

# China Resources Enterprise, Limited

November 2001



China Resources Enterprise

# Acquisition Details

- Consideration: HK\$944 million
- PE Multiple: 2000 – 5.2 times
- PE Multiple: 2001 – 5.9 times



# Payment

- Cash Payment: HK\$472 million
- Share: HK\$472 million – issuance of 56,300,000 new shares at HK\$8.37 per share
- Share price represent 0.36% to closing price of HK\$8.40



# Profit Guarantee

- FY2001 if <HK\$160 million, adjust by PE multiple
- FY2002 & FY2003 if < HK\$160 million, adjust on a dollar by dollar basis



# Undertaking

- CRNC is a majority shareholder of Sichuan Jinhua, a Shenzhen listed A Share company
- CRE have a right of first refusal for the acquisition of interest in Sichuan Jinhua as soon as the laws in China permit
- Future investment opportunity regarding textile business will be offered to CRE for consideration



# Conditions Precedent

- Shareholders' approval at EGM
- Stock Exchange granting the listing of an permission to deal in new shares



# Introduction

Textile is principally engaged in:

- Distribution of textile products including cotton, polyester fiber, grey cloth and printed fabrics;
- Spinning and weaving operation; and
- Manufacture (on OEM basis) of garments



# Distribution of textile raw materials

Sources cotton and polyester fibers and distributes to spinning and weaving factories in China. It is also the distributor for a number of different synthetic fibre, including “Tencel”, in China.

As the cotton and polyester fiber required for the Group’s spinning and weaving operation are also sourced through the Group’s purchasing arm, the Group is able to secure the supply of cotton and polyester fibers in China on favourable terms. It is now one of the largest purchasers of cotton in China.





# Spinning and Weaving

Since 1989, the Group has acquired majority shareholding in certain state-owned spinning and weaving factories in the Shandong Province.

These spinning and weaving operations, as mentioned above, enable the Group to enjoy better terms of textile raw material sourcing. It also enables the Group to supply a wider range of fabric products to its customers.



# Garment manufacture

The Group through its garment factories in Hong Kong, Shenzhen and Shanghai manufactures garment on OEM basis for American and European fashion brand names and retailers.

GAP is currently one of the largest customers of the garment manufacturing operation. Other customers include Levi, Liz Claiborne, J. Crew, and Londonfog.



# Turnover

Sales can be broadly categorized as:

As % of sales (by dollar value)	1999	2000
<b>Distribution of Textile products</b>	<b>48%</b>	<b>30%</b>
Spinning and weaving	19%	32%
Garment	21%	28%
Others	12%	10%
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	<b>100%</b>	<b>100%</b>



# Gross Margin

The gross profit margin of the products are as follow:

Gross profit margin by products	1999	2000
Distribution of Textile products	7%	7%
Spinning and weaving	14%	14%
Garment	13%	17%
Others	14%	22%



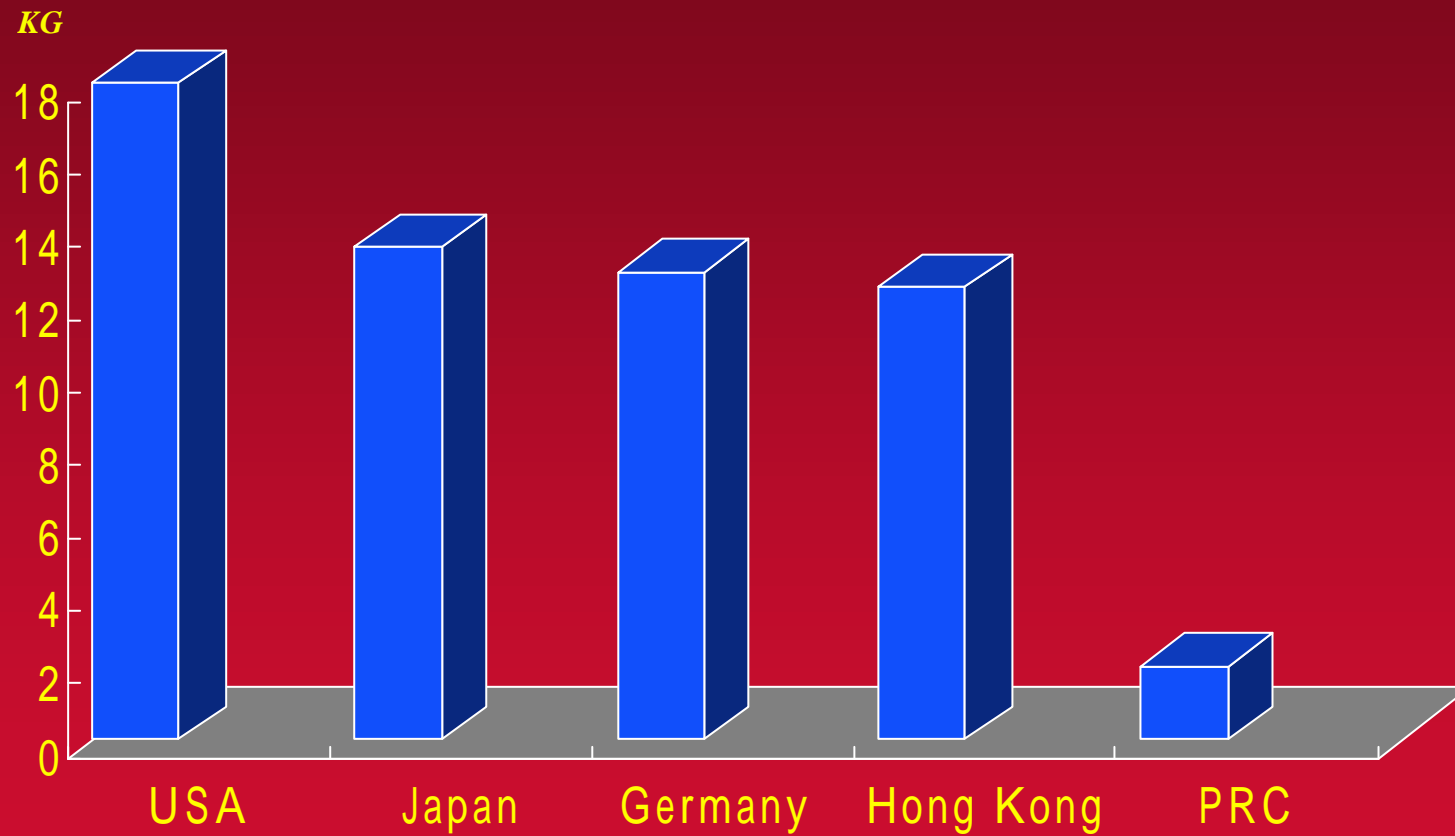
# Profit and Loss

The financial performance for the year ending 31<sup>st</sup> December

	1999	2000
	HK\$m	HK\$m
Turnover	2,150.3	2,635.9
Profit before taxation	69.0	214.4
Profit attributable to shareholders	51.2	181.7



## Textile Material Per Capita Consumption (Year 2000)



# Market Potential & WTO Impact

- The potential of the domestic market is enormous, as per capital consumption remains low
- The China textile industry stands at the forefront when compared to other producers in Asia. With the removal of the quota, China's textile industry will benefit from the expected increase in trade volume for such products after WTO
- Expect quota systems to be completely removed by 2005



# Competitive Advantage

- The Group's operation has the economy of scale (being the third largest cotton spinning operator in China)
- Industry expertise with over 40 years of experience in the industry
- Has an integrated business, with a strong retailing and distribution network, therefore provide a much better channel for penetrating the local market
- Has the financial capability to further expand



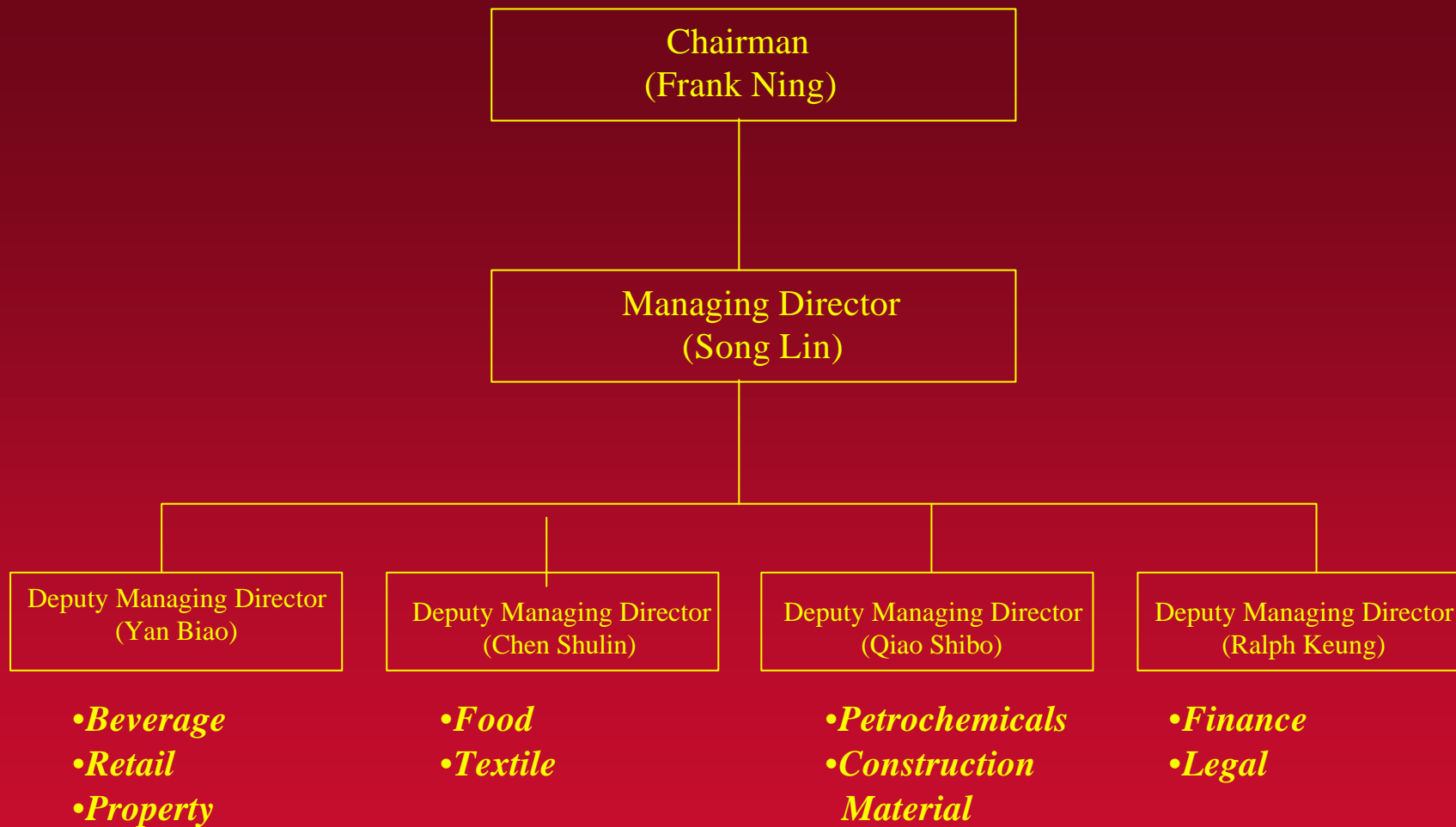


# New Management Structure



China Resources Enterprise

# Area of Responsibilities



# Under The New Management Structure

- Streamlined Structure
- More Industry Focus
- Greater responsibilities and flexibility
- Increase PRC expertise



# Group Strategy



China Resources Enterprise

# What is Next?

First phase of the Group's restructuring plan is substantially completed. The Group has basically streamlined its business structure with a focus on retail and distribution business. **(Industry focus)**

Second phase of the Group's restructuring plan will focus on how to increase its business exposure in China, in order to capitalize on the expected growth in the trading volume inside China after WTO. **(Geographical focus)**



# Overall Target

- Current business mix is approximately 85% Hong Kong and 15% China.
- Target 50% Hong Kong and 50% China within 5 years

**The Group will speed up its investment in China**



# Impact of WTO

Increased in competition is expected, however, the Company believes that it has the following competitive advantage:

- First mover advantage;
- Local knowledge;
- Industry knowledge;
- Management expertise; and
- Strong government connection



# PRC Strategy - Beverage

- Production capacity of 5 million tonnes by 2005 through internal expansion and acquisition
- National market share of 12% - 15%
- Improve net margin from 10% to 15% through rationalization and economies of scale





# PRC Strategy – Retail

- Increase the number of supermarket outlets to over 1000 outlets, through internal expansion and acquisition within 3 years
- Examine opportunities to expand into hypermarkets
- Increase the number of boutique stores, both self operate and franchise stores to 1,500 within three years. More brand fashion labels expected, particular in volume and mass market segment



# PRC Strategy - Textile

The Group will focus on the expansion of the spinning & weaving and the garment OEM business which enjoy a higher margin than the trading business.



## PRC Strategy – Textile (cont.)

- Upgrade its production facilities to produce higher quality fabric which is suitable for both the international and domestic (high fashion) market.
- Expand production capacity through both internal expansion and acquisition



## PRC Strategy – Textile (cont.)

- Expand agency business, through introducing more products from overseas, by increasing the size of its sales force
- Apart from its current brands, the Group is also actively seeking new garment brands for OEM manufacturing.



## PRC Strategy – Textile (cont.)

- Attempt to obtain distribution rights from some of its OEM customers, such as GAP and LEVI etc., in China.
- Expand retail chain network through setting up more outlets and recruiting franchisees
- Increase the number of labels on hand, enabling the Group to enjoy a better position to negotiate with department stores and property owners for cheaper rental on the shops and counters open at their location.



# PRC Strategy - Food

- Expand production and processing base in China through internal expansion and acquisition
- Focus on increasing more products produced by own plants or OEM plants for distribution in own supermarket chain
- Actively pursuing food distribution and processing ventures in China



# PRC Strategy - Petrochemicals

- Secure market share for existing market
- Seeking investment opportunities in China, with focus on LPG and oil lubricant products
- Leverage on existing storage facility, expand the chemical operation in the Eastern district, around Zhejiang, Jiangsu and Shanghai district, where there is a high concentration of industrial operations



# PRC Strategy – Construction Materials

- Expand product range for distribution in China
- Cooperate with property companies within the CRH group in China to expanding the ready mix concrete operation in China
- Introduce new environmentally friend, cheaper and more efficient construction materials

