

China Resources Enterprise, Limited
Interim Results 2006

Quantum Leap of Our Core Businesses



6 September 2006



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Interim Results 2006

Opening Note / Results Highlights

Mark Chen

Managing Director

“Quantum Leap of Our Core Businesses”



Results Highlights

- Turnover grew by 25% to HK\$31.6bn and earnings amounted to HK\$1,265m, up 0.2%
- Excluding the after-tax effect of revaluation of investment properties and major disposals, underlying net profit was up 16% to HK\$899m
- Core businesses drove the underlying profit growth
- Interim dividend of HK14¢ declared, an 8% increase
- Earnings contribution from retail business soared 40% to HK\$147m and supermarket division underpinned the performance
- Beverage business reported a 26% earnings growth with beer sales volume up 31%
- Underlying profits of food and investment property businesses rose by 14% and 26% respectively
- Petroleum business recovered in Q2, underlying profit was comparable
- Operating environment of textile business remains challenging with the safeguards limiting growth

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Financial Summary

Francis Kwong

Deputy Managing Director

“Quantum Leap of Our Core Businesses”



Results Summary

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% change
Turnover	31,581	25,356	+25
Earnings	1,265	1,262	+0.2
Underlying net profit *	899	778	+16
EPS (HK¢)	54.8	58.7	-7
DPS (HK¢)	14.0	13.0	+8
Dividend payout ratio (%)	25.8	22.8	+13

* Earnings excluding the after-tax effect of investment property revaluation and major disposals, which led to aggregate gains of HK\$367m and HK\$484m in H1 2006 and H1 2005 respectively

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Turnover Breakdown - by Divisions

Year end 31 Dec	H1 2006 HK\$m	Prop (%)	H1 2005 HK\$m	Prop (%)	% <i>change</i>
<u>Core businesses</u>					
Retail	9,910	31	7,930	31	+25
Beverage	4,345	14	3,204	13	+36
Food processing and distribution	2,889	9	2,836	11	+2
Textile	2,126	7	2,059	8	+3
Investment property	171	1	147	1	+17
<u>Other businesses</u>					
Petroleum and related products	12,252	39	9,289	36	+32
	31,693	100	25,465	100	+24
Less: inter-co transactions	(112)		(109)		+3
Turnover	31,581		25,356		+25
Turnover from core businesses	19,441	61	16,176	64	+20

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Earnings Breakdown - by Divisions

Year end 31 Dec	H1 2006 HK\$m	Prop (%)	H1 2005 HK\$m	Prop (%)	% <i>change</i>
<u>Core businesses</u>					
Retail	147	11	105	8	+40
Beverage	75	6	60	4	+26
Food processing and distribution	214	16	247	18	-13
Textile	41	3	56	4	-26
Investment property	480	35	429	31	+12
<u>Other businesses</u>					
Petroleum and related products	217	16	302	22	-28
Investment & others	192	14	168	12	+14
	1,366	100	1,367	100	-0
Net corporate interest & expenses	(100)		(104)		-4
Earnings	1,265		1,262		+0.2
Earnings from core businesses	958	70	896	66	+7

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Underlying Net Profit Breakdown - by Divisions

Year end 31 Dec	H1 2006 HK\$m	Prop (%)	H1 2005 HK\$m	Prop (%)	% <i>change</i>
<u>Core businesses</u>					
Retail	147	15	105	12	+40
Beverage	75	8	60	7	+26
Food processing and distribution	214	21	187	21	+14
Textile	41	4	55	6	-25
Investment property	114	11	90	10	+26
<u>Other businesses</u>					
Petroleum and related products	217	22	217	25	0
Investment & others	192	19	168	19	+14
	999	100	882	100	+13
Overhead	(100)		(104)		-4
Underlying net profit	899		778		+16
Underlying net profit from core businesses	591	59	497	56	+19

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EBITDA Breakdown - by Divisions

Year end 31 Dec	H1 2006 HK\$m	Prop (%)	H1 2005 HK\$m	Prop (%)	% <i>change</i>
<u>Core businesses</u>					
Retail	570	20	464	18	+23
Beverage	593	21	503	19	+18
Food processing and distribution	350	13	376	14	-7
Textile	188	7	188	7	0
Investment property	573	21	517	20	+11
<u>Other businesses</u>					
Petroleum and related products	368	13	415	16	-11
Investment & others	149	5	152	6	-2
	2,790	100	2,615	100	+7
Overhead	(37)		(46)		-19
EBITDA	2,753		2,569		+7
EBITDA from core businesses	2,273	81	2,048	78	+11

Note: EBITDAs above include associates' profits

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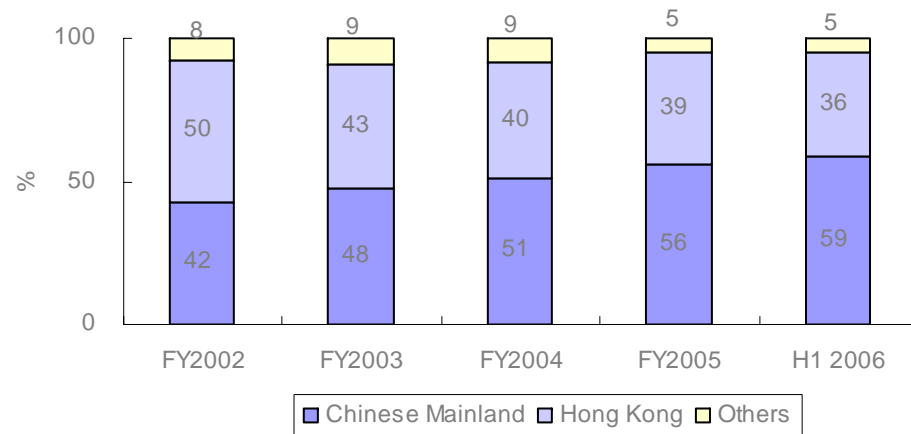




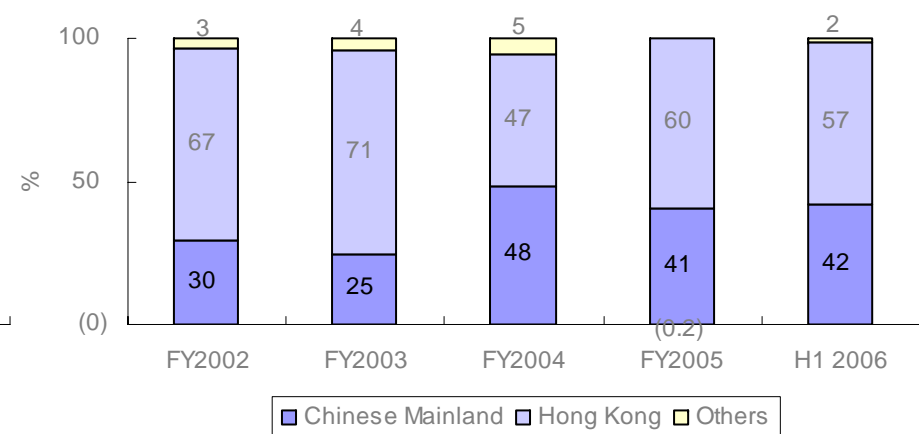
Geographical Breakdown of Turnover and Profit

- The proportion of turnover from mainland China rose to 59% whilst that of profit before tax was maintained at 42% distorted by the revaluation gain of the investment properties in Hong Kong

Turnover



Profit before tax



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Key Financial Data

- A strong balance sheet with net debt to equity ratio falling further to 10%
- Capex amounted to HK\$1,523m and the majority was incurred in the retail and beverage businesses

Year End 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% <i>change</i>	FY2005 HK\$m
<u>P&L</u>				
Earnings	1,265	1,262	+0	2,220
Finance costs	248	214	+16	439
Interest income	135	64	+112	169
Effective tax rate (%)	20.7	18.1	+2.5ppt	19.8
<u>Balance sheet</u>				
Total debt	7,835	9,703	-19	10,208
Net cash/(debt)	(1,976)	(3,883)	-49	(3,282)
Shareholders' equity	19,843	17,102	+16	18,196
Minority interests	4,988	4,557	+9	4,747

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Key Financial Data

Year End 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% <i>change</i>	FY2005 HK\$m
Balance sheet (Cont'd)				
Invested capital *	32,665	31,363	+4	33,151
Book NAV per share (HK\$)	8.51	7.77	+10	8.15
Gearing ratio (%)	8.0	17.9	-10.0ppt	14.3
Net debt to equity ratio (%)	10.0	22.7	-12.7ppt	18.0
Cashflow				
EBITDA adj for associates' dividends **	2,608	2,624	-1	4,656
Capex	1,523	2,140	-29	3,487

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

** Excluding associates' profits and adding back their dividends

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Business Review

Francis Kwong

Deputy Managing Director

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Retail

- Overall encouraging improvement in profitability led by the supermarket operation

Retail business turnover and earnings breakdown

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% change
Turnover			
- Supermarket	8,860	6,927	+28
- Retail stores in HK	323	357	-9
- Brand-fashion in China	727	646	+12
	9,910	7,930	+25
Earnings			
- Supermarket	119	60	+99
- Retail stores in HK	15	26	-42
- Brand-fashion in China	13	19	-29
	147	105	+40

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Retail

1. Supermarket

- Total turnover grew 28% to HK\$8.9bn driven by store openings, same store growth and acquisitions
- Overall same store growth of 7.5%, bolstered by the 8.9% increase of the mainland operation
- Earnings contribution doubled to HK\$119m, with improved performance coming mainly from mainland China, and EBITDA was up 34% to HK\$436m
- Strong same store growth, stable gross margin, lower expense ratio and contributions from acquisitions accounted for the profit growth
- Suguo's earnings contribution after goodwill and option expenses amounted to HK\$53m, compared with HK\$37m in H1 2005
- In H1 2006, CR Vanguard opened 21 self-operated stores and 4 franchised stores (20 and 5 respectively in H1 2005) and Suguo 24 self-operated and 58 franchised stores (21 and 55 respectively in H1 2005)

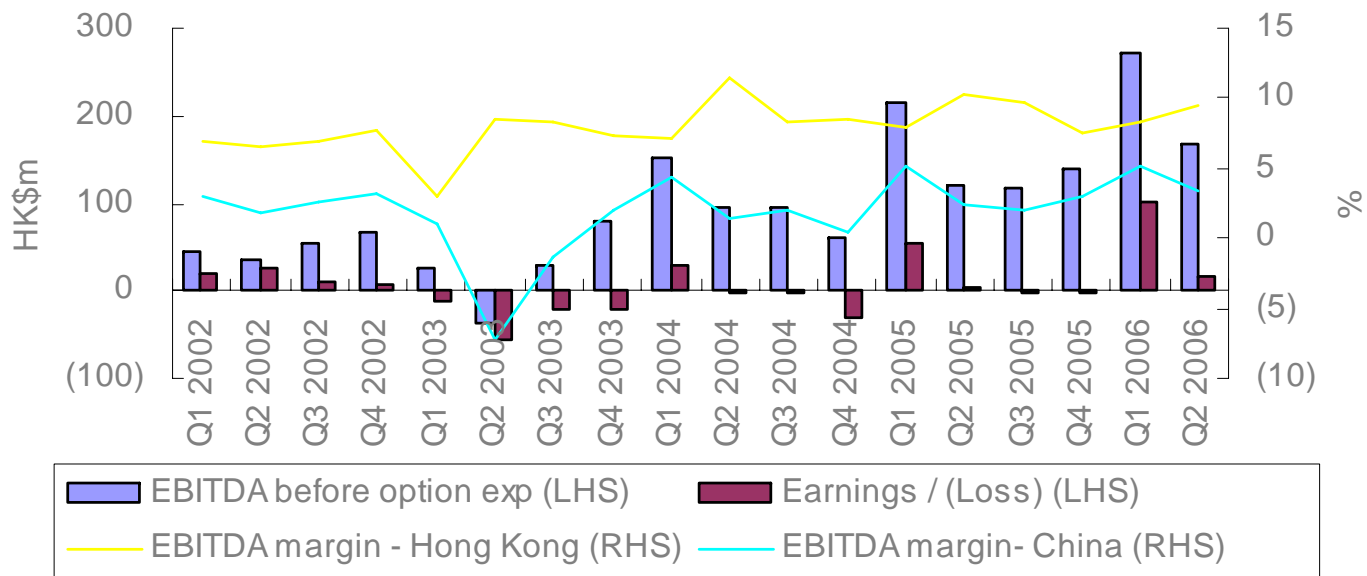
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Retail

Operational Turnaround



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Retail

Supermarket turnover, EBITDA and earnings breakdown

Year End 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% change
Turnover			
- HK	1,173	1,135	+3
- China	7,687	5,793	+33
	8,860	6,927	+28
EBITDA			
- HK	105	103	+1
- China	335	231	+45
- option expenses	(4)	(10)	-62
	436	325	+34
Earnings			
- HK	61	55	+11
- China	61	15	+316
- option expenses	(4)	(10)	-62
	119	60	+99
EBITDA margin (%)			
- overall	4.9	4.7	+0.2ppt
- HK	8.9	9.1	-0.2ppt
- China	4.4	4.0	+0.4ppt

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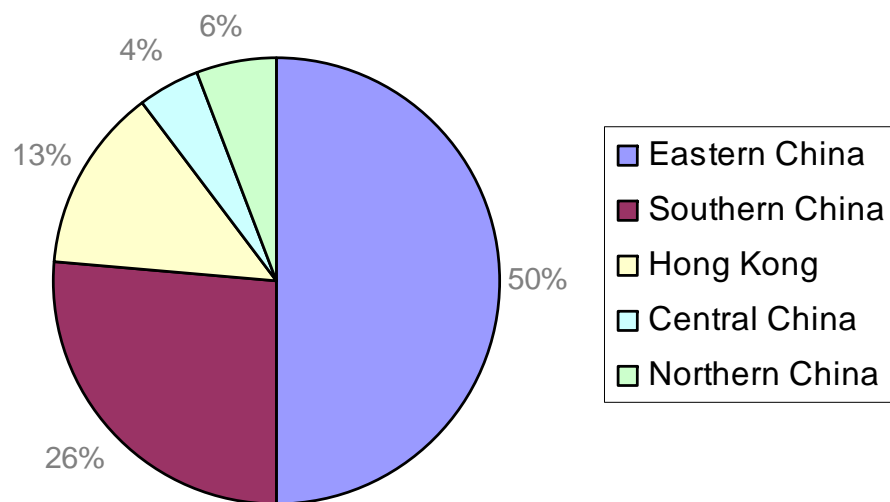


Retail

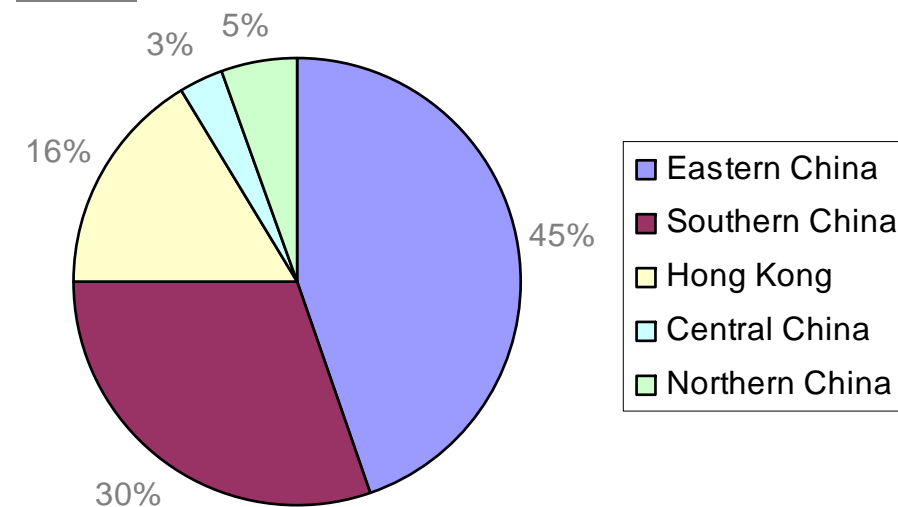
- Approximately, 50% of the turnover was from Eastern China, 26% from Southern China, 13% from Hong Kong and the rest from Northern and Central China

Turnover breakdown by geographical district

H1 2006



H1 2005



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Retail

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

- Hong Kong retail business contributed earnings of HK\$15m, a decrease of 42%, caused by store relocation and escalating costs
- At the end of Jun 2006, we operated 4 CAC stores, 3 super-sized and 31 smaller-sized CR Care stores
- Brand-fashion in China reported a decrease in net profit to HK\$13m mainly due to the costs associated with brand rationalization and the initial losses of newly added brands
- We distributed eight international brands at the end of June 2006
- Solid performance at Esprit with attributable earnings growth of 25%

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Retail

Brand-fashion business in the Chinese Mainland

No of self-operated stores	30-Jun-06		31-Dec-05		30-Jun-05	
No of franchised stores						
Alfred Dunhill	0	0	29	10	30	8
CK Jeans *	2	0	6	23	21	35
ck Calvin Klein	8		1			
Esprit / Red Earth / Salon	212	476	200	461	191	453
Givenchy *	0	0	8	0	8	0
Kenzo	10	0	11	1	11	1
Pal Zileri	9	3	7	2	7	2
Polo	3	0	3	0	2	0
ATMA	7	2	7	0	5	0
Smalto	2	3	2	2		
<u>Terminated brands:</u>						
Guess	0	0	0	0	1	0
	253	484	274	499	276	499
Total	737		773		775	

* Brands to be terminated in 2006

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Beverage

- Turnover growth of 36% with beer sales volume increasing 31%, of which 28% was organic, to 2.44m kl
- This represented a market share of about 14.9%, 2.0 ppt higher than that of H1 2005
- Attributable net profit increased by 26% to HK\$75m
- Overall average selling price increased by 3.3% to about HK\$1,653 per kl, including a 3.5% increase in the existing breweries, and overall gross margin was slightly higher
- Strong earnings performance at Liaoning and Sichuan breweries whilst Jiangsu and Beijing breweries also showed significant improvements
- Sales volume of our national brand, SNOW, surged by 85% to about 1.3m kl, representing 53% of the total volume sold

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Beverage

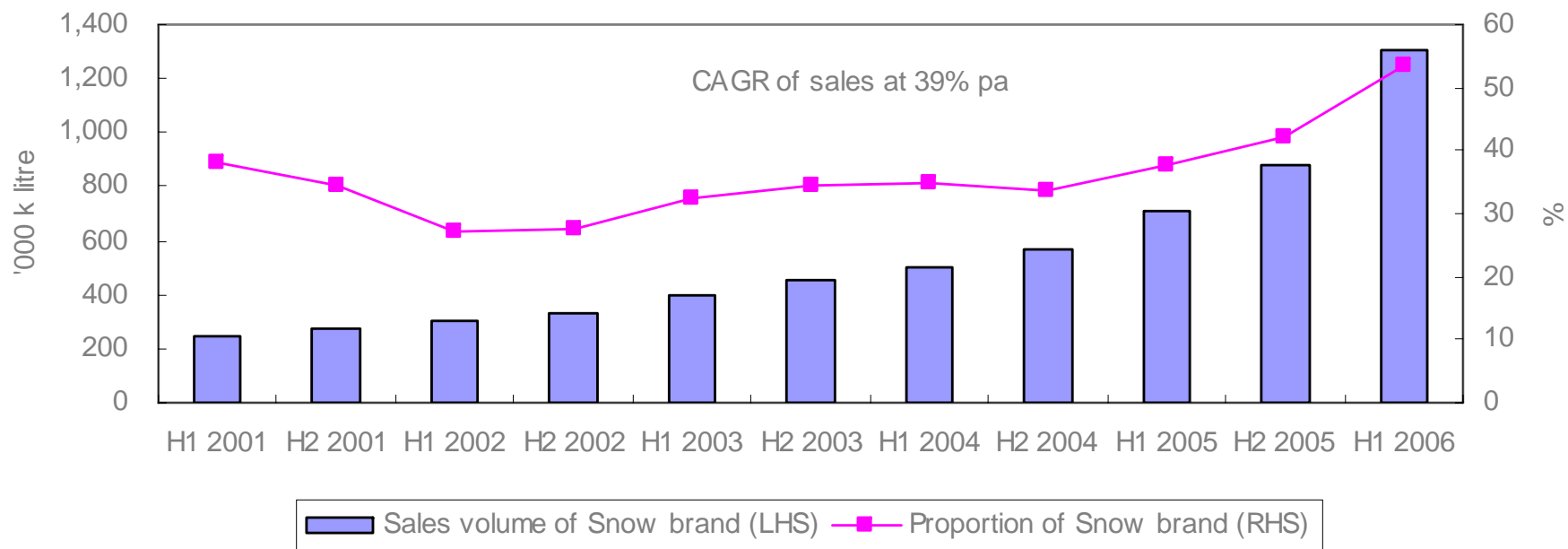
- In H1 2006, six new breweries were added including Qinhuangdao (90,000 kl), Quanzhou (118,000 kl), Tianmen (80,000 kl), Changzhou (200,000 kl), Xiling (100,000 kl) and Dongguan (150,000 kl)
- Annual production capacity increased from 5.8m kl at the end of FY2005 to 6.6m kl
- Acquired Zhejiang Yinyan and Anhui Huaibei Xiangwang in July 2006 and their capacity will be upgraded to 240,000 kl and 160,000 kl respectively
- A new plant in Harbin will also be built with a capacity of 230,000 kl and completion is scheduled to be in mid-2007

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Beverage

Sales volume of SNOW brand and its significance



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Beverage

Sales volume by brewery

Year end 31 Dec

	Province	Area	No of breweries	H1 2006 '000 k litre	H1 2005 '000 k litre	% change
<i>I) Breweries owned prior to FY2005</i>						
Shenyang	Liaoning	North East	3	235	216	+9
Dalian	Liaoning	North East	2	113	96	+18
Anshan / Liaoyang / Panjin	Liaoning	North East	3	116	82	+42
Harbin	Heilongjiang	North East	1	168	156	+8
Jilin / Changchun	Jilin	North East	2	180	147	+22
Tianjin		North	1	83	68	+22
Beijing		North	1	62	30	+108
Blue Sword	Sichuan	South West	13	571	453	+26
Wuhan Dongxihu	Hubei	Central	2	172	153	+13
Anhui	Anhui	Central	4	274	224	+22
Qianjiang	Zhejiang	East	1	156	120	+30
Jiangsu	Jiangsu	East	3	143	103	+40
Qamdo	Tibet	West	1	8	7	+26
<i>II) Breweries owned since FY2005</i>						
Wuhan Yichang (part of Dongxihu)	Hubei	Central	1	15	4	
Fuyang	Anhui	Central	1	69	24	
Qinhuangdao	Hebei	North	1	16		na
Quanzhou	Fujian	South East	1	0		
Tianmen	Hubei	Central	1	10		
Changzhou (relocated)	Jiangsu	East	1	7		
Xiling (relocated)	Zhejiang	East	1	27		na
Dongguan (greenfield)	Guangdong	South	1	18		na
Less: inter-co transactions and others				(1)	(10)	
			45	2,442	1,871	+31
Existing breweries				2,408	1,879	+28

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Food Processing and Distribution

- Turnover grew by 2% and earnings decreased by 13% to HK\$214m as distorted by the HK\$59m disposal gain of last year
- Excluding that, underlying net profit would have increased by 14% driven by the foodstuff distribution division
- With the favorable economic environment in Hong Kong and active promotion of "Ng Fung" brand, operating margin of foodstuff distribution improved by 1.7 ppt and operating profit rose by 16%
- Marine fishing business was affected by the high fuel cost but performance improved over last year
- Although local slaughtering volume fell slightly, operating profit of the abattoir division rose on the higher contribution from the Shenzhen operation
- The two mainland meat processing projects in Shenzhen and Shanghai performed well and contributed combined turnover of HK\$222m and operating profit of HK\$18m

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Food Processing and Distribution

Turnover breakdown of Ng Fung Hong

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% change
Foodstuff distribution	1,818	1,870	-3
Food processing and stock raising	737	746	-1
Abattoir operation, transportation and others	396	280	+42
Inter-co transactions	(62)	(60)	na
	2,889	2,836	+2

Operating profit breakdown of Ng Fung Hong

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% change
Foodstuff distribution	196	170	+16
Food processing and stock raising	15	11	+34
Abattoir operation, transportation and others	65	63	+3
	275	243	+13

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Textile

- Turnover rose by 3% but earnings fell 26% to HK\$41m
- Against the high base of last year caused by the upsurge in textile exports before the imposition of the safeguard measures, general market demand was slack
- Sales volume of cotton yarns decreased by 1% to 29,267 tonnes and fabrics decreased by 5% to 109m meters but the demand for our high-end yarn products, MAKO, was strong
- Technology upgrade contributed to respective increases of 15% and 7% in the average selling prices of yarns and fabrics
- The spinning and weaving division recorded a 37% drop in earnings as compounded by the expiry of some tax incentives, a redundancy compensation and a weak dyeing business
- Earnings contribution from the garment division decreased by 4% with a 34% reduction in sales volume

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Textile

Turnover and earnings breakdown of the textile business

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% change
Turnover			
- Spinning and weaving	1,707	1,597	+7
- Garment	439	533	-18
- Others and inter-co transactions	(20)	(71)	-73
	2,126	2,059	+3
Earnings			
- Spinning and weaving	26	41	-37
- Garment	17	18	-4
- Others and inter-co transactions	(1)	(3)	-51
	41	56	-26

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Investment Property

- Gross rental income increased by 18% to HK\$168m on the back of a 5.1% increase in average retail rent and the initial contribution from the newly renovated property on Hennessy Road
- The revaluation of investment properties under Investment Property division resulted in a net gain of HK\$355m

Investment property business turnover and earnings breakdown

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% <i>change</i>
Turnover			
- Rental properties	168	142	+18
- Others	3	5	-35
	171	147	+17
Earnings			
- Rental properties	124	107	+16
- Net revaluation gain on rental properties	355	324	+10
- Others	1	(2)	-144
	480	429	+12

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Other Businesses

1. Petroleum and Related Products Distribution

- Excluding the HK\$84m gain from the disposal of Qingdao Qirun recorded last year, recurring profit was comparable at HK\$217m
- There was a recovery in the recurring profit in Q2, attributable to an improved chemical distribution business and a stabilized LPG filling stations operation in Hong Kong after adjusting the price-fixing mechanism
- Petroleum wholesaling turnover grew by 41% with a 3% increase in sales volume but gross margin was slightly lower
- Earnings from the piped gas projects increased by 64% to HK\$44m
- Chemical distribution reported a profit increase of 2.3 times to HK\$38m with stable sales volume but much higher average prices

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Other Businesses

Turnover breakdown of petroleum and related products distribution

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m	% change
Petroleum			
- Diesel	2,588	1,930	+34
- Fuel oil & ocean vessels	4,965	3,336	+49
- Jet fuel	2,352	1,726	+36
- Others	227	174	+30
LPG and piped gas	909	607	+50
Chemicals	944	870	+9
Petrol stations			
- HK	493	399	+24
- Mainland China	80	375	-79
Inter-co transactions and others	(307)	(127)	+142
Total	12,252	9,289	+32

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Other Businesses

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

- There is satisfactory progress in our two mainland fresh meat processing projects and we have developed a competent supply chain from pig sourcing, slaughtering, meat production to retailing
- Apart from building scale, a culture on cost efficiency, looking for concurrent cost control and productivity enhancement, has been promulgated internally
- We remain committed to the divestment of non-core assets in a manner consistent with our shareholders' interest
- Solid platforms for sustainable growth have been constructed through our transformation into a consumer company

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Appendix I - Calculation of Underlying Net Profit

Year end 31 Dec	H1 2006 HK\$m	H1 2005 HK\$m
Earnings	1,265	1,262
<i><u>Adjustments</u></i>		
Disposal of a 25.09% stake in Xuzhou VV Food & Beverage		59
Investment property revaluation *	356	326
Property disposals	11	15
Disposal of the residual 10.5% stake in Qingdao Qirun		84
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	367	484
Underlying net profit	899	778

* Of which, HK\$355m in H1 2006 and HK\$324m in H1 2005 is under Investment Property division

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Appendix II - Supermarket network - CR Vanguard

No of self-operated stores	30-Jun-06		31-Dec-05		30-Jun-05	
No of franchised stores						
<i>I) Standard supermarkets</i>						
- Hong Kong	99		98		88	
- Beijing	8		10		21	
- Tianjin	84		87		59	
- Jiangsu + Zhejiang Province	107	57	107	57	106	2
- Guangdong Province	114	48	114	46	102	51
	412	105	416	103	376	53
<i>II) Superstores</i>						
- Beijing	18		17		6	
- Tianjin	5		5		3	
- Jiangsu Province	8		8		8	
- Zhejiang Province	25		22		10	
- Guangdong Province	14		13		12	
	70		65		39	
<i>III) Hypermarkets</i>						
- Guangdong Province	18		18		18	
	18		18		18	
<i>IV) Olé</i>						
- Beijing	4		4			
- Guangdong Province	2		2		2	
	6		6		2	
Overall						
- Hong Kong	99	0	98	0	88	0
- China	407	105	407	103	347	53
	611		608		488	

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Appendix III - Supermarket network - Suguo

No of self-operated stores	30-Jun-06		31-Dec-05		30-Jun-05	
No of franchised stores						
<i>I) Convenience stores</i>						
- Jiangsu Province	251		243		237	
- Anhui Province	7		9			
	258		252		237	
<i>II) Standard supermarkets</i>						
- Jiangsu Province	69	862	67	810	67	772
- Anhui Province	8	207	6	203		191
- Shandong Province		40		39		38
- Henan Province		11		11		11
- Hebei Province		3		2		2
- Hubei Province		2		2		2
	77	1,125	73	1,067	67	1,016
<i>III) Superstores</i>						
- Jiangsu Province	83		81		77	
- Anhui Province	13		13		11	
	96		94		88	
<i>IV) Hypermarkets</i>						
- Jiangsu Province	12		9			
- Anhui Province	3					
	15		9		0	
Overall in China	446	1,125	428	1,067	392	1,016
	1,571		1,495		1,408	

Total - Vanguard + Suguo
 - Hong Kong
 - China

99	0	98	0	88	0
853	1,230	836	1,170	739	1,069
2,182		2,104		1,896	

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