

China Resources Enterprise, Limited
Interim Results 2005

Flourishing Business in its Evolving Form



8 September 2005



Agenda

- Opening Note / Results Highlights pp.3 – pp.4
- Financial Summary pp.5 – pp.10
- Business Review pp.11 – pp.32
- Prospects pp.33 – pp.35
- Disclaimer pp.36

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Interim Results 2005

Opening Note / Results Highlights

Mark Chen

Managing Director

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Results Highlights

- Turnover rose by 12% to HK\$25.3bn, led by the retail and beverage businesses
- Earnings grew by 70% to HK\$1,262m with all operations under management showing improvement in profitability
- Excluding the after-tax effect of revaluation of investment properties, which led to a HK\$326m gain, underlying net profit was up 26%
- Interim dividend of HK13¢ declared, an 18% increase
- Earnings contribution from retail business surged 66% to HK\$105m
- Beverage business registered a 14% earnings growth with beer sales volume up 30%
- Food distribution business reported a 26% profit growth boosted by the disposal gain of Xuzhou VV Food & Beverage
- Textile business recovered with a 32% earnings growth
- Petroleum business reported a 54% recurring profit growth driven by improved margin and piped gas projects

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Financial Summary

Francis Kwong
Executive Director

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Results Summary

Year end 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change
Turnover	25,256	22,641	+12
Earnings	1,262	741	+70
Earnings ex property revaluation *	936	741	+26
EPS (HK¢)	58.7	35.3	+66
EPS - ex property revaluation (HK¢)	43.6	35.3	+24
DPS (HK¢)	13.0	11.0	+18
Interim dividend payout ratio - ex property revaluation (%)	29.8	31.2	-4

* The H1 2005 figure is after deducting the HK\$326m net of tax property revaluation gain due to accounting changes

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Turnover Breakdown – by Divisions

Year end 31 Dec	H1 2005 HK\$m	Prop (%)	H1 2004 HK\$m	Prop (%)	% <i>change</i>
<u>Core business</u>					
Retail	7,930	31	6,873	30	+15
Beverage	3,204	13	2,299	10	+39
Food processing and distribution	2,836	11	2,692	12	+5
Textile	2,059	8	1,701	7	+21
Property	147	1	157	1	-6
<u>Other business</u>					
Petroleum and chemicals	9,188	36	8,996	40	+2
	25,364	100	22,719	100	+12
Less: inter-co transactions	(109)		(78)		+40
Turnover	25,256		22,641		+12

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Earnings Breakdown – by Divisions

Year end 31 Dec	H1 2005 HK\$m	Prop (%)	H1 2004 HK\$m	Prop (%)	% change
<u>Core business</u>					
Retail	105	8	63	8	+66
Beverage	60	4	53	6	+14
Food processing and distribution	247	18	196	23	+26
Textile	56	4	42	5	+32
Property	429	31	166	20	+159
<u>Other business</u>					
Petroleum and chemicals	302	22	142	17	+113
Investment & others	168	12	178	21	-6
	1,367	100	840	100	+63
Net corporate interest & expenses	(104)		(99)		+5
Earnings	1,262		741		+70
Earnings ex property revaluation *	936		741		+26

* In H1 2005, there was a HK\$326m net of tax property revaluation gain due to accounting changes

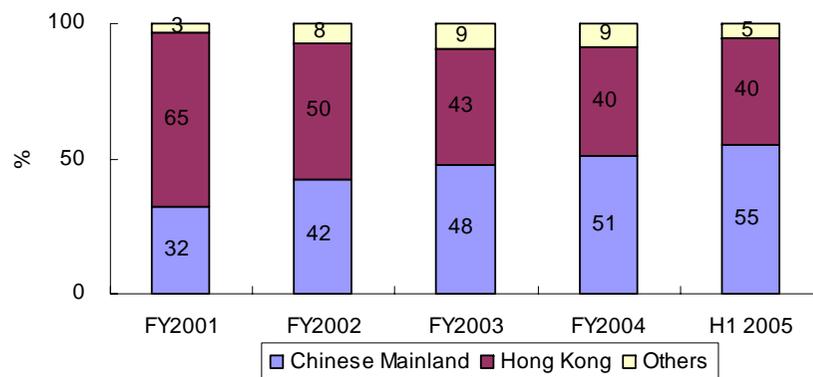
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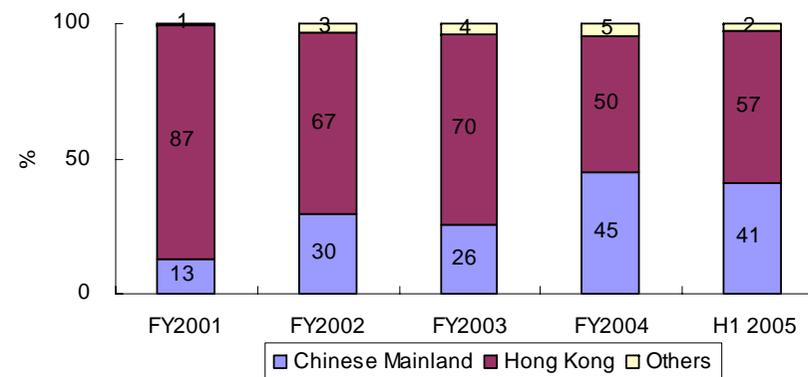
Geographical Breakdown of Turnover and Profit

- The proportion of turnover from mainland China rose to 55% whilst that of profit before tax reached 41%

Turnover



Profit before tax



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Key Financial Data

- With the proceeds from asset disposals and expanded shareholders' equity, net debt to equity ratio fell by 10 ppt in six months to 23%
- Capex amounted to HK\$2,139m, about 43% of last year's total

Year End 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change	FY 2004 * HK\$m
P&L				
Finance costs	213	152	+40	295
Interest income	64	32	+100	78
Balance Sheet				
Net cash/(debt)	(3,883)	(3,147)	+23	(4,981)
Shareholders' equity	17,102	13,609	+26	15,125
Minority interests	4,557	4,425	+3	4,812
Book NAV per share (HK\$)	7.77	6.47	+20	7.12
Gearing ratio (%)	18	17	+6	25
Net debt to equity ratio (%)	23	23	+0	33
Cashflow				
Capex	2,139	1,300	+65	4,989

* The balance sheet figures were as at 1 January 2005

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Business Review

Francis Kwong
Executive Director

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Retail

- The three retail operations, including supermarket, retail stores in Hong Kong and brand fashion distribution, reported profit growth of 141%, 7% and 34% respectively

Retail business turnover and earnings breakdown

Year end 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change
Turnover			
- Supermarket	6,927	5,893	+18
- Retail stores in HK	357	467	-24
- Brand-fashion in China	646	514	+26
	7,930	6,873	+15
Earnings			
- Supermarket	60	25	+141
- Retail stores in HK	26	24	+7
- Brand-fashion in China	19	14	+34
	105	63	+66

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Retail

1. Supermarket

- Total turnover grew 18% to HK\$6.9bn of which 48% from eastern China, 30% from southern China, 16% from Hong Kong and the rest from northern China
- Earnings contribution of HK\$60m, with improvement in the mainland operation, and EBITDA before option expenses amounted to HK\$333m, up 34%
- Steady gross margin, reduced operational expenses, better sales after store renovation and higher contributions from Suguo accounted for the profit growth
- Suguo's earnings contribution before goodwill and option expenses amounted to HK\$37m, compared with HK\$25m in H12004
- Overall same store growth of 3.5% driven by the 4.5% increase of the mainland operation
- Initial loss incurred by the new format Olé but the first store at Shenzhen has just started to show operational profit
- CR Vanguard opened 20 self-operated stores and 5 franchised stores in H1 2005 (11 and 3 respectively in H1 2004) and Suguo 21 self-operated stores and 55 franchised stores (27 and 53 respectively in H1 2004)

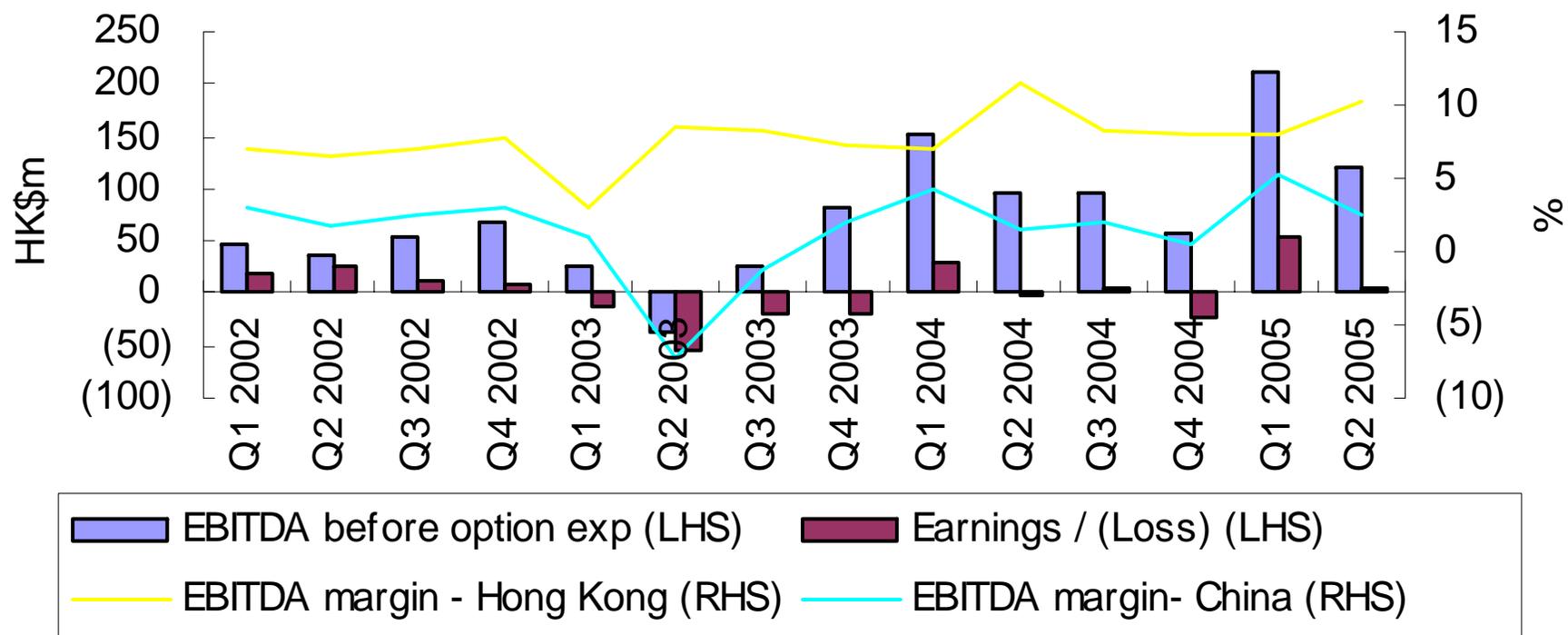
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Retail

1. Supermarket

Operational Turnaround



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Retail

Supermarket turnover, EBITDA and earnings breakdown

Year End 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change
Turnover			
- HK	1,135	1,114	+2
- China	5,793	4,779	+21
	6,927	5,893	+18
EBITDA			
- HK	103	103	+0
- China	229	146	+57
- option expenses	(10)	(15)	-34
	323	234	+38
Earnings			
- HK	55	57	-3
- China	15	(7)	na
- goodwill and option expenses	(10)	(25)	-60
	60	25	+141
EBITDA margin (%)			
- overall	4.7	4.0	+17
- HK	9.1	9.2	-1
- China	4.0	3.1	+29

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Retail

Supermarket network - CR Vanguard

No of self-operated stores	30-Jun-05		31-Dec-04		30-Jun-04	
No of franchised stores						
I) Standard supermarkets						
- Hong Kong	88		86		86	
- Beijing	21		22		22	
- Tianjin	59		57		57	
- Jiangsu Province	106	2	104	2	97	2
- Zhongshan / Zhuhai	23	8	23	14	21	14
- Shenzhen	79	43	76	39	73	34
	376	53	368	55	356	50
II) Superstores						
- Beijing	6		5		4	
- Tianjin	3		3		2	
- Jiangsu Province	7		6		6	
- Zhejiang Province	11		10		6	
- Zhongshan / Foshan / Zhuhai	6		8		8	
- Shenzhen / Guangzhou	6		6		5	
	39		38		31	
III) Hypermarkets / Olé						
- Dongguan	1					
- Zhongshan / Huizhou / Zhuhai	3		3		3	
- Shenzhen / Guangzhou	16		16		15	
	20		19		18	
Overall						
- Hong Kong	88	0	86	0	86	0
- China	347	53	339	55	319	50
	488		480		455	

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Retail

Supermarket network - Suguo

No of self-operated stores	30-Jun-05		31-Dec-04		30-Jun-04	
No of franchised stores						
<i>I) Convenience stores</i>						
- Jiangsu Province	237		231		210	
	237		231		210	
<i>II) Standard supermarkets</i>						
- Jiangsu Province	67	772	71	727	59	680
- Anhui Province		191		184		167
- Shangdong Province		38		36		38
- Henan Province		11		10		10
- Hebei Province		2		2		2
- Hubei Province		2		2		2
	67	1,016	71	961	59	899
<i>III) Superstores</i>						
- Jiangsu Province	77		73		64	
- Anhui Province	11		9		8	
	88		82		72	
Overall in China	392	1,016	384	961	341	899
	1,408		1,345		1,240	
Total – Vanguard + Suguo						
- Hong Kong	88	0	86	0	86	0
- China	739	1,069	723	1,016	660	949
	1,896		1,825		1,695	

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Retail

Brand-fashion business in the Chinese Mainland

No of self-operated stores	30-Jun-05		31-Dec-04		30-Jun-04	
No of franchised stores						
Alfred Dunhill	30	8	33	7	28	18
CK Jeans	21	35	16	36	14	26
Esprit / Red Earth	191	453	172	416	146	444
Givenchy	8	0	6	0	4	0
Guess	1	0	2	0	3	0
Kenzo	11	1	11	2	8	2
Pal Zileri	7	2	7	2	5	0
Polo	2	0	2	0	2	0
ATMA	5	0	2	0	0	0
<u>Terminated brands:</u>						
Blue Navy	0	0	0	0	0	0
Bruno Magli	0	0	0	0	0	0
Christian Lacroix	0	0	0	0	0	0
Lanvin	0	0	0	0	0	0
Piaget	0	0	0	0	0	0
Shanghai Tang	0	0	0	0	0	0
Verri	0	0	0	0	0	0
Emanuel Ungaro	0	0	1	0	1	0
	276	499	252	463	211	490
Total	775		715		701	

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Beverage

- Turnover growth of 39% with beer sales volume increasing 30% to 1.87m kl, representing a market share of about 13%, 2 ppt higher than that of FY2004
- Profit increased by 14% to HK\$60m despite the initial losses in the newly acquired breweries
- Overall average selling price increased by 7.3% to about HK\$1,600 per kl, including a 5.2% increase in the existing breweries, and overall gross margin was steady
- Annual production capacity amounted to about 5.8m kl with the acquisition of the 122,000 kl brewery in Fuyang, Anhui province and a small brewery near Wuhan, Hubei province
- Organic sales volume growth was 13%, beating the 3% market growth during the period, with strong earnings performance at Sichuan and Anhui breweries

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Beverage

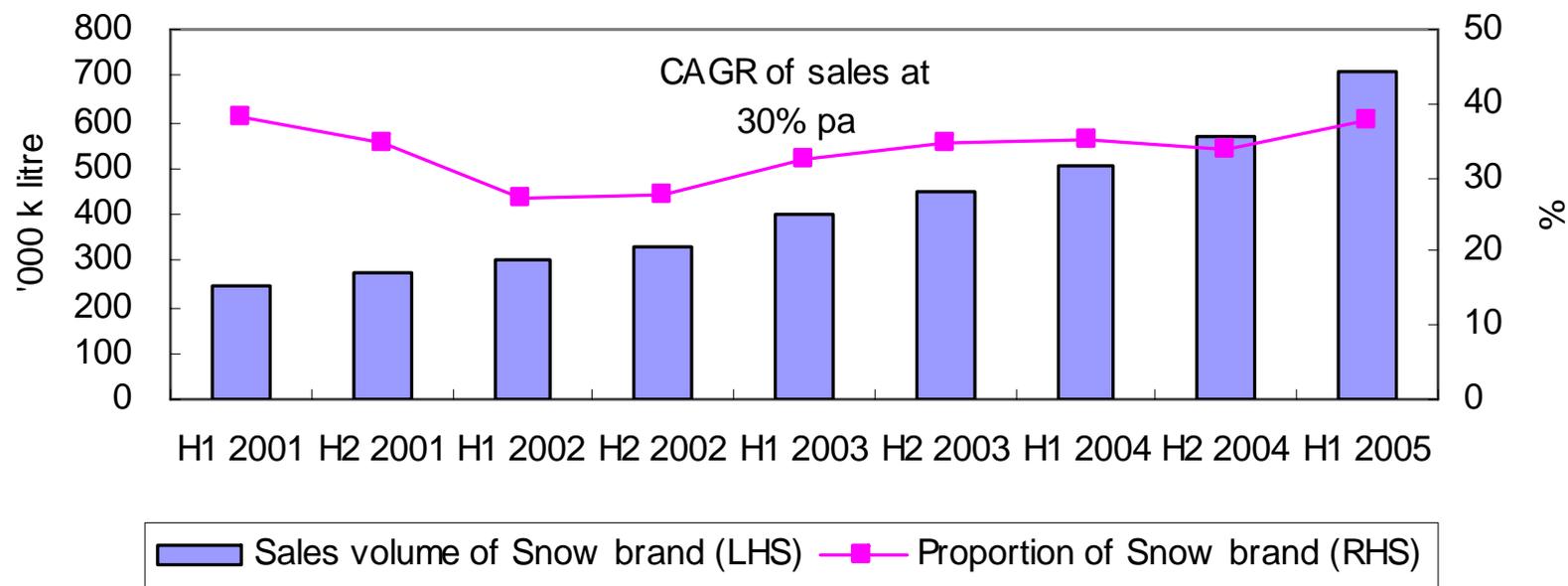
- There were 6 loss-making breweries (excluding Suining, which is part of Blue Sword), compared with 4 in H1 2004
- The newly acquired breweries in Jiangsu and Zhejiang provinces recorded initial losses of HK\$17m and HK\$6m respectively at CR Snow level but there were encouraging improvements in July 2005
- Sales volume of our national brand, SNOW, surged by 40% to about 706,000 kl, representing 38% of the total volume sold
- This reinforces our view that SNOW is the fastest growing national brand in mainland China
- Construction of Dongguan brewery is on schedule and the 150,000 kl capacity in Phase I will start trial commissioning by the end of this year

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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	H1 2005 '000 k litre	H1 2004 '000 k litre	% change
<i>I) Breweries acquired prior to FY2004</i>						
Shenyang	Liaoning	North East	3	216	208	+4
Dalian	Liaoning	North East	2	96	86	+12
Jilin	Jilin	North East	1	103	109	-6
Tianjin		North	1	68	59	+15
Anshan	Liaoning	North East	1	43	42	+3
Anhui	Anhui	Central	2	143	124	+16
Harbin	Heilongjiang	North East	1	156	117	+33
Liaoyang Meiyue	Liaoning	North East	1	10	11	-11
Blue Sword	Sichuan	South West	12	446	397	+12
Changchun Snow Leopard	Jilin	North East	1	44	43	+3
Wuhan Dongxihu	Hubei	Central	2	153	135	+13
Panjin	Liaoning	North East	1	28	17	+63
Beijing		North	1	30	31	-4
<i>II) Breweries acquired since FY2004</i>						
Suining (part of Blue Sword)	Sichuan	South West	1	7	3	
Qianjiang	Zhejiang	East	1	120	33	
Longjin	Anhui	Central	2	81	22	
Jiangsu	Jiangsu	East	3	103		
Qamdo	Tibet	West	1	7		
Wuhan Yichang	Hubei	Central	1	4		
Fuyang	Anhui	Central	1	24		
Less: inter-co transactions and others				(10)	(0)	
			39	1,871	1,439	+30
Existing breweries				1,562	1,386	+13

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Food Processing and Distribution

- Turnover and earnings grew by 5% and 26% respectively
- The disposal of our 25.09% stake in Xuzhou VV Food & Beverage generated a net profit of HK\$59m
- With mainland livestock prices stabilizing, operating margin of foodstuff distribution rebounded and operating profit rose by 25%
- The reported deadly pig disease in July has temporarily affected pork consumption but the impact has been mitigated as we also distribute other types of meat products
- Marine fishing operation was affected by high fuel cost, hence the decline in profit from the food processing and stock raising division
- Operating profit of the abattoir operation was boosted by the initial profit contribution from the Shenzhen operation

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Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change
Foodstuff distribution	1,870	1,809	+3
Food processing and stock raising	746	755	-1
Abattoir operation, transportation and others	280	181	+54
Inter-co transactions	(60)	(53)	na
	2,836	2,692	+5

Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change
Foodstuff distribution	170	136	+25
Food processing and stock raising	11	55	-80
Abattoir operation, transportation and others	63	60	+5
	243	251	-3

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Textile

Turnover and earnings breakdown of the textile business

Year end 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change
Turnover			
- Spinning and weaving	1,517	1,183	+28
- Garment	533	409	+30
- Others and inter-co transactions	9	109	-92
	2,059	1,701	+21
Earnings			
- Spinning and weaving	42	16	+157
- Garment	17	9	+80
- Others and inter-co transactions	(3)	16	-119
	56	42	+32

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Property

- Average retail rent increased by 7% but gross rental income decreased by 6% mainly due to the loss in rental income from the property under renovation on Hennessy Road
- The revaluation of investment properties under Property division resulted in a gain of HK\$321m after deferred tax in H1 2005
- The earnings from rental properties in H1 2004 was boosted by the HK\$60m decrease in deferred tax liability

Property business turnover and earnings breakdown

Year end 31 Dec	H1 2005 HK\$m	H1 2004 HK\$m	% change
Turnover			
- Property development	5	6	-20
- Rental properties	142	151	-6
	147	157	-6
Earnings			
- Property development	1	1	+111
- Rental properties	107	165	-35
- Net revaluation gain on rental properties	321		na
	429	166	na

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Other Business

1. Petroleum and chemical distribution

- The residual 10.5% stake in Qingdao Qirun was disposed to Sinopec, recording a HK\$84m profit
- Excluding this disposal gain, recurring earnings would have increased by 54% with better performance of petroleum wholesaling and petrol station as well as higher profit contribution from piped gas projects
- Turnover grew by 2% though sales volume of petroleum wholesaling was affected by high oil prices
- Gross margin was higher with effective hedging in the jet fuel division
- With the HK\$16m initial profit contribution from Chengdu project, earnings from piped gas projects tripled to HK\$32m
- Chemical distribution reported a profit increase of 32% to HK\$12m with higher sales volume and prices

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Other Business

2. Investment and others

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

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Prospects

Mark Chen

Managing Director

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Prospects

- We aim to become the largest consumer company in China with business focus on retail, brewery, food and textile
- Non-core assets will continue to be restructured or divested in a manner consistent with our shareholders' interests
- Renovation of existing hypermarkets and ongoing store format remodelling will further distinguish our supermarket stores from competitors
- The refocusing of our brand-fashion distribution business on higher profitability brands and repositioning of our department store business in Hong Kong have proven to be successful
- For beer, whilst market consolidation and brand marketing will remain crucial, we are targeting profitability as driver for future growth

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Prospects

- General food distribution under the "Ng Fung" brand has been growing fast and the outbreak of deadly bacterial diseases amongst livestock is negative in the short term but positive over the long term
- Against the new competitive landscape, our textile operation will further develop through technology upgrade
- With leading presence already established in our business domains, we will focus on execution and organic growth
- Through continuous remodelling and repositioning to balance opportunities and challenges, our core competence will be enhanced

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