

China Resources Enterprise, Limited
Final Results 2005

Charting New Horizons

6 April 2006





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Opening Note / Results Highlights

Charley Song

Chairman

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Results Highlights

- Turnover grew by 14% to another new high of HK\$53.6bn
- Earnings rose by 50% to a record HK\$2,220m with strong results across our businesses under management
- Excluding the after-tax effect of revaluation of investment properties, which led to a HK\$403m gain, underlying net profit was up 23%
- Final dividend of HK25¢ proposed, bringing the full year dividend to HK38¢, a 41% growth from last year, and payout ratio rises to 40%
- Earnings contribution from retail business surged 105% to HK\$107m
- Beverage business registered a 30% earnings growth with beer sales volume up 26%
- Food distribution business reported a 9% profit growth underpinned by higher gross margin in livestock distribution
- Textile business turned around and petroleum business reported a 22% increase in earnings contribution

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Financial Summary

Francis Kwong
Deputy Managing Director

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Results Summary

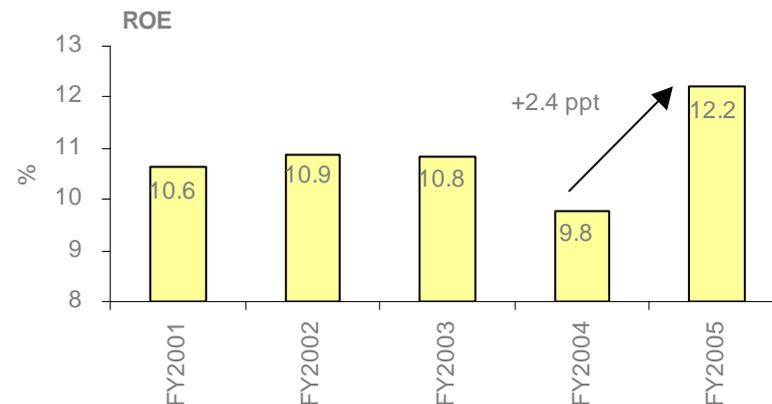
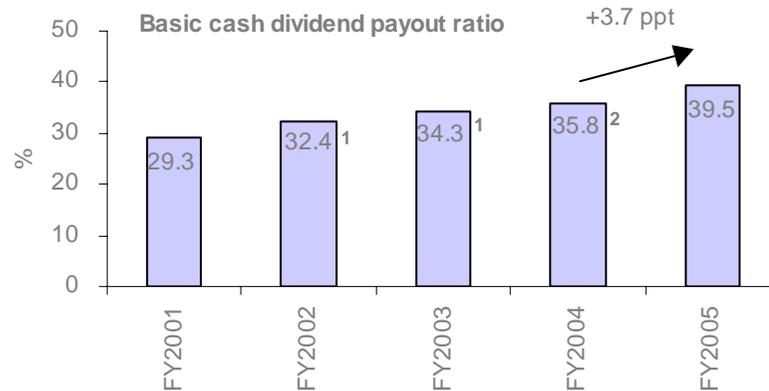
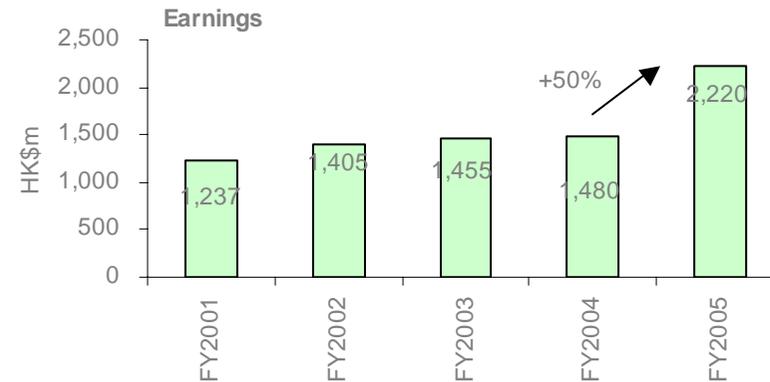
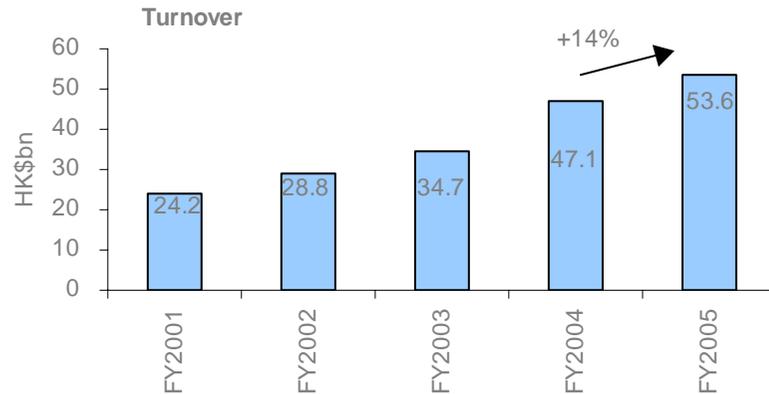
Year end 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
Turnover	53,584	47,078	+14
Earnings	2,220	1,480	+50
Earnings ex property revaluation *	1,817	1,480	+23
EPS (HK¢)	101.7	70.3	+45
EPS - ex property revaluation (HK¢)	83.2	70.3	+18
DPS (HK¢)	38.0	27.0	+41
Dividend payout ratio (%)	39.5	38.8	+0.7ppt
Dividend payout ratio - ex property revaluation (%)	48.3	38.8	+9.5ppt

* The FY2005 figure is after deducting the HK\$403m net of tax property revaluation gain due to accounting policy changes



Five-year Trend

- All of them are in an upward trend and reaching high levels



Note 1: The above has excluded the distribution of a special cash dividend of HK\$0.25 per share in 2002 and a special dividend in specie of one share in China Resources Cement Holdings Limited for every ten shares of the Company in 2003.

Note 2: Calculation based on profit attributable to shareholders as reported in the annual report of 2004. Taken into account of prior year adjustments with the profit attributable to shareholders of 2004 restated, the payout ratio shall be restated to 38.8%.

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Turnover Breakdown – by Divisions

Year end 31 Dec	FY2005 HK\$m	Prop (%)	FY2004 HK\$m	Prop (%)	% <i>change</i>
<u>Core business</u>					
Retail	16,202	30	13,898	29	+17
Beverage	6,855	13	5,079	11	+35
Food processing and distribution	5,624	10	5,434	12	+3
Textile	4,291	8	3,851	8	+11
Property	299	1	307	1	-3
<u>Other business</u>					
Petroleum and related products	20,540	38	18,681	40	+10
	53,811	100	47,250	100	+14
Less: inter-co transactions	(227)		(172)		+32
Turnover	53,584		47,078		+14

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Earnings Breakdown – by Divisions

Year end 31 Dec	FY2005 HK\$m	Prop (%)	FY2004 HK\$m	Prop (%)	% <i>change</i>
<u>Core business</u>					
Retail	107	4	52	3	+105
Beverage	136	6	104	6	+30
Food processing and distribution	414	17	381	23	+9
Textile	81	3	(1)	(0)	<i>na</i>
Property	690	29	310	18	+123
<u>Other business</u>					
Petroleum and related products	624	26	511	30	+22
Investment & others	356	15	320	19	+11
	2,408	100	1,676	100	+44
Net corporate interest & expenses	(188)		(196)		-4
Earnings	2,220		1,480		+50
Earnings ex property revaluation *	1,817		1,480		+23

* In FY2005, there was a HK\$404m net of tax property revaluation gain due to accounting policy changes

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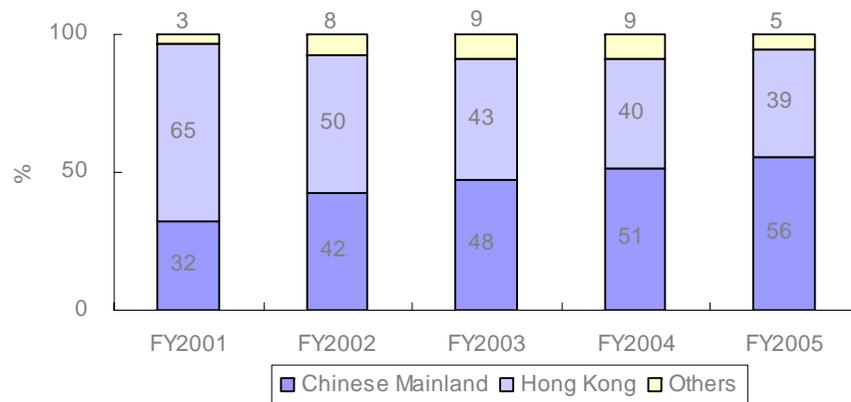




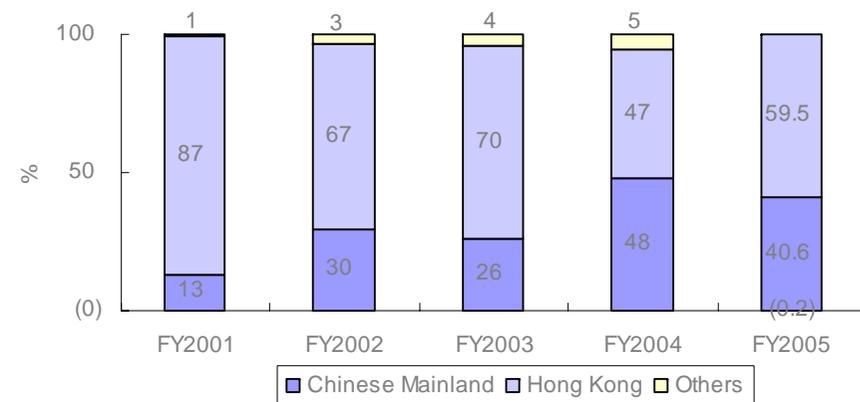
Geographical Breakdown of Turnover and Profit

- The proportion of turnover from mainland China rose to 56% whilst that of profit before tax lowered to 41% distorted by the revaluation gain of the investment properties in Hong Kong due to accounting policy changes

Turnover



Profit before tax



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Operating Environment

Market in 2005

Mainland China

(nominal GDP growth 14.0%)

- Retail - retail sales grew 12.9% to RMB6.7tn
- Brewery - production volume grew 10.4% to 30.6m kl
- Textile - production of cotton yarns and fabrics increased by 29.0% and 28.5%

Hong Kong

(nominal GDP growth of 7.0%)

- Retail - retail sales surged 6.8% of which
 - supermarket sales increased by 5.8%
 - department store sales increased by 8.2%
 - Chinese drugs and herbs sales up 6.5%
- Food - locally produced and imported live pigs and cattle amounted to about 2.1m heads

CRE's business in 2005

- turnover of supermarkets up 18.3%
- turnover of brand fashion distribution up 22.5%
- brewery sales volume up 26.0% to 3.95m kl
- production of cotton yarns and fabrics decreased by 2.5% and increased by 16.8%*

- turnover of supermarkets down 0.1%
- turnover of Chinese Arts & Crafts down 3%
- turnover of CR Care down 3%
- distributed 1.7m heads of pig and cattle from mainland China into Hong Kong

* We replaced volume based low end machinery with high end ones focusing on quality. This caused a slower volume growth than the overall market.

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

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Key Financial Data

- With the proceeds from asset disposals and expanded shareholders' equity, net debt to equity ratio fell by 15 ppt to 18%
- Capex amounted to HK\$3,487m with a majority on the retail and beverage businesses
- ROE increased by 2.4 ppt to 12.2% and CFROI rose to 14.1%

Year End 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
<u>P&L</u>			
Earnings	2,220	1,480	+50
Finance costs	439	330	+33
Interest income	169	78	+117
Effective tax rate (%)	19.8	14.0	+5.8ppt
<u>Balance sheet</u>			
Total debt	9,979	9,779	+2
Net cash/(debt)	(3,311)	(4,981)	-34
Shareholders' equity	18,196	15,125	+20
Minority interests	4,747	4,812	-1

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Key Financial Data

Year End 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
Balance Sheet (Cont'd)			
Invested capital *	32,923	29,716	+11
Book NAV per share (HK\$)	8.15	7.12	+14
Gearing ratio (%)	14.4	25.0	-10.6ppt
Net debt to equity ratio (%)	18.2	32.9	-14.7ppt
Cashflow			
EBITDA adj for associates' dividends **	4,656	3,618	+29
Capex	3,487	4,989	-30
Proceeds from major disposals	1,433	334	+329
Profitability ratios			
ROE (%)	12.2	9.8	+2.4ppt
CFROI (%) ***	14.1	12.2	+2.0ppt

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

** Including dividends from associates

*** Defined as "Adj EBITDA / Invested capital"

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Business Review

Francis Kwong

Deputy Managing Director

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Retail

- Overall encouraging improvement in profitability on expanded business scale

Retail business turnover and earnings breakdown

Year end 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% <i>change</i>
Turnover			
- Supermarket	14,132	11,941	+18
- Retail stores in HK	672	816	-18
- Brand-fashion in China	1,398	1,141	+23
	16,202	13,898	+17
Earnings			
- Supermarket	54	(7)	<i>na</i>
- Retail stores in HK	39	28	+38
- Brand-fashion in China	14	31	-55
	107	52	+105

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Retail

1. Supermarket

- Total turnover grew 18% to HK\$14.1bn driven by store openings and same store growth
- Earnings contribution of HK\$54m, with stable performance in Hong Kong and reduced loss in the mainland operation, and EBITDA before option expenses amounted to HK\$596m, up 47%
- Turnover growth on steady gross margin, improved expense ratio and higher contribution from Suguo accounted for the profit growth
- Suguo's earnings contribution after goodwill and option expenses amounted to HK\$68m, compared with HK\$27m in FY2004
- Overall same store growth of 4.4% led by the 5.9% increase of the mainland operation
- The lifestyle store in Dongguan is in the process of fine-tuning and reformatting for more promising results

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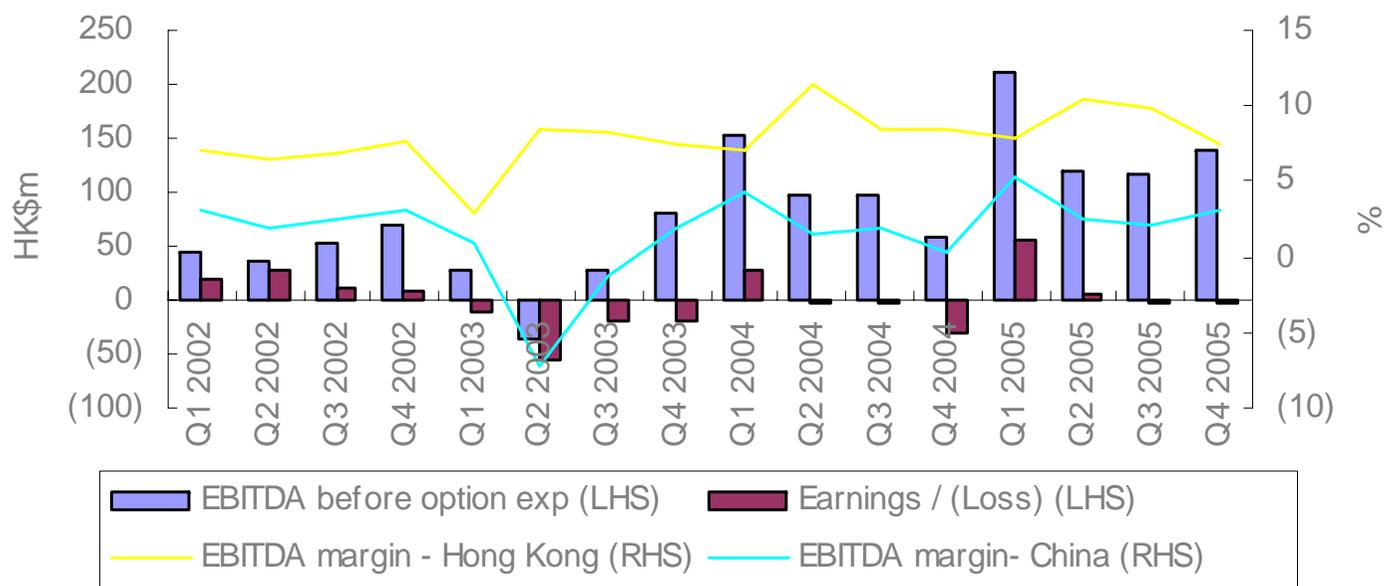


Retail

1. Supermarket

- CR Vanguard opened and acquired 106 self-operated stores and 65 franchised stores in FY2005 (38 and 9 respectively in FY2004) and Suguo 67 self-operated stores and 106 franchised stores (78 and 127 respectively in FY2004)

Operational Turnaround



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Retail

Supermarket turnover, EBITDA and earnings breakdown

Year End 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
Turnover			
- HK	2,270	2,273	-0.1
- China	11,862	9,669	+23
	14,132	11,941	+18
EBITDA			
- HK	201	201	+0
- China	395	204	+94
- option expenses	(20)	(31)	na
	576	374	+54
Earnings			
- HK	110	112	-2
- China	(36)	(76)	na
- goodwill and option expenses	(20)	(43)	na
	54	(7)	na
EBITDA margin (%)			
- overall	4.1	3.1	+0.9ppt
- HK	8.9	8.8	+0.0ppt
- China	3.3	2.1	+1.2ppt

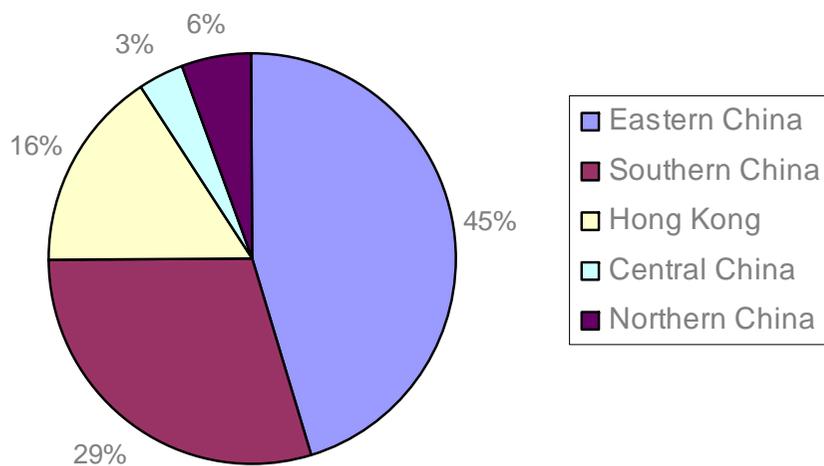
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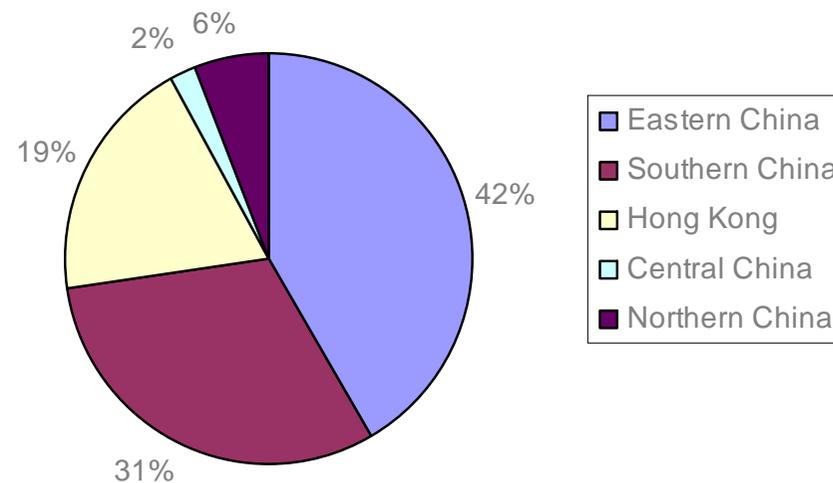
Retail

Turnover breakdown by geographical district

FY2005



FY2004



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Retail

2. Retail stores in Hong Kong and brand-fashion in China

- Alongside the economic recovery, Hong Kong retail business contributed earnings of HK\$39m, an increase of 38%, led by CAC
- At the end of Dec 2005, we operated 5 CAC stores, 3 super-sized and 31 smaller-sized CR Care stores
- Brand-fashion in China reported a decline in net profit to HK\$14m mainly due to the charges associated with the termination of CK Jeans and Givenchy
- Number of international brands amounted to 10 at the end of last year with the addition of ck Calvin Klein and Smalto
- Solid performance at Esprit with earnings growth of 13% at the jv



Retail

Brand-fashion business in the Chinese Mainland

No of self-operated stores	31-Dec-05		30-Jun-05		31-Dec-04	
No of franchised stores						
Alfred Dunhill	29	10	30	8	33	7
CK Jeans *	6	23	21	35	16	36
ck Calvin Klein	1					
Esprit / Red Earth	200	461	191	453	172	416
Givenchy *	8	0	8	0	6	0
Kenzo	11	1	11	1	11	2
Pal Zileri	7	2	7	2	7	2
Polo	3	0	2	0	2	0
ATMA	7	0	5	0	2	0
Smalto	2	2				
<u>Terminated brands:</u>						
Guess	0	0	1	0	2	0
Emanuel Ungaro	0	0	0	0	1	0
	274	499	276	499	252	463
Total	773		775		715	

* Brands to be terminated in 2006

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Beverage

- Turnover growth of 35% with beer sales volume increasing 26%, of which 15% was organic, to 3.95m kl, representing a market share of about 13%, 2 ppt higher than that of FY2004
- Profit increased by 30% to HK\$136m
- Overall average selling price increased by 6.8% to about HK\$1,611 per kl, including a 6.3% increase in the existing breweries, and overall gross margin was slightly higher
- 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
- Average utilization rate was about 68%, with the existing breweries registering an average utilization rate of about 73%
- Strong earnings performance at Sichuan, Anhui, Tianjin and Shenyang breweries



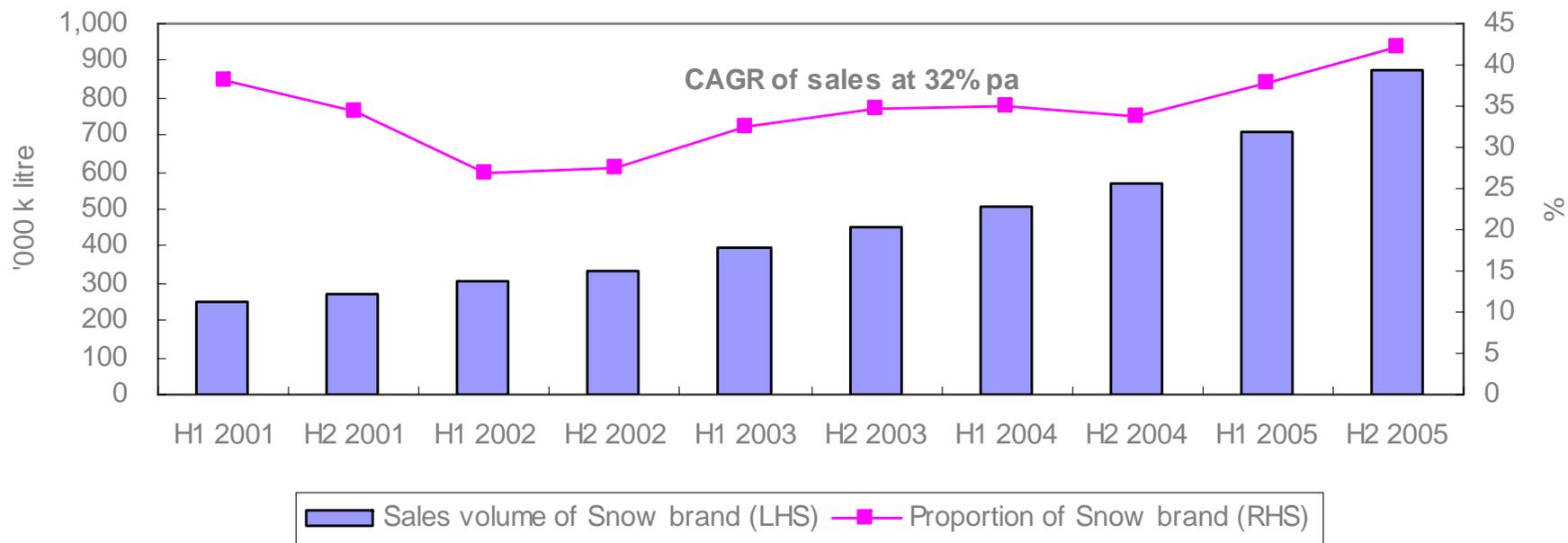
Beverage

- There were 4 loss-making breweries, same as FY2004
- The newly acquired breweries in Jiangsu and Zhejiang provinces were profitable
- Sales volume of our national brand, SNOW, surged by 47% to about 1,583,000 kl, representing 40% of the total volume sold
- The green-field plant in Dongguan brewery has started trial commissioning and we also recently bought two breweries at Qinghuangdao, Hebei Province (90% stake, 90,000 kl) and Quanzhou, Fujian Province (85% stake, 118,000 kl)



Beverage

Sales volume of SNOW brand and its significance



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Food Processing and Distribution

- Turnover and earnings grew by 3% and 9% 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 22%
- The improvement in gross margin helped offset the drop in demand for livestock during Q3 2005 as a result of the outbreak of the pig-borne disease
- 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



Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
Foodstuff distribution	3,739	3,691	+1
Food processing and stock raising	1,415	1,383	+2
Abattoir operation, transportation and others	592	469	+26
Inter-co transactions	(123)	(109)	na
	5,624	5,434	+3

Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
Foodstuff distribution	342	279	+22
Food processing and stock raising	(15)	61	-125
Abattoir operation, transportation and others	123	122	+1
	449	462	-3

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Textile

- Turnover rose by 11% and earnings amounted to HK\$81m, compared with a HK\$1m loss of last year
- The spinning and weaving division continued to turn around for the full year with HK\$51m earnings contribution
- Sales volume of cotton yarns increased by 29% to 66,278 tonnes and fabrics rose by 13% to 266m metres
- Profitability in the last quarter was affected by the increase in cotton prices
- Earnings contribution from the garment division increased by 41% with a 20% increase in sales volume
- The technology upgrade program is at the early stage of implementation with gradually a change in product sales mix towards the higher margin yarns and fabrics



Textile

Turnover and earnings breakdown of the textile business

Year end 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% <i>change</i>
Turnover			
- Spinning and weaving	3,118	2,709	+15
- Garment	1,158	923	+25
- Others and inter-co transactions	14	218	-93
	4,291	3,851	+11
Earnings			
- Spinning and weaving	51	(56)	<i>na</i>
- Garment	34	24	+41
- Others and inter-co transactions	(5)	31	-115
	81	(1)	-9,401



Property

- Average retail rent increased by 3.9% but gross rental income decreased by 1% mainly due to the loss in rental income from the newly renovated property on Hennessy Road
- The revaluation of investment properties under Property division resulted in a gain of HK\$392m after deferred tax

Property business turnover and earnings breakdown

Year end 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% <i>change</i>
Turnover			
- Rental properties	290	298	-3
- Property development	9	9	+0
	299	307	-3
Earnings			
- Rental properties	295	205	+44
- Property development	3	4	-27
- Write-back & decrease in deferred tax		101	-100
- Net revaluation gain on rental properties	392		<i>na</i>
	690	310	+123

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Property

- Excluding the Hennessy Road property, occupancy rates of our retail properties were steady generally
- The disposal of non-retail properties generated net profit of about HK\$114m, including HK\$66m from the sale of CRE Building, compared to HK\$12m in FY2004

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

Year end 31 Dec	Type	-----Occupancy rates %-----	
		FY2005	FY2004
Argyle Centre	Ret	99	98
Hennessy Road	Ret	14	42
Lok Sing	Ret	100	100
Nan Fung	Ret	94	98
Silvercord	Ret	93	97
Star House	Ret	75	75



Other Business

1. Petroleum and Related Products Distribution

- The disposals of Qingdao Qirun, CR Dongguan Petrochem and 17 mainland petrol stations generated a total net profit of HK\$208m in FY2005, compared HK\$240m in FY2004
- Excluding the disposal gains, 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 10% as sales volume of petroleum wholesaling was affected by high oil prices
- Gross margin increased by about 1 ppt with effective hedging in the jet fuel division
- With the HK\$32m initial profit contribution from Chengdu project, earnings from piped gas projects tripled to HK\$59m



Other Business

Turnover breakdown of petroleum and related products distribution

Year end 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
Petroleum			
- Diesel	3,883	3,698	+5
- Fuel oil & ocean vessels	7,697	6,313	+22
- Jet fuel	3,913	3,806	+3
- Others	601	964	-38
LPG and piped gas	1,068	870	+23
Chemicals	1,761	1,779	-1
Petrol stations			
- HK	874	658	+33
- Mainland China	1,038	745	+39
Inter-co transactions and others	(296)	(153)	+93
Total	20,540	18,681	+10

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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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Strategies and Prospects

Mark Chen

Managing Director

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Strategy Implementation

- At the corporate level, we have been investing in the core consumer businesses to expand market presence
- At the same time, businesses or assets which are outside our core portfolio or which lacked critical mass have been restructured
- Major non-core assets disposed of in FY2005 included the stakes in the oil storage facilities in Qingdao and Dongguan, 17 petrol stations in Guangdong, CRE Building and a stake in Xuzhou VV Food & Beverage, generating cashflow of more than HK\$1.4bn
- We have also appointed a financial advisor to advise on the feasibility of restructuring our petroleum business
- At the business level, we have put a heavy emphasis on branding, especially for our retail, beverage and food businesses
- District dominance is our priority in expansion and we have exercised strong cost discipline in pursuing acquisitions to balance profitability gain and market share

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Appendix I - Supermarket Network - CR Vanguard

No of self-operated stores	31-Dec-05		30-Jun-05		31-Dec-04	
No of franchised stores						
<i>I) Standard supermarkets</i>						
- Hong Kong	98		88		86	
- Beijing	10		21		22	
- Tianjin	88		59		57	
- Jiangsu + Zhejiang Province	107	57	106	2	104	2
- Guangdong Province	114	46	102	51	99	53
	417	103	376	53	368	55
<i>II) Superstores</i>						
- Beijing	17		6		5	
- Tianjin	5		3		3	
- Jiangsu Province	7		8		7	
- Zhejiang Province	22		10		9	
- Guangdong Province	13		12		14	
	64		39		38	
<i>III) Hypermarkets</i>						
- Guangdong Province	18		18		18	
	18		18		18	
<i>IV) Olé</i>						
- Beijing	4					
- Guangdong Province	2		2		1	
- Jiangsu Province	1					
	7		2		1	
Overall						
- Hong Kong	98	0	88	0	86	0
- China	408	103	347	53	339	55
	609		488		480	

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Appendix II - Supermarket Network - Suguo

No of self-operated stores	31-Dec-05		30-Jun-05		31-Dec-04	
No of franchised stores						
<i>I) Convenience stores</i>						
- Jiangsu Province	243		237		231	
- Anhui Province	9					
	252		237		231	
<i>II) Standard supermarkets</i>						
- Jiangsu Province	67	810	67	772	71	727
- Anhui Province	6	203		191		184
- Shandong Province		39		38		36
- Henan Province		11		11		10
- Hebei Province		2		2		2
- Hubei Province		2		2		2
	73	1,067	67	1,016	71	961
<i>III) Superstores</i>						
- Jiangsu Province	81		77		73	
- Anhui Province	13		11		9	
	94		88		82	
<i>IV) Hypermarkets</i>						
- Jiangsu Province	9					
	9		0		0	
Overall in China	428	1,067	392	1,016	384	961
	1,495		1,408		1,345	
Total - Vanguard + Suguo						
- Hong Kong	98	0	88	0	86	0
- China	836	1,170	739	1,069	723	1,016
	2,104		1,896		1,825	

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