

China Resources Enterprise, Limited  
Interim Results 2008

**Braving the Tide with Operational Excellence**



3 September 2008



## Agenda

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# Interim Results 2008

## Opening Note / Results Highlights

Mark Chen

Managing Director

“Braving the Tide with Operational Excellence”





## Results Highlights

- Continuing operations reported turnover and earnings of HK\$31.8bn and HK\$1,488m respectively, representing an increase of 30% and 28% over that of last year
- Underlying net profit from continuing operations was up 17% to HK\$1,022m driven by the 19% profit growth of the core businesses
- Interim dividend maintained at HK\$0.15 per share
- Earnings contribution from retail business rose by 40% to HK\$382m with robust growth in all divisions
- Beverage business reported a 24% earnings growth to HK\$146m with sales volume of beer and water up 5% and 22% respectively
- Boosted by the disposal gain on strategic investments, earnings of food business went up by 7%
- Textile business recorded a 4% drop in earnings in a difficult market
- Excluding the effect of property revaluation and change in tax rate, underlying net profit of investment properties increased by 24%

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## Financial Summary

Francis Kwong

Deputy Managing Director

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## Results Summary

- As the petroleum business was completely divested at the end of H1 2007 with no contribution during the period under review, the analysis below represents only the continuing operations

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% <i>change</i>
Turnover - continuing operations	31,806	24,543	+30
Earnings - continuing operations	1,488	1,161	+28
Underlying net profit * - continuing operations	1,022	874	+17
EPS (HK¢) - continuing operations	62	49	+27
DPS (HK¢)	15	15	0

\* Earnings excluding the after-tax effect of investment property revaluation and major disposals which led to aggregate gains of HK\$466m and HK\$287m in H1 2008 and H1 2007 respectively

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## Turnover Breakdown - by Divisions

Year end 31 Dec	H1 2008 HK\$m	Prop (%)	H1 2007 HK\$m	Prop (%)	% change
<b><u>Core businesses</u></b>					
Retail	17,330	54	12,437	50	+39
Beverage	8,174	26	6,283	25	+30
Food processing and distribution	3,821	12	3,441	14	+11
Textile	2,461	8	2,318	9	+6
Investment property	205	1	183	1	+12
	31,991	100	24,662	100	+30
<b><u>Other businesses</u></b>					
Investment & others					
	31,991	100	24,662	100	+30
Less: inter-co transactions	(185)		(119)		+55
Turnover - continuing operations	31,806		24,543		+30
<b><u>Discontinued operation</u></b>					
Petroleum			10,610		
Turnover - total	31,806		35,153		-10

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## Earnings Breakdown - by Divisions

Year end 31 Dec	H1 2008 HK\$m	Prop (%)	H1 2007 HK\$m	Prop (%)	% change
<b><u>Core businesses</u></b>					
Retail	382	24	273	22	+40
Beverage	146	9	118	9	+24
Food processing and distribution	240	15	224	18	+7
Textile	66	4	69	5	-4
Investment property	566	36	386	30	+47
	1,400	88	1,070	84	+31
<b><u>Other businesses</u></b>					
Investment & others	190	12	198	16	-4
	1,590	100	1,268	100	+25
Net corporate interest & expenses	(102)		(107)		-5
Earnings - continuing operations	1,488		1,161		+28
<b><u>Discontinued operation</u></b>					
Petroleum			2,576		
Earnings - total	1,488		3,737		-60

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## Underlying Net Profit Breakdown - by Divisions

Year end 31 Dec	H1 2008 HK\$m	Prop (%)	H1 2007 HK\$m	Prop (%)	% change
<b><u>Core businesses</u></b>					
Retail	378	34	263	27	+44
Beverage	146	13	118	12	+24
Food processing and distribution	156	14	224	23	-30
Textile	63	6	66	7	-5
Investment property	191	17	112	11	+71
	934	83	783	80	+19
<b><u>Other businesses</u></b>					
Investment & others	190	17	198	20	-4
	1,124	100	981	100	+15
Net corporate interest & expenses	(102)		(107)		-5
Underlying net profit - continuing operations	1,022		874		+17
<b><u>Discontinued operation</u></b>					
Petroleum			183		
Underlying net profit - total	1,022		1,057		-3

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## EBITDA Breakdown - by Divisions

Year end 31 Dec	H1 2008 HK\$m	Prop (%)	H1 2007 HK\$m	Prop (%)	% change
<b><u>Core businesses</u></b>					
Retail	1,090	32	711	27	+53
Beverage	920	27	689	26	+34
Food processing and distribution	412	12	372	14	+11
Textile	263	8	217	8	+21
Investment property	629	18	509	20	+24
	3,314	97	2,498	96	+33
<b><u>Other businesses</u></b>					
Investment, overheads & others	110	3	106	4	+4
EBITDA - continuing operations	3,424	100	2,604	100	+31
<b><u>Discontinued operation</u></b>					
Petroleum			2,670		
EBITDA - total	3,424		5,274		-35

Note: EBITDAs above include associates' profits

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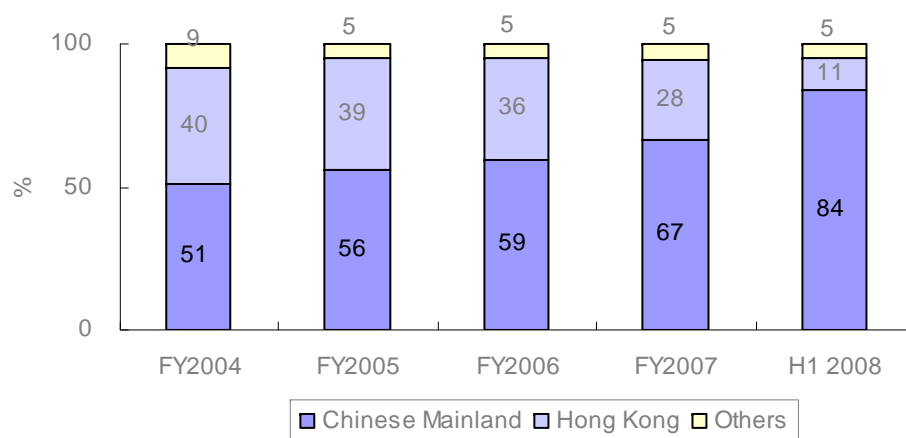




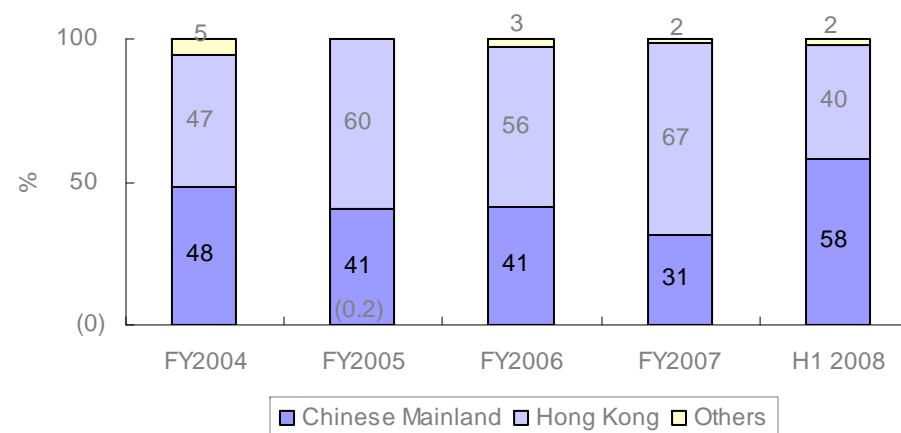
## Geographical Breakdown of Turnover and Profit

- With the disposal of the petroleum business, the proportion of turnover and profit before tax from mainland China rose to 84% and 58% respectively

Turnover



Profit before tax



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## Key Financial Data

- Strong balance sheet with a net debt to equity ratio of 19%
- Capex amounted to HK\$2.9bn in H1 2008, mostly incurred in beverage and retail

Year End 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% <i>change</i>	FY2007 HK\$m
<b><u>P&amp;L</u></b>				
Earnings	1,488	3,737	-60	4,961
Finance costs	295	236	+25	503
Interest income	101	140	-28	291
Effective tax rate (%) *	24.4	22.0	+2.4ppt	23.2
<b><u>Balance sheet</u></b>				
Total debt	14,319	10,795	+33	12,447
Net cash/(debt)	(4,782)	(652)	+633	(4,004)
Shareholders' equity	24,708	22,764	+9	22,871
Minority interests	9,123	6,556	+39	7,293

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## Key Financial Data

Year End 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change	FY2007 HK\$m
<b>Balance sheet (Cont'd)</b>				
Invested capital **	48,150	40,115	+20	42,611
Book NAV per share (HK\$)	10.35	9.58	+8	9.59
Gearing ratio (%)	14.1	2.2	+11.9ppt	13.3
Net debt to equity ratio (%)	19.4	2.9	+16.5ppt	17.5
<b>Cashflow</b>				
EBITDA adj for associates' dividends ***	3,346	5,113	-35	7,829
Capex	2,948	6,187	-52	9,932

\* Adjusted for petroleum disposal gain

\*\* Defined as "shareholders' equity + minority interests + total debt"

\*\*\* Excluding associates' profits and adding back their dividends

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# Interim Results 2008

## **Business Review**

Francis Kwong

Deputy Managing Director

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## Retail

- Total earnings rose by 40% to HK\$382m on a 39% rise in turnover, with profit growth among all divisions
- Supermarket accounted for 68% of total earnings

### Retail business turnover and earnings breakdown

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
<b>Turnover</b>			
- Supermarket	15,640	11,183	+40
- Brand-fashion	1,260	876	+44
- Other retail stores	430	378	+14
	17,330	12,437	+39
<b>Earnings</b>			
- Supermarket	260	201	+29
- Brand-fashion	82	48	+71
- Other retail stores	40	24	+67
	382	273	+40

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## Retail

### 1. Supermarket

- Turnover grew 40% to HK\$15.6bn driven by self-operated store openings and same store growth
- Overall same store growth in constant currency terms of 15.9%, boosted by the 16.5% increase of the mainland operation
- Earnings contribution increased by 29% to HK\$260m, with improved performance in both mainland China and Hong Kong, while EBITDA was up 49% to HK\$784m
- Strong same store growth, stable gross margin and economies of scale accounted for the profit growth
- Suguo's earnings contribution after option expenses amounted to HK\$97m, compared with HK\$74m in H1 2007
- We operated about 2,497 stores in mainland China and Hong Kong at the end of June 2008, of which 1,336 were self-operated and the rest franchised

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# Retail

## Supermarket turnover, EBITDA and earnings breakdown

Year End 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
<b>Turnover</b>			
- HK	1,211	1,101	+10
- China	14,428	10,082	+43
	15,639	11,183	+40
<b>EBITDA</b>			
- HK	140	108	+30
- China	644	418	+54
- option expenses	(0)	(1)	-100
	784	525	+49
<b>Earnings</b>			
- HK	97	65	+49
- China	163	137	+19
- option expenses	(0)	(1)	-100
	260	201	+29
<b>EBITDA margin (%)</b>			
- overall	5.0	4.7	+0.3ppt
- HK	11.6	9.8	+1.8ppt
- China	4.5	4.1	+0.4ppt
<b>Net margin (%)</b>			
- overall	1.7	1.8	-0.1ppt
- HK	8.0	5.9	+2.1ppt
- China	1.1	1.4	-0.3ppt

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## Retail

- Rising same store growth led by mainland operation

### Same store growth trend (constant currency)

	H1 2008	FY2007	FY2006	FY2005	FY2004	FY2003
	%	%	%	%	%	%
Overall supermarket	+15.9	+9.5	+5.7	+3.6	+3.7	+0.1
China	+16.5	+10.2	+6.7	+4.8	+5.9	+0.7
Hong Kong	+6.8	+2.2	-0.9	-3.2	-5.0	-1.6
Real growth * - China	+8.6	+5.4	+5.2	+3.0	+2.0	-0.5
- Hong Kong	+1.7	+0.2	-2.9	-4.2	-4.6	+1.0

\* Same store growth minus inflation rate

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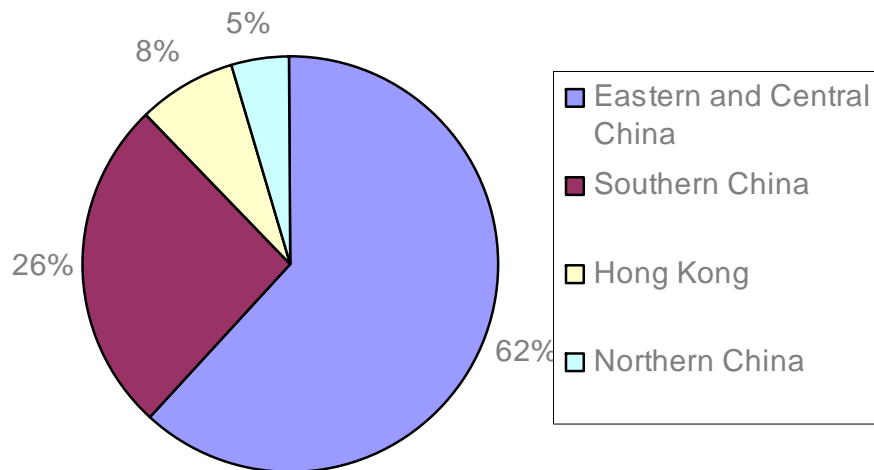


## Retail

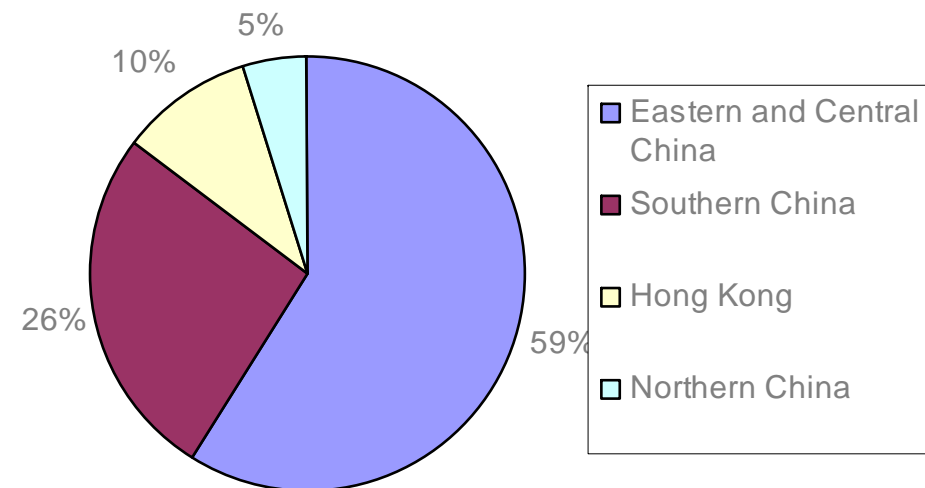
- Approximately, 62% of the turnover was from Eastern and Central China, 26% from Southern China, 8% from Hong Kong and the rest from Northern China

### Turnover breakdown by geographical district

H1 2008



H1 2007



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## Retail

### 2. Brand-fashion and Other Retail Stores

- Brand-fashion reported a 71% increase in net profit to HK\$82m, predominantly represented by the Esprit jv
- With a 20.0% same store growth, turnover and earnings attributable to CRE of the Esprit jv grew by 45% and 32% respectively
- Other retail stores, which comprises CAC and CR Care, contributed earnings of HK\$40m, up 67%
- Strong same store growth of CAC and CR Care stores of 19.7% and 15.4% respectively was the major contributor to the overall improvement
- At the end of June 2008, we operated 5 CAC stores and 46 CR Care stores

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## Beverage

- Both beer and water operations recorded strong turnover growth with overall profit increase of 24%

### Breakdown of beverage turnover and earnings

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
Turnover			
- beer	7,590	5,846	+30
- water	584	438	+33
	8,174	6,283	+30
Attributable earnings to CRE			
- beer	105	104	+1
- water	41	14	+193
	146	118	+24

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## Beverage

### 1. Beer Operation

- Turnover growth of 30% with sales volume rising by 5% to 3.49m kl
- Sales volume growth has slowed down from last year, in parallel with the general market trend
- Organic sales volume declined by 2% (increased by 2% excluding the breweries in Sichuan), affected by the Sichuan earthquake, adverse weather, selling price increases and the lower than expected market consumption growth
- Attributable net profit increased by 1% to HK\$105m, dragged by an asset impairment provision of about HK\$40m resulted from the earthquake and higher financing costs of about HK\$65m (both at jv level)
- Average selling price increased by 15% to about RMB1,970 per kl and gross margin improved slightly

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## Beverage

### 1. Beer Operation (con't)

- Strong earnings performance at Heiji (incl Inner Mongolia), Liaoning, Zhejiang and Jiangsu breweries
- Sales volume of our national brand, SNOW, surged by 22% to about 2.89m kl, representing 83% of the total volume sold
- A new packaging for SNOW has been rolled out, highlighting the Chinese culture of the brand
- Annual production capacity increased to 10.7m kl including the 440,000 kl greenfield plant in Beijing which was completed in April 2008
- A few greenfield plants are under construction including the one in Nanjing with a capacity of approximately 350,000 kl

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# Beverage

- Existing breweries continued to show earnings improvements

## Performance of existing and new brewery operations

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
<b>Turnover</b>			
- Existing breweries (incl inter-co transactions)	6,936	5,710	+21
- New breweries	654	136	+381
	<b>7,590</b>	<b>5,846</b>	<b>+30</b>
<b>Attributable earnings to CR Snow</b>			
- Existing breweries (incl overheads & others)	271	237	+14
- New breweries	(43)	(5)	+760
	<b>228</b>	<b>232</b>	<b>-2</b>
<b>Net margin</b>			
- Existing breweries	3.9	4.2	-0.3ppt
- New breweries	(6.6)	(4.0)	-2.6ppt
	<b>3.0</b>	<b>4.0</b>	<b>-1.0ppt</b>

Note: New breweries are defined as those owned since FY2007

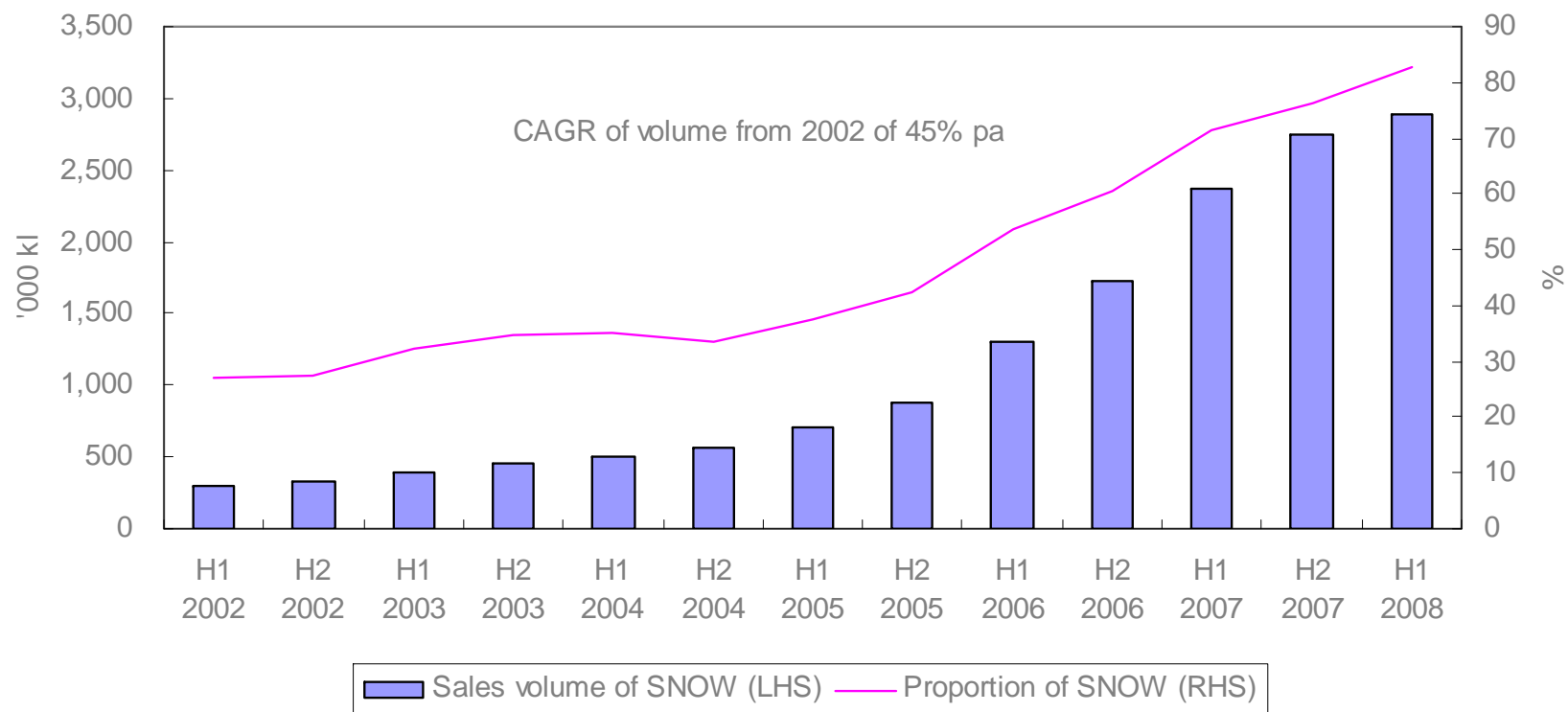
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# Beverage

## Sales volume of SNOW brand and its significance



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# Beverage

## Sales volume by brewery

Year end 31 Dec

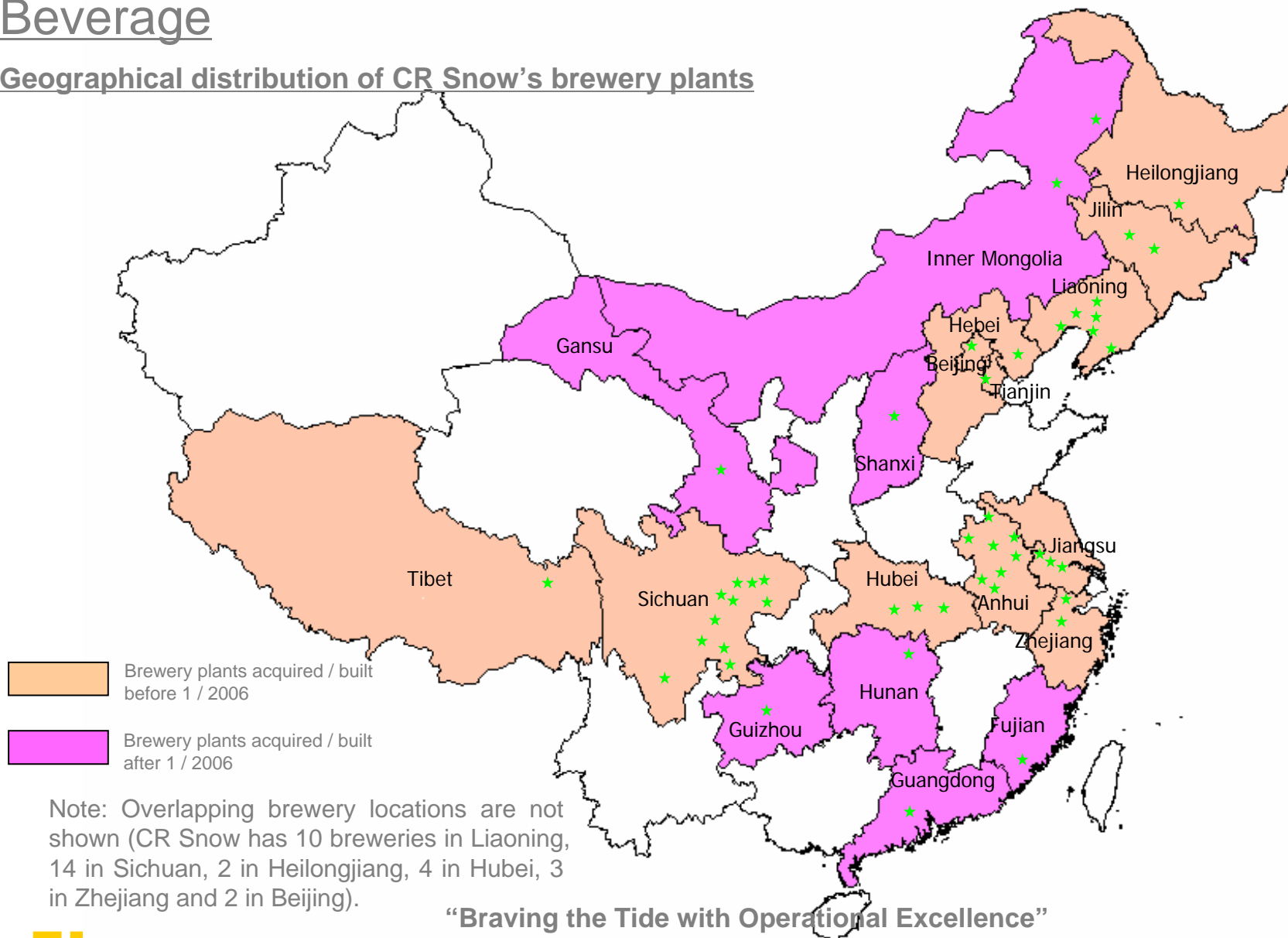
	Province	Districts	No. of breweries	H1 2008 '000 k liter	H1 2007 '000 k liter	% change
<i>I) Breweries owned prior to FY2007</i>						
Liaoning		North East	8	564	599	-6
Sichuan		South West	14	555	680	-18
Anhui		Central	6	444	453	-2
Heilongjiang / Jilin (incl Inner Mongolia)		North East	5	472	467	+1
Beijing / Tianjin / Hebei		North	3	192	194	-1
Hubei		Central	4	238	239	-0
Zhejiang		East	3	308	305	+1
Jiangsu		East	3	251	231	+9
Tibet		West	1	22	24	-8
Guangdong		South	1	83	53	+57
Fujian		South East	1	17	20	-15
Shanxi		North	1	65	20	+225
<i>II) Breweries owned since FY2007</i>						
Chuzhou (Shengli) / Wuhe (Wanpi)	Anhui	Central	2	37	44	-16
Morin Dawa (Batehan)	Inner Mongolia	North	1	54	22	+145
Guizhou (Blue Sword)	Guizhou	South West	1	40	24	+67
Huludao (Juhua) / Dandong (Yalujiang)	Liaoning	North East	2	78	4	+1,850
Yueyang (Xinghua)	Hunan	Central	1	26		
Lanzhou (greenfield)	Gansu	North West	1	65		
Yanjiao (greenfield)	Beijing	North	1	21		
Adj: inter-co transactions				(102)	(139)	
others				59	96	
			59	3,490	3,336	+5
Existing breweries (incl sales in other districts)				3,169	3,241	-2

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# Beverage

## Geographical distribution of CR Snow's brewery plants





## Beverage

### 2. Purified Water Operation

- Turnover growth of 34% with sales volume rising 22% to 609,000 kl
- Attributable net profit increased by 193% to HK\$41m owing to strong sales volume growth, operational improvements and the full half-year's contribution from the acquired minority interest in May 2007
- Average selling price was steady at about RMB870 per kl
- Approximately 62% of sales volume was bottle water and the balance 38% barrel water
- A new marketing program was launched to raise C'estbon brand awareness nationally

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## Food Processing and Distribution

- Turnover grew by 11% and earnings increased by 7% to HK\$240m
- Excluding the HK\$84m profit from the disposal of shares in two A-share minority interests, underlying net profit decreased by 30%
- Opening of the live pigs imports market in Hong Kong has increased competition, resulting in lower sales quantity and gross margin
- Its negative effect on foodstuff operation division was partially offset by the higher contribution from frozen and assorted food distribution
- Profitability of food processing division was affected by marine fishing which fell victim to high fuel prices
- Operating profit from the mainland meat processing projects in Shenzhen, Shanghai and Hangzhou reached HK\$70m, or an increase of over 4 times

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## Food Processing and Distribution

### Turnover breakdown of Ng Fung Hong

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
Foodstuff distribution	1,734	2,054	-16
Food processing and stock raising	1,095	910	+20
Abattoir operation, transportation and others	1,074	549	+96
Inter-co transactions	(82)	(73)	+12
	3,821	3,441	+11

### Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
Foodstuff distribution	94	212	-56
Food processing and stock raising	6	33	-82
Abattoir operation, transportation and others	101	53	+91
	201	298	-33

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## Textile

- The operating environment was difficult and we recorded a 4% decrease in earnings contribution to HK\$66m
- Turnover increased by 6% but rising production cost, including labor, direct materials and utilities, and higher borrowing cost have altogether affected the profitability
- Exchange gains arising from foreign currency loans mitigated the impact of rising cost
- Sales volume of cotton yarns decreased by 4% to 30,724 tonnes but that of fabrics increased by 11% to 110.6m meters
- The spinning and weaving division recorded a 69% decline in earnings
- Earnings contribution from the garment division increased by 14% on a 14% increase in sales volume

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# Textile

## Turnover and earnings breakdown of the textile business

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
<b>Turnover</b>			
- Spinning and weaving	2,062	1,902	+8
- Garment	451	523	-14
- Others and inter-co transactions	(52)	(107)	-51
	2,461	2,318	+6
<b>Earnings</b>			
- Spinning and weaving	11	35	-69
- Garment	25	22	+14
- Others and inter-co transactions	30	12	+150
	66	69	-4

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## Investment Property

- The results included a HK\$375m net property revaluation gain and a HK\$52m decrease in deferred tax following the tax cut in HK
- Excluding the above, underlying net profit of investment properties increased by 24%, driven by higher contribution from JD Mall after the expiry of the rent free periods and satisfactory retail rental increase

### Investment property business turnover and earnings breakdown

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m	% change
<b>Turnover</b>			
- Rental properties	201	182	+10
- Others	4	1	+300
	205	183	+12
<b>Earnings</b>			
- Rental properties	190	111	+71
- Net revaluation gain on rental properties	375	274	+37
- Others	1	1	+0
	566	386	+47

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## Investment Property

- Average occupancy rate of our retail properties was high at 91% as JD Mall has been gradually leased out
- Three shopping malls on the mainland at Jiangmen, Kaiping and Xinhui

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

Year end 31 Dec	Type	-----Occupancy rates %-----	
		H1 2008	H1 2007
Argyle Centre	Ret	100	100
Hennessy Road	Ret	95	98
Lok Sing	Ret	100	100
Nan Fung	Ret	99	95
Silvercord	Ret	100	100
Star House	Ret	100	100
JD Mall	Ret	58	17
Jiangmen (PRC)	Ret	73	79

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## Other Businesses

### Investment and Others

- Hong Kong and Yantian deepwater port operations reported stable profit performance

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## Interim Results 2008

### Prospects

Mark Chen

Managing Director

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## Prospects

- Despite the challenges in both mainland and global markets, with a balanced business portfolio in the consumer sector and extensive geographical coverage, we achieved solid results
- Strong same store growth and EBITDA margin improvement was the driving force behind the surge in retail's profitability
- To compensate for the rising input and financing costs, there has been significant increase in our beer price, boosting return in the long run
- Success of our branding efforts was reflected by the 22% sales volume growth for both SNOW and C'estbon respectively
- Our food business has firmly established a platform for future expansion in the major mainland cities
- Textile business has been re-positioned to concentrate on products with better competitiveness and margins
- We will continue to muster up our strengths in building district market shares and responding to the consumer changes

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## Appendix I - Calculation of Underlying Net Profit

Year end 31 Dec	H1 2008 HK\$m	H1 2007 HK\$m
Earnings – continuing operations	1,488	1,161
<i><u>Adjustments</u></i>		
Disposal of shares in Hunan New Wellful	27	
Disposal of shares in Fortune Ng Fung Food	57	
Investment property revaluation *	382	287
	<hr/> 466	<hr/> 287
Underlying net profit - continuing operations	1,022	874
Earnings - discontinued operation		2,576
<i><u>Adjustments</u></i>		
Disposal of petroleum distribution business		2,393
Underlying net profit - total	1,022	1,057

\* Of which HK\$375m in H1 2008 and HK\$274m in H1 2007 is under Investment Property division

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# Appendix II - Supermarket network - CR Vanguard

No of self-operated stores	30-Jun-08		31-Dec-07		30-Jun-07	
No of franchised stores						
<i>I) Convenience stores</i>						
- Hong Kong	6		8			
- Guangdong Province	14					
<i>II) Standard supermarkets</i>	20	0	8	0	0	0
- Hong Kong	97		98		96	
- Beijing + Tianjin	147		129		118	
- Jiangsu Province	121	4	121	4	112	4
- Guangdong Province	159	62	151	63	134	60
- Guangxi Province		1				
<i>III) Superstores</i>	524	67	499	67	460	64
- Beijing + Tianjin						
- Jiangsu Province	8		8		9	
- Zhejiang Province	39	44	38	44	37	52
- Guangdong Province	10		10		11	
<i>IV) Hypermarkets</i>	57	44	56	44	57	52
- Tianjin	2		2		2	
- Jiangsu Province	2		2		1	
- Zhejiang Province	6		5		3	
- Guangdong Province	30		29		25	
<i>V) Olé</i>	40		38		31	
- Beijing	7		7		5	
- Guangdong Province	1		1		1	
	8		8		6	
<b>Overall</b>	649	111	609	111	554	116
	760		720		670	

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## Appendix III - Supermarket network - Suguo

No of self-operated stores	30-Jun-08		31-Dec-07		30-Jun-07	
No of franchised stores						
<i>I) Convenience stores</i>						
- Jiangsu Province	334	15	314	8	284	2
- Anhui Province	69		44		39	
	403	15	358	8	323	2
<i>II) Standard supermarkets</i>						
- Jiangsu Province	94	865	90	884	84	793
- Anhui Province	24	144	16	139	16	126
- Shandong Province		17		20		22
- Henan + Hebei + Hubei Province		9		10		10
	118	1,035	106	1,053	100	951
<i>III) Superstores</i>						
- Jiangsu Province	99		90		91	
- Anhui Province	17		16		16	
	116		106		107	
<i>IV) Hypermarkets</i>						
- Jiangsu Province	39		29		21	
- Anhui Province	9		7		5	
- Shandong Province	2		2		1	
	50		38		27	
<b>Overall</b>	687	1,050	608	1,061	557	953
	<b>1,737</b>		<b>1,669</b>		<b>1,510</b>	
<b>Total of Vanguard + Suguo</b>						
- Hong Kong	103	0	98	0	96	0
- China	1,233	1,161	1,119	1,172	1,015	1,069
	<b>2,497</b>		<b>2,389</b>		<b>2,180</b>	

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## Appendix IV – Brand-fashion distribution in mainland China

	30-Jun-08		31-Dec-07		30-Jun-07	
<b>No of self-operated stores</b>						
<b>No of franchised stores</b>						
Esprit / Red Earth / Salon	306	670	268	579	244	510
ck Calvin Klein	11	19	10	14	10	5
ATMA	0	0	5	0	9	0
	317	689	283	593	263	515
<b>Total</b>	<b>1,006</b>		<b>876</b>		<b>778</b>	

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