

China Resources Enterprise, Limited
UBS Conference 2006

A Good Yield Through Our Continuing Efforts



17 January 2006



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Results Highlights

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Results Highlights

- Turnover rose by 12% to HK\$39.4bn, led by the retail and beverage businesses
- Earnings grew by 78% to HK\$1,868m 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 47%
- Earnings contribution from retail business surged 81% to HK\$107m
- Beverage business registered an 48% earnings growth with beer sales volume up 28%
- Food distribution business reported a 7% profit growth underpinned by higher gross margin in livestock distribution
- Textile business recovered and earnings amounted to HK\$81m, compared with a HK\$18m loss of last year
- Petroleum business reported an 86% recurring profit growth driven by effective hedging measures in jet fuel and piped gas projects

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Financial Summary

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Results Summary

Year end 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Turnover	39,384	35,030	+12
Earnings	1,868	1,047	+78
Earnings ex property revaluation *	1,542	1,047	+47
EPS (HK¢)	86.1	49.8	+73
EPS - ex property revaluation (HK¢)	71.1	49.8	+43

* The Sep ytd 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	Sep ytd 2005 HK\$m	Prop (%)	Sep ytd 2004 HK\$m	Prop (%)	% <i>change</i>
<u>Core business</u>					
Retail	11,951	30	10,346	29	+16
Beverage	5,642	14	4,083	12	+38
Food processing and distribution	4,240	11	4,160	12	+2
Textile	3,165	8	2,632	7	+20
Property	224	1	232	1	-3
<u>Other business</u>					
Petroleum and chemicals	14,334	36	13,711	39	+5
	39,555	100	35,164	100	+12
Less: inter-co transactions	(171)		(134)		+28
Turnover	39,384		35,030		+12

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Earnings Breakdown – by Divisions

Year end 31 Dec	Sep ytd 2005 HK\$m	Prop (%)	Sep ytd 2004 HK\$m	Prop (%)	% change
<u>Core business</u>					
Retail	107	5	59	5	+81
Beverage	190	9	129	11	+48
Food processing and distribution	335	16	314	26	+7
Textile	81	4	(18)	(1)	na
Property	575	28	216	18	+166
<u>Other business</u>					
Petroleum and chemicals	471	23	208	17	+127
Investment & others	277	14	286	24	-3
	2,035	100	1,193	100	+71
Net corporate interest & expenses	(168)		(147)		+14
Earnings	1,868		1,047		+78
Earnings ex property revaluation *	1,542		1,047		+47

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

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Key Financial Data

- With the proceeds from asset disposals and expanded shareholders' equity, net debt to equity ratio fell by 19 ppt in six months to 14%
- Capex amounted to HK\$3,003m, about 60% of last year's full year total

Year End 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change	FY 2004 * HK\$m
<u>P&L</u>				
Finance costs	321	235	+37	295
Interest income	110	50	+122	78
<u>Balance Sheet</u>				
Net cash/(debt)	(2,483)	(2,656)	-7	(4,981)
Shareholders' equity	18,017	14,190	+27	15,125
Minority interests	4,792	4,884	-2	4,812
Book NAV per share (HK\$)	8.12	6.73	+21	7.12
Gearing ratio (%)	11	14	-21	25
Net debt to equity ratio (%)	14	19	-26	33

* The balance sheet figures were as at 1 January 2005

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Business Review

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Retail

- The three retail operations, including supermarket, retail stores in Hong Kong and brand fashion distribution, reported profit growth of 156%, 15% and 64% respectively

Retail business turnover and earnings breakdown

Year end 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Turnover			
- Supermarket	10,442	8,911	+17
- Retail stores in HK	504	627	-20
- Brand-fashion in China	1,005	809	+24
	11,951	10,346	+16
Earnings			
- Supermarket	58	22	+156
- Retail stores in HK	25	22	+15
- Brand-fashion in China	24	15	+64
	107	59	+81

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Retail

Supermarket turnover, EBITDA and earnings breakdown

Year End 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Turnover			
- HK	1,707	1,695	+1
- China	8,735	7,216	+21
	10,442	8,911	+17
EBITDA			
- HK	159	151	+5
- China	299	194	+55
- option expenses	(15)	(23)	na
	443	322	+38
Earnings			
- HK	87	80	+9
- China	(14)	(20)	na
- goodwill and option expenses	(15)	(38)	na
	58	22	+156
EBITDA margin (%)			
- overall	4.2	3.6	+17
- HK	9.3	8.9	+4
- China	3.4	2.7	+28

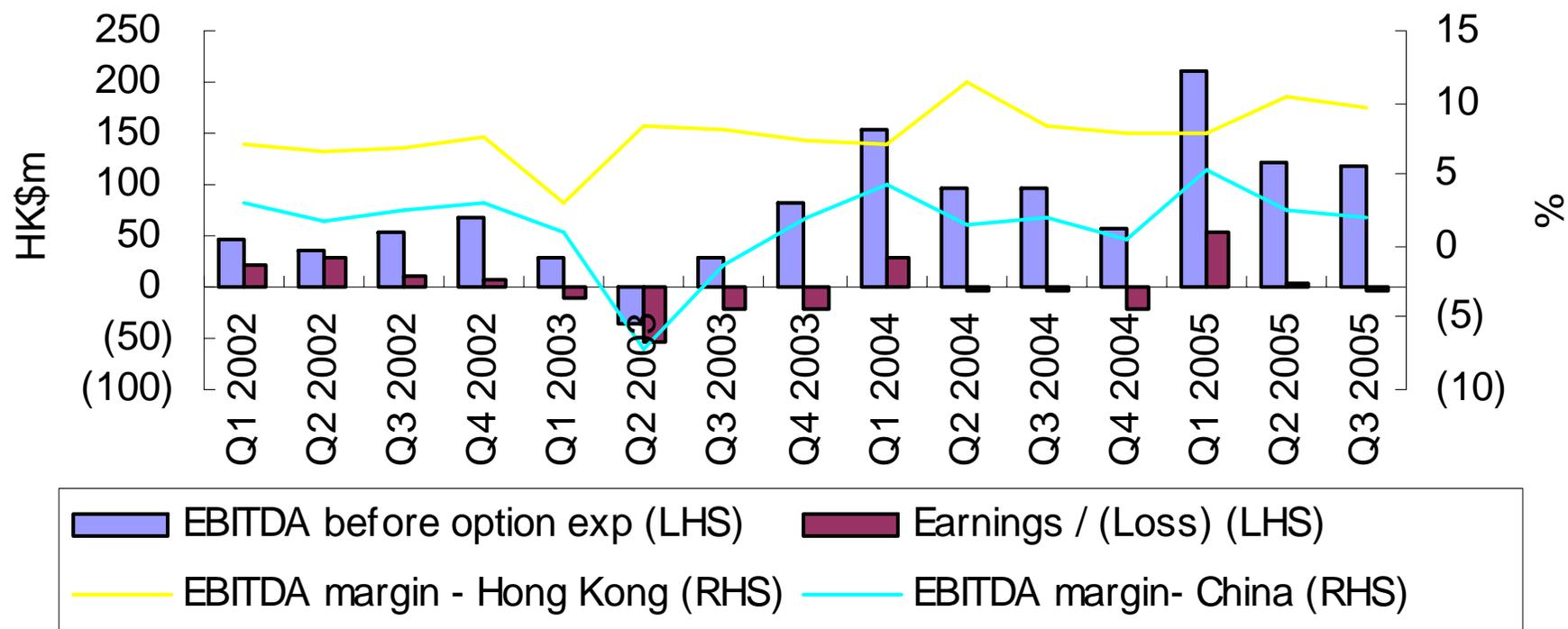
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Retail

1. Supermarket

Operational Turnaround



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Retail

Supermarket network - CR Vanguard

No of self-operated stores	30-Sep-05		30-Jun-05		31-Dec-04	
No of franchised stores						
I) Standard supermarkets						
- Hong Kong	99		88		86	
- Beijing	22		21		22	
- Tianjin	59		59		57	
- Jiangsu Province	104	2	106	2	104	2
- Zhongshan / Zhuhai	23	8	23	8	23	14
- Shenzhen	83	44	79	43	76	39
	390	54	376	53	368	55
II) Superstores						
- Beijing	7		6		5	
- Tianjin	3		3		3	
- Jiangsu Province	7		8		6	
- Zhejiang Province	10		10		10	
- Zhongshan / Foshan / Zhuhai	6		6		8	
- Shenzhen / Guangzhou	6		6		6	
	39		39		38	
III) Hypermarkets						
- Zhongshan / Huizhou / Zhuhai	3		3		3	
- Shenzhen / Guangzhou	15		15		15	
	18		18		18	
IV) Olé						
- Dongguan	1		1			
- Shenzhen	1		1		1	
	2		2			
Overall						
- Hong Kong	99	0	88	0	86	0
- China	350	54	347	53	339	55
	503		488		480	

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Retail

Supermarket network - Suguo

No of self-operated stores	30-Sep-05		30-Jun-05		31-Dec-04	
No of franchised stores						
I) Convenience stores						
- Jiangsu Province	240		237		231	
- Anhui Province	9					
II) Standard supermarkets	249		237		231	
- Jiangsu Province	66	788	67	772	71	727
- Anhui Province	6	202		191		184
- Shandong Province		38		38		36
- Henan Province		11		11		10
- Hebei Province		2		2		2
- Hubei Province		3		2		2
III) Superstores	72	1,044	67	1,016	71	961
- Jiangsu Province	77		77		73	
- Anhui Province	13		11		9	
IV) Hypermarkets	90		88		82	
- Jiangsu Province	5					
	5		0		0	
Overall in China	416	1,044	392	1,016	384	961
	1,460		1,408		1,345	

Total – Vanguard + Suguo

- Hong Kong	99	0	88	0	86	0
- China	766	1,098	739	1,069	723	1,016
	1,963		1,896		1,825	

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Retail

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

- Amidst the economic recovery, Hong Kong retail business contributed earnings of HK\$25m, an increase of 15%, led by CAC
- At the end of Sep 2005, we operated 5 CAC stores, 3 super-sized and 30 smaller-sized CR Care stores
- Brand-fashion in China continued to improve and reported a profit of HK\$24m, a 64% increase, reflecting the success of our brand rationalization program
- Number of international brands dropped to 8 from 10 at the end of last year
- Solid performance at Esprit with overall earnings growth of 22%

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Retail

Brand-fashion business in the Chinese Mainland

No of self-operated stores	30-Sep-05		30-Jun-05		31-Dec-04	
No of franchised stores						
Alfred Dunhill	30	10	30	8	33	7
CK Jeans	12	31	21	35	16	36
Esprit / Red Earth	194	453	191	453	172	416
Givenchy	9	0	8	0	6	0
Kenzo	11	1	11	1	11	2
Pal Zileri	7	2	7	2	7	2
Polo	2	0	2	0	2	0
ATMA	7	0	5	0	2	0
<u>Terminated brands:</u>						
Guess	0	0	1	0	2	0
Emanuel Ungaro	0	0	0	0	1	0
	272	497	276	499	252	463
Total	769		775		715	

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Beverage

- Turnover growth of 38% with beer sales volume increasing 28% to 3.29m kl, representing a market share of about 13%, 2 ppt higher than that of FY2004
- Profit increased by 48% to HK\$190m
- Overall average selling price increased by 7.9% to about HK\$1,600 per kl, including a 6.6% 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
- Organic sales volume growth was 14% outperforming the market, with strong earnings performance at Sichuan, Anhui and Tianjin breweries

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Beverage

- There were 2 loss-making breweries, compared with 2 in Sep ytd 2004
- The newly acquired breweries in Jiangsu and Zhejiang provinces were profitable
- Sales volume of our national brand, SNOW, surged by 47% to about 1,276,085 kl, representing 39% 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 beginning of 2006

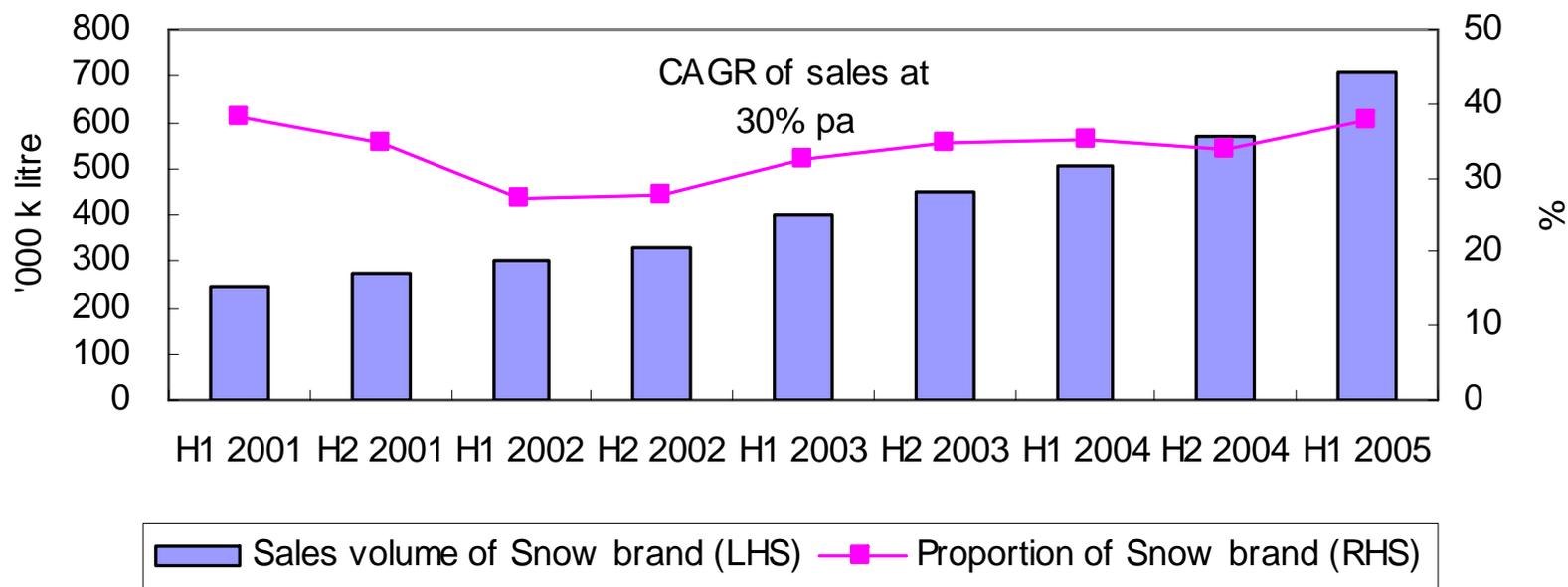
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Beverage

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	Sep ytd 2005 '000 k litre	Sep ytd 2004 '000 k litre	% change
<i>I) Breweries acquired prior to FY2004</i>						
Shenyang	Liaoning	North East	3	351	329	+7
Dalian	Liaoning	North East	2	163	142	+15
Jilin	Jilin	North East	1	163	169	-3
Tianjin		North	1	123	111	+10
Anshan	Liaoning	North East	1	81	68	+19
Anhui	Anhui	Central	2	240	213	+12
Harbin	Heilongjiang	North East	1	250	199	+26
Liaoyang Meiyue	Liaoning	North East	1	17	18	-4
Blue Sword	Sichuan	South West	12	784	705	+11
Changchun Snow Leopard	Jilin	North East	1	72	63	+15
Wuhan Dongxihu	Hubei	Central	2	291	254	+15
Panjin	Liaoning	North East	1	49	34	+45
Beijing		North	1	67	53	+26
<i>II) Breweries acquired since FY2004</i>						
Suining (part of Blue Sword)	Sichuan	South West	1	16	11	
Qianjiang	Zhejiang	East	1	250	139	
Longjin	Anhui	Central	2	130	67	
Jiangsu	Jiangsu	East	3	180		
Qamdo	Tibet	West	1	11		
Wuhan Yichang (part of Dongxihu)	Hubei	Central	1	11		
Fuyang	Anhui	Central	1	59		
Less: inter-co transactions and others				(20)	(0)	
			39	3,289	2,574	+28
Existing breweries				2,699	2,370	+14

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Food Processing and Distribution

- Turnover and earnings grew by 2% and 7% respectively
- The disposal of our 25.09% stake in Xuzhou VV Food & Beverage generated a net profit of HK\$59m in Q2 2005
- With mainland livestock prices stabilizing, operating margin of foodstuff distribution rebounded and operating profit rose by 21%
- The improvement in gross margin helped offset the drop in demand for livestock during the third quarter 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

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Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Foodstuff distribution	2,785	2,763	+1
Food processing and stock raising	1,123	1,153	-3
Abattoir operation, transportation and others	423	325	+30
Inter-co transactions	(91)	(81)	na
	4,240	4,160	+2

Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Foodstuff distribution	253	209	+21
Food processing and stock raising	15	72	-79
Abattoir operation, transportation and others	93	93	+0
	361	374	-4

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Textile

- Turnover rose by 20% and earnings amounted to HK\$81m, compared with a HK\$18m loss of last year
- The spinning and weaving division continued to turn around with HK\$56m earnings contribution
- Sales volume of cotton yarns increased by 35% to 49,257 tonnes and fabrics rose by 26% to 198m metres
- Earnings contribution from the garment division increased by 55% with a 30% increase in sales volume
- The technology upgrade program is at the early stage of implementation but there is gradually a change in product sales mix towards the higher margin yarns and fabrics
- To enhance production efficiency, we have re-aligned the 12 textile and dyeing plants so that each of them can specialise in a particular product segment

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Textile

Turnover and earnings breakdown of the textile business

Year end 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Turnover			
- Spinning and weaving	2,279	1,793	+27
- Garment	874	680	+28
- Others and inter-co transactions	12	159	-92
	3,165	2,632	+20
Earnings			
- Spinning and weaving	56	(56)	na
- Garment	26	16	+55
- Others and inter-co transactions	(0)	22	-101
	81	(18)	-561

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Property

- Average retail rent increased by 5.5% but gross rental income decreased by 4% 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
- The earnings from rental properties in Sep ytd 2004 was boosted by the HK\$60m decrease in deferred tax liability

Property business turnover and earnings breakdown

Year end 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Turnover			
- Property development	8	8	+3
- Rental properties	216	224	-4
	224	232	-3
Earnings			
- Property development	2	1	+59
- Rental properties	252	215	+17
- Net revaluation gain on rental properties	321		na
	575	216	+166

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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\$6m in Sep ytd 2004

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

Year end 31 Dec	Type	-----Occupancy rates %-----	
		Sep ytd 2005	Sep ytd 2004
CRE Building	Off	97	90
Argyle Centre	Ret	99	98
Hennessy Road	Ret	0	56
Lok Sing	Ret	100	100
Nan Fung	Ret	94	99
Silvercord	Ret	92	100
Star House	Ret	75	75

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Other Business

Turnover breakdown of petroleum and chemical distribution

Year end 31 Dec	Sep ytd 2005 HK\$m	Sep ytd 2004 HK\$m	% change
Petroleum			
- Diesel	2,952	2,701	+9
- Fuel oil & ocean vessels	5,188	4,776	+9
- Jet fuel	2,761	2,564	+8
- Others	287	784	-63
LPG and piped gas	757	616	+23
Chemicals	1,341	1,247	+8
Petrol stations			
- HK	633	474	+34
- Mainland China	635	610	+4
Inter-co transactions and others	(219)	(63)	+246
Total	14,334	13,711	+5

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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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