



China Resources Enterprise, Limited

2001 Results Announcement

April 15, 2002

Retail-led distribution as driver





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China Resources Enterprise, Limited

2001 Results Announcement

Opening Speech

Mr. Frank Ning - Chairman





China Resources Enterprise, Limited
2001 Results Announcement

Financial Highlights

**Mr. Francis Kwong – Executive Director,
Corporate Planning & Development**



Financial Highlights – Results Summary

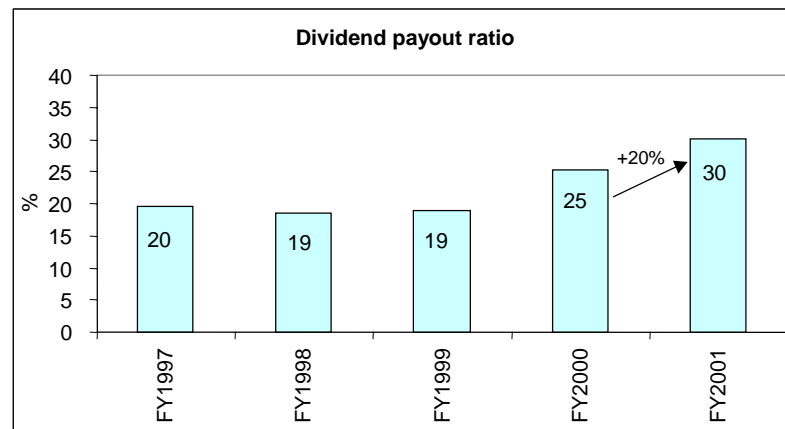
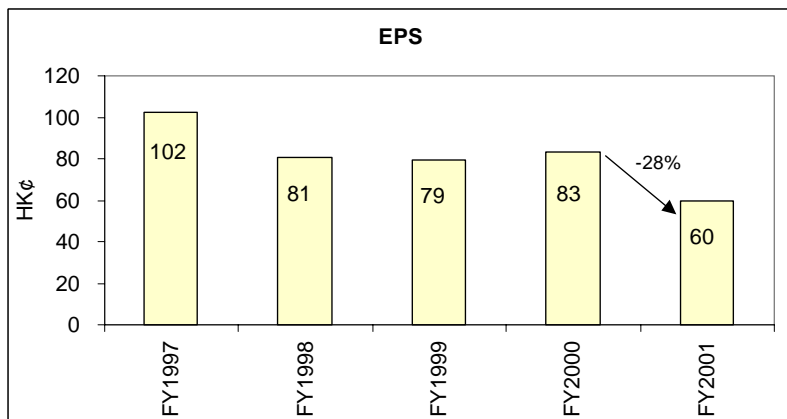
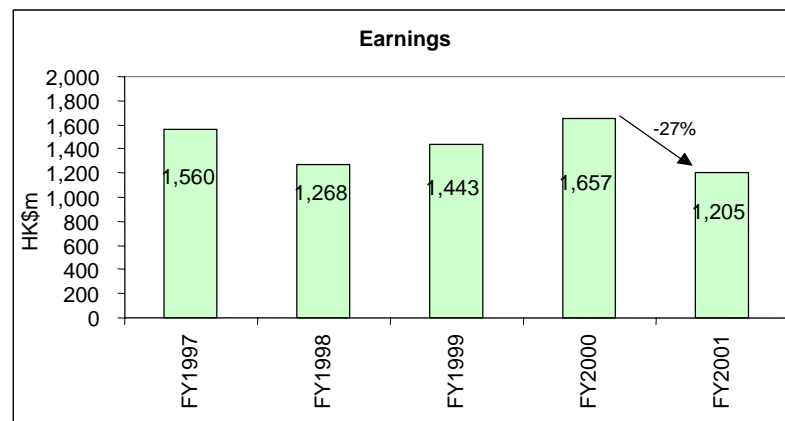
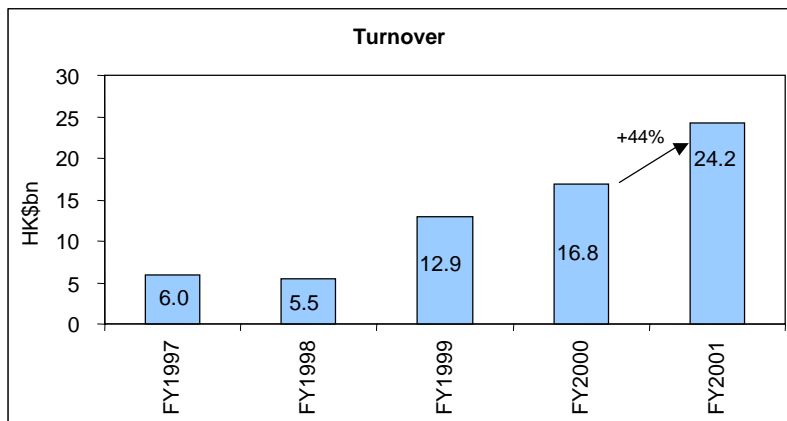
- **8% decline in core earnings excluding exceptionals**
- **Impacted by the sluggish local property market as contributions from property development and building materials dropped**
- **Satisfactory performance of core distribution businesses**
- **Dividend payout ratio increased from 25% to 30%**

Year end 31 Dec	FY2001 HK\$m	FY2000 HK\$m	% change
Turnover	24,196	16,810	+44
Earnings	1,205	1,657	-27
Earnings excluding exceptionals *	1,438	1,565	-8
EPS (HK¢)	60	83	-28
DPS (HK¢)	18	21	-14
Dividend payout ratio (%)	30	25	+20

* Excluding the loss recognized for Hongkong Chinese Ltd of HK\$292m and disposal profit of HK\$59m from Shenyang Compressor in FY2001; and HK\$92m deemed disposal profit from the separate listing of Xuzhou VV Food & Beverage attributable to the Group in FY2000



Financial Highlights – 5 Year Comparison




Financial Highlights – Key Financial Data

Year end 31 Dec	FY2001	FY2000	% change
<u>P&L</u>			
Interest expenses (HK\$m)	423	396	+7
Interest income (HK\$m)	255	410	-38
Capitalised interest (HK\$m)	0	5	-100
<u>Balance Sheet</u>			
Current ratio (%)	160	165	-3
Net cash/(debt) (HK\$m) *	(1,685)	830	na
Shareholders' equity (HK\$m)	11,987	10,759	+11
Minority interests (HK\$m)	2,868	2,889	-1
Inventory days **	33	38	-13
Debtors days **	40	49	-18
Creditors days **	62	108	-43
Book NAV per share (HK\$)	5.95	5.41	+10

*Completion of the disposal of the stake in Hongkong Chinese Ltd and acquisition of the textile business in 1/2002

**Based on turnover





Financial Highlights – Turnover Breakdown

Year end 31 Dec	FY2001 Prop (%)	FY2000 Prop (%)
Property development	4	17
Rental properties	2	2
Beverage	10	11
Food processing and distribution	24	33
Petroleum and chemicals	41	11
Building materials	3	5
Retail	16	20
Investment & others	0	1
	100	100



Financial Highlights – Earnings Breakdown

Year end 31 Dec	FY2001 Prop (%)	FY2000 Prop (%)
Property development	15	27
Rental properties	22	14
Beverage	4	5
Food processing and distribution	29	17
Petroleum and chemicals	16	1
Building materials	10	12
Retail	2	2
Investment & others	2	22
	100	100



Financial Highlights – Detailed Turnover Breakdown

Year end 31 Dec	H1 2001 HK\$m	H2 2001 HK\$m	FY2001 HK\$m	H1 2000 HK\$m	H2 2000 HK\$m	FY2000 HK\$m	Full year % change
Property development	498	501	999	483	2,342	2,825	-65
Rental properties (incl godown)	229	251	480	181	241	422	+14
Beverage	1,131	1,282	2,413	865	934	1,799	+34
Food processing and distribution	2,854	2,896	5,750	2,689	2,869	5,558	+3
Petroleum and chemicals	5,150	4,740	9,889	0	1,851	1,851	+434
Building materials	337	330	667	418	437	854	-22
Retail (incl supermarkets)	1,894	2,132	4,026	1,655	1,773	3,428	+17
Investment & others	43	64	108	90	109	198	-46
	12,136	12,195	24,331	6,380	10,556	16,936	+44
Less: inter-co transactions	(76)	(58)	(135)	(59)	(67)	(125)	+7
Turnover	12,059	12,137	24,196	6,321	10,489	16,810	+44



Financial Highlights – Detailed Earnings Breakdown

Year end 31 Dec	H1 2001 HK\$m	H2 2001 HK\$m	FY2001 HK\$m	H1 2000 HK\$m	H2 2000 HK\$m	FY2000 HK\$m	Full year % change
Property development	102	106	208	112	361	473	-56
Rental properties (incl godown)	147	158	305	110	144	253	+20
Beverage	48	13	61	44	45	89	-32
Food processing and distribution	221	176	397	195	116	311	+28
Petroleum and chemicals	91	137	228	0	26	26	+789
Building materials	72	70	142	98	107	205	-31
Retail (incl supermarkets)	(6)	37	31	26	7	34	-8
Investment & others	225	(197)	28	241	147	388	-93
	899	499	1,399	825	954	1,779	-21
Net corporate interest & expenses	(111)	(82)	(194)	(60)	(62)	(122)	+58
Earnings	788	417	1,205	765	891	1,657	-27





China Resources Enterprise, Limited
2001 Results Announcement

Business Review

**Mr. Francis Kwong – Executive Director,
Corporate Planning & Development**





Business Review – Property Development

- **Villa Esplanada contributed solely to the net profit for the year**
- **Despite a 51% drop in earnings contribution, net margin was reasonable at around 20%**
- **The last phase of the development, Ph III, was completed in H1 2001 and the units were handed over in H2 2001**
- **Approximately 98.2% of Ph III was sold at the end of FY2001 with about 10 more units sold since then**
- **Absence of earnings contribution from China Resources Land, which was disposed of in accordance to the restructuring plan, compared with HK\$46m in FY2000**





Business Review – Rental Properties

- **Excluding godown and cold storage operation, gross rental income grew 18% in FY2001 due to higher occupancy rates, full year contributions from newly released properties and relatively stable rent**
- **Retail properties accounted for about 80% of total rental income**

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

Year end 31 Dec	Type	----Occupancy rates %----	
		FY2001	FY2000
CRE Building	Off	87	88
Argyle Centre	Ret	100	100
Hennessy Road	Ret	100	100
Lok Sing	Ret	100	100
Nan Fung	Ret	99	87
Silvercord	Ret	100	98
Star House	Ret	83	83





Business Review – Godown and Cold Storage

- **Improvement in occupancy rates of the godown and cold storage businesses to 91% and 90% respectively, compared with 85% and 70% in FY2000**
- **Average rental rate for the cold storage business increased by 16% in FY2001 whilst that of the godown business was flat**

Earnings breakdown of the godown and cold storage operation

Year end 31 Dec	FY2001 HK\$m	FY2000 HK\$m	% change
Cold storage	30	24	+27
Godown	32	33	-3
	62	57	+10





Business Review – Beverage

- **Drop in earnings contribution in H2 2001 mainly due to initial losses of newly acquired breweries and acquiring breweries in quiet seasons**
- **Existing breweries reported a 18% earnings growth in FY2001 with Tianjin and Jilin turning around into profitability**
- **Significant progress made last year in enlarging market share and production capacity**
- **Beer sales volume grew 39% to 1,454,000 tonnes in FY2001 representing a market share of 6.4% compared with 4.7% in FY2000**
- **Average selling price steady at about RMB1,600 per tonne**
- **Beer production capacity currently 3.6m tonnes, compared with 1.7m tonnes at the end of FY2000, with the acquisition of 16 breweries, mostly in H2 2001**
- **Acquisitions included Bangchuidao and Liaoyang breweries in Liaoning province; New Three Star brewery in Heilongjiang province, Leshan and Blue Sword breweries in Sichuan province and Changchun brewery in Jilin province**
- **Acquisition of Wuhan Dongxihu Brewery was completed in March this year**
- **Most breweries acquired in FY2001 were loss making but CRE has a good record in recuperating breweries within two years as shown in the cases of Shenyang, Dalian, Tianjin and Jilin**
- **National brand's strategy is under development**



Business Review – Beverage

Sales volume by brewery

Year end 31 Dec	Province	Area	No of breweries	FY2001 '000 tonne	FY2000 '000 tonne	% change
<u>Existing breweries</u>						
Shenyang	Liaoning	North East	3	415	415	+0
Dalian	Liaoning	North East	1	183	183	-0
Jilin	Jilin	North East	1	205	206	-1
Mianyang	Sichuan	South West	1	98	110	-11
Tianjin	na	Central	1	101	46	+117
Anshan	Liaoning	North East	1	67	80	-16
Anhui	Anhui	Central	3	192	7	+2,768
<u>Breweries acquired in FY2001</u>						
New Three Star	Heilongjiang	North East	1	104		na
Dalian Bang Chui Dao	Liaoning	North East	1	19		na
Liaoyang Meiyue	Liaoning	North East	1	22		na
Leshan	Sichuan	South West	1	10		na
Blue Sword	Sichuan	South West	10	29		na
Changchun Snow Leopard	Jilin	North East	1	10		na
<u>Breweries acquired in FY2002</u>						
Wuhan Dongxihu	Hubei	Central	1	na		na
			27	1,454	1,047	





Business Review – Food Processing and Distribution

- **Earnings contribution increased by 28% mainly due to the increase in shareholding as a result of NFH's privatisation.**
- **Excluding the effects of any increase in shareholdings, net profit before exceptionals, interest and tax was comparable to that of last year despite the challenging environment**
- **The slight decline in earnings contribution from livestock distribution was compensated by the increase in profit contribution from frozen food and frozen meat**
- **Uplift of frozen meat export quota exclusive right effective from 1 Jan 2002 has affected agency business but NFH has expanded direct purchase from both mainland China and overseas which is of much higher margin**
- **Food processing operation performed well with a substantial increase in profit contribution from the marine fishing business**
- **There was a HK\$172m deemed disposal profit from the separate listing of Xuzhou VV Food & Beverage in FY2000**
- **Growing opportunities in the mainland**





Business Review – Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	FY2001 HK\$m	FY2000 HK\$m	% change
Foodstuff distribution and stock raising	4,057	3,919	+4
Food processing	1,349	1,262	+7
Abattoir operation and transportation	343	377	-9
	5,750	5,558	+3





Business Review – Building Materials

- Continued slide in earnings contribution due to the general decrease in demand for building materials resulted from contraction in volume of government subsidised housing and infrastructure projects
- Apart from further cost reduction, product variety and quality will be enriched and leverage with the existing distribution network will be considered

Turnover breakdown

Year end 31 Dec	FY2001 HK\$m	FY2000 HK\$m	% change
Concrete	594	753	-21
Mortars	44	64	-32
Shotcrete	11	19	-40
Others	18	19	-5
	667	854	-22



Business Review – Petroleum and Chemicals

➤ On a full-year contribution basis, earnings declined by 20% to HK\$228m but there was a recovery in H2 2001 : HK\$137m versus HK\$91m in H1 2001

➤ Earnings recovery in H2 2001 attributable to implementation of effective operational strategies, such as reduction of inventory, alleviation of competitive pressure and stronger retailing operation

➤ The petrol and LPG station business, comprising 12 petrol stations and 5 LPG stations in HK and 20 petrol stations in the mainland at the end of FY2001, reported a 51% growth in earnings contribution

Turnover breakdown

Year end 31 Dec	FY2001 HK\$m	FY2000 * HK\$m	% change
<u>By products</u>			
Oil			
- Middle distillate (diesel, kerosene, gasoline)	3,766	5,045	-25
- Fuel oil	3,198	2,813	+14
- Jet fuel	991	1,101	-10
- LPG	710	556	+28
- Others (lubricant, additive etc)	482	580	-17
	9,146	10,096	-9
Chemicals and others	743	630	+18
Total	9,889	10,726	-8

* On a full year's contribution basis



Business Review – Retail

- Turnover increased by 17% to HK\$4bn, of which 55% was from the supermarket operation
- Hong Kong - One of the largest retailers in HK with nine department stores under the name of CRC Department Store and Chinese Arts & Crafts stores; also operate 12 CRC Medichall
- China - Distribute 16 widely known brand products in the mainland via close to 600 stores

Retail division turnover and earnings breakdown

Year end 31 Dec	FY2001 HK\$m	FY2000 HK\$m	% change
Turnover			
- Supermarkets	2,223	1,850	+20
- Department stores in HK	1,104	1,153	-4
- Brand products in China	698	424	+64
	4,026	3,428	+17
Earnings			
- Supermarkets	3	14	-78
- Department stores in HK	23	3	+760
- Brand products in China	5	17	-73
	31	34	-8





Business Review – Retail

Brandname distribution in mainland China (at 3/2002)

	No of stores
<u>Luxury goods</u>	
Alfred Dunhill	28
Bruno Magli	4
Christian Lacroix	1
Emanuel Ungaro	1
Givenchy	6
Kenzo	8
Iceberg	1
Lanvin	5
Monsieur by Givenchy	5
Piaget	-
Shanghai Tang	1
Verri	1
<u>Volume market</u>	
CK Jeans	6
Esprit	247
Red Earth	271
<u>Mass market</u>	
Blue Navy	12





Business Review – Supermarkets

➤ **70 supermarkets in Hong Kong and 321 in mainland China including Tianjin (54), Suzhou (101), Beijing (21), Xuzhou (1) and Shenzhen (144), compared with a total of 305 supermarkets at the end of FY2000**

➤ **China supermarkets are in a rapid growth phase – number increased from 170 to 321, turnover grew by 48%**

➤ **Supermarkets in HK were loss making whilst those in the mainland showed a growth in profitability**

Supermarket turnover and earnings breakdown

Year end 31 Dec	FY2001 HK\$m	FY2000 HK\$m	% change
Turnover			
- HK	1,568	1,407	+11
- China *	655	443	+48
	2,223	1,850	+20
Earnings	3	14	-78

* Excluding the associates which contributed attributable HK\$469m in FY2001 compared with HK\$409m in FY2000





Business Review – Textile

- **The acquisition was completed on 31 Jan 2002**
- **A leading player in a highly fragmented market – consolidation is imminent and unavoidable**
- **Three major businesses – manufacture of garment, spinning and weaving operation and distribution of textile products**
- **Through its garment factories in HK, Shenzhen and Shanghai, it manufactures garment on OEM basis for some global brand names like Gap, Levi's, Liz Claiborne and London Fog**
- **Provide integrated spinning, weaving and dyeing services via interests in six factories, which have a combined capacity of 400,000 spindles, making it one of the largest exporters of textile yarn and fabrics in mainland China to HK and overseas**
- **Also sources cotton and polyester fibers and distributes to spinning and weaving factories in China**
- **Expects higher efficiency via function centralisation, technology upgrade and market consolidation**





Business Review – Investment and Others

- **The performance of HIT was steady with Yantian operations reported a 5% growth in combined throughput**
- **The disposal of a 35.23% stake in Hongkong Chinese Ltd was completed on 17 Jan 2002 and a loss of HK\$292m was recognised in FY2001**





China Resources Enterprise, Limited

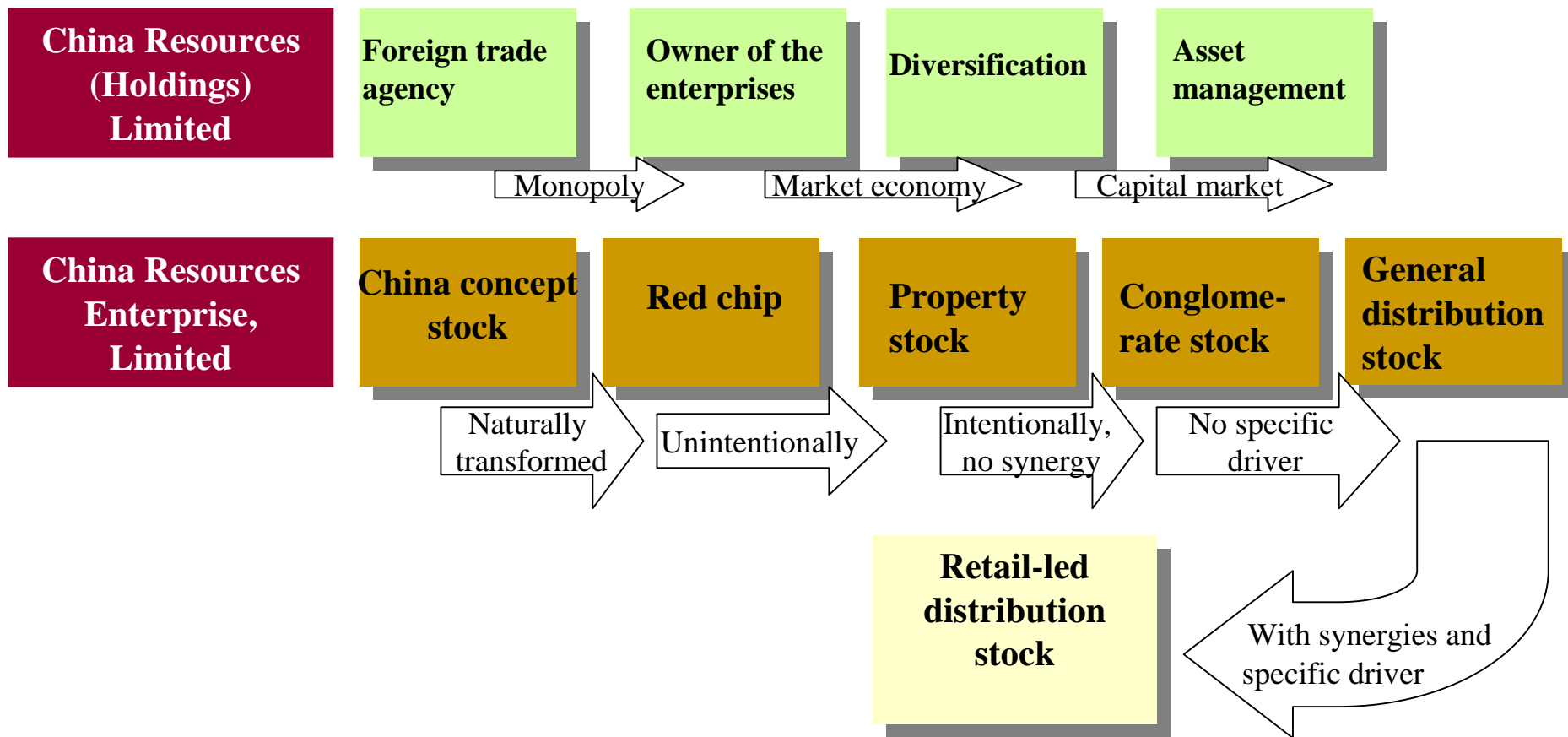
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Future Development

Mr. Frank Ning – Chairman



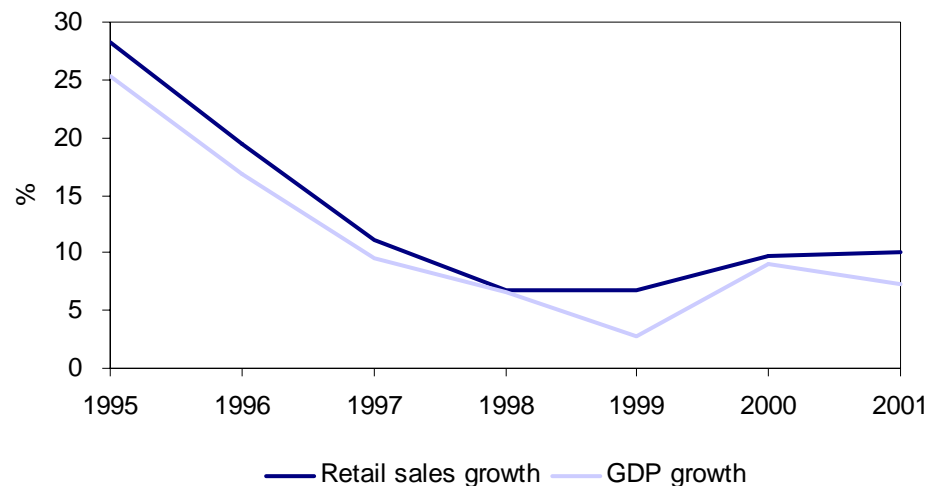
Future Development – Development History



Future Development – Market Statistics

➤ **Retail sales growth has been outperforming GDP growth in the mainland. The nominal retail sales growth for 2001 was 10.1% compared with GDP's 7.5% growth . Chain-store format sales growth was close to 50% in 2001**

Nominal retail sales growth vs GDP growth



Source: National Bureau of Statistics



Future Development – Market Statistics

- Despite the outstanding growth, the supermarket segment in China is very fragmented; with the leader only enjoys about 4% share, similar to the mainland beer market five years ago
- Combining with the Vanguard department stores owned by CRH, our supermarket operation was ranked #10 last year, an improvement from #13 in six months
- Unlike other leading players, our stores are predominantly self-operated rather than via franchisees
- CRE has a proven record in setting up and expanding growth businesses in China

Profile of leading chain stores in China 2001

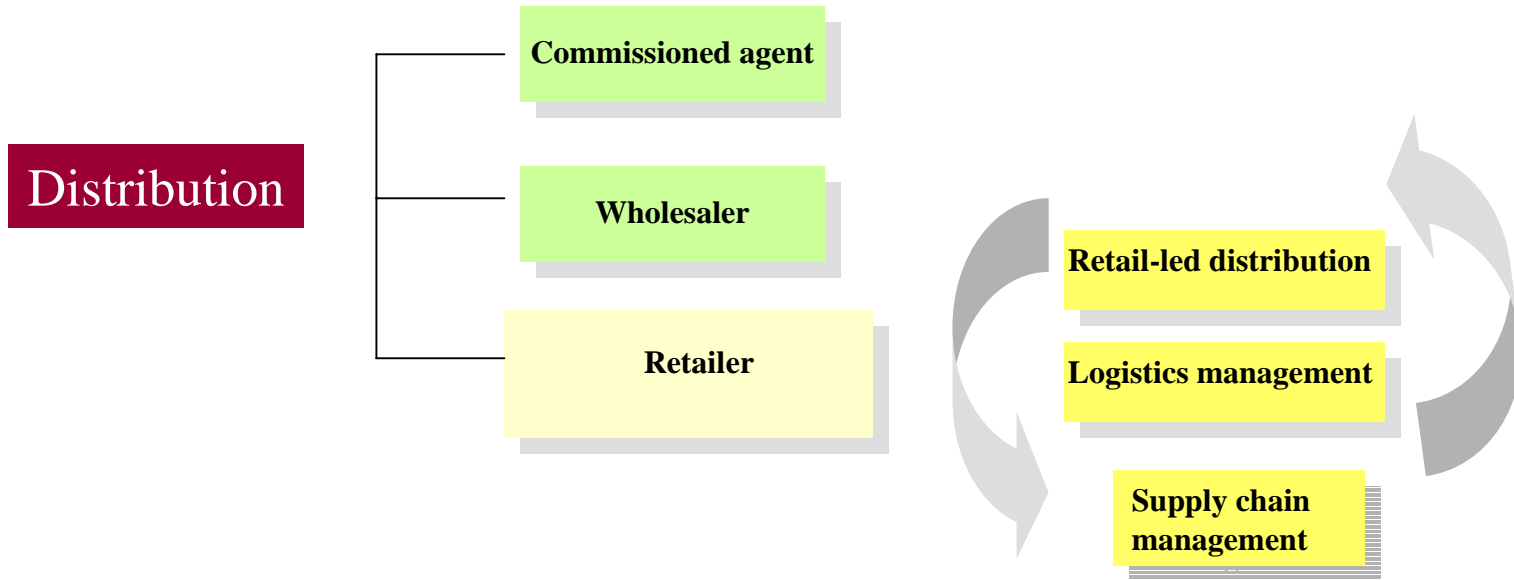
Rank	Retailer	Turnover (RMBm)	Y-o-y change (%)	Ranking in H1 2001	Est market share (%) *
1	Shanghai Lianhua	14,063	+26	1	4.26
2	Shanghai Hualian	8,504	+52	3	2.58
3	Beijing Hualian	8,000	+60	5	2.42
4	Shanghai Nong Gong Sang	7,475	+38	2	2.27
5	San Lian (electrical goods)	7,026	+32	4	2.13
6	Beijing Guo Mei (electrical goods)	6,150	+120	9	1.86
7	Jiangsu Su Guo Supermarket	5,282	+31	6	1.60
8	Bai Sen (fast food)	5,205	+24	7	1.58
9	Shanghai Jinjiang Metro	4,949	+32	8	1.50
10	China Resources Vanguard	4,648	+35	13	1.41

* Based on estimated chain-store format sales in FY2001 of RMB3,300bn

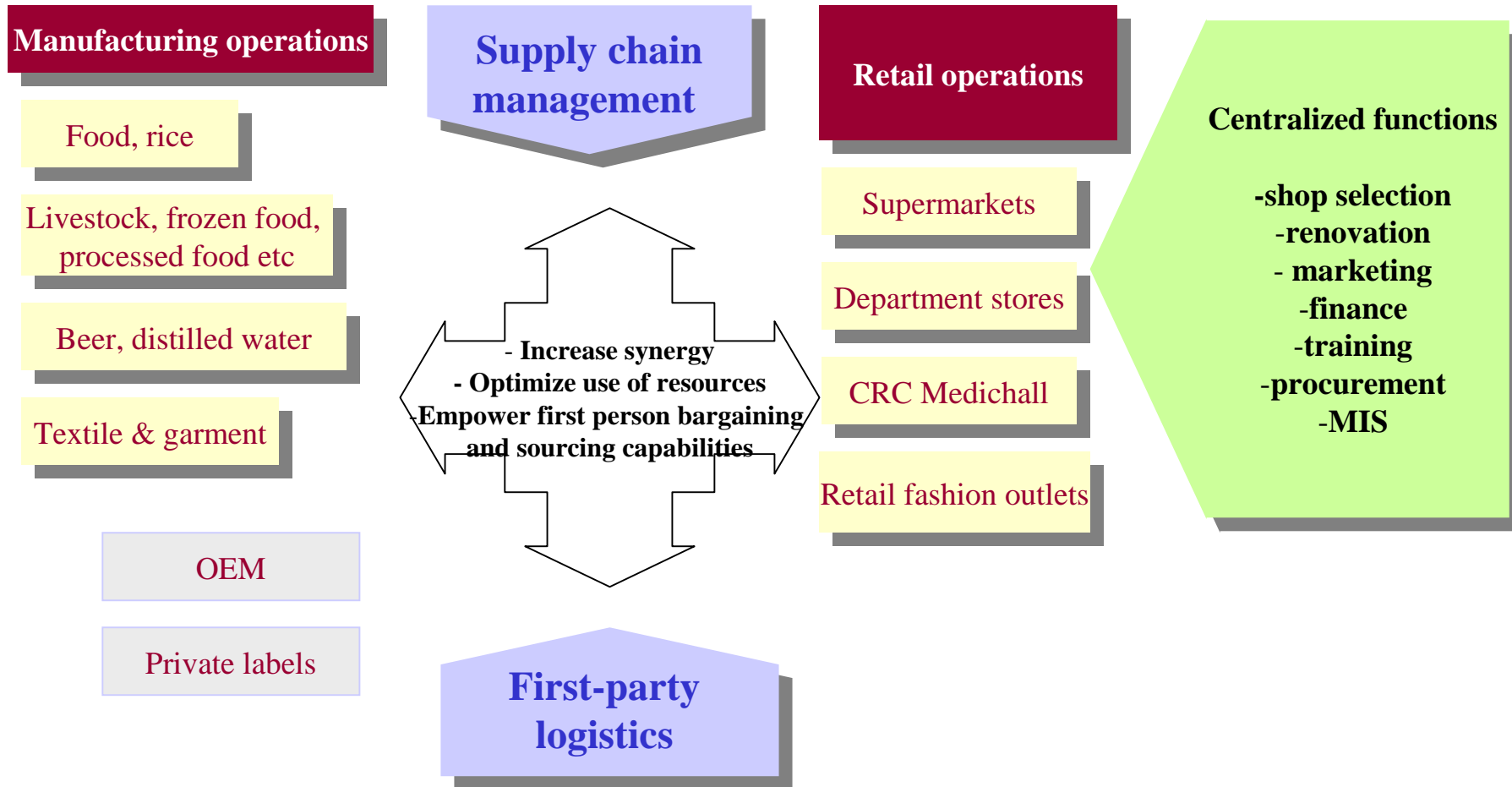
Source: State Economic and Trade Commission



Future Development – Types of Distributor



Future Development – Retail-led Distribution Model





Future Development – Strengthening Supply Chain

- Both retail and manufacturing operations are viable and self-sufficient businesses
- At present, Ng Fung Hong has two private labels, NF (五豐) and COF (高富) each with over 300 items of products
- Ng Fung Hong also distributes fresh meat, processed meat and a wide array of food items in supermarkets
- The textile division sells towels, socks, underwear and other general merchandise in our supermarkets and department stores
- Just started selling our beer in our supermarkets in Tianjin and Jiangsu
- In future, Ng Fung Hong and the textile divisions will launch more private labels and sell them through our retail distribution network
- There will be further cooperation between the textile and the retailing operations, especially in procurement and production
- Referral of textile's OEM customers to the retailing operation is also possible
- Our supermarket operation will also help our breweries to penetrate the beer market
- We will redesign the entire supply chain and complement it with our own logistics services to optimise allocation of resources and enhance our bargaining as well as sourcing capabilities





CRE's advantages in retail-led distribution

- **Unique business model combining retailing and manufacturing operations**
- **A national network with businesses in all major cities**
- **Sound local knowledge and good relationship with provincial governments**
- **Existing core businesses integrated by supply chain and logistics management**
- **Strong balance sheet**
- **Local management with extensive experience in China's retail businesses**





Strategies for growing the retail division in China

Scale: speedy expansion in good locations

Bargaining power: district dominance

Integration: via supply chain and logistics management

Brand building: established brands in place, possibility of OEM and private labels

Cost efficiency: stringent internal control

Team spirit: training and aggression





Short-term and long-term objectives

Three-year objectives

- Aim to become the largest retailer of consumer goods in China with a meaningful market share in the chain-store segment
- Operate the largest supermarket chain in China of the following tiers: <1,000 sm; 3,000-5,000 sm and >10,000 sm
- Implement a retail-led distribution model via supply chain and logistics management
- Conclude a number of m&a transactions in the retailing segment and acquisition of Vanguard department store business is being studied
- Establish a nationwide and centralised distribution network

Five-year objectives

- 50% of revenue and pre-tax profit from China, versus 32% and 13% respectively in FY2001
- Target to achieve retailing turnover of RMB50bn in five years, compared with around RMB4bn in FY2001 through organic and acquisitive growth
- Establish a united structure in terms of shareholding, procurement, brandname, logistics, settlement, training, marketing, finance and MIS





Future Development – Key Messages

Successfully transformed

Satisfactory performance in FY2001, stable earnings

New direction: retail-led distribution

New model: synergies emphasized

Execution + management capability

Build long-term shareholders' value





China Resources Enterprise, Limited

2001 Results Announcement

Questions and Answers



Appendix – Organization Chart

