China Resources Enterprise, Limited

Acquisition of a 39.25% Stake in Suguo

Beginning of a New Chapter in Retailing

September 26, 2002
Agenda

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Highlights of the Acquisition

- Acquired from Jiangsu Supply & Marketing General Cooperative and its associates half of their 78.5% stake in Suguo Supermarket Co, Ltd (Suguo)
- Total cash consideration for the 39.25% stake is RMB232m which will be funded by internal resources
- This represents 11.7x FY2001 earnings and 4.4x Suguo's book NAV as at 30 June 2002
Background of Suguo

- Suguo was established in July 1996 by Jiangsu Supply & Marketing General Cooperative
- After establishing a successful supermarket chain in Nanjing, Suguo started franchising its business outside Nanjing in April 1998
- In September 2000, it opened its first hypermarket store in Nanjing
- In November 2000, Jiangsu Supply & Marketing General Cooperative disposed a minority stake of 21.5% in Suguo to two mainland enterprises to increase its capital base
- In January 2001, Suguo leased a logistic center from its majority shareholder to serve its extensive retail network
- At the end of June 2002, it operated 4 hypermarket stores, 88 supermarket stores and 126 convenience stores in Nanjing and was also the franchisor of 502 Suguo supermarkets and convenience stores in Jiangsu, Anhui, Shandong and Henan provinces

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Background of Suguo

“Beginning of a New Chapter in Retailing”
Background of Suguo

- Suguo is the largest supermarket chain operator in Jiangsu province with an estimated 50% market share in Nanjing city.
Background of Suguo

Growth of the supermarket network

Source: Suguo marketing materials

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Background of Suguo

Breakdown of number of stores as at FY2001 - by province

Breakdown of number of stores as at H1 2002 - by province

Source: Suguo management accounts
Background of Suguo

Breakdown of FY2001 turnover by format

- Hypermarket store: 17.0%
- Supermarket store: 11.1%
- Convenience store: 11.5%
- Logistic centre: 10.6%

Breakdown of H1 2002 turnover by format

- Hypermarket store: 12.2%
- Supermarket store: 11.5%
- Convenience store: 17.9%
- Logistic centre: 58.4%

Source: Suguo management accounts
## Background of Suguo

### Key financial data

<table>
<thead>
<tr>
<th>Year end 31 Dec</th>
<th>H1 2002</th>
<th>FY2001</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>RMBm</td>
<td>RMBm</td>
</tr>
</tbody>
</table>

**P&L:**
- Turnover *  
  - H1 2002: 1,269.6 RMBm  
  - FY2001: 2,199.4 RMBm
- EBITDA  
  - H1 2002: 64.5 RMBm  
  - FY2001: 98.4 RMBm
- Depreciation and amortisation  
  - H1 2002: 25.8 RMBm  
  - FY2001: 34.9 RMBm
- EBIT  
  - H1 2002: 38.7 RMBm  
  - FY2001: 63.5 RMBm
- Net finance expenses  
  - H1 2002: 0.6 RMBm  
  - FY2001: 2.8 RMBm
- Pre-tax profit  
  - H1 2002: 38.1 RMBm  
  - FY2001: 60.7 RMBm
- Tax  
  - H1 2002: 12.5 RMBm  
  - FY2001: 10.1 RMBm
- Earnings  
  - H1 2002: 25.5 RMBm  
  - FY2001: 50.6 RMBm

**Balance Sheet:**
- Net assets  
  - H1 2002: 135.2 RMBm  
  - FY2001: 109.7 RMBm
- Capital employed  
  - H1 2002: 135.2 RMBm  
  - FY2001: 109.7 RMBm
- Net cash/(debt)  
  - H1 2002: 67.3 RMBm  
  - FY2001: (15.6) RMBm

**Profitability Ratio:**
- EBITDA margin (%)  
  - H1 2002: 5.08%  
  - FY2001: 4.47%
- EBIT margin (%)  
  - H1 2002: 3.04%  
  - FY2001: 2.89%
- Net margin (%)  
  - H1 2002: 2.01%  
  - FY2001: 2.30%
- ROE (%)  
  - H1 2002: na  
  - FY2001: 46.1%
- ROCE (%)  
  - H1 2002: na  
  - FY2001: 57.9%

* After VAT and sales discount

**Source:** Suguo FY2001 audited accounts (PRC accounting standards) and H1 2002 management accounts

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Implications

- This marks the beginning of a new chapter for our retailing business
Implications

Economic statistics of the two provinces

<table>
<thead>
<tr>
<th></th>
<th>Jiangsu Province</th>
<th>Guangdong Province</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population - 2000 (m)</td>
<td>74</td>
<td>5</td>
</tr>
<tr>
<td>GDP - 2001 (RMB bn)</td>
<td>951</td>
<td>115</td>
</tr>
<tr>
<td>GDP growth - 2001 (%)</td>
<td>+10.2</td>
<td>+11.2</td>
</tr>
<tr>
<td>GDP per capita 2001 (RMB)</td>
<td>12,925</td>
<td>20,671</td>
</tr>
<tr>
<td>Retail sales - 2001 (RMB bn)</td>
<td>287</td>
<td>47</td>
</tr>
<tr>
<td>Retail sales growth - 2001 (%)</td>
<td>+10.2</td>
<td>+11.0</td>
</tr>
</tbody>
</table>

Source: Statistical bureaus of respective governments

―"Beginning of a New Chapter in Retailing"―
Implications

- The acquisition will add to our extensive supermarket network throughout Southern and Eastern China, the two core expansion regions in our retailing plan.

- We now have dominant market position in Guangdong and Jiangsu, the two most affluent provinces in the country.

- Suguo's leading market share in northern Jiangsu will complement our existing supermarket network in southern Jiangsu, creating an integrated supply chain for the province.

- It demonstrates our ability to accomplish our projections in the retailing plan.

- There will be a major leap in our national ranking among the chain stores.

- This is not a notifiable transaction and our disclosure is voluntary.
Implications

Profile of leading chain stores in China

<table>
<thead>
<tr>
<th>Ranking</th>
<th>Retailer</th>
<th>FY2001 Turnover RMBm</th>
<th>Yoy % change</th>
<th>Ranking</th>
<th>H1 2002 Turnover RMBm</th>
<th>Yoy % change</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shanghai Lianhua</td>
<td>14,063</td>
<td>+26</td>
<td>1</td>
<td>8,121</td>
<td>+7</td>
</tr>
<tr>
<td>2</td>
<td>Shanghai Hualian</td>
<td>8,504</td>
<td>+52</td>
<td>2</td>
<td>5,603</td>
<td>+55</td>
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<tr>
<td>3</td>
<td>Beijing Hualian</td>
<td>8,000</td>
<td>+60</td>
<td>6</td>
<td>4,084</td>
<td>+32</td>
</tr>
<tr>
<td>4</td>
<td>Shanghai Nong Gong Sang</td>
<td>7,475</td>
<td>+38</td>
<td>7</td>
<td>3,991</td>
<td>+5</td>
</tr>
<tr>
<td>5</td>
<td>San Lian (electrical goods)</td>
<td>7,026</td>
<td>+32</td>
<td>5</td>
<td>4,288</td>
<td>+19</td>
</tr>
<tr>
<td>6</td>
<td>Beijing Guo Mei (electrical goods)</td>
<td>6,150</td>
<td>+120</td>
<td>3</td>
<td>4,700</td>
<td>+80</td>
</tr>
<tr>
<td>7</td>
<td>Suguo Supermarket</td>
<td>5,282</td>
<td>+31</td>
<td>8</td>
<td>3,280</td>
<td>+27</td>
</tr>
<tr>
<td>8</td>
<td>Bai Sen (fast food)</td>
<td>5,205</td>
<td>+24</td>
<td>10</td>
<td>2,818</td>
<td>+38</td>
</tr>
<tr>
<td>9</td>
<td>Shanghai Jinjiang Metro</td>
<td>4,949</td>
<td>+32</td>
<td>9</td>
<td>2,890</td>
<td>+20</td>
</tr>
<tr>
<td>10</td>
<td>China Resources Vanguard</td>
<td>4,648</td>
<td>+35</td>
<td>12</td>
<td>2,710</td>
<td>na</td>
</tr>
</tbody>
</table>

Source: State Economic and Trade Commission
Implications

- In terms of financial impact, the stake will be equity accounted.
- The acquisition will be earnings and EPS enhancing on a proforma basis.
- Potential savings via an expanded supply chain and more effective logistic management.
- Little impact on our balance sheet strength.
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