2004.

The Group currently operates its supermarket business through three groups of subsidiaries, namely, 華潤萬家有限公司 China Resources Vanguard Co. Ltd., 蘇果超市有限公司 Suguo Supermarket Co., Ltd ("Suguo") and China Resources Vanguard (Hong Kong) Company Limited. At the end of the first half of 2005, the Group operated a total of approximately 1,900 stores in Hong Kong and the Chinese Mainland, of which approximately 44% were self-operated while the rest were franchised stores. The main types of store formats are hypermarkets, superstores, supermarkets and convenience stores. Turnover for the first half of 2005 contributed by different regions were 48.1% from Eastern China, 30.1% from Southern China, 16.4% from Hong Kong and 5.4% from Northern China. The increase in turnover for the first half of 2005 was mainly attributable to the sales contributed by the newly opened stores. Moreover, the 28.2% increase in payments from suppliers, including incentives, store display and promotion income helped improve the operating result. During the period, consolidated earnings before interest, tax, depreciation and amortization ("EBITDA") amounted to HK$332.7 million, representing an improvement of 33.6% over the same period of 2004.

The Group works continuously on its core competence to foster the supermarket chain competitiveness and has been closing down loss-making stores since last year. To sustain and combat in a highly competitive operating environment, efforts were made to constantly adjust the merchandise mix by introducing more fresh produce, increasing the sales proportion of private label merchandise so as to better suit customer preferences, local weather patterns while systematically scheduled store facelift, store reformats, revamp of store displays greatly enhanced the corporate brand and the overall profitability.

The Eastern China operation reported an overall growth in turnover for the half year under review by 32.3%. Net profit for the first half year also improved. This was mainly attributed by Suguo which performed well during the period, an overall 9.9% same store growth was recorded with over 50% market share in Nanjing. However, the Group's superstores and supermarkets outside Nanjing faced intensive competition and therefore experienced a decrease in same store growth for the first half of 2005.

In Southern China, continuous enrichment in the merchandise mix and store reformat proved to be successful. Same store growth of hypermarkets and superstores reached 2.1% and 26.8% respectively. Net loss for the first half year of 2005 reduced as compared to the same period in 2004. However, profitability of those existing supermarkets was yet to improve through scheduled store facelift. As part of the business development strategies, efforts put in business promotions and conceptual design of new store formats, such as *Olé* and Convenience Stores, are expected to capture more diversified customer groups that go for quality life spending. The *Olé* store recently opened in Dongguan in April 2005 served as a test of the strategy implemented and was still in the process of tuning for optimal results.

The Northern China operation reported a turnover increase of 6.6%, contributed by newly opened stores. Net loss was however worsen, which was mainly due to the fact that some existing stores in major cities faced head-on competition with global retail operators. Resources newly injected for market planning and procurement of fresh produce are expected to better position the Group in speeding up its pace of expansion and improving store profitability.

The Hong Kong operation faced tough competition with major local market players. To secure the margins, the Group cautiously tightened the concessions and did not follow straight the price wars initiated by the other operators that presented a wide variety of sales discount offered to customers. Through jointly-operated fresh food stalls, the turnover managed to edge up in the first half of 2005. However, additional running costs incurred, rental increases and store conversion costs resulted in a lower operating profit for the current period. With the solid revival of local private consumption expenditure and sustained retail sales growth that drove the demand for quality warehouse space, the Hong Kong operation will be benefited.

Following China's full opening of the retail sector to foreign investors in December 2004, foreign and overall competition sharpens and the operating environment is getting tougher for all existing players. The strategic move of increase in the sector equity stakes such that CR Vanguard now becomes a wholly owned subsidiary of the Group and Suguo is 85% owned, helped to centralize management functions, drive down administrative costs, further develop an integrated mix of different store formats and strengthen the Group's positioning in its supermarket and logistics operation. Moreover, the expanded geographical spread and the associated cost benefits will allow the Group to substantially benefit from centralized procurement by major districts, streamlined distribution network and synergies among different store formats.

Aligned with the current market trend, the Group will focus on the development of hypermarkets and superstores through new store openings and move into the second tier cities, convenience stores in more developed cities whereas supermarkets, a relatively mature format, need to carve out a better niche.

Brand-fashion distribution

Turnover of the brand-fashion distribution segment for the first half of 2005 was HK$646.1 million, an increase of 25.8% over the same period in 2004. Attributable profit amounted to HK$18.9 million, an increase of 34.1% over the first half of 2004.

As at the end of June 2005, the Group distributed 9 international brands through approximately 770 self-operated and franchised stores in designated cities throughout the Chinese Mainland.

With the opening of 25 self-operated and 59 franchised stores in the first half of 2005, a 30.4% turnover growth of the "Esprit" brand was recorded. Self-operated stores achieved a same store growth of 11.9% with steady gross margin. The brand profitability recorded a 19.9% increase in the current half year.

The Group will continue to strengthen its distribution network, improve operating cost efficiency and the overall profitability of its brand portfolio to capitalize on the business opportunities that arise within the fast growing consumer market in the Chinese Mainland.

Other Retail Stores

Turnover of the other retail stores segment for the first half of 2005 was HK$356.9 million, representing a decrease of 23.5% from the same period in 2004. Attributable profit for the half year was HK$26.3 million, representing an increase of 7.4% over the same period in 2004.

As at the end of June 2005, the Group's chain of retail stores in Hong Kong consisted of 5 Chinese Arts & Crafts Stores 中藝 and about 30 CR Care Stores 華潤堂.

Overall decline in turnover was primarily due to the successive closure of CRC Department Stores on Hennessy Road in May 2004 and at Whampoa in April 2005. Improvement in the overall profitability was mainly attributable to the higher margin attained by the Chinese Arts & Crafts Stores 中藝 operations, through ongoing product mix enrichment, development of the private label "天工閣", brand promotion, niche creation and sales mix management. A same store growth of 4.4% and a significant increase of 47.4% in profitability for the first half of 2005 was reported.

With a growing health awareness amongst the general public in Hong Kong, competition in health food and Chinese medicine businesses intensified in the recent years. CR Care Stores 華潤堂's continual efforts in developing its own brands, enriching product portfolio, promoting suppliers' relationship that facilitated exclusive dealings of value-for-money products collectively improved the profitability in the first half of 2005. It is anticipated that with the gradual market recognition of the self-developed brands and tightening of sales discounts, the overall operating results will be further improved.

With a sound recovery of local private consumption expenditure and the rising number of visiting tourists in Hong Kong, prospects of growth in retail sales are encouraging.

Beverage

The beverage division reported a turnover of HK$3,204.3 million for the first half of 2005, representing an increase of 39.4% over the same period in 2004. Attributable profit was HK$59.9 million, an increase of 13.9% over the same period of 2004.

Sales volume of beer grew by 30.1% to approximately 1,871,000 kilolitres. The early hot weather particularly experienced in Central and Eastern China greatly raised the local beer consumption volume during the second quarter of the year which largely increased beer sales in the area. Overall organic growth of sales volume from existing breweries was 12.7% for the first half of 2005, with notable volume growth in Sichuan, Harbin, Hubei and Anhui. This was achieved through new market entries and increase in market share. However, in a few regions, despite the fact that a sales volume growth was recorded in the first half of 2005, average price deflation was experienced due to keen competitive behavior of other local brands which eventually affected the bottom line of these areas.

For the period under review, raw material costs rose by approximately 10%. Increased costs for packaging materials and power supply were also major production cost drivers. However, with a net average price rise of 7.3% through continued leverage to better product mix in the first half year of 2005, the overall gross profit margin per kilolitre could still be sustained.

The profitability of two major newly acquired breweries was within expectation, but encouraging improvements in July 2005 indicated better operating results for the second half of 2005. For the Jiangsu brewery, "SNOW" will be actively promoted together with its own premium local brand to maximize regional market share. The brewery could be close to breakeven for the year 2005. For the Zhejiang brewery, profitability of July 2005 is improving with a 17.1% year-on-year increase in sales volume. Its net loss will be substantially reduced by the end of the year. Through better rationalization with existing distribution network, improved operational efficiency and deepened brand penetration, the Group expects substantial cost and marketing synergies for enhancement in the overall revenue level and operating margins.

Marketing strategies of our national brand "SNOW", including Shenyang beer, also delivered satisfactory results. The sales volume for the period under review by 40.1%, to approximately 706,000 kilolitres, compared to about 504,000 kilolitres in the first half of 2004.

Strategic acquisition of breweries continues to consolidate the Group's market presence in Eastern and Central China and strengthen the national distribution network of "SNOW" through prospective synergies in marketing, procurement and logistics. The recent asset acquisition of 阜陽市雪地啤酒有限公司 Fuyang City Snowland Brewery Co., Ltd., the largest brewery in the north-western region of Anhui Province, will further extend its market presence from the central to the north-west of the Province.

By the end of June 2005, the Group will be operating over 30 breweries. The development of our Dongguan brewery is progressing on schedule. Trial commissioning of its Phase 1 production facilities of 150,000 kilolitres will start by the beginning of 2006.

Beer consumption is expected to rise with the boosting income levels in China and the propensity to consume westernized everyday products, in particular for the younger generation. This will induce further business growth of the beverage division. Apart from acquisition, the Group will continue to strive on operational excellence, brand allegiance and recognition, together with rational distribution network and extensive market coverage in the Chinese Mainland.

Food Processing and Distribution
Turnover and attributable profit for the first half of 2005 amounted to HK$2,836.2 million and HK$246.8 million respectively, representing an increase of 5.3% and 26.2% over the same period of 2004.

In line with the Group's divestment strategy regarding non-core assets so as to focus on its retail-led distribution businesses, the division disposed of the entire issued share capital of its wholly-owned subsidiary, Giant Harvest Limited, which holds a 25.09% stake in the A-share listed associated company, 徐州維維食品飲料股份有限公司 Xuzhou VV Food & Beverage Co., Ltd. As a result, a gain of HK$59.4 million was recognized during the first half of the year.

Foodstuff distribution operation reported a satisfactory growth in profitability. In view of the consumers' increasing concerns over food safety and quality in Hong Kong, the operation continues its considerable efforts in promoting the "Ng Fung" brand of high quality fresh meat with promising results. Stable supply of livestock to Hong Kong is ensured through effective negotiations with suppliers. Gross margin was maintained for the first half of 2005. In addition, continuous efforts in enriching product mix together with expanding sales network with a broadened customer base for frozen meat and frozen food business also contributed to the improvement in profitability.

The overall gross profit margin of marine fishing and aquatic products processing operation was, however, adversely affected by the record high fuel prices and decrease in average selling prices due to keen competition, resulting in a lower profit contribution. Regular on-site fuel costs reporting, fishing fleet fuel utilization reporting and staff training on cost saving measures were implemented to monitor closely the increasing production cost and to mitigate the impacts caused by rising oil prices. Operating environment is expected to be difficult in the second half of the year under the prevailing oil price surge. However, the Group will continue its ongoing efforts in exploring more high quality fishing grounds, enhancing catching capability of the fishing fleet, improving sales network and selling more high-end fishes as well as aquatic products, which will altogether help improve profitability in the long run.

The Shenzhen operation, acquired in July 2004, reported steady profit contribution for the period under review. To better integrate with the wide-scoping distribution network of the Group's supermarket division, its competitive edge on pig sourcing, slaughtering and fresh meat production definitely provides excellent commercial leverage at low cost. This enables the Group to further expand its retail-led business at a faster pace. On the other hand, the construction of a meat processing centre in Shanghai is progressing as planned. Upon completion, the Group's pig slaughtering and meat product production capacity will be enhanced and distribution of branded food in the Chinese Mainland will be strengthened.

In light of the consumers' increasing concerns over food safety, quality and nutrition in the Chinese Mainland, driven by a general improvement in household income and living standard, substantial growth potential for distribution of branded food in the local market emerged. With high expectation of rapid growth in branded fresh pork consumption in the China market in the foreseeable future, the Group plans to develop closer business links with our supermarket division as well as some other internationally-recognized retail chain operators for branded food distribution throughout China.

Textile
Turnover of the textile division for the first half of 2005 was HK$2,058.6 million, representing an increase of 21.0% over the same period of 2004. Attributable profit for the period amounted to HK$55.7 million, representing an increase of 32.2% from the first half of 2004.

The growth in turnover of the operation was mainly due to the acquisition of interests in two sizable textile companies in Shaanxi Province during the last quarter of 2004 and the two major factories relocated to the new economic development zones during the first half of 2004 were now in full operation. With the upsurge in world market demand upon the expiry of the global textile quotas effective 1 January 2005, China's textile products and garments recorded a respective 23.0% and 19.3% export growth in the first half of 2005. This benefited the textile division and helped its turnaround in the first half of the current year. A strong growth in sales volume of 36.1% in yarns, 37.4% in fabric and 24.7% in garments was recorded for the period under review. Despite the general downward pressure on prices, better customer focused sales management boosted the total revenue level with an expanded customer base and business volume growth of existing customers.

The residual high cost cotton inventory brought forward from the last quarter of 2004 was substantially consumed with production and products sold during the period. The overall gross profit margin for the second quarter improved by 3.2% points over the first quarter of 2005. The encouraging operating profit growth of the textile division was however tempered by higher direct labor costs incurred with increase in the production volume, greater depreciation charge as the new batch of machinery from technology upgrade was fully put to use and the general rate rise in utility costs during the first half of 2005.

Uncertainties that currently plague the textile industry as the trade disputes and safeguard measures continue between China and the United States/European Union, the fact that quotas for some textile categories are rapidly approaching their full utilization for the year 2005, the operating environment for export sales is anticipated to be challenging in the second half of 2005. Domestic demand for quality textile and garment products that comes with rising individual income levels is expected to grow strongly. Hence, there are business opportunities in both the domestic and export markets to be capitalized by the Group with its enhanced operating efficiency, better market positioning and more high-end branded products in sales mix. This will lead to an improvement in the overall profit margin and well equip itself in the process of the industry consolidation.

Property

The property division, which comprises the rental property segments of retail, office and industrial premises, reported a turnover and attributable profit for the first six months of 2005 of HK$147.0 million and HK$429.2 million respectively, representing a corresponding decrease of 6.3% and an increase of 158.6% over the same period in 2004.

Excluding a net-of-tax valuation surplus of approximately HK$0.3 billion in respect of the rental properties portfolio as at 30 June 2005 (2004: Not applicable) and an increase in deferred tax credit due to the change in use of the retail property on Hennessy Road, Wanchai, previously occupied by a CRC Department Store 華潤百貨 since June 2004, attributable profit of the division for the first half of 2005 remained at relatively the same level as that of 2004.

During the first half of 2005, local retail property market remained buoyant on the back of increased local consumption and tourist arrivals. Driven by the increase in retail sales, prime retail properties were in demand which in turn drove up rental levels.

Income from rental properties portfolio was slightly lower than in the same period of 2004 mainly due to the temporary suspension for letting regarding the retail properties on Hennessy Road, Wanchai and Silvercord Centre, Tsim Sha Tsui during the renovation. Apart from that, occupancy rates of the rental properties (excluding the retail properties on Hennessy Road, Wanchai) remained relatively comparable to that of last year with a general rent rise upon tenancy renewal during the first half of 2005.

Renovation work of the retail property on Hennessy Road, Wanchai is expected to be substantially completed in the second half of the year. The multi-storey retail and gourmet complex is expected to bring a marked improvement in the earning potential upon completion.

With the Group's focus now on retail properties, divestment in non-retail properties is the way going forward. Certain office and residential properties at Tsim Sha Tsui and Causeway Bay were disposed during the first half of 2005. In addition, a preliminary agreement was also signed in April 2005 for the sale of CRE Building, an office property at Wanchai.

With the success of enhancing revenue and flow of shoppers through renovation and re-modeling of the retail properties at Mongkok and Tsuen Wan, similar mall format is adopted by a mall in Jiangmen which is currently at its initial stage of development.

The Group is continuing its divesture assessment on non-core investment assets in the industrial and office sectors so as to focus on retail property investment and to re-channel the resources to explore the investment opportunities in retail sector in the Chinese Mainland.

Petroleum and Chemical Distribution

Turnover and attributable profit for the first half of 2005 amounted to HK$9,188.0 million and HK$302.0 million respectively, representing an increase of 2.1% and 113.3% over the corresponding period in 2004.

Excluding a gain of HK$84.2 million from the disposal of the remaining 10.5% equity interest in Qingdao Qirun Petrochemical Co., Ltd., an investment of the Group, attributable profit for the period under review increased by 53.8% over that of 2004. Improved performance of petroleum operation and filling station operation for the second quarter of 2005 assured the growth in profitability of the division. The encouraging profit contributions from piped gas operations in Suzhou as well as the newly acquired 36% stake in Chengdu City Gas Co., Ltd. also added to the increase in profitability for the first half of 2005 as compared to that of last year.

Apart from the slight downward adjustments occurred during late April to May, international crude oil prices generally followed an upward trend and soared to record high levels during the first half of 2005. The international crude oil prices averaged US$51.6 a barrel during the period under review, compared to US$36.7 a year ago. Consequently, the petroleum and chemical product prices remained at unprecedented high levels as compared to 2004. Despite the challenging operating environment during the period under review, overall gross margin achieved a considerable growth of above 0.8% points over the same period in 2004.

The petroleum operation of the division trades refined oil purchased from the world's major oil suppliers to wholesale agents and retail end-customers. Amid challenging oil price fluctuations during the period under review, the petroleum operation has shown good improvement in profitability, in particular from the distribution of aviation fuel. This was achieved through prudent inventory control and effective hedging measures to mitigate volatile oil prices to the business.

The petroleum and gas operation distributes refined oil and LPG products through 19 petrol and LPG stations in Hong Kong and 22 petrol stations in the Chinese Mainland. Filling station operations in Hong Kong and the Chinese Mainland both reported notable improvements in profitability. In Hong Kong, sales volume and gross profit of LPG sales increased by 23.6% and 86.6% respectively, mainly attributable to competitive pricing of LPG sales at the Group's filling stations as well as the more favorable reference retail prices under the prevailing regulated pricing arrangement with the Hong Kong Government. In the Chinese Mainland, sales volume of filling station operation reduced by 16.7% due to the general tight supply of refined oil especially diesel in the Southern Chinese Mainland.

The piped gas operation in Suzhou proved to be promising with satisfactory profit contribution, which substantially increased by 100.8% in the first half of 2005 over last year. The operation in the piped natural gas network in Suzhou includes the construction of the main trunk and sub-branch networks, the connection of natural gas pipelines to individual households, and the supply of piped gas to industrial and commercial users. With the successful acquisition of 36% stake in Chengdu City Gas Co., Ltd. that started contributing profits since March 2005, the Group has established two strategic arms in the Eastern and Western regions of the Chinese Mainland, favorably positioned the Group for stronger growth potential in the long run. In April 2005, the Group also paired up with the Wuxi Municipal Government to start a 50-50% joint venture in Wuxi China Resources Gas Co. Ltd.(無錫華潤燃氣有限公司) for further pursuance in the piped gas business.

The chemical operation, which specializes in marketing and distribution of petrochemical products, reported steady growth in profitability during the first half of the year. Continuous efforts in sales mix management has proved to be effective in upholding comparable growth in gross profit of the operation.

With the experience in the Suzhou and Chengdu piped gas investments, the Group will prudently look for business expansion in piped gas industry in the Chinese Mainland market. The Group anticipates fluctuation of the oil prices to continue in near term and will continue to take prudent measures to mitigate the effects to its business performance.

Investments and Others
Attributable profit for first half of 2005 amounted to HK$168.2 million. (First half of 2004: HK$178.4 million).

Container Terminal
The Group has a 10% interest in HIT Investments Limited and Hutchison Ports Yantian Investments Limited. The Hong Kong and Yantian deepwater port operations continued to maintain a stable profit performance for the half year under review.

CAPITAL AND FUNDING
To maximize surplus cash for internal funding while enhancing liquidity and yield, the Group operates under a well-managed treasury function. As at 30 June 2005, the Group's consolidated cash and cash equivalents amounted to HK$5,819.8 million. The Group's borrowings as at 30 June 2005 were HK$9,702.9 million with HK$4,981.5 million repayable within 1 year, HK$4,665.1 million repayable after 1 year but within 5 years and HK$56.3 million repayable after 5 years. Committed borrowing facilities available to the Group were fully utilized as at 30 June 2005. Except for the US$230 million convertible guaranteed bonds, due for maturity in May 2006, all the borrowings were subject to floating rates.

On the basis of the Group's net borrowings relative to the shareholders' funds and minority interests, the Group's gearing was approximately at 17.9% (31 December 2004: 25.0%).

The Group's principal assets, liabilities, revenue and payments are denominated in US dollars, Hong Kong dollars and Renminbi. As at 30 June 2005, 29.5% of the Group's cash deposit balances was held in US dollars, 33.4% in Renminbi and 34.6% in Hong Kong dollars; whereas 35.6% of the Group's borrowings was denominated in US dollars and 24.7% in Renminbi with the remaining 39.7% in Hong Kong dollars. Moreover, to mitigate the foreign currency and interest rates exposure, the Group entered into certain forward contracts and interest rate swaps to hedge against part of its borrowings.

The recent Renminbi revaluation in July 2005 resulted in an immediate net asset appreciation, which is approximately 0.8% of the Group's net worth as at 30 June 2005, together with an exchange gain of about 1.1% of the attributable profit to the Company's shareholders. There is no significant impact anticipated on the Group's businesses as a whole.

CAPITAL EXPENDITURE

During the period ended 30 June 2005, the Group spent approximately HK$2,140.2 million on capital expenditure. Additions of fixed assets amounted to HK$1,297.8 million, while the remaining HK$842.4 million were incurred for new acquisitions in beverage and additional interests in supermarkets, as part of our retail-led distribution strategy. Capital expenditure was primarily financed by internally generated funds from operations and bank borrowings.

PLEDGE OF ASSETS

As at 30 June 2005, fixed assets with a net book value of HK$310.3 million (31 December 2004: HK$799.3 million) were pledged for short-term loans in the sum of HK$280.6 million (31 December 2004: pledged for short term loans of HK$523.2 million) and long term loans in the sum of HK$15.8 million (31 December 2004: pledged for long term loans of HK$72.2 million).

CONTINGENT LIABILITIES

The Group did not have any material contingent liabilities as at 30 June 2005.

EMPLOYEES

As at 30 June 2005, the Group, excluding its associated companies, had a staff size of around 83,000, of which approximately 95% were employed in the Chinese Mainland, whilst the rest are mainly from Hong Kong. Remuneration packages are assessed in accordance to the nature of job duties, individual performance and market trends with incentives paid in form of cash bonus and share option.

By order of the Board
CHEN SHULIN
Managing Director

Hong Kong, 8 September 2005

OTHER INFORMATION

CORPORATE GOVERNANCE

The Company recognises that the development and maintenance of a good and solid framework of corporate governance suitable to the needs of the Group requires commitment and continuous vigilance. The Directors firmly believe that sensible corporate governance practice is essential to vigorous but steady growth of the Group.

The Company has implemented its own corporate governance standards and objectives since November 2003. Detailed disclosure of the Company's corporate governance practices and processes is available in the annual report of the Company for the year ended 31 December 2004. On 8 April 2005, the Board approved the Company's "Corporate Governance Practice Manual" ("Corporate Governance Manual") which incorporates almost all of the Code Provisions and some of the Recommended Best Practices set out in the Code on Corporate Governance Practices ("CG Code") in Appendix 14 of the Listing Rules.

Throughout the interim period, the Company has complied with the Code Provisions set out in the CG Code, save and except that Mr. Song Lin was Chairman and Managing Director during the period between 30 December 2004 and 7 March 2005 and the Non-Executive Directors were not appointed for a fixed term.

Mr. Ning Gaoning resigned on 30 December 2004 as Chairman and Director of the Company to assume other executive position on direction of the State Council of the People's Republic of China, and Mr. Song Lin, the then Managing Director, assumed the chair of the Company as from that date. On realignment of Mr. Song's duties, Mr. Chen Shulin has been appointed as the Managing Director of the Company as from 8 March 2005.

The Board does not believe in any arbitrary term of office. The current arrangement will give the Company sufficient flexibility to organize the composition of the Board to serve the needs of the Group. Further, the Articles of Association of the Company requires that one-third of the Directors (including Executive and Non-Executive Directors) shall retire each year and every director shall be subject to retirement by rotation at least once every three years. The Directors to retire each year shall be those appointed by the Board during the year and those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election.

On 8 April 2005, the Company adopted its own Code of Ethics and Securities Transactions ("Code of Ethics"), which applies to the Directors and other specified individuals including the Group's senior management and persons who are privy to price sensitive information of the Group, on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers ("Model Code") in Appendix 10 of the Listing Rules. Having made specific enquiry of all Directors, the Company is not aware of any non-compliance with the standards set out in the Code of Ethics and the Model Code by any Director throughout the interim period.

PURCHASES, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 June 2005.

CLOSURE OF REGISTER

The Register of Members will be closed from 3 October 2005 (Monday) to 7 October 2005 (Friday), both days inclusive. In order to be eligible for the interim 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 30 September 2005.

As at the date of this announcement, the executive directors of the Company are Mr. Song Lin (Chairman), Mr. Chen Shulin (Managing Director), Mr. Qiao Shibo (Deputy Managing Director), Mr. Yan Biao (Deputy Managing Director), Mr. Keung Chi Wang, Ralph (Deputy Managing Director), Mr. Lau Pak Shing, Mr. Wang Qun, and Mr. Kwong Man Him. The non-executive directors are Mr. Jiang Wei and Mr. Xie Shengxi. The independent non-executive directors are Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh and Dr. Li Ka Cheung, Eric.

"Please also refer to the published version of this announcement in The Standard."