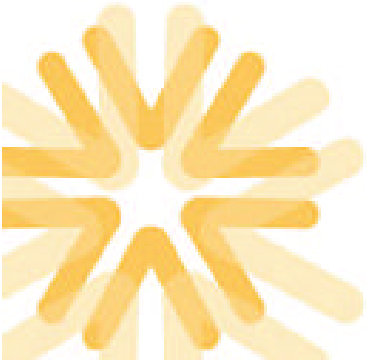


China Resources Enterprise, Limited  
Final Results 2003

**Growing Presence in a Booming Market**

7 April, 2004





## Agenda

- Opening Note / Results Highlights pp.3 – pp.5
- Financial Summary pp.6 – pp.14
- Business Review pp.15 – pp.35
- Strategies and Prospects pp.36 – pp.40
- Disclaimer pp.41



# Final Results 2003

## Opening Note / Results Highlights

Frank Ning

Chairman

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## Results Highlights

- Turnover grew by 20% to a record HK\$34.7bn driven by the retailing and petroleum businesses
- Earnings grew 4% to HK\$1,455m despite the SARS impact
- Final dividend of HK14¢ proposed, bringing the full year dividend to HK24¢, a 9% growth from last year
- Payout ratio was 34% excluding the special interim dividend of shares in CR Cement distributed in July 2003
- Retail business was profitable in Q4 2003 and contributed HK\$13m earnings

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## Results Highlights

- There was continuous improvement at the supermarket division with losses reduced consecutively for the last two quarters
- Earnings contribution from petroleum and property businesses increased by 48% and 83% respectively
- With a 9% earnings growth, brewery business staged a major recovery in the second half; whilst food distribution and textile businesses were stable

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Final Results 2003

## Financial Summary

Francis Kwong

Executive Director

“Growing Presence in a Booming Market”





# Results Summary

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% <i>change</i>
Turnover	34,655	28,822	+20
Earnings	1,455	1,405	+4
EPS (HK¢)	69.9	67.8	+3
DPS ex-special dividend (HK¢)	24.0	22.0	+9
DPS incl-special dividend (HK¢) *	24.0 + CR Cement shares	47	<i>na</i>
Basic dividend payout ratio ex-special dividend (%)	34.3	32.4	+6

\* There was a special cash dividend of HK25¢ per share paid in February 2002 for the disposal of our investment in a banking business. In July 2003, a special dividend effected by a distribution in specie of shares in CR Cement was paid (CR shares were distributed to CRE shareholders on a 1 for 10 basis and the stock closed at HK\$2.60 on 6 April 2004)

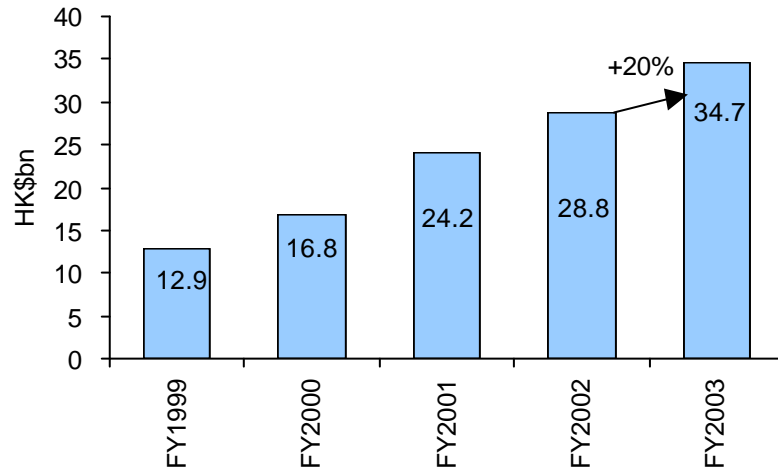
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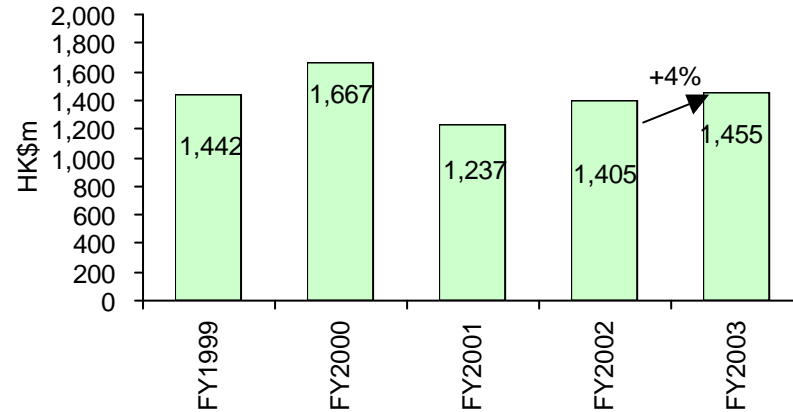


# Five Year Trends

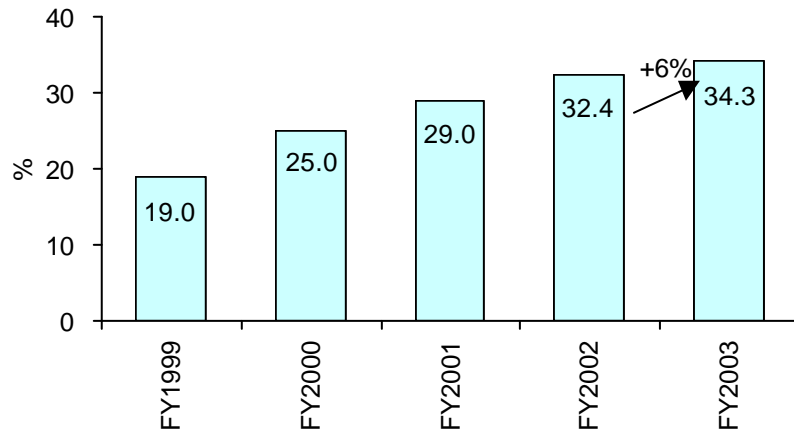
### Turnover



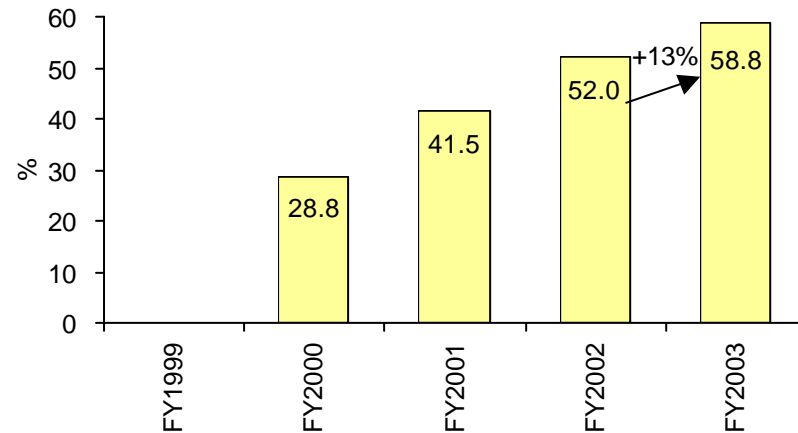
### Earnings



### Basic dividend payout ratio



### Proportion of assets in mainland China



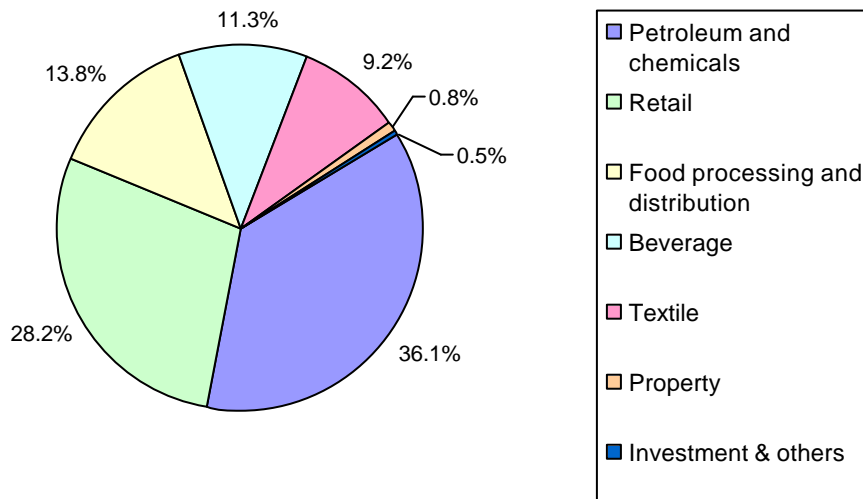
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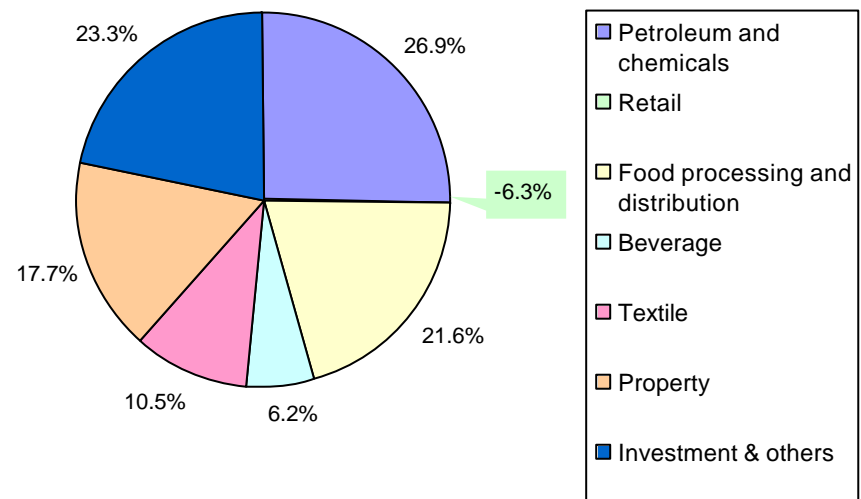


# Contribution of Individual Divisions in FY2003

### Turnover



### Earnings



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## Turnover Breakdown – by Divisions

Year end 31 Dec	FY2003 HK\$m	Prop (%)	FY2002 HK\$m	Prop (%)	% change
Petroleum and chemicals	12,565	36	10,501	36	+20
Retail	9,827	28	6,528	23	+51
Food processing and distribution	4,801	14	4,803	17	-0
Beverage	3,950	11	3,738	13	+6
Textile	3,202	9	2,522	9	+27
Property	280	1	357	1	-22
Investment & others	180	1	518	2	-65
	<u>34,806</u>	<u>100</u>	<u>28,967</u>	<u>100</u>	+20
Less: inter-co transactions	<u>(151)</u>		<u>(145)</u>		+4
Turnover	<u>34,655</u>		<u>28,822</u>		+20

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## Earnings Breakdown – by Divisions

Year end 31 Dec	FY2003 HK\$m	Prop (%)	FY2002 HK\$m	Prop (%)	% change
Petroleum and chemicals	424	27	287	19	+48
Retail	(99)	(6)	100	6	-199
Food processing and distribution	340	22	338	22	+1
Beverage	98	6	90	6	+9
Textile	166	11	163	11	+2
Property	279	18	152	10	+83
Investment & others	368	23	411	27	-10
	<u>1,576</u>	<u>100</u>	<u>1,540</u>	<u>100</u>	<u>+2</u>
Net corporate interest & expenses	<u>(120)</u>		<u>(135)</u>		<u>-11</u>
Earnings	1,455		1,405		+4

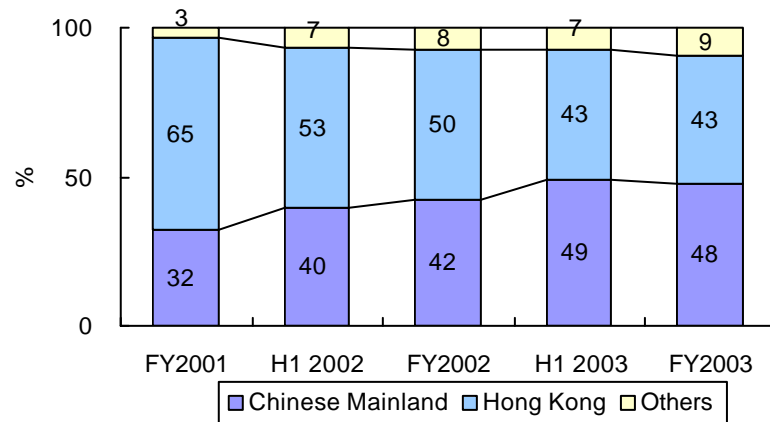
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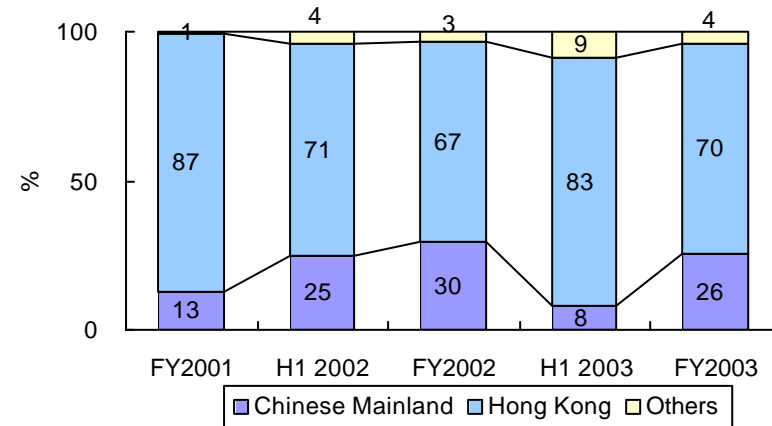
## Geographical Breakdown of Turnover and Profit

- The proportion of turnover from mainland China increased to 48% from 42% in FY2002 though that of profit before tax decreased to 26% from 30%, as the mainland retail and brewery businesses were hit severely during the SARS outbreak in H1 2003
- For a more comparable H2 2003, about 46% of turnover and 40% of profit before tax were from mainland China

**Turnover**



**Profit before tax**



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# Operating Environment

## Market in 2003

### Mainland China

(nominal GDP growth 9.1%)

Retail - retail sales grew 12% to RMB4.6tn

Brewery - production volume grew 6.4% to 25.4m kl

Textile - production of cotton yarns and fabrics increased by 16% and 9%

### Hong Kong

(nominal GDP decline of 2.0%)

Retail - retail sales declined 2.3% of which  
- supermarket sales decreased by 1.0% and  
- department store sales decreased by 2.9%  
- Chinese drugs and herbs sales up 3.3%

Food - locally produced and imported live pigs and cattle amounted to about 2.2m heads

## CRE's business in 2003

- turnover of supermarkets up 113%  
- turnover of brand fashion distribution up 13%

- brewery sales volume up 8.0% to 2.53m kl

- production of cotton yarns and fabrics increased by 30% and 11%

- turnover of supermarkets up 11%  
- turnover of Chinese Arts & Crafts down by 22%  
- turnover of CR Care up 31%

- distributed 1.8m heads of pig and cattle from mainland China into Hong Kong

Source: Census & Statistics Dept., HK SAR Government, National Bureau of Statistics of China

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Final Results 2003

## Business Review

Francis Kwong

Executive Director

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# Petroleum and Chemical Distribution

## Turnover breakdown of petroleum and chemical distribution

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% change
<b>Petroleum</b>			
- Diesel	3,103	2,964	+5
- Fuel oil & ocean vessels	4,725	3,925	+20
- Jet fuel	1,588	1,130	+41
- Others	291	271	+7
<b>LPG</b>	672	595	+13
<b>Chemicals</b>	1,346	1,005	+34
<b>Petrol stations</b>			
- HK	638	632	+1
- Mainland China	374	270	+38
<b>Inter-co transactions and others</b>	(171)	(291)	-41
<b>Total</b>	12,565	10,501	+20

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# Retail

## Retail business turnover and earnings breakdown

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% change
<b>Turnover</b>			
- Supermarket	7,881	4,570	+72
- Department stores in HK	937	1,064	-12
- Brand-fashion in China	1,009	894	+13
	9,827	6,528	+51
<b>Earnings</b>			
- Supermarket	(107)	66	-262
- Department stores in HK	27	30	-10
- Brand-fashion in China	(19)	5	-519
	(99)	100	-199

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## Retail

### 1. Supermarket

- Overall 72% turnover growth with 113% and 11% increases in mainland China and Hong Kong respectively
- Efforts to improve profitability have started to show effects with quarterly losses reduced from HK\$55m in Q2 2003 to HK\$21m in Q3 2003 and HK\$20m in Q4 2003
- A record quarterly EBITDA for the past two years of HK\$81m was achieved in Q4 2003, returning a positive EBITDA of HK\$98m for the full year, and there were positive EBITDA margins in both Hong Kong and mainland operations in Q4 2003 of 7.4% and 2.0% respectively
- Suguo became a subsidiary in October 2003 after raising our stake from 39.25% to 49.25% and it reported turnover of HK\$3,063m, up 25% from FY2002, and contributed earnings after goodwill amortisation of HK\$7m

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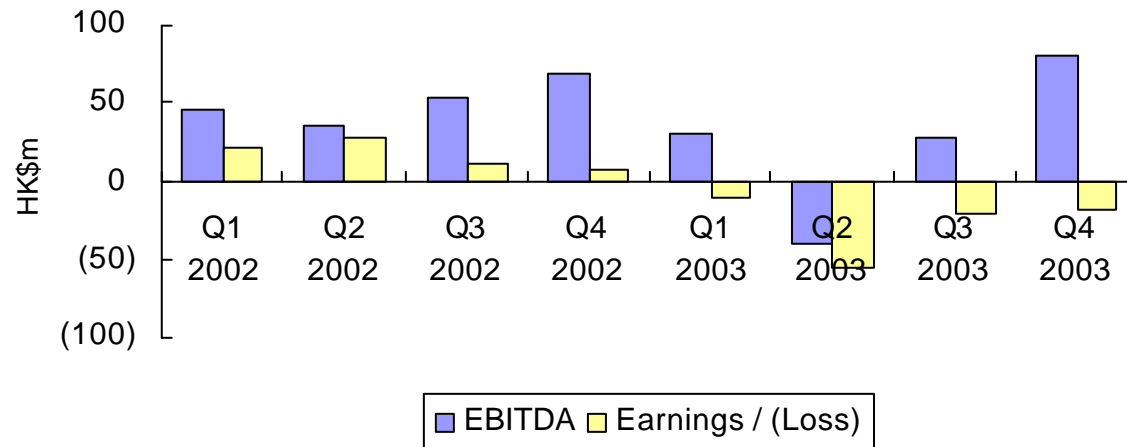


# Retail

## 1. Supermarket

- Including Suguo, we operated about 1,620 stores in Hong Kong and mainland China, of which 718 are self-operated and the remainders are franchised

### Operational Turnaround



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# Retail

## Supermarket turnover, EBITDA and earnings breakdown

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% change
<b>Turnover</b>			
- HK	2,017	1,818	+11
- China	5,863	2,752	+113
	7,881	4,570	+72
<b>EBITDA</b>			
- HK	138	127	+8
- China	(40)	76	-152
	98	203	-52
<b>Earnings</b>			
- HK	52	79	-35
- China	(138)	(9)	+1,394
- goodwill	(20)	(4)	+420
	(107)	66	-262
<b>EBITDA margin (%)</b>			
- overall	1.3	4.4	-71
- HK	6.8	7.0	-2
- China	(0.7)	2.8	-125

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# Retail

## Supermarket network - CR Vanguard

No of self-operated stores	31-Dec-03		30-Jun-03		31-Dec-02	
No of franchised stores						
<i>I) Standard supermarkets</i>						
- Hong Kong	82		79		77	
- Beijing	23		24	2	24	2
- Tianjin	57		60		59	
- Jiangsu Province	93	4	91	4	95	4
- Zhongshan/Zhuhai	23	12	23	12	23	12
- Shenzhen	79	43	87	44	88	45
	357	59	364	62	366	63
<i>II) Superstores</i>						
- Beijing	4		3		3	
- Tianjin	2		2		1	
- Jiangsu Province	6		4		3	
- Hangzhou	4		4		0	
- Shenzhen	4		4		1	
- Zhongshan/Zhuhai	8		6		2	
- Guangzhou	1					
	29	0	23	0	10	0
<i>II) Hypermarkets</i>						
- Shenzhen	9		9		8	
- Guangzhou	6		6		6	
- Huizhou	1		1		1	
- Zhongshan/Zhuhai	2		2		2	
	18	0	18	0	17	0
<b>Overall</b>						
- Hong Kong	82	0	79	0	77	0
- China	322	59	326	62	316	63
	<b>463</b>		<b>467</b>		<b>456</b>	

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# Retail

## Supermarket network - Suguo

No of self-operated stores	31-Dec-03		30-Jun-03		31-Dec-02	
No of franchised stores						
<b>I) Convenience stores</b>						
- Jiangsu Province	191		174		149	
	191		174		149	
<b>II) Standard supermarkets</b>						
- Jiangsu Province	58	639	72	545	52	524
- Anhui Province		162		134		130
- Shandong Province		31		27		26
- Henan Province		10		7		6
- Hebei Province		2		2		2
- Wubei Province		2		2		2
	58	846	72	717	52	690
<b>III) Superstores</b>						
- Jiangsu Province	58		31		31	
- Anhui Province	7		4			
	65		35		31	
<b>Overall in China</b>	314	846	281	717	232	690
	<b>1,160</b>		<b>998</b>		<b>922</b>	

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## Retail

### 2. Department stores and brand-fashion

- Hong Kong department store business turned around from a loss of HK\$6m in H1 2003 to a net profit of HK\$27m for the full year despite a turnover decline of 12%
- Turnover of CR Care increased by 31% while that of CAC and CRC Department Store declined by 22% and 28% respectively, resulting in operating profit growth at CR Care and strong recovery at the other two
- At end of 2003, we operated 2 super-sized and 25 smaller-sized CR Care stores, 5 CAC stores and 2 CRC stores
- Brand-fashion in China reported a loss of HK\$19m but it became profitable in Q4 2003 with a net profit of HK\$1m
- There are 15 international brands presently and contracts with Shanghai Tang, Verri and Iceberg were terminated during the year
- Solid performance at Esprit with earnings growth of 12%

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# Retail

## Brand-fashion business in the Chinese Mainland

	31-Dec-03		30-Jun-03		31-Dec-02	
<b>No of self-operated stores</b>						
<b>No of franchised stores</b>						
Alfred Dunhill	26	9	27	13	29	5
Blue Navy	2	0	8	0	13	5
Bruno Magli	1	0	5	0	7	0
CK Jeans	27	19	18	15	21	11
Christian Lacroix	1	0	1	0	1	0
Emanuel Ungaro	2	0	2	0	2	0
Esprit / Red Earth	139	448	133	461	119	489
Givenchy (and MBG)	7	0	8	0	9	0
Guess	4	0	3	0	2	0
Kenzo	9	3	10	2	10	2
Lanvin	1	0	2	0	4	0
Pal Zileri	5	0	4	0	3	0
Piaget	1	0	1	0	1	25
Polo	2	0	1	0	1	0
Shanghai Tang *	0	0	1	0	1	0
Verri *	0	0	0	0	1	0
	227	479	224	491	224	537
<b>Total</b>	<b>706</b>		<b>715</b>		<b>761</b>	

\* Terminated brands

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## Food Processing and Distribution

- Earnings contribution increased by 1% with flat turnover due to the disposal of a stake in a seafood trading business in Hong Kong
- Active promotion of "Ng Fung" fresh meat and increased home-cooking during the SARS period led to a 4% turnover growth of foodstuff distribution but operating profit was down 8% as Hong Kong was in a deflationary environment and there was a surge in mainland livestock prices in Q4 2003
- Strong recovery at marine fishing with a 189% surge in operating profit
- Continued profit growth at the abattoir operation with stringent cost control measures
- Expansion into the mainland meat market has commenced using slaughtering as the control point for fresh meat supply chain
- Following the Shanghai meat processing project, a principle agreement was signed for the Shenzhen slaughterhouse project at the end of last year and we will continue to explore other major cities

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# Food Processing and Distribution

## Turnover breakdown of Ng Fung Hong

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% change
Foodstuff distribution	3,163	3,049	+4
Food processing and stock raising	1,435	1,537	-7
Abattoir operation, transportation and others	290	301	-4
Inter-co transactions	(87)	(84)	+4
	<b>4,801</b>	<b>4,803</b>	<b>-0</b>

## Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% change
Foodstuff distribution	271	294	-8
Food processing and stock raising	76	38	+98
Abattoir operation, transportation and others	96	89	+8
	<b>443</b>	<b>421</b>	<b>+5</b>

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## Beverage

- Turnover growth of 6% with sales volume increasing 8% to 2.53m k litres, consolidating our market position as the second largest brewer on the mainland
- Average selling price fell 3%, recovering from a 6% drop in H1 2003, and gross margin was in line with last year
- Earnings contribution increased by 9%, compared with a 34% decrease in H1 2003, implying an 42% earnings growth in H2 2003
- Annual production capacity amounted 4.2m k litres after acquiring Lidu in Beijing in January 2003
- Organic sales volume growth was 5% with strong earnings performance at Shenyang, Sichuan, Tianjin and Anhui

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## Beverage

- There were three loss making breweries last year, same as that of FY2002
- Sales volume of our national brand, Snow, increased by 48% to about 654,000 k litres, representing 26% of the total volume sold
- About two-thirds of Snow were sold outside Shenyang and 10% in districts where we do not have brewery respectively, reflecting its rapid penetration
- To facilitate national brand development and brewery management, we have been acquiring the minority stakes from the jv partners, including the Wuhan and Jilin breweries last year
- The joint venture with Qianpi in Zhejiang signed in March this year will raise our production capacity to 4.7m k litres and expand our geographical coverage to the Eastern region

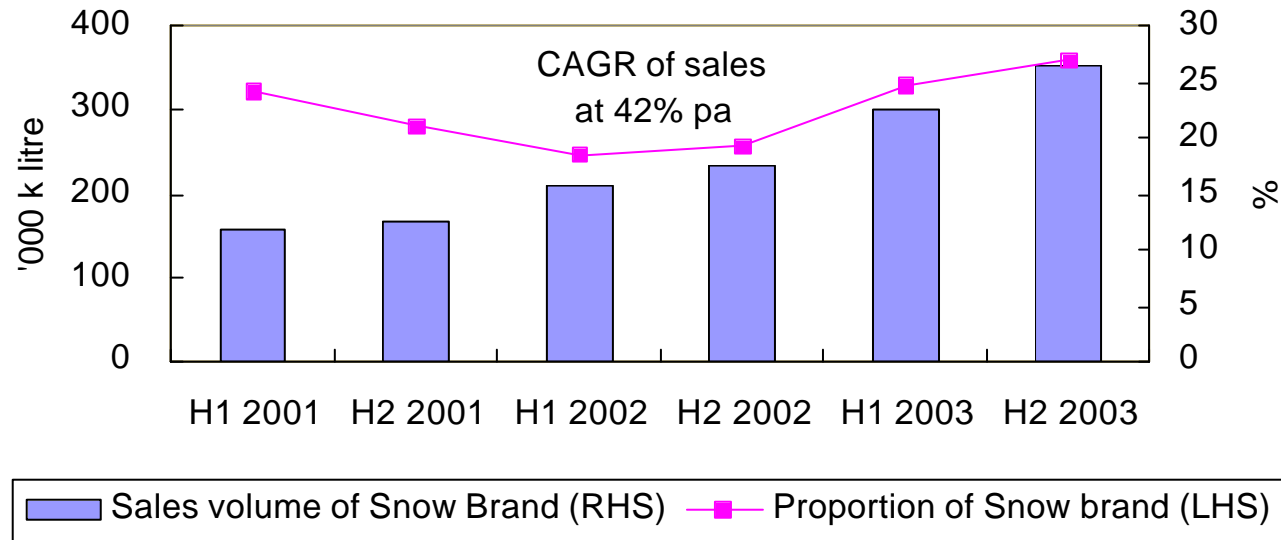
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# Beverage

## Sales volume of Snow brand and its significance



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# Beverage

## Sales volume by brewery

Year end 31 Dec	Province	Area	No of breweries	FY2003 '000 k litre	FY2002 '000 k litre	% change
<b><i>I) Breweries acquired prior to FY2002</i></b>						
Shenyang	Liaoning	North East	3	419	404	+4
Dalian	Liaoning	North East	2	165	199	-17
Jilin	Jilin	North East	1	220	213	+3
Tianjin		Central	1	115	105	+10
Anshan	Liaoning	North East	1	84	84	-0
Anhui	Anhui	Central	2	235	204	+15
New Three Star	Heilongjiang	North East	1	172	146	+18
Liaoyang Meiyue	Liaoning	North East	1	24	26	-9
Blue Sword (incl Mianyang and Leshan)	Sichuan	South West	12	712	667	+7
Changchun Snow Leopard	Jilin	North East	1	73	68	+8
<b><i>II) Breweries acquired in FY2002</i></b>						
Wuhan Dongxihu	Hubei	Central	2	259	228	+14
Panjin	Liaoning	North East	1	33		na
<b><i>III) Breweries acquired in FY2003</i></b>						
Beijing		Central	1	21		na
			29	2,532	2,344	+8.0
Existing breweries				2,219	2,115	+4.9

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## Textile

- Earnings grew 2% to HK\$164m and turnover expanded by 27%
- The spinning and weaving division reported a 21% earnings growth but the effect of high cotton price started to sip in in Q4 2003
- Production of cotton yarns and fabrics increased by 30% and 11% respectively to 46,300 tonnes and 194m metres
- Earnings contribution from the garment division reduced by 18% as there was a longer time lag for its end products to be raised price to compensate for the higher cotton price
- With 10 textile plants, total capacity of the business is now about 830,000 spindles, 13,000 looms, 6 printing and dyeing lines, an annual production of 100,000 tonnes of yarns, 230m metres of grey fabrics and 50 million meters of finished fabrics
- Since the commencement of the HK\$700m technology upgrade program in late 2002, about HK\$550m have been invested

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# Textile

## Turnover and earnings breakdown of the textile business

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% change
<b>Turnover</b>			
- Spinning and weaving	1,894	959	+98
- Garment	908	984	-8
- Textile trading	340	569	-40
- Others and inter-co transactions	60	9	+560
	<hr/> 3,202	<hr/> 2,522	+27
<b>Earnings</b>			
- Spinning and weaving	94	78	+21
- Garment	36	44	-18
- Textile trading	13	10	+24
- Others and inter-co transactions	24	31	-24
	<hr/> 166	<hr/> 163	+2

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## Property and Others

- There was a residual property development profit due to the write-back of over-provided construction cost for our last project
- With Argyle Centre's change from own use into property investment, there is a decrease in deferred tax liability of about HK\$60m
- Excluding the HK\$15m gross rental income loss during the renovation of Argyle Centre during May to August, gross rental income would have fallen by only 5% in FY2003

### Property business turnover and earnings breakdown

Year end 31 Dec	FY2003 HK\$m	FY2002 HK\$m	% change
<b>Turnover</b>			
- Property development	22	71	-69
- Rental properties	258	287	-10
	280	357	-22
<b>Earnings</b>			
- Property development	41	12	+234
- Rental properties	226	197	+15
- Provision on rental properties	12	(57)	-120
	279	152	+83

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## Property and Others

- As the economy gradually recovers, occupancy rates of our office premises improved while that of retail premises remained high
- Hong Kong and Yantian deepwater port operations reported combined throughput growth of 8% and EBIT growth of 13%

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

Year end 31 Dec	Type	-----Occupancy rates % -----	
		FY2003	FY2002
CRE Building	Off	84	82
Argyle Centre	Ret	82	100
Hennessy Road	Ret	100	100
Lok Sing	Ret	100	100
Nan Fung	Ret	94	91
Silvercord	Ret	100	100
Star House	Ret	73	99

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# Final Results 2003

## Strategies and Prospects

Charley Song

Deputy Chairman & Managing Director

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## Strategy Implementation

- At the corporate level, to capitalize on the booming consumer market on the mainland and maximize the synergies among our businesses, we are committed to a unique retail-led distribution model
- Our food, beverage and textile operations have started to form part of the supply chain for our supermarket business
- Ng Fung Hong, for example, is the single largest supplier to our supermarkets in Hong Kong and its gradual expansion into the mainland meat market will complement our mainland supermarkets
- To help Snow penetrate into mainland provinces where we do not have any brewery, the beer was introduced to our supermarket operation in last October
- The garment division of our textile operation is also looking into the possibility of manufacturing apparel-related private labels for our supermarket operation

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## Strategy Implementation

- At the business level, the new management team at our supermarket operation has successfully implemented strategies in the second half of the year to turnaround the business
- The sales of Snow have been encouraging and to facilitate national brand development and centralized management, our brewery business has also been acquiring the minority stakes from its joint venture partners
- The technology upgrade program at our textile business is expected to enhance our operational efficiency and increase the proportion of higher end products, boosting the overall margins
- Our food distribution business has also entered the mainland meat market with a target on the major cities

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## Prospects

- Mainland China is at the heart of our growth and we have been building up presence in this important market
- For the first year, our revenue from the mainland exceeded that of Hong Kong, accounting for 48% of the total revenue
- In addition, we have rising exposure to the mainland and Hong Kong consumer market, driving the overall development of the company
- About two-thirds of our turnover and half of our earnings are now consumer-related
- For our retail business, last year is the first year after acquisition of CR Vanguard and our focus had been placed on organizational realignment

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## Prospects

- This year, with a much stronger and energized team in place, we will look for business optimization, including strengthening our supply chain, developing long term relationship with suppliers, building model stores for future expansion and establishing a respectable supermarket brand
- With our unique business model, prudent strategy execution and strong financial position, we are optimistic about the prospects for further growth

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**“Growing Presence in a Booming Market”**