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 2008

- **Continuing operations reported turnover and earnings of HK$64.6bn and HK$2,322m respectively**
- **Underlying net profit[1] from continuing operations amounted to HK$1,793m**
- **Final dividend of HK$0.25 per share proposed, bringing the full year dividend to HK$0.40 per share**

FINANCIAL HIGHLIGHTS

	2008 *HK$ million*	2007 *HK$ million*
Turnover		
– continuing operations	**64,628**	51,513
– discontinued operation[2]	**-**	10,610
	64,628	62,123
Profit attributable to shareholders of the Company		
– continuing operations	**2,322**	2,379
– discontinued operation[2]	**-**	2,582
	2,322	4,961
Basic earnings per share[3]		
– continuing operations	**HK$0.97**	HK$1.00
– discontinued operation[2]	**-**	HK$1.09
	HK$0.97	HK$2.09
Dividend per share		
– interim	**HK$0.15**	HK$0.15
– final	**HK$0.25**	HK$0.30
	HK$0.40	HK$0.45
	At 31 December 2008 *HK$ million*	At 31 December 2007 *HK$ million*
Equity attributable to shareholders of the Company	**25,159**	22,871
Minority interests	**9,339**	7,293
Total equity	**34,498**	30,164
Consolidated net borrowings	**6,463**	4,004
Gearing ratio[4]	**18.7%**	13.3%
Current ratio	**0.98**	1.05
Net assets per share (book value):	**HK$10.53**	HK$9.59

Notes:

1. Underlying net profit represents profit attributable to shareholders excluding the effect of investment property revaluation and major disposal of non-core assets/investments.
2. The Company completed the disposal of its petroleum and related products distribution operation at the end of June 2007. This operation is presented as discontinued operation according to the Hong Kong Financial Reporting Standard 5.
3. Diluted earnings per share for the year ended 31 December 2008 and 2007 are HK$0.97 and HK$2.07 respectively. The 2007 amount includes diluted earnings per share for discontinued operation of HK$1.08.
4. Gearing ratio represents the ratio of consolidated net borrowings to total equity.

ANALYSIS OF TURNOVER AND PROFIT

	Turnover		Profit Attributable to Shareholders ("PAS")		PAS excluding the effect of investment property revaluation and major disposal of non-core assets/investments (Note 1)	
	2008	2007	**2008**	2007	**2008**	2007
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Core Businesses						
- Retail	**34,651**	26,008	**590**	521	**595**	500
- Beverage	**17,405**	13,304	**409**	303	**409**	303
- Food Processing and Distribution	**7,645**	7,381	**312**	531	**227**	471
- Textile	**4,829**	4,713	**74**	144	**40**	122
- Investment Property	**434**	375	**754**	648	**339**	240
Subtotal	**64,964**	51,781	**2,139**	2,147	**1,610**	1,636
Other Businesses						
- Investment and Others	**-**	-	**396**	429	**396**	429
	64,964	51,781	**2,535**	2,576	**2,006**	2,065
Elimination of inter-segment transactions	**(336)**	(268)	**-**	-	**-**	-
Net corporate interest and expenses	**-**	-	**(213)**	(197)	**(213)**	(197)
Total from continuing operations	**64,628**	51,513	**2,322**	2,379	**1,793**	1,868
Discontinued operation						
- Petroleum and Related Products Distribution	**-**	10,610	**-**	2,582	**-**	183
Total	**64,628**	62,123	**2,322**	4,961	**1,793**	2,051

Note:

1. For the analysis of PAS excluding the effect of investment property revaluation and major disposal of non-core assets/investments, the effect of the following transactions have been excluded in the PAS of the respective division:

    a. Net valuation deficit of approximately HK$5 million arising mainly from industrial building held by the Retail division (2007: Net valuation surplus of HK$21 million) has been excluded from its results.

    b. Net gain on disposal of associates amounting to approximately HK$85 million (2007: HK$60 million) has been excluded from the results of Food Processing and Distribution division.

    c. Net valuation deficit of approximately HK$1 million arising mainly from industrial building held by the Textile division (2007: Net valuation surplus of HK$12 million) and a gain on disposal of non-core investments amounting to approximately HK$35 million (2007: HK$10 million) have been excluded from its results.

    d. Net valuation surplus of approximately HK$415 million (2007: HK$408 million) has been excluded from the results of the Investment Property division.

CHAIRMAN'S STATEMENT

Final Results

The Group completed the disposal of its entire equity interest in the non-core petroleum and related products distribution business at the end of June 2007. There was no contribution from this discontinued operation during 2008 thus the analysis below represents only the continuing operations of the Group.

Consolidated turnover contributed by the continuing operations for the year ended 31 December 2008 amounted to approximately HK$64,628 million, representing an increase of 25.5% over that of 2007. Profit attributable to the Company's shareholders contributed by the continuing operations was approximately HK$2,322 million, 2.4% lower than that of the previous year. Basic earnings per share from the continuing operations were HK$0.97 compared to HK$1.00 in 2007.

Excluding the after-tax effect of revaluation of investment properties and major disposal of non-core assets and investments, which led to aggregate gains of HK$529 million in 2008 and HK$511 million in 2007, the Group's underlying consolidated profit attributable to the Company's shareholders contributed by the continuing operations would have decreased by 4.0% for the year ended 31 December 2008.

Dividends

The Board recommends a final dividend of HK$0.25 per share for 2008 (2007: HK$0.30 per share) payable on or about 12 June 2009 to shareholders whose names appear on the Register of Members of the Company on 25 May 2009. Together with the interim dividend of HK$0.15 per share, the total distribution for 2008 will amount to HK$0.40 per share (2007: HK$0.45 per share). This represents a decrease of 11% over 2007.

Closure of Register

The Register of Members will be closed from 25 May 2009 to 29 May 2009, 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, Tricor Standard Limited of 26th Floor, Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 22 May 2009.

Strategy Implementation

Corporate Strategy

To accomplish our objective of becoming the largest consumer company in China, the Group has been investing in the core consumer businesses to enhance market position, improve competitiveness and develop platform for future growth. For the year ended 31 December 2008, the Group incurred approximately HK$7 billion on capital expenditure with a majority on beverage and retail businesses. This was lower than the HK$10 billion in 2007 when the non-core petroleum business was divested and part of its proceeds reinvested. For beverage business, there were significant investments in the greenfield projects under construction and the existing plants for capacity upgrade. The greenfield projects completed during the year included four breweries in Gansu Province, Hebei Province, Jiangsu Province and Heilongjiang Province as well as a purified water plant in Jiangmen, Guangdong Province. The capital expenditure on our supermarket operation last year was mainly for new store opening. More than 260 supermarket stores were opened during the year. Our food business also formed a pig farming joint venture in Henan Province and a meat processing joint venture in Shandong Province.

At the same time, the Group will continue to divest businesses or assets which are outside our core portfolio or which lack critical mass. Nevertheless, the dramatic deterioration in the economic environment and tightening of bank credit have affected the progress on this front.

The Group is making satisfactory progress in the implementation of our retail-led distribution strategy. The Group's food, beverage and textile businesses have formed part of the supply chain for our supermarket operation. In particular, the food business, which has a long history of supplying fresh meat, fruits, rice and other food products to our supermarkets in Hong Kong, is currently one of their largest suppliers. "SNOW", our national brand for beer, is also sold extensively in our mainland supermarkets.

The Group has also been accelerating its investments in the Chinese Mainland, where our growth opportunities lie. For the year under review, about 85.4% of turnover and 64.8% of profit before tax were from the mainland, compared with 66.7% and 31.3% respectively in the year ended 31 December 2007.

Business Strategy

Efficiency of a consumer business hinges on its scale. As there are striking demographic and economic differences among provinces of China, district scale is more meaningful than national scale. Accordingly, the Group adheres to an overall principle of district concentration so that economies of scale can be achieved swiftly in the target district. To further enhance profitability, a culture of maximizing cost efficiency in daily operation, looking for concurrent cost control and productivity enhancement, has been promulgated internally. Effective means include centralizing procurement, streamlining management functions as well as strengthening supply chain.

Differentiation via branding is crucial in the highly competitive mainland consumer market. Our beer operation is developing "SNOW" as a national brand complemented by other district and local brands. "SNOW" targets the younger generation, with marketing theme associated with "great expedition". On the other hand, our supermarket operation promotes its leading presence in the Chinese Mainland and the image of a distinguished retailing chain via service enhancement and store format innovation. The "Ng Fung" brand of high quality food, including fresh meat and general food items, has been well established by our food business. Similarly, Chinese Arts & Crafts 中藝 has further raised the premium quality image of its private labels – "Artistic Palace 天工閣" in apparels and "Home Art 天藝廊" in handicrafts.

Consumer demand is increasingly complex and constantly changing. The Group has been closely reviewing and responding to customer preferences. After the successful launch of Olé stores in Shenzhen and Beijing, a similar cosmopolitan lifestyle food mart, VOle', was introduced to Hong Kong last year, stressing personal touch in contemporary fast-paced living. Opening of the convenience store, Vango, in Shenzhen and Hong Kong has also been accelerated. The Group has also piloted the specialty supermarket store format, Fresh Market, which offers convenience to households with preference for fresh and high quality food. Food safety has become a priority concern for food retailers and manufacturers after the melamine milk scandal. The Group has overall strengthened its food safety assurance system. For our beer operation, a new logo of "SNOW" has been rolled out, highlighting the Chinese culture of the brand.

Operating Environment

In 2008, retail sales in the Chinese Mainland increased by 21.6% to about RMB10,849 billion. Although the overall growth in retail sales remained strong, it showed signs of slowing down from October onwards.

Owing to extremely cold weather at the beginning of the year, the Sichuan earthquake, selling price increases and a buoyant 2007 for comparison, the total beer production volume in the Chinese Mainland increased by 5.5% to 41.0 million kiloliters in 2008 against 12.6% in 2007. In 2008, the Group’s beer operation maintained a market share of about 18%.

Save the temporary impact caused by the snowstorms in the beginning of the year, there were no major supply disruptions to the pig farms in the Chinese Mainland in 2008 in comparison with the previous year. The mainland pork industry recorded growth again with estimated consumption growth of 5%. The average price of live pigs in the Chinese Mainland began to move downwards in the second quarter of 2008.

In 2008, the production of cotton yarns and fabrics in the Chinese Mainland increased by 7.7% and 6.0% over the previous year respectively. High-end yarns continue to outpace low-end yarns and fabrics in our product mix after technology upgrade. During the year, our total yarns and fabrics production decreased by 2.6% and 4.9% over 2007 respectively. However, high-end yarns production increased by 16%.

The Hong Kong economy slowed down more quickly than the Chinese Mainland, with a contraction in the final quarter of 2008. Overall, retail sales increased by 10.5% last year, of which supermarket sales and department store sales increased by 11.1% and 8.6% respectively. For fresh meat consumption, imported and locally produced live pigs and cattle are estimated to total about 1,544,000 heads and 29,000 heads respectively in 2008. This represents a decline of 13% and 30% respectively in comparison with 2007. Instead, the demand for pork and beef in both chilled and frozen forms rose by 12% to an estimated aggregate of about 249,000 tonnes last year.

Corporate Governance

The Board believes that implementation of sound corporate governance practices is essential to building and maintaining the confidence of investors and other stakeholders in the Group, which is critical to sustainable development.

The Group’s corporate governance framework is based on sound economic and ethical principles, and a key feature thereof is our emphasis on transparency and information disclosure. This is best illustrated by the Group’s initiative to produce quarterly financial and operational review since November 2002. The Company is 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 made it a recommended best practice for main board listed issuers.

The Group has a proven track record of practicing good corporate governance as evidenced by the commendations and awards it has earned in recent years. In 2008, the Company received the following accolades:

- it was selected as one of the recipients of the "Recognition Awards 2008 – Asia's Best Companies for Corporate Governance" by *Corporate Governance Asia*;
- it was rated one of the companies with the best corporate governance and best investor relations in China by *FinanceAsia*;
- it was named one of the outstanding enterprises among blue-chip companies in Hong Kong by *Economic Digest*; and
- it was named as the winners of the best investor relations website as well as the best annual report and other corporate literature by a small or mid-cap company in the "Hong Kong and Taiwan Awards 2008" by *IR Magazine*.

Regardless of the macro environment, maintaining the quality of corporate governance will remain a key priority for us.

Internal Control

The Board assumes overall responsibility to establish and maintain sound systems in risk management, internal control and governance to ensure the effective and efficient accomplishment of corporate goals and objectives, safeguard the Group's assets and shareholders' interest as well as ensure the reliability of financial and corporate reporting. The Group adopts the control frameworks outlined by both the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in the United States and the Hong Kong Institute of Certified Public Accountants as our standards in establishing risk management and control systems among our group companies. Our internal control system consists of five key elements, namely the existence of an effective control environment, risk management, communication and information system, cost effective control process and proper monitoring mechanism.

The Board conducts regular reviews of the Group's internal control system through periodic monitoring of the internal audit department's activities. The Audit Committee oversees the reliability of financial reporting, its related internal controls and risk management systems, and the works of auditors, both internal and external. For the year ended 31 December 2008, the Board had reviewed and was satisfied with the effectiveness of the Group's internal control and risk management systems currently in place.

Investor Relations

Our investor relations practices aim to keep the investment community updated about the Group's position, operations and development so that it can have the necessary information to make well-informed investment decisions. To achieve this, we seek to achieve an effective two-way flow of accurate, timely and helpful information between the Company and the investment community with the implementation of a tripartite communication system that actively engages investors, senior management and operational management.

We connect with the investment community through different channels. As in previous years, we conducted an annual global roadshow during the year through which senior management of the headquarters together with the operational management met with institutional investors in Europe, the United States and Asia, and the focus was on the supermarket, beverage and food businesses. We also continued to host the Corporate Day for analysts and fund managers. During the two and a half days, we introduced the participants to our brewery and food operations in Liaoning Province and Zhejiang Province respectively as well as our supermarket logistics center in Shenzhen. To further enhance the transparency of our businesses, we organized a day trip for journalists for the first time last year to visit our brewery plant in Dongguan and our supermarket operation in Shenzhen, and a total of 16 journalists participated in the event with favorable response. In addition, the Group regularly attends meetings with the investment community including one-on-one meetings, site visits, luncheons and conferences arranged by financial institutions, and in 2008 top management along with senior management of different business units met with over 800 analysts and fund managers in around 250 meetings.

Share Performance

Global stock markets had a major setback in 2008. Compounded by the general de-rating of the mainland-related stocks, the Company's share price declined by 59.6% to HK$13.52 last year, compared to the 48.3% fall of the Hang Seng Index. During the year, its daily closing share price hit the highest level of HK$34.25 on 9 January 2008. The lowest closing price was HK$10.04 on 27 October 2008. In line with the decrease in the share price, the Company's market capitalization also dropped by 59.6% to HK$32,298 million in the year.

Dividend Payout Ratio

The Group has long had a goal of gradually improving its basic cash dividend payout ratio and had continuously delivered upon this goal in the past. However, in light of the current uncertainties clouding the global economy, we lowered our annual basic payout ratio from 41.9% to 41.2% as a prudent step to preserve cash. We plan to pay basic cash dividends that balance the cash generated from the growth of the company's earnings with the cash needed to fuel future profit growth. In addition, special dividends would be considered for exceptional events, subject to the prevailing financial position, funding needs and market environment. Over the past five years, special dividends were distributed in 2006 and 2007 following the sequential disposals of the Group's petroleum and related products distribution businesses in the Chinese Mainland and Hong Kong.

Total Shareholder Return

With the gradual re-alignment of our business focus on the consumer sector, robust operating performance and good corporate governance practices, the Company's shares achieved a total return for shareholders of 82.3% over the past five years, as measured by share price appreciation and reinvested dividend. This was noticeably higher than that of the Hang Seng Index and the Hang Seng Commerce & Industry Index. However, the Company posted a negative total return for shareholders of 58.8% for the year 2008, reflecting the downward movement of its share price during the year, while the Hang Seng Index and the Hang Seng Commerce & Industry Index had average negative returns of 46.4% and 50.9% respectively.

Prospects

In a year that was marked by various challenges, the Group achieved solid results in 2008. However, the possibility of deflation and prolonged economic slowdown globally still exists. The escalating economic issues around the world have dampened local consumer confidence.

Consumer spending habits will likely see significant change in economic downturn. Price sensitivity will increase and overall spending will be scaled back, especially on non-essential purchases. Our supermarket operation has been adjusting its strategy to meet the new trend – working with suppliers to aim for price leadership in the major districts, developing more product lines targeting the mass market which looks for affordable choices and devoting to store format innovation. Through centralized procurement and sound inventory management, costs are kept low. Looking forward, household income growth and urbanization will continue to underpin modern chain store sales in the Chinese Mainland. We are committed to offering the best value to customers, store format innovation and product mix enrichment so as to differentiate ourselves from the competition and maximize customer satisfaction.

Overall sales volume growth of our beer operation slowed down last year, in parallel with the general market trend. However, our presence in Gansu Province, Hebei Province, Jiangsu Province and Heilongjiang Province has strengthened following completion of the greenfield breweries in these locations. In order to capitalize on the current difficult economic conditions, we will seek and evaluate investment opportunities to implement our consolidation strategy, while emphasizing productivity per employee. The steady increase in our beer price in recent years coupled with our growing exposure to the higher end segments will boost return in the long run. Concurrently, our efforts in branding and distribution network are continued. As part of the national branding campaign, "SNOW" has rolled out a new logo, highlighting the Chinese culture of the brand.

The mainland packaged water market is believed to be relatively more resilient to the economic difficulties with rising demand over time. Leveraging on our leading position in Guangdong Province, the Group's purified water operation has launched a new marketing program to raise its "C'estbon 怡寶" brand awareness nationally. We have further strengthened our distribution network and management system. As the market is still highly fragmented, we are pursuing prudent expansion both within and outside our Guangdong home base. Possibility of introducing new products is also being carefully studied.

The Group's food business has a development strategy focusing on meat, assorted foodstuff and seafood distribution. It has established firm platforms for meat processing in the major cities including Shenzhen, Shanghai and Hangzhou. With the rising demand for safe meat products and supportive government policies, there is huge potential in the mainland market. In Hong Kong, since the opening of the live pig imports from the Chinese Mainland about two years ago, competition for market share has been intense, resulting in lower profitability. We have reacted to the altered market structure by tightening cost control, further developing "Ng Fung" premium brand image and tying up the upstream segment. As oil price has considerably fallen from its high last year, the marine fishing operation will benefit from lower fuel costs this year.

With shrinking overseas demand for textile products, competition in the mainland textile market is severe and operating losses are common, especially in the lower end market. While the market conditions may get tougher in the short term, the Group's textile business has implemented further cost control measures, which include intermittent production suspension, reduced cotton inventory and tightened staff costs. Our established niche in high-end yarn and nylon products as well as denim casual wears will continue to underpin our future.

On the macro picture, deepening global financial crisis has had a negative impact on the mainland market with falling exports and slowing industrial output. However, decisive measures have been taken by the central government to ensure the economy can continue to grow steadily. A RMB4 trillion stimulus package was announced in November last year and subsequently some industry-specific bailout packages were disclosed. It has also started to loosen monetary policy by easing access to bank credit and lowering interest rates. Hong Kong enjoyed sound economic growth at the beginning of 2008. As the global financial problems unfolded, given its role as a regional financial hub, there has been a broad-based economic slowdown with rising unemployment rate. The negative wealth effect of lower property and stock prices will impact household consumption and tightened bank credit will add pressure to the commercial sector. It is expected that there will be a contraction in the economy this year.

Despite the current economic downturn, the Group looks beyond today's tough environment. There are also opportunities in a slowing economy, including declining raw material prices, falling property costs, reduced acquisition prices and gradual exit of weaker competitors from the markets. In the face of the challenges, the Group will continue to reinforce its foundation by investing for the future and enhancing current operational efficiency, whilst at the same time remaining vigilant about cost and cash management. Our long-term success is embedded in our current market segments, growing and focused.

Appreciation

I will be leaving the Board on 30 April 2009 and I wish to take this opportunity to welcome two new board members. Earlier this year, Mr. Qiao Shibo rejoined the Board as an Executive Director and will succeed me as the Chairman, while Mr. Chen Lang replaced Mr. Chen Shulin as the Managing Director. We are confident these appointments will ensure the continuity of leadership and direction of the Group. We also extend our sincere thanks and appreciation to Mr. Chen Shulin, who had served on the Board since 1998, for his significant contributions and unwavering commitment to the Group.

Our achievements are attributable to the incessant support of our shareholders and the confidence they have in us. To them and to our suppliers and other business partners, we express our gratitude. Our special thanks go out to our management team and employees, whose dedication and hard work allowed us to realize our objectives during the year. Finally, we are also thankful to our customers for the loyalty and trust they have shown in the Group.

Song Lin
Chairman

Hong Kong, 31 March 2009

2008 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 2008 as follows:

CONSOLIDATED PROFIT AND LOSS ACCCOUNT

For the year ended 31 December 2008

	Notes	**2008** *HK$ million*	2007 *HK$ million*
Continuing operations			
Turnover	*3*	**64,628**	51,513
Cost of sales		**(48,684)**	(38,950)
Gross profit		**15,944**	12,563
Other income	*4*	**1,691**	1,668
Selling and distribution expenses		**(10,461)**	(8,033)
General and administrative expenses		**(3,155)**	(2,419)
Finance costs	*5*	**(595)**	(480)
Share of net results of associates		**367**	353
Profit before taxation		**3,791**	3,652
Taxation	*6*	**(830)**	(764)
Profit for the year from continuing operations	*7*	**2,961**	2,888
Discontinued operation			
Profit for the year from discontinued operation	*7,8*	**-**	2,582
Profit for the year		**2,961**	5,470
Attributable to:			
Shareholders of the Company		**2,322**	4,961
Minority interests		**639**	509
		2,961	5,470
Earnings per share	*10*		
From continuing and discontinued operations			
Basic		**HK$0.97**	HK$2.09
Diluted		**HK$0.97**	HK$2.07
From continuing operations			
Basic		**HK$0.97**	HK$1.00
Diluted		**HK$0.97**	HK$0.99

CONSOLIDATED BALANCE SHEET

At 31 December 2008

	Notes	**2008** *HK$ million*	2007 *HK$ million*
Non-current assets			
Fixed assets			
- Investment properties		**7,653**	7,299
- Interests in leasehold land held for own use under operating leases		**3,783**	2,488
- Other property, plant and equipment		**24,917**	20,089
Goodwill		**6,385**	6,133
Other intangible assets		**68**	81
Interests in associates		**1,953**	1,447
Available for sale investments		**40**	46
Prepayments		**198**	205
Deferred taxation assets		**164**	119
		45,161	37,907
Current assets			
Stocks		**11,509**	9,080
Trade and other receivables	*11*	**5,444**	5,241
Available for sale investments		**71**	-
Taxation recoverable		**75**	20
Pledged bank deposits		**21**	38
Cash and bank balances		**7,576**	8,405
		24,696	22,784
Current liabilities			
Trade and other payables	*12*	**(19,302)**	(16,565)
Derivative financial instruments		**-**	(4)
Short term loans		**(5,485)**	(4,944)
Taxation payable		**(433)**	(268)
		(25,220)	(21,781)
Net current (liabilities)/assets		**(524)**	1,003
Total assets less current liabilities		**44,637**	38,910
Non-current liabilities			
Long term loans		**(8,575)**	(7,503)
Deferred taxation liabilities		**(1,338)**	(1,243)
Derivative financial instruments		**(11)**	-
Other non-current liabilities		**(215)**	-
		34,498	30,164
Capital and reserves			
Share capital		**2,389**	2,385
Reserves		**22,770**	20,486
Equity attributable to shareholders of the Company		**25,159**	22,871
Minority interests		**9,339**	7,293
Total equity		**34,498**	30,164

Notes:

1. Basis of preparation

The 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").

The financial statements for the year ended 31 December 2008 have been prepared in accordance with accounting principles generally accepted in Hong Kong.

2. Principal Accounting Policies

The accounting policies used in the preparation of these financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2007 except for the adoption of the amendments and interpretations mentioned below.

Adoption of amendments and interpretations

The Hong Kong Institute of Certified Public Accountants has issued a number of amendments and interpretations on Hong Kong Accounting Standards ("HKAS") and Hong Kong Financial Reporting Standards ("HKFRS") that are effective or available for early adoption for the financial year beginning 1 January 2008. In the current year, the Group has adopted the following amendments and interpretations, which are relevant to the Group's operations for the financial year ended 31 December 2008.

HKAS 39 & HKFRS 7 (Amendments)	Reclassification of Financial Assets
HKFRS Interpretation 11	HKFRS 2 – Group and Treasury Share Transactions
HKFRS Interpretation 12	Service Concession Arrangements
HKFRS Interpretation 14	HKAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction

The adoption of the above amendments and interpretations has had no material effects on the Group's results and financial position and did not result in substantial changes to the Group's accounting policies. No prior year adjustment has been made.

Accounting standards, amendments and interpretations that are not yet effective

The Group has not early applied the following new and revised standards, amendments or interpretations that have been issued but are not yet effective.

HKFRSs (Amendments)	Improvements to HKFRSs
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 (Revised)	Consolidated and Separate Financial Statements
HKAS 32 & HKAS 1 (Amendments)	Puttable Financial Instruments and Obligation arising on Liquidation
HKAS 39 (Amendment)	Eligible Hedged Items
HKFRS 1 & HKAS 27 (Amendments)	Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellation
HKFRS 3 (Revised)	Business Combinations
HKFRS 7 (Amendment)	Improving Disclosure about Financial Instruments
HKFRS 8	Operating Segments
HKFRS Interpretation 9 & HKAS 39 (Amendments)	Embedded Derivatives
HKFRS Interpretation 13	Customer Loyalty Programmes
HKFRS Interpretation 15	Agreements for the Construction of Real Estate
HKFRS Interpretation 16	Hedges of a Net Investment in a Foreign Operation
HKFRS Interpretation 17	Distributions of Non-cash Assets to Owners
HKFRS Interpretation 18	Transfers of Assets from Customers

The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the Group's results of operations and financial position.

3. 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

	Retail *HK$ million*	Beverage *HK$ million*	Food Processing and Distribution *HK$ million*	Textile *HK$ million*	Investment Property *HK$ million*	Investments and Others *HK$ million*	Elimination *HK$ million*	Continuing Operations Total *HK$ million*
For the year ended 31 December 2008								
TURNOVER								
External sales	34,578	17,352	7,468	4,829	401	-	-	64,628
Inter-segment sales*	73	53	177	-	33	-	(336)	-
Total	34,651	17,405	7,645	4,829	434	-	(336)	64,628
Segment result	1,114	1,317	433	194	847	-		3,905
Unallocated corporate expenses								(98)
Interest income								212
Finance costs								(595)
Share of net results of associates	-	-	32	(2)	-	337		367
Taxation								(830)
Profit for the year								2,961
As at 31 December 2008								
ASSETS								
Segment assets	19,370	27,867	5,796	6,261	7,926	-		67,220
Interests in associates	-	-	435	41	-	1,477		1,953
Deferred taxation assets								164
Taxation recoverable								75
Unallocated corporate assets								445
Consolidated total assets								69,857
LIABILITIES								
Segment liabilities	10,099	13,756	1,177	2,472	333	4		27,841
Taxation payable								433
Deferred taxation liabilities								1,338
Unallocated corporate liabilities								5,747
Consolidated total liabilities								35,359
OTHER INFORMATION								
Capital expenditure	2,237	4,041	572	381	-	1		7,232
Depreciation and amortisation	819	823	158	248	14	2		2,064
Impairment loss recognised	4	228	1	34	-	-		267

3. Segment information – continued

	Retail *HK$ million*	Beverage *HK$ million*	Food Processing and Distribution *HK$ million*	Textile *HK$ million*	Investment Property *HK$ million*	Investments and Others *HK$ million*	Elimination *HK$ million*	Continuing Operations Total *HK$ million*	Petroleum and Related Products Distribution (Discontinued Operation) *HK$ million*	Total *HK$ million*
For the year ended 31 December 2007										
TURNOVER										
External sales	25,943	13,279	7,232	4,713	346	-	-	51,513	10,610	62,123
Inter-segment sales*	65	25	149	-	29	-	(268)	-	-	-
Total	26,008	13,304	7,381	4,713	375	-	(268)	51,513	10,610	62,123
Segment result	937	884	682	265	830	(3)		3,595	251	3,846
Unallocated corporate expenses								(94)	-	(94)
Interest income								278	13	291
Profit on disposal of discontinued operation								-	2,399	2,399
Finance costs								(480)	(23)	(503)
Share of net results of associates	-	-	9	(1)	-	345		353	-	353
Taxation								(764)	(58)	(822)
Profit for the year								2,888	2,582	5,470
As at 31 December 2007										
ASSETS										
Segment assets	15,797	23,272	5,126	5,640	7,406	1		57,242	-	57,242
Interests in associates	-	-	190	40	-	1,217		1,447	-	1,447
Deferred taxation assets								119	-	119
Taxation recoverable								20	-	20
Unallocated corporate assets								1,863	-	1,863
Consolidated total assets								60,691	-	60,691
LIABILITIES										
Segment liabilities	7,593	12,409	1,209	2,058	377	4		23,650	-	23,650
Taxation payable								268	-	268
Deferred taxation liabilities								1,243	-	1,243
Unallocated corporate liabilities								5,366	-	5,366
Consolidated total liabilities								30,527	-	30,527
OTHER INFORMATION										
Capital expenditure	2,129	6,234	542	746	277	2		9,930	2	9,932
Depreciation and amortisation	599	630	150	197	6	2		1,584	26	1,610
Impairment loss recognised	7	55	-	3	-	6		71	-	71

** Inter-segment sales were charged at prevailing market rates*

3. Segment information – continued

Geographical segments

	2008			2007		
	Turnover	**Segment assets**	**Additions to segment assets**	Turnover	Segment assets	Additions to segment assets
	HK$ million	***HK$ million***	***HK$ million***	*HK$ million*	*HK$ million*	*HK$ million*
Hong Kong	**6,352**	**12,248**	**69**	17,331	12,082	127
Chinese Mainland	**55,162**	**53,845**	**7,051**	41,434	43,966	9,717
Other Countries	**3,114**	**1,127**	**112**	3,358	1,194	88
	64,628	**67,220**	**7,232**	62,123	57,242	9,932

4. Other income

	2008	2007
	HK$ million	*HK$ million*
Other income includes the following:		
Continuing operations		
Dividends from unlisted available for sale investments	**6**	3
Interest income	**212**	278
Valuation gain on investment properties	**483**	567
Profit on disposal of associates	**95**	78
Profit on disposal of fixed assets	**217**	-
Discontinued operation		
Dividends from unlisted available for sale investments	**-**	1
Interest income	**-**	13

5. Finance costs

	2008	2007
	HK$ million	*HK$ million*
Continuing operations		
Interest on bank loans and other loans wholly repayable within five years	**624**	469
Interest on bank loans not wholly repayable within five years	**1**	-
Financing charges	**31**	11
	656	480
Less: Amount capitalised in cost of qualifying assets	**(61)**	-
	595	480
Discontinued operation		
Interest on bank loans and other loans wholly repayable within five years	**-**	18
Financing charges	**-**	5
	-	23
	595	503

6. Taxation

	2008 *HK$ million*	2007 *HK$ million*
Continuing operations		
Current taxation		
Hong Kong	**93**	145
Chinese Mainland	**687**	505
Overseas	**5**	-
	785	650
Deferred taxation		
Hong Kong		
- Current year	**94**	97
- Change in tax rate	**(59)**	-
Chinese Mainland	**10**	17
	830	764
Discontinued operation		
Current taxation		
Hong Kong	**-**	58
Overseas	**-**	2
	-	60
Deferred taxation		
Hong Kong	**-**	(2)
	-	58
	830	822

Hong Kong Profits Tax is calculated at 16.5% (2007: 17.5%) on the estimated assessable profits for the year.

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 in the Chinese Mainland. The Law of the People's Republic of China (the "PRC") on Enterprise Income Tax (the "New Law") and Implementation Regulations of the New Law has changed the tax rate of those PRC subsidiaries to 25% from 1 January 2008 with certain transitional arrangement. Overseas taxation is calculated at the rates prevailing in the respective jurisdictions.

7. Profit for the year

	2008 *HK$ million*	2007 *HK$ million*
Profit for the year has been arrived at after charging:		
Continuing operations		
Depreciation		
- Owned assets	**2,049**	1,574
- Assets held under finance leases	**1**	1
Amortisation of other intangible assets (included in general and administrative expenses)	**14**	9
Discontinued operation		
Depreciation		
- Owned assets	**-**	22
- Assets held under finance leases	**-**	4

8. Discontinued operation

The Company completed the disposal of its petroleum and related products distribution business at the end of June 2007 to an independent third party.

The results of the discontinued operation included in the consolidated profit and loss account for the year ended 31 December 2007 are set out below:

	HK$ million
Profit for the year of 2007 from discontinued operation	
Revenue	10,750
Expenses	(10,509)
Profit before taxation	241
Taxation	(58)
Profit after taxation	183
Profit on disposal of discontinued operation	2,399
Profit for the year attributable to shareholders of the Company	2,582
Net assets of discontinued operation disposed of	1,600

9. Dividends

	2008	2007
	HK$ million	*HK$ million*
Additional final dividend paid for the previous year as a result of exercise of share options	**-**	1
2008 interim dividend paid of HK$0.15 (2007: HK$0.15) per ordinary share	**359**	357
2007 special interim dividend paid of HK$0.60	**-**	1,427
2008 proposed final dividend of HK$0.25 (2007: HK$0.30) per ordinary share	**597**	716
	956	2,501

At the meeting held on 31 March 2009, the directors proposed final dividend of HK$0.25 (2007: HK$0.30) 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. The total dividends paid by the Company, including the final dividend for the year 2007, amounting to HK$1,075 million (2007: HK$2,401 million) are reflected in the current year financial statements.

10. Earnings per share

	2008 *HK$ million*	2007 *HK$ million*
For continuing and discontinued operations		
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 and diluted earnings per share	**2,322**	4,961

	2008	2007
Number of shares		
Weighted average number of ordinary shares for the purpose of calculating basic earnings per share	**2,387,587,624**	2,374,697,717
Effect of dilutive potential ordinary shares:		
- Share options	**10,289,705**	20,615,831
Weighted average number of ordinary shares for the purpose of calculating diluted earnings per share	**2,397,877,329**	2,395,313,548

	2008 *HK$ million*	2007 *HK$ million*
For continuing operations		
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 and diluted earnings per share	**2,322**	4,961
Less:		
Profit attributable to shareholders of the Company from discontinued operation	**-**	(2,582)
Profit attributable to shareholders of the Company for the purpose of calculating basic and diluted earnings per share from continuing operations	**2,322**	2,379

The denominators used are the same as those detailed above for both basic and diluted earnings per share.

For discontinued operation

For the year ended 31 December 2007, basic earnings per share and diluted earnings per share for the discontinued operation are HK$1.09 per share and HK$1.08 per share respectively, based on the profit attributable to shareholders of the Company from the discontinued operation of HK$2,582 million and the denominators detailed above for the both basic and diluted earnings per share.

11. **Trade and other receivables**

	2008	2007
	HK$ million	*HK$ million*
Trade receivables	**1,803**	1,676
Provision for doubtful debts	**(168)**	(165)
	1,635	1,511
Other receivables, deposits and prepayments	**3,758**	3,698
Amounts due from fellow subsidiaries	**18**	11
Amounts due from associates	**33**	21
	5,444	5,241

The Group normally trades with its customers under the following credit terms:

a) cash upon delivery; and
b) open credit within 60 days

The following is the aging analysis of trade receivables at the balance sheet date:

	2008	2007
	HK$ million	*HK$ million*
0 – 30 days	**1,050**	1,000
31 – 60 days	**239**	207
61 – 90 days	**112**	108
> 90 days	**234**	196
	1,635	1,511

The fair value of the Group's trade and other receivables at balance sheet date was approximate to the corresponding carrying amount.

12. **Trade and other payables**

	2008	2007
	HK$ million	*HK$ million*
Trade payables	**7,585**	6,901
Other payables and accruals	**11,569**	9,582
Amounts due to fellow subsidiaries	**118**	56
Amounts due to associates	**30**	26
	19,302	16,565

The following is an aging analysis of trade payables at the balance sheet date:

	2008	2007
	HK$ million	*HK$ million*
0 – 30 days	**4,207**	3,962
31 – 60 days	**1,490**	1,655
61 – 90 days	**607**	536
> 90 days	**1,281**	748
	7,585	6,901

The fair value of the Group's trade and other payables at balance sheet date was approximate to the corresponding carrying amount.

13. **Other Information**

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2008 have been reviewed by the Audit Committee of the Company and audited by the Company's auditor, Deloitte Touche Tohmatsu. An unqualified auditors' report will be included in the Annual Report to shareholders.

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.

The Group's retail division achieved satisfactory growth in its operating results for 2008, mainly contributed by improvement in operational efficiency, flexibility in sales strategies and encouraging organic growth. Turnover and attributable profit amounted to HK$34,651 million and HK$590 million respectively, representing increases of 33.2% and 13.2% over 2007.

For the year under review, the Chinese Mainland maintained steady and relatively fast economic growth, with rapid retail sales growth alongside robust consumption in the urban and rural areas. Total retail sales of consumer goods for 2008 registered year-on-year growth of 21.6%, representing an increase of 4.8 percentage points from 2007. In addition, the consumer price index of 2008 increased by 5.9%, representing an increase of 1.1 percentage points from 2007, with a substantial increase in food prices in particular. The Group's consumer businesses have thus benefited as a whole.

However, with the expanding negative impact of the global financial crisis since the second half of 2008, the Chinese Mainland's economic growth exhibited a declining trend. GDP growth slowed down every quarter and fell to 6.8% in the fourth quarter, representing a drop of 2.2 percentage points from the third quarter. The economic condition is expected to remain challenging in 2009. In order to maintain steady and relatively fast economic growth, the central government has taken a number of measures to stimulate domestic demand and improve people's livelihood.

In Hong Kong, worsening global economy impacted its exports towards the end of the year. Unemployment rate started to rise and consumer sentiment was dampened. All these factors caused a year-on-year drop in the overall retail sales volume for the fourth quarter of 2008. The economic condition and consumer confidence in Hong Kong are expected to further worsen in the short run.

Supermarket and Logistics

Turnover of the supermarket and logistics operation for 2008 was HK$31,139 million, representing an increase of 34.3% over 2007. Attributable profit for 2008 amounted to HK$351 million, representing a slight decrease of 3.3% over 2007. Consumer spending was undermined by the slowdown and uncertainties in the economy, and consumers became more cautious about spending. Rising unemployment rate has also generally weakened the purchasing power of consumers. Therefore, turnover growth of the operation slowed down in the second half of 2008 against the first half of the year.

As at the end of December 2008, the Group operated a total of over 2,600 stores in the Chinese Mainland and Hong Kong, of which approximately 54.8% were self-operated and the rest were franchised stores. Major store formats are hypermarket, superstore, supermarket and convenience store, mainly operated under the brands of "華潤萬家 vanguard", "華潤蘇果 CHINA RESOURCES SUGUO", "蘇果 SUGUO" and "Olé". In September 2008, "生鮮超市 Fresh Market", a new store format, was piloted focusing on fresh and high quality food. In terms of geographical contribution, Eastern China, Southern China, Hong Kong and Northern China respectively accounted for 61.8%, 25.9%, 7.8% and 4.5% of the operation's turnover for 2008.

For the year under review, satisfactory turnover growth was achieved through an expanded operational scale by new store opening and faster organic growth. Ongoing product mix improvement and operational enhancement to cater for customer preferences, together with the rise in food prices, contributed to the overall same store growth of 10.8% in 2008, and in particular a 11.2% increase was recorded in the Chinese Mainland. However, the encouraging year-on-year same store growth was mainly for the first three quarters, as the economic downturn led to a sharp slowdown in the same store growth in the fourth quarter of the year.

The Group adopts a multi-format approach to swiftly increase its share in target markets, so that it can build up an extensive local store network to achieve economies of scale in operation. Coupled with better price negotiations with suppliers and stringent cost controls, higher profitability was recorded. The consolidated earnings before interest, tax, depreciation and amortization ("EBITDA") for 2008 amounted to HK$1,374 million, representing growth of 30.7% over 2007. The EBITDA of the Chinese Mainland and Hong Kong operations were HK$1,133 million and HK$241 million respectively. However, with the implementation of the new Corporate Income Tax Act in the Chinese Mainland in 2008, additional income tax provision for undistributed earnings of subsidiaries in the Chinese Mainland increased the overall tax burden of the business, abating part of the attributable profit to the Group.

In Southern China, enhancement measures on shopping environment and merchandise mix to meet consumer preferences have delivered positive results. Same store transaction number and average customer spending were therefore improved. Same store growth of hypermarkets and superstores reached 13.9% and 22.3% respectively. In order to improve the profitability of those non-performing supermarkets that face head-on competition, the Group will formulate measures to enhance supply chain management and speed up response mechanism to cater for local consumer behavior and spending level.

The Group has leading positions in the target regions of Nanjing and Cixi in Eastern China, where satisfactory operating results were achieved, but there were individual non-performing hypermarkets in other parts of Eastern China. To boost sales in these stores, the Group will strategically modify shop layout, strengthen business alliance with suppliers and enrich merchandise mix to accommodate local consumption needs.

While some major competitors were reducing the pace of their expansion in Northern China, the Group instead accelerated the establishment of a closely-knit store network. With emphasis on 24-hour operation and efforts to increase the number of fresh product categories, profitability was significantly enhanced amidst the competitive business environment, resulting in satisfactory growth in Northern China.

In view of further deterioration in the economy, the Group will concentrate its efforts on improving operational efficiency, strengthening business alliance with suppliers, consolidating internal resources to maximize economies of scale, as well as reinforcing and raising its market share in target regions. The Group will place more emphasis on quality when opening new stores in target districts and actively explore new acquisition opportunities in the future.

Brand-fashion Distribution

The brand-fashion distribution segment reported turnover and attributable profit for 2008 of HK$2,719 million and HK$198 million respectively, representing increases of 34.0% and 102.0% over 2007.

For the year under review, the “Esprit” brand reported strong growth in turnover and attributable profit mainly through continuous enhancement of sales networks and adoption of flexible sales strategies. As at the end of December 2008, the “Esprit” and “Red Earth” brand distribution networks expanded to about 1,090 self-operated and franchised stores in the Chinese Mainland.

Owing to marked economic slowdown in the Chinese Mainland in the second half of 2008, both wholesale and retail businesses showed decline in sales growth in the fourth quarter. However, strong turnover growth in the first half of the year still contributed to year-on-year same store growth of 7.0% for self-operated stores. As a result of the moderate growth in wholesale business driven by expansion of franchised store networks, the operation maintained satisfactory growth in profitability for the full year. In addition, no further loss was incurred from the terminated brands, helping improve the overall profitability of the segment.

As the global financial crisis continued to broaden its negative impact, it is expected that the operating environment will remain challenging in 2009.

Other Retail Stores

Other retail stores segment reported turnover for 2008 of HK$793 million, comparable to 2007. Attributable profit for 2008 amounted to HK$41 million, representing a decrease of 31.7% over 2007. Earnings for the year were mainly contributed by the first half of 2008, and following the deterioration in the global economy in the second half of the year, consumers became more cautious on spending, making the operating environment more difficult. As at the end of December 2008, the Group’s chain of retail stores mainly consisted of 5 Chinese Arts & Crafts 中藝 stores in Hong Kong and 47 CR Care 華潤堂 stores in Hong Kong and the Chinese Mainland.

With rising brand recognition of the Chinese Arts & Crafts 中藝 brand for high quality and premium products as well as ongoing enhancement in product mix, the operation sustained satisfactory growth in turnover and earnings for the first three quarters of 2008. However, this growth trend reversed rapidly in the last quarter of the year as a result of the global financial crisis, leading to a slight yearly decline in profitability as compared with that of 2007.

Greater health awareness amongst the local community has increased the market demand for traditional Chinese medicine and health food. For the year under review, the increase in sales of premium products helped maintain overall moderate same store growth of 3.1% for the CR Care 華潤堂 operation in 2008. Yet, lower demand for premium products in the second half of 2008 coupled with increasingly fierce market competition squeezed the profitability of the operation. Rising store rentals and labor costs associated with higher store number, as well as the additional advertising costs incurred to deal with intensifying competition, also imposed pressure on the operation’s profitability for 2008.

It is expected that demand for premium products will fall in 2009. The Group will continue with product mix enhancement to cater for customer preferences and focus on boosting the sales of Chinese medicine and health food so as to minimize its impact on the performance of the operation.

Beverage

The beverage division reported turnover and attributable profit for 2008 of HK$17,405 million and HK$409 million respectively, representing increases of 30.8% and 35.0% over 2007.

Beer Operation

The beer operation reported turnover and attributable profit for 2008 of HK$16,048 million and HK$298 million respectively, representing increases of 30.0% and 24.7% over 2007. The sales volume of beer for 2008 rose by 4.7% to approximately 7,261,000 kiloliters.

Organic sales volume reported year-on-year decline, mainly affected by the lower-than-expected consumption growth in the industry, adverse weather as well as the earthquake in Sichuan Province. Despite this, through the promotion of premium products together with appropriate upward adjustments of selling prices, better-than-market turnover growth was still recorded in certain key regions. The sales volume of our national brand “SNOW” grew by 19.1% to 6,099,000 kiloliters in 2008, which accounted for 84.0% of the total sales volume. In addition, as part of the national branding campaign, “SNOW” has rolled out a new logo in June 2008, highlighting the Chinese culture of the brand.

For the year under review, the Group dedicated to optimizing its product mix to cater for the higher demand of consumer taste, leading to an increase in the proportion of premium beer sales. Apart from effective stock measures to keep raw material costs under control, increases in our beer prices in early 2008 also helped compensate for the rising costs of malt and hops as well as financing cost, augmenting the overall gross profit margin. Despite that certain breweries suffered stock losses and different degrees of asset damages in the Sichuan earthquake which required a provision for impairment loss, some new breweries in Inner Mongolia Autonomous Region, Liaoning Province and Hunan Province achieved satisfactory results shortly after the Group’s acquisitions, while initial performance of certain greenfield breweries still needed improvement. Besides, the gain on disposal of certain pieces of land back to the local government upon factory relocation in Shenyang also contributed to our overall growth in profitability.

As at the end of December 2008, the Group operated 60 breweries in the Chinese Mainland with an annual production capacity of approximately 12 million kiloliters, including an aggregate production capacity of approximately 1.2 million kiloliters from the greenfield breweries in Gansu Province, Hebei Province, Jiangsu Province and Heilongjiang Province, all of which commenced production in the year under review.

In order to strengthen market position, widen geographical coverage, enhance operational efficiency and optimize product structure, the Group agreed in early 2009 to acquire the respective brewing assets in 安慶天柱啤酒有限責任公司 (Anqing Tianzhu Beer Company Limited), 遼寧松林啤酒集團有限公司 (Liaoning Songlin Brewery Group Company Limited) and 浙江洛克啤酒有限公司 (Zhejiang Luck Beer Company Limited) through three newly-formed subsidiaries in which it would own 80%, 85% and 100% equity interests respectively. Upon conclusion, the three acquisitions will add a total of approximately 468,000 kiloliters to the Group's existing production capacity, helping further consolidate the Group's market share in southern Anhui Province, western Liaoning Province and southern Zhejiang Province. Recently, the Group also agreed to acquire the brewing assets of 山東琥珀啤酒廠 (Shandong Hupo Brewery), establishing a production base of about 300,000 kiloliters in northern Shandong Province.

It is expected that consumer sentiment will be hit by the deterioration in the economy since the fourth quarter of 2008. The beer operation in regions such as the Pearl River Delta and the Yangtze River Delta, where many export factories are located, has inevitably been affected to some extent. Nonetheless, our widespread geographical coverage across the Chinese Mainland will help mitigate the impact of the economic downturn on the beer operation. The Group will cautiously extend its geographical coverage and increase its production capacity through acquisition, greenfield investment and capacity upgrade with a view to enhancing our operational efficiency.

Purified Water Operation

The purified water operation, with "C'estbon 怡寶" as its sole brand, reported turnover and attributable profit for 2008 of HK$1,357 million and HK$111 million respectively, representing increases of 41.5% and 73.4% over 2007. The sales volume of purified water in 2008 rose by 27.2% to approximately 1,367,000 kiloliters.

To capture opportunities in the growing packaged water market in the Chinese Mainland, the operation's production volume was enlarged through commencement of a greenfield factory in Jiangmen during the first half of 2008. Enhanced distribution channels in the existing markets and expansion of sales networks in the new ones, coupled with the successful launch of promotional campaign to raise brand awareness, contributed to encouraging growth in both turnover and attributable profit for 2008. The increase in the Group's equity interest in the purified water operation from 51% to 100% in May 2007 also partially explained the increase in attributable profit for the year under review.

The packaged water market in the Chinese Mainland is expected to be affected by the economic slowdown and resultant corporate layoffs but mitigated by rising health consciousness among consumers. To strengthen its competitive advantage, the Group will prudently expand into new markets and streamline distribution process to lower production costs. The Group will also continue to look for acquisition opportunities and upgrade our production capacity to sustain our growth in market share.

Food Processing and Distribution

The food processing and distribution division reported turnover for 2008 of HK$7,645 million, representing an increase of 3.6% over 2007. Attributable profit for 2008 amounted to HK$312 million, representing a decrease of 41.2% over 2007. Excluding the disposal gain of certain equity interests in non-core investment, attributable profit of the division for 2008 would have decreased by 51.8%, mainly affected by the weak performance of the Hong Kong livestock distribution business.

Temporary disruption in supply of livestock during the snowstorm in the Chinese Mainland in early 2008 as well as the appreciation of Renminbi caused an upsurge in pig import prices in the first half of 2008. Although pig import prices began to fall in the second half of the year and in the fourth quarter returning to a level similar to that of the same period last year, intensified competition in the Hong Kong live pig market led to declines in both sales quantity and gross margin, thus lowering the profitability of the livestock distribution business. On the other hand, with rising recognition of “Ng Fung” brand, turnover of frozen food, aquatic products and other assorted foodstuff distribution during the year under review was comparable to that of last year, despite consumers’ cautiousness of spending with the economic contraction in Hong Kong in the fourth quarter of 2008.

The meat processing, branded food processing and distribution business reported satisfactory profit contribution for the year under review. To accelerate its investments in the mainland targeting the major cities, the Group entered into agreements with 河南糧油食品進出口集團有限責任公司 (Henan Cereals, Oils & Foodstuffs Imp. & Exp. Group Corporation, Ltd.) and 日照福源食品有限公司 (Ri Zhao Fu Yuan Food Company Ltd.) in July and November 2008 respectively to set up new joint venture companies in Henan Province and Shandong Province. The joint ventures, together with other existing operations in Shenzhen, Shanghai, Hangzhou and Sichuan Province, will favorably strengthen the division’s livestock supply to Hong Kong and its mainland meat processing business, taking the Group one step further to become a leading vertically integrated meat supplier in the Chinese Mainland. The investments of assorted foodstuff business in the Chinese Mainland, including the Hangzhou NF Refrigerated Food (杭州五豐冷食) and Yangzhou NF Fuchun (揚州五豐富春) operations, also reported satisfactory growth in profitability for the year under review.

Benefited from increases in sales volume and selling prices, the marine fishing and aquatic products processing operation reported notable turnover growth in 2008. However, lower overall gross margin from rising cost pressure exerted by high fuel prices in the first half of the year and significant fluctuations in foreign exchange rates in the second half of the year following the financial crisis have impacted the operating results of the operation.

Looking ahead, the Group will continue to improve its supply chain of safe food and capitalize on organic expansion and acquisition so as to become an outstanding safe food supplier with integrated research and development, processing and distribution.

Textile

Turnover of the textile division for 2008 was HK$4,829 million, representing an increase of 2.5% over 2007. Attributable profit for 2008 amounted to HK$74 million, representing a decrease of 48.6% over 2007. Excluding the after-tax effect of revaluation of investment properties and the disposal gain of non-core investments, attributable profit of the division decreased by 67.2% over 2007.

Increased export sales driven by rising demand for nylon and high-end yarn products contributed to the turnover increase in the first half of 2008. However, sharp reduction of overseas sales orders and falling average selling prices due to extensive goods dumping in the industry following the financial crisis caused the full year turnover only comparable to that of 2007, with a decline in gross margin. Coupled with a provision for impairment loss for certain dyeing assets with relatively low utilizing value and efficiency, the division's profit for the year was further impacted. Nevertheless, gross margin of the garment manufacturing business improved as a result of product mix enhancement, easing the decline in profit of the division.

In a challenging environment of global economic slowdown and weak demand for textile products, the Group will continue to implement stringent cost controls to enhance production efficiency. The Group will implement product mix rationalization responding to changes in market needs and prudent expansion of geographical coverage in both domestic and foreign markets to boost the profitability of the division in the long run. Moreover, the increase in export tax rebate for certain textile and garment products to 15% starting from February 2009 and the repeated Renminbi lending rate cuts by The People's Bank of China will also benefit the long-term development of the mainland textile industry.

Investment Property

The investment property division, which mainly comprises retail property rental segment, reported turnover of HK$434 million for 2008, representing an increase of 15.7% from 2007. Attributable profit for 2008 amounted to HK$754 million. Excluding the after-tax revaluation surplus of approximately HK$415 million (2007: approximately HK$408 million) and the decrease in deferred tax liabilities of approximately HK$52 million resulted from the reduction in the Hong Kong profits tax rate, attributable profit of the division for 2008 would have increased by 19.6%.

The satisfactory growth in rental income was mainly attributable to rental and occupancy rate increments of its retail portfolio. In particular, the newly redeveloped multi-storey retail property at Jordan recorded considerable increase in occupancy rate during the year, boosting the overall performance of the division. Other properties were almost fully let out for the year under review.

Looking forward, sentiment in the Hong Kong retail market will continue to be influenced by the impact of the financial crisis. Rental income from properties catering for smaller retailers will inevitably be affected. Nevertheless, the limited supply of prime retail space in traditional shopping districts, coupled with the successful introduction of international fashion brand retailers into the Group's Silvercord property in Tsimshatsui commencing from 2009 will help secure a stable rental income stream and future profitability. The division will carry out review from time to time on its retail properties for renovation potential in order to enhance rental income.

Investments and Others

Attributable profit for 2008 amounted to HK$396 million (2007: HK$429 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 in 2008.

FINANCIAL REVIEW

Capital and Funding

As at 31 December 2008, the Group's consolidated cash and bank balance amounted to HK$7,597 million. The Group's borrowings as at 31 December 2008 were HK$14,060 million with HK$5,485 million repayable within one year, HK$8,515 million repayable after one year but within five years and HK$60 million repayable after five years. Committed borrowing facilities available to the Group but not drawn as at 31 December 2008 amounted to approximately HK$1,793 million. On 1 April 2008, a subsidiary of our beer operation entered into a five-year term syndicated loan facility of HK$1.8 billion with ten banks at 0.57% p.a. over Hong Kong Inter-Bank Offer Rate ("HIBOR").

On the basis of the Group's net borrowings relative to the shareholders' funds and minority interests, the Group's gearing was approximately at 18.7% as at 31 December 2008 (31 December 2007: 13.3%).

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 31 December 2008, 18.7% of the Group's cash deposit balance was held in Hong Kong dollars, 69.4% in Renminbi and 10.4% in US dollars; whereas 55.8% of the Group's borrowings was denominated in Hong Kong dollars and 37.5% in Renminbi with 6.2% in US dollars. To mitigate the interest rate exposure, the Group entered into certain interest rate swaps to hedge part of its borrowings.

Pledge of Assets

As at 31 December 2008, assets with a carrying value of HK$289 million (31 December 2007: HK$248 million) were pledged for total borrowings of HK$312 million (31 December 2007: HK$272 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 December 2008.

CORPORATE GOVERNANCE

It is the firm belief of the Company that a good and solid corporate governance framework is essential to the successful growth of the Company and the enhancement of shareholder value. The Company is committed to attaining and maintaining high standards of corporate governance and adopts principles of corporate governance emphasizing a quality board, accountability to all stakeholders, open communication and fair disclosure.

The Company has adopted the Corporate Governance Practice Manual which incorporates almost all the Code Provisions and, where appropriate, recommended best practices of the Code on Corporate Governance Practices contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("CG Code").

Throughout the year ended 31 December 2008, the Company has complied with all the Code Provisions in the CG Code, with deviations from Code Provision A.4.1 and E.1.2 of the CG Code. All Directors (including Executive and Non-Executive Directors) are not appointed for a fixed term. The Board does not believe in any arbitrary term of office and would like to retain sufficient flexibility to organize the composition of the Board to serve the needs of the Group. The Articles of Association of the Company require that all Directors are subject to re-election by shareholders of the Company at the annual general meeting following their appointment and at least every three years on a rotation basis. The Directors to retire shall be those who have been longest in office since their election or re-election. A retiring Director is eligible for re-election. Due to business appointments overseas, Mr. Song Lin was not in Hong Kong on 29 May 2008 and therefore could not attend the annual general meeting of the Company held on that day. The Managing Director and either the chairman or at least one member of the audit committee, compensation committee and nomination committee attended the annual general meeting to ensure effective communication with the shareholders of the Company.

The Company has exceeded the requirements under the Listing Rules and the CG Code in various areas of its corporate governance practices. Since November 2002, to enable the shareholders to appraise the operations and performance of the Group, the Group has been releasing quarterly financial and operational review. The Company also exceeded the minimum requirements under the Listing Rules relating to the appointment of at least three Independent Non-Executive Directors with six Independent Non-Executive Directors. Two of our Independent Non-Executive Directors have appropriate accounting qualifications, which also exceeds the requirement of the Listing Rules. Throughout the year of 2008, the Company has maintained the proportion of its Independent Non-Executive Directors to at least one-third of the total members of the Board.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES

During the year, neither the Company nor its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

EMPLOYEES

As at 31 December 2008, the Group, excluding its associated companies, had a staff size of around 144,000, amongst which more than 95% were employed in the Chinese Mainland, whilst the rest were mainly in Hong Kong and overseas. Remuneration packages are assessed in accordance to the nature of jobs duties, individual performance and market trends with built-in merit components, paid in the form of cash bonuses.

By order of the Board
CHEN LANG
Managing Director

Hong Kong, 31 March 2009

As at the date of this announcement, the executive directors of the Company are Mr. Song Lin (Chairman), Mr. Qiao Shibo (Executive Director), Mr. Chen Lang (Managing Director), Mr. Wang Qun (Deputy Managing Director), Mr. Lau Pak Shing (Deputy Managing Director) and Mr. Kwong Man Him (Deputy Managing Director). The non-executive directors are Mr. Jiang Wei, Mr. Wang Shuaiting, Mr. Yan Biao, Mr. Li Fuzuo and Mr. Du Wenmin. The independent non-executive directors are Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.