

China Resources Enterprise, Limited  
Final Results 2004

**Prospering with Concerted Efforts**

8 April 2005





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- Financial Summary pp.5 – pp.13
- Business Review pp.14 – pp.34
- Strategies and Prospects pp.35 – pp.39
- Disclaimer pp.40

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# Final Results 2004

## Opening Note / Results Highlights

Charley Song

Chairman

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## Results Highlights

- Turnover rose by 36% to a record HK\$47bn
- Earnings grew by 10% to HK\$1,603m with most businesses showing encouraging operational improvements
- Final dividend of HK16¢ proposed, bringing the full year dividend to HK27¢, a 13% growth from last year, and payout ratio reaching 36%
- Retail business turned around and contributed HK\$83m earnings compared with a loss of HK\$99m in FY2003
- Earnings contribution from beverage increased by 15% with a 24% growth in beer sales volume
- Petroleum business reported a 19% recurring profit growth and, similar to FY2003, there was attractive profit from disposal of assets
- Food distribution business reported a 17% profit growth and two mainland strategic investments were floated
- Textile business was impacted by cotton price fluctuations but the operating loss was offset by a gain arising from factory relocation

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## Financial Summary

Francis Kwong  
Executive Director

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## Results Summary

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
Turnover	47,078	34,655	+36
Earnings	1,603	1,455	+10
EPS (HK¢)	76.2	69.9	+9
DPS ex-special dividend (HK¢)	27.0	24.0	+13
DPS incl-special dividend (HK¢) *	27.0	24.0 + CR Cement shares	na
Basic dividend payout ratio ex-special dividend (%)	35.8	34.3	+4

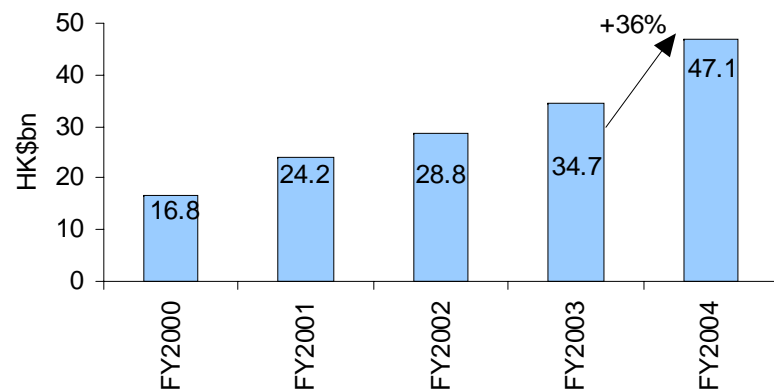
\* In FY2003, a special dividend effected by a distribution in specie of shares in CR Cement was paid as part of a restructuring exercise

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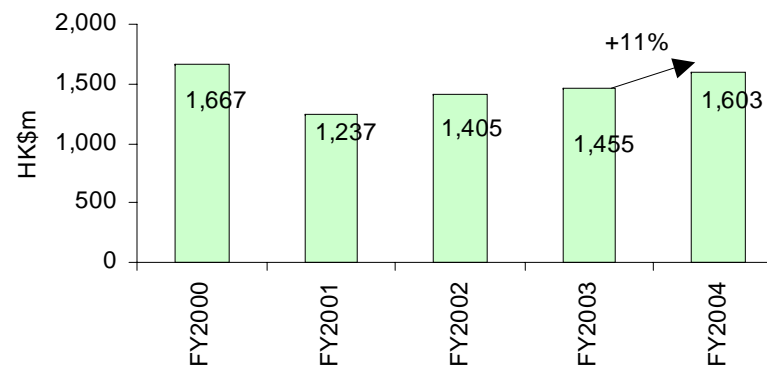


# Five Year Trends

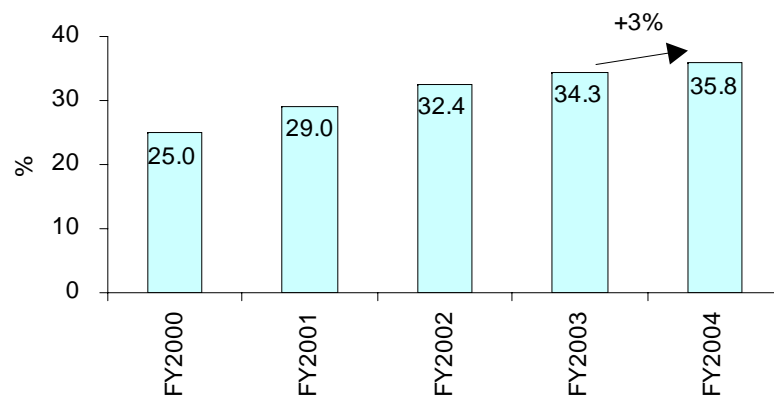
### Turnover



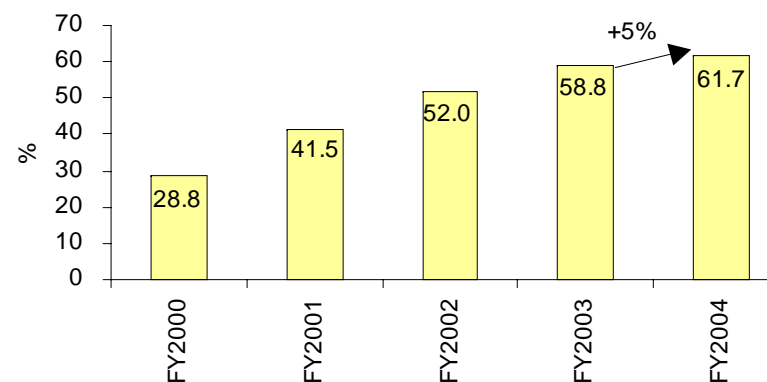
### Earnings



### Basic dividend payout ratio



### Proportion of assets in mainland China

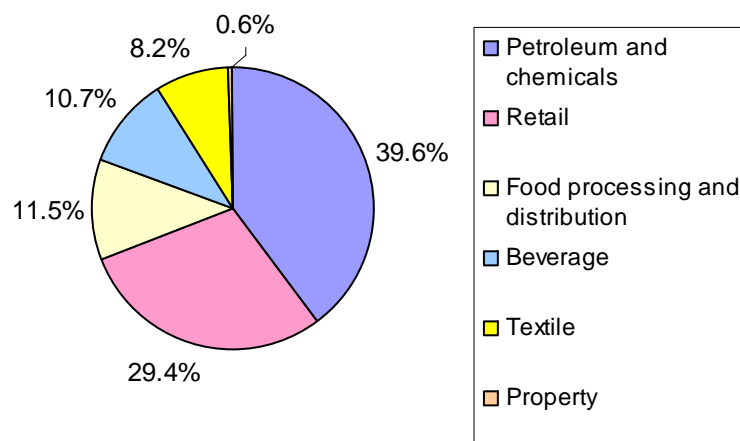


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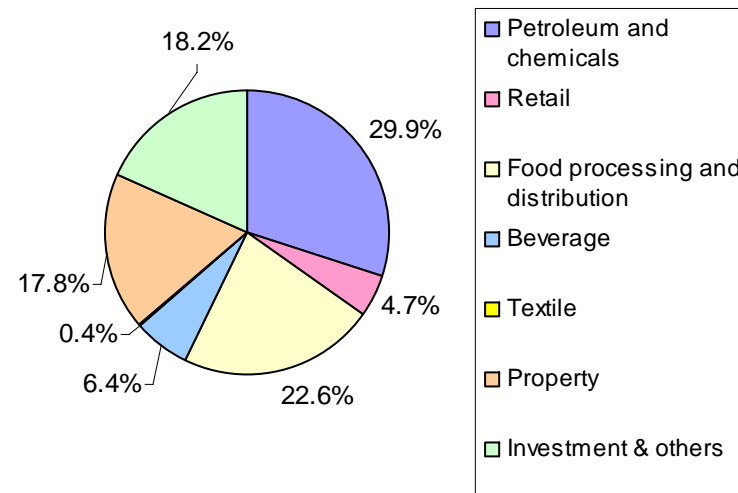


# Contribution of Individual Divisions in FY2004

### Turnover



### Earnings



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## Turnover Breakdown – by Divisions

Year end 31 Dec	FY2004 HK\$m	Prop (%)	FY2003 HK\$m	Prop (%)	% change
Petroleum and chemicals	18,681	40	12,565	36	+49
Retail	13,898	29	9,827	28	+41
Food processing and distribution	5,434	12	4,801	14	+13
Beverage	5,079	11	3,950	11	+29
Textile	3,851	8	3,202	9	+20
Property	307	1	280	1	+10
Investment & others *		0	180	1	-100
	47,250	100	34,806	100	+36
Less: inter-co transactions	(172)		(151)		+14
Turnover	47,078		34,655		+36

\* The turnover contribution in FY2003 was from the concrete business which was restructured and distributed as dividend in specie in July 2003

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## Earnings Breakdown – by Divisions

Year end 31 Dec	FY2004 HK\$m	Prop (%)	FY2003 HK\$m	Prop (%)	% change
<b>Petroleum and chemicals *</b>	525	30	424	27	+24
<b>Retail</b>	83	5	(99)	(6)	na
<b>Food processing and distribution</b>	396	23	340	22	+17
<b>Beverage</b>	113	6	98	6	+15
<b>Textile</b>	7	0	166	11	-96
<b>Property</b>	311	18	279	18	+12
<b>Investment &amp; others</b>	320	18	368	23	-13
	<u>1,754</u>	<u>100</u>	<u>1,576</u>	<u>100</u>	+11
<b>Net corporate interest &amp; expenses</b>	<u>(151)</u>		<u>(120)</u>		+26
<b>Earnings</b>	1,603		1,455		+10
<b>Earnings ex-asset disposal profit *</b>	1,363		1,270		+7

\* In FY2004, there was a HK\$240m profit from the disposal of a 30% stake in Qingdao Qirun which operates some oil storage facilities in Qingdao. In FY2003, there was a net gain of HK\$185m from the disposal of our interest in the aviation fuel facility held through a jointly controlled entity.

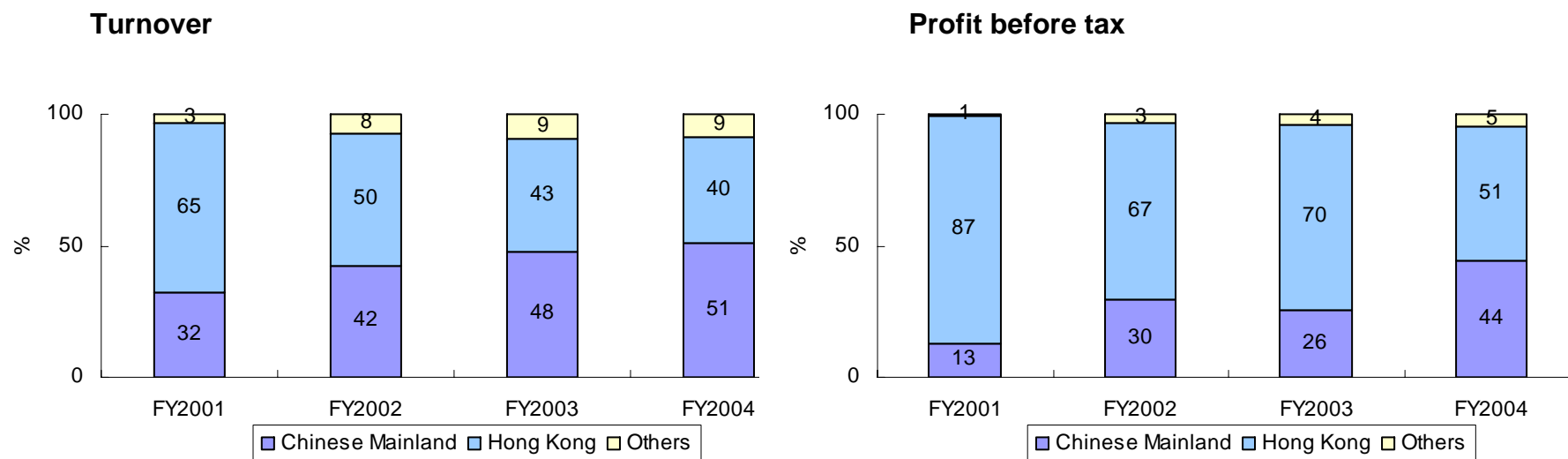
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## Geographical Breakdown of Turnover and Profit

- The proportion of turnover from mainland China exceeded 50% for the first time whilst that of profit before tax reached a high level of 44%



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# Operating Environment

## Market in 2004

### Mainland China

(nominal GDP growth 16.4%)

#### Retail

- retail sales grew 13% to RMB5.4tn

#### Brewery

- production volume grew 15% to 28.8m kl

#### Textile

- production of cotton yarns and fabrics increased by 18% and 22%

### Hong Kong

(nominal GDP growth of 5.1%)

#### Retail

- retail sales surged 10.8% of which

- supermarket sales increased by 3.0%

- department store sales increased by 12.3%

- Chinese drugs and herbs sales down 10.1%

## CRE's business in 2004

- turnover of supermarkets up 65%

- turnover of brand fashion distribution up 13%

- brewery sales volume up 24% to 3.13m kl

- production of cotton yarns and fabrics increased by 34% and 0.6%\*

- turnover of supermarkets up 13%

- turnover of Chinese Arts & Crafts up 5%

- turnover of CR Care down 1%

#### Food

- locally produced and imported live pigs and cattle amounted to about 2.3m heads

- distributed 1.9m heads of pig and cattle from mainland China into Hong Kong

\* Lower fabrics production due to disruption from technology upgrade and product mix adjustment

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

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## Key Financial Data

- Capex doubled to HK\$4,989m, of which about 49% for addition of fixed assets and the remaining for acquisitions
- Balance sheet is strong with a net debt to equity ratio of 32% and the proceeds from Qingdao Qirun disposal will be received this year

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
<b><u>P&amp;L</u></b>			
Finance costs	295	225	+31
Interest income	78	69	+13
<b><u>Balance Sheet</u></b>			
Net cash/(debt)	(4,981)	(2,860)	+74
Shareholders' equity	15,782	13,443	+17
Minority interests	4,812	3,859	+25
Book NAV per share (HK\$)	7.43	6.46	+15
Gearing ratio (%)	24	17	+41
Net debt to equity ratio (%)	32	21	+52
<b><u>Cashflow</u></b>			
Capex	4,989	2,335	+114

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**Business Review**

Francis Kwong  
Executive Director

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## Petroleum and Chemical Distribution

- There was a HK\$240m profit from the disposal of a 30% stake in Qingdao Qirun, and the remaining 10.5% stake was also sold in January 2005 at the same price
- Excluding the net disposal gains of HK\$240m in FY2004 and HK\$185m in FY2003, recurring earnings would have increased by 19%
- Turnover grew by 49% boosted by both volume increase and surge in oil price
- Overall sales volume of petroleum wholesaling rose by 29%, due to increase in secured supply contracts of fuel oil and jet fuel, leading to a steady growth in profit contribution
- Chemical distribution reported a profit increase of 65% due to strong turnaround in Q3 2004
- Suzhou piped gas contributed HK\$17m earnings for the first full year

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# Petroleum and Chemical Distribution

## Turnover breakdown of petroleum and chemical distribution

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
<b>Petroleum</b>			
- Diesel	3,771	3,220	+17
- Fuel oil & ocean vessels	6,342	4,746	+34
- Jet fuel	3,806	1,588	+140
- Others	995	291	+242
LPG (incl Suzhou piped gas)	870	672	+29
Chemicals	1,779	1,346	+32
<b>Petrol stations</b>			
- HK	658	638	+3
- Mainland China	745	374	+99
Inter-co transactions and others	(286)	(309)	-8
<b>Total</b>	<b>18,681</b>	<b>12,565</b>	<b>+49</b>

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## Retail

- All the three retail operations, including supermarket, retail stores in Hong Kong and brand fashion distribution improved and were profitable

### Retail business turnover and earnings breakdown

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
<b>Turnover</b>			
- Supermarket	11,941	7,881	+52
- Retail stores in HK	816	937	-13
- Brand-fashion in China	1,141	1,009	+13
	13,898	9,827	+41
<b>Earnings</b>			
- Supermarket	24	(107)	na
- Retail stores in HK	28	27	+6
- Brand-fashion in China	31	(19)	na
	83	(99)	na

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## Retail

### 1. Supermarket

- Earnings contribution of HK\$24m, in sharp contrast to the HK\$107m loss of last year, and EBITDA amounted to HK\$402m, up 3.1 times
- Marked improvement since H2 2003 following measures to boost supplier rebate and reduce operational expenses, which coupled with the higher profit contributions from Suguo and Hong Kong operations, accounted for the turnaround
- Suguo's earnings contribution after goodwill amortisation amounted to HK\$27m, compared with HK\$8m in FY2003
- Overall 51% turnover growth due to the consolidation of Suguo's turnover as a subsidiary, the recovery of hypermarket sales from the SARS outbreak and new store opening

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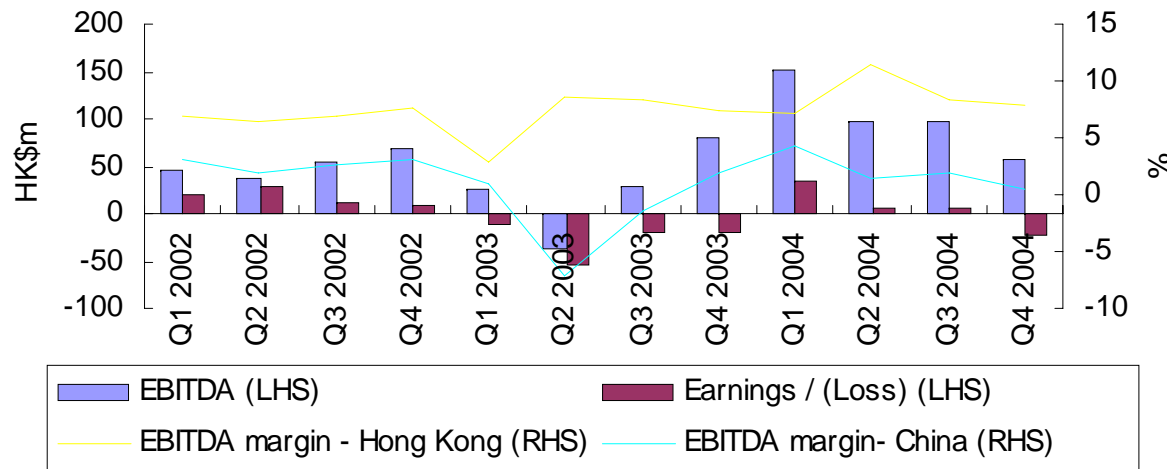


# Retail

## 1. Supermarket

- Gross margin increased by 1.3 percentage points driven by higher supplier rebate and merchandise margin
- Including Suguo, we operated about 1,825 stores in Hong Kong and mainland China at the year end, of which 809 are self-operated and the rest are franchised

### Operational Turnaround



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# Retail

## Supermarket turnover, EBITDA and earnings breakdown

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
<b>Turnover</b>			
- HK	2,279	2,017	+13
- China	9,662	5,863	+65
	11,941	7,881	+52
<b>EBITDA</b>			
- HK	198	138	+43
- China	205	(40)	na
	402	98	+310
<b>Earnings</b>			
- HK	102	52	+97
- China	(55)	(138)	-60
- goodwill	(23)	(20)	+12
	24	(107)	na
<b>EBITDA margin (%)</b>			
- overall	3.4	1.2	+170
- HK	8.7	6.8	+27
- China	2.1	(0.7)	na

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# Retail

## Supermarket network - CR Vanguard

	31-Dec-04		30-Jun-04		31-Dec-03	
No of self-operated stores						
No of franchised stores						
<b>I) Standard supermarkets</b>						
- Hong Kong	86		86		82	
- Beijing	22		22		23	
- Tianjin	57		57		57	
- Jiangsu Province	104	2	97	2	93	4
- Zhongshan/Zhuhai	23	14	21	14	23	12
- Shenzhen	76	39	73	34	79	43
	368	55	356	50	357	59
<b>II) Superstores</b>						
- Beijing	5		4		4	
- Tianjin	3		2		2	
- Jiangsu Province	6		6		6	
- Zhejiang Province	10		6		4	
- Shenzhen	4		4		4	
- Zhongshan/Foshan/Zhuhai	8		8		8	
- Guangzhou	2		1		1	
	38		31	0	29	0
<b>III) Hypermarkets / Olé</b>						
- Shenzhen	10		9		9	
- Guangzhou	6		6		6	
- Huizhou	1		1		1	
- Zhongshan/Zhuhai	2		2		2	
	19		18	0	18	0
<b>Overall</b>						
- Hong Kong	86	0	86	0	82	0
- China	339	55	319	50	322	59
	480		455		463	

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# Retail

## Supermarket network - Suguo

	31-Dec-04		30-Jun-04		31-Dec-03	
No of self-operated stores						
No of franchised stores						
<i>I) Convenience stores</i>						
- Jiangsu Province	231		210		191	
<i>II) Standard supermarkets</i>	231		210		191	
- Jiangsu Province	71	727	59	680	58	639
- Anhui Province		184		167		162
- Shandong Province		36		38		31
- Henan Province		10		10		10
- Hebei Province		2		2		2
- Hubei Province		2		2		2
	71	961	59	899	58	846
<i>III) Superstores</i>						
- Jiangsu Province	73		64		58	
- Anhui Province	9		8		7	
	82		72		65	
<b>Overall in China</b>	384	961	341	899	314	846
	<b>1,345</b>		<b>1,240</b>		<b>1,160</b>	

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## Retail

### 2. Department stores and brand-fashion

- Hong Kong retail business benefited from a continued improvement in consumer sentiment and contributed earnings of HK\$28m, an increase of 6%, led by CAC and the pre-closure sales at CRC
- At the end of FY2004, we operated 5 CAC stores, 3 super-sized and 28 smaller-sized CR Care stores as well as 1 CRC store
- Brand-fashion in China continued to improve and reported a profit of HK\$31m as we focused more on the brands with greater market potential
- Number of international brands has reduced from a peak of 19 in H1 2002 to 10 presently excluding our own brand ATMA launched in H2 2004
- Solid performance at Esprit with overall earnings growth of 24%

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# Retail

## Brand-fashion business in the Chinese Mainland

	31-Dec-04		30-Jun-04		31-Dec-03	
<b>No of self-operated stores</b>						
<b>No of franchised stores</b>						
Alfred Dunhill	33	7	28	18	26	9
CK Jeans	16	22	14	16	27	19
Emanuel Ungaro	1	0	1	0	2	0
Esprit / Red Earth	172	416	146	444	139	448
Givenchy	6	0	4	0	7	0
Guess	2	0	3	0	4	0
Kenzo	11	2	8	2	9	3
Pal Zileri	7	0	5	0	5	0
Polo	2	0	2	0	2	0
ATMA	2	0	0	0	0	0
<u>Terminated brands:</u>						
Blue Navy	0	0	0	0	2	0
Bruno Magli	0	0	0	0	1	0
Christian Lacroix	0	0	0	0	1	0
Lanvin	0	0	0	0	1	0
Piaget	0	0	0	0	1	0
Shanghai Tang	0	0	0	0	0	0
Verri	0	0	0	0	0	0
	252	447	211	480	227	479
<b>Total</b>	<b>699</b>		<b>691</b>		<b>706</b>	

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## Food Processing and Distribution

- Turnover and earnings grew by 13% and 17% respectively
- There were deemed disposal profits from the listing of our interests in Hunan New Ng Fung and Hebei Fortune Ng Fung
- Increasing food hygiene awareness and active promotion of "Ng Fung" fresh meat led to a 17% turnover growth of foodstuff distribution and a 3% increase in operating profit
- Marine fishing operation started to be affected by high fuel cost in H2 2004
- Continued profit growth of the abattoir operation on higher sales volume of livestock
- The 51%-owned modern meat processing centre in Shanghai is expected to commence operation in mid-2005

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# Food Processing and Distribution

## Turnover breakdown of Ng Fung Hong

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
Foodstuff distribution	3,691	3,163	+17
Food processing and stock raising	1,383	1,393	-1
Abattoir operation, transportation and others	469	334	+40
Inter-co transactions	(109)	(89)	na
	5,434	4,801	+13

## Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
Foodstuff distribution	279	271	+3
Food processing and stock raising	61	73	-16
Abattoir operation, transportation and others	122	99	+24
	462	443	+4

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## Beverage

- Profit grew by 15% to HK\$113m attributable to rise in sales volume, higher sales of premium beer and initial contributions from the newly acquired Qianjiang and Longjin
- Turnover growth of 29% with beer sales volume increasing 24% to 3.13m k litres, representing a market share of about 11%
- Average selling price increased by 3.4% to about HK\$1,500 per kl and gross margin was relatively stable despite the increase in raw material costs
- Annual production capacity amounted to about 5.52m k litres at the end of December 2004, up 35% from FY2003
- Excluding the breweries acquired from FY2003 onwards, utilisation rate was about 67%
- Organic sales volume growth was 11% with strong earnings performance at Blue Sword, Wuhan Dongxihu, Anhui, Jilin and Dalian

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## Beverage

- There were 4 unprofitable breweries (excluding Shuining, which is part of Blue Sword), compared with 3 in FY2003
- Acquisition of Lion Nathan's breweries was completed in October and an initial loss of HK\$20m was recorded in Q4 2004, a low season
- Also bought a brewery of 14,000 k litres capacity at Qamdo, Tibet, a small but lucrative market which has been under the coverage of our Sichuan operation
- Sales volume of our national brand, Snow (incl Shenyang sub-brand), increased by 27% to about 1.07m k litres, representing 34% of the total volume sold
- About two-thirds of Snow were sold outside Liaoning province and 13% in districts where we do not have brewery, demonstrating its rapid penetration

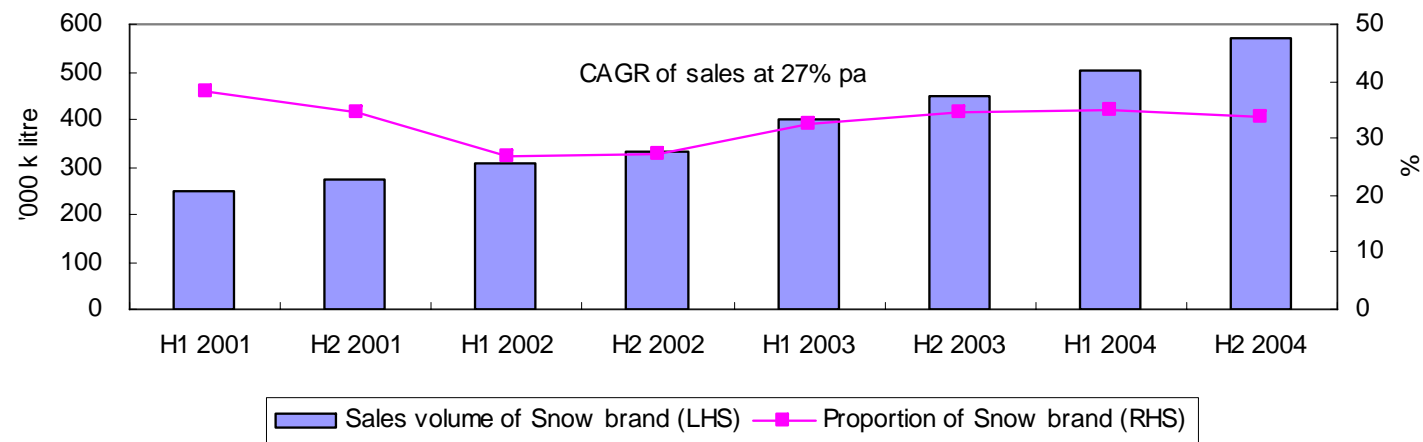
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# Beverage

## Sales volume of Snow brand (including Shenyang sub-brand and its significance



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# Beverage

## Sales volume by brewery

Year end 31 Dec	Province	Area	No of breweries	FY2004 '000 k litre	FY2003 '000 k litre	% change
<b><i>I) Breweries acquired prior to FY2003</i></b>						
Shenyang	Liaoning	North East	3	417	419	-0
Dalian	Liaoning	North East	2	184	165	+11
Jilin	Jilin	North East	1	216	220	-2
Tianjin		North	1	135	115	+17
Anshan	Liaoning	North East	1	86	84	+3
Anhui	Anhui	Central	2	244	235	+4
New Three Star	Heilongjiang	North East	1	268	172	+56
Liaoyang Meiyue	Liaoning	North East	1	22	24	-5
Blue Sword	Sichuan	South West	12	789	712	+11
Changchun Snow Leopard	Jilin	North East	1	76	73	+5
Wuhan Dongxihu	Hubei	Central	2	295	259	+14
Panjin	Liaoning	North East	1	46	33	+41
<b><i>II) Breweries acquired since FY2003</i></b>						
Beijing		North	1	57	21	+171
Shuining (part of Blue Sword)	Sichuan	South West	1	12		
Qianjiang	Zhejiang	East	1	177		
Longjin	Anhui	Central	2	80		
Jiangsu	Jiangsu	East	3	32		
Qamdo	Tibet	West	1			
			37	3,134	2,532	+24
Existing breweries				2,793	2,512	+11

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# Textile

## Turnover and earnings breakdown of the textile business

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
<b>Turnover</b>			
- Spinning and weaving	2,534	1,894	+34
- Garment	923	908	+2
- Textile trading	303	340	-11
- Others and inter-co transactions	91	60	+50
	<b>3,851</b>	<b>3,202</b>	<b>+20</b>
<b>Earnings</b>			
- Spinning and weaving	(65)	92	-171
- Garment	24	36	-32
- Textile trading	9	11	-20
- Others and inter-co transactions	39	27	+42
	<b>7</b>	<b>166</b>	<b>-96</b>

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## Property and Others

- Gross rental income increased by 15%, driven by the higher rental reversions at the retail properties and the full-year contribution from the renovated Argyle Centre
- Occupancy rates of our retail properties was 85% as the property at Hennessy Road was under renovation

### Property business turnover and earnings breakdown

Year end 31 Dec	FY2004 HK\$m	FY2003 HK\$m	% change
<b>Turnover</b>			
- Property development	9	22	-59
- Rental properties	298	258	+15
	307	280	+10
<b>Earnings</b>			
- Property development	4	41	-91
- Rental properties	267	226	+18
- Write-back of provision on rental properties	41	12	+254
	311	279	+12

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## Property and Others

- There were decreases in deferred tax liability in both FY2003 and FY2004 of about HK\$60m
- The recovery in property prices gave rise to a HK\$954m revaluation surplus on the balance sheet and a write-back of provision of HK\$41m
- Hong Kong and Yantian deepwater port operations reported EBIT growth of 4% and 20% respectively

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

Year end 31 Dec	Type	-----Occupancy rates % -----	
		FY2004	FY2003
CRE Building	Off	91	84
Argyle Centre	Ret	98	82
Hennessy Road	Ret	42	100
Lok Sing	Ret	100	100
Nan Fung	Ret	98	94
Silvercord	Ret	79	100
Star House	Ret	75	73

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## Strategies and Prospects

Mark Chen

Managing Director

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## Strategy Implementation

- At the corporate level, to lead corporate development and to capitalize on the booming consumer market in the Chinese Mainland, we are committed to a unique retail-led distribution model
- Over the past several years, our non-core assets, such as concrete business and the interest in aviation fuel facility at the airport as well as the oil facilities at Qingdao, were restructured or disposed of and this exercise would continue
- At the same time, we have been investing in the core consumer businesses and the capex in FY2004 was a double from FY2003, with a majority on retail, beverage and food businesses
- Mainland China will continue to be the focus of our future investment
- At the business level, we have put a heavy emphasis on branding and last year was particularly momentous

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## Strategy Implementation

- There was a new advertising campaign on “Snow” targeting the new generation and the joint venture was renamed as China Resources Snow Breweries to create an integrated identity of the national brand
- Two private labels, “Premium Plus” and “簡約組合” were introduced in the second half of last year and the superstore format was remodelled
- This year, a new format called Olé, which is a higher-end lifestyle concept specialty store targeting the upscale consumers, will be introduced
- Other businesses have also rolled out their business strategies for expansion and cost savings

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## Prospects

- Our food business will continue to exploit the opportunities in the mainland meat market following the investments in Shanghai and Shenzhen
- With the efficiency improvement under our technology upgrade program and more stable cotton prices, the long term prospects of the textile operation are positive
- With our established market presence, unique business model and strong financial position, we are well poised for further growth

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