

China Resources Enterprise, Limited  
Global Roadshow 2006

**The Future is Wide Open**

28 April 2006





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## Agenda

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# Part I – Charting New Horizons

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## Mission

- Our mission is to become the largest consumer company in China with business focus on retail, food, brewery and textile
- There are operational synergies among these consumer-related businesses
- Notably, food, beverage as well as textile will form part of the supply chain for the retail business and they will grow together driving the Group's overall development
- 2005 was a rewarding year for the Group as we had record earnings, achieved strong share price performance and earned higher market recognition for management quality

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## FY2005 Results Highlights

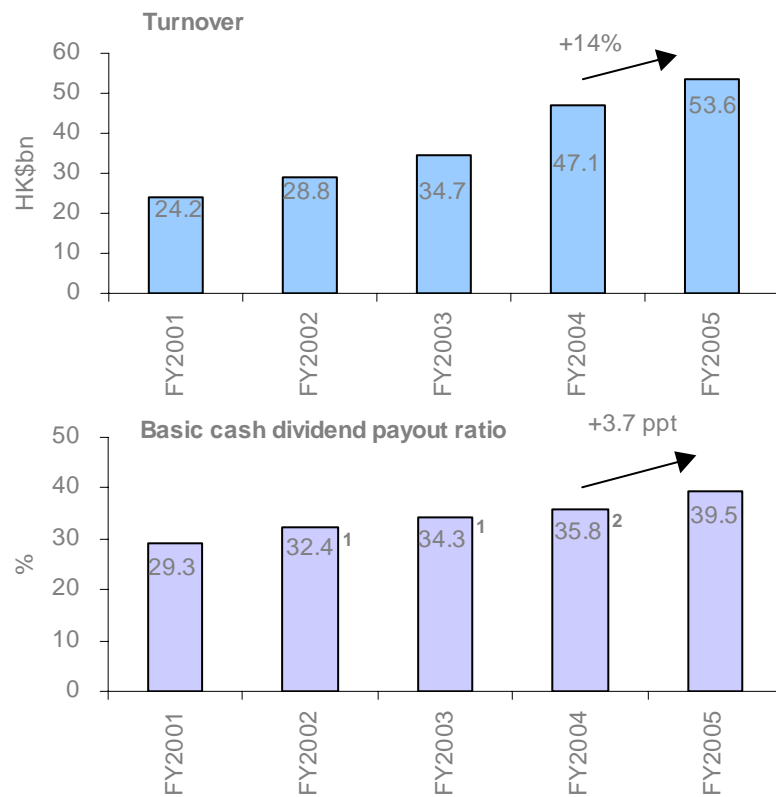
- Turnover grew by 14% to another new high of HK\$53.6bn
- Earnings rose by 50% to a record HK\$2,220m with strong results across our businesses under management
- Excluding the after-tax effect of revaluation of investment properties, which led to a HK\$403m gain, underlying net profit was up 23%
- 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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## 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>
<b><u>Core business</u></b>					
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
<b><u>Other business</u></b>					
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
<b>Turnover</b>	<b>53,584</b>		<b>47,078</b>		<b>+14</b>

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## Earnings Breakdown – by Divisions

Year end 31 Dec	FY2005 HK\$m	Prop (%)	FY2004 HK\$m	Prop (%)	% <i>change</i>
<b><u>Core business</u></b>					
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
<b><u>Other business</u></b>					
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\$403m net of tax property revaluation gain due to accounting policy changes

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## EBITDA Breakdown – by Divisions

Year end 31 Dec	FY2005 HK\$m	Prop (%)	FY2004 HK\$m	Prop (%)	% change
<b><u>Core business</u></b>					
Retail	756	16	627	17	+20
Beverage	1,056	22	888	24	+19
Food processing and distribution	630	13	607	17	+4
Textile	343	7	203	6	+69
Property	814	17	277	8	+194
<b><u>Other business</u></b>					
Petroleum and related products	908	19	694	19	+31
Investment & others	306	6	342	9	-11
	4,813	100	3,638	100	+32
Overhead	(26)		(73)		-64
EBITDA	4,787		3,566		+34

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## Progress of Non-core Asset Restructuring

	Consideration * HK\$m	Earnings HK\$m
<b><u>FY2005</u></b>		
Disposal of the entire 51% stake in the oil storage facilities at Dongguan	94	65
Disposal of CRE Building, an office building at Wan Chai	427	149 **
Disposal of the entire 25.09% stake in Xuzhou VV Food & Beverage	406	59
Disposal of the residual 10.5% stake in the oil storage facilities at Qingdao	117	85
Disposal of office units at Silver Cord	128	40
Disposal of the 17 petrol stations in Guangdong Province	261	58
	1,433	456
<b><u>FY2004</u></b>		
Disposal of a 30% stake in the oil storage facilities at Qingdao	334	240
<b><u>FY2003</u></b>		
Disposal of a minority stake in the aviation fuel facility at the airport	na	169
Distribution in specie of the entire interest in the concrete materials business	na	na
	1,508	169
<b><u>FY2002</u></b>		
<b><u>FY2001</u></b>		
Disposal of the entire stakes in Hongkong Chinese Ltd and a compressor company	2,069	(233)

\* Excluding shareholders' loan repayment

\*\* Revaluation and disposal gains in aggregate

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## Part II – Supermarket: Converting Market Share into Profitability

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## Background of Our Supermarket Business

- The supermarket business was started in Hong Kong in 1984 and expanded subsequently into mainland China in early 1990s
- As part of CRE's restructuring plan to use retailing as a driver for future development, the business undertook rapid expansion in 2002
- In July 2002, CRE acquired a 65% stake in CR Vanguard for RMB372m, the largest hypermarket operator in Guangdong Province, and integrated with its original supermarket business
- In September 2002, CRE acquired a 39.25% stake in Suguo, the largest supermarket chain operator in Jiangsu Province, for RMB232m
- The historical FY2001 turnover of CR Vanguard and Suguo at the time of acquisition was only around RMB1.6bn and RMB2.2bn respectively and their stakes were increased to 100% and 85% afterwards
- The supermarket business reported a turnover of over HK\$14bn in FY2005, of which about HK\$12bn was from mainland China

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# Background of Our Supermarket Business

## Supermarket network

No of self-operated stores	31-Dec-05		30-Jun-05		31-Dec-04	
No of franchised stores						
<i>I) Hypermarkets / Olé</i>						
- Southern China	20		20		19	
- Eastern China	10					
- Northern China	4					
	34		20		19	
<i>II) Superstores</i>						
- Southern China	13		12		14	
- Eastern China	110		95		89	
- Central China	13		11		9	
- Northern China	22		9		8	
	158		127		120	
<i>III) Standard supermarkets</i>						
- Hong Kong	98		88		86	
- Southern China	114	46	102	51	99	53
- Eastern China	174	867	173	774	175	729
- Central China	6	205		193		186
- Northern China	98	52	80	51	79	48
	490	1,170	443	1,069	439	1,016
<i>IV) Convenience stores</i>						
- Eastern China	243		237		231	
- Central China	9					
	252		237		231	
<b>Overall</b>						
- Hong Kong	98		88		86	
- China	836	1,170	739	1,069	723	1,016
	<b>2,104</b>		<b>1,896</b>		<b>1,825</b>	

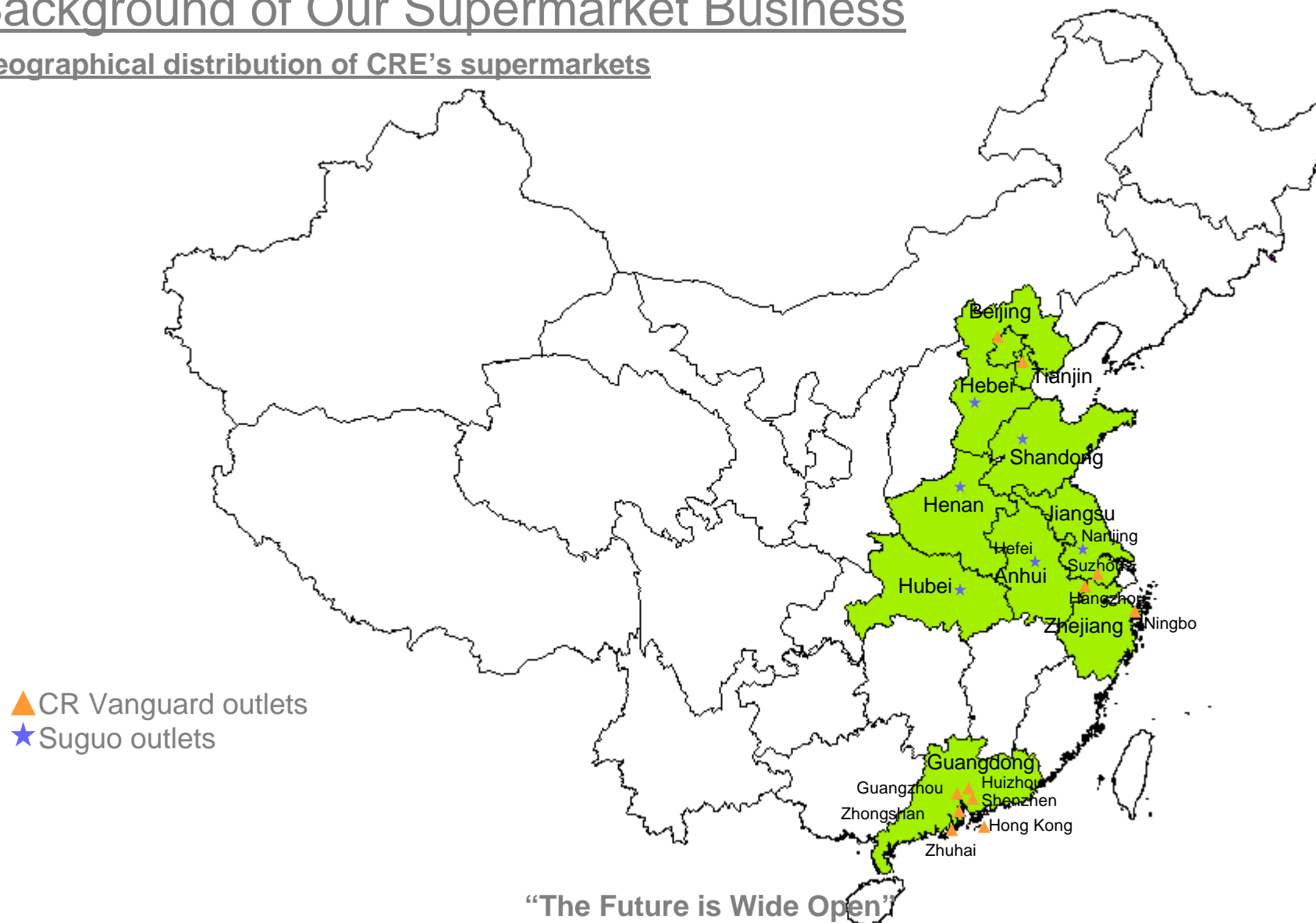
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# Background of Our Supermarket Business

## Geographical distribution of CRE's supermarkets

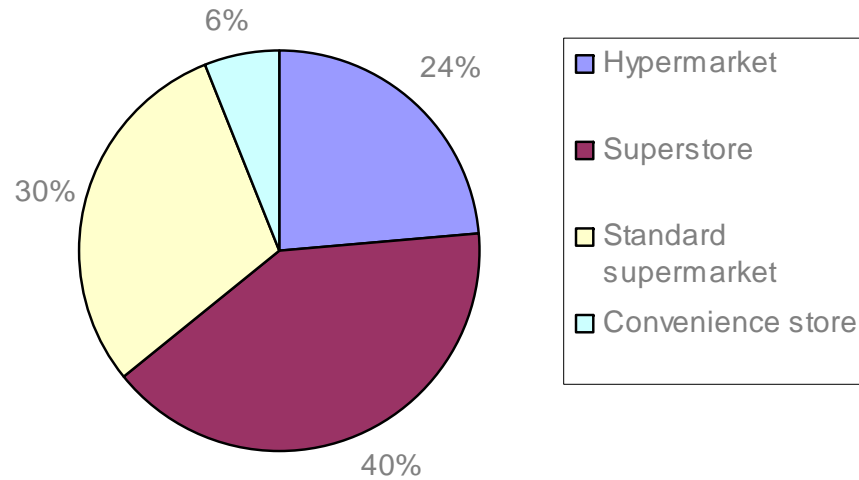




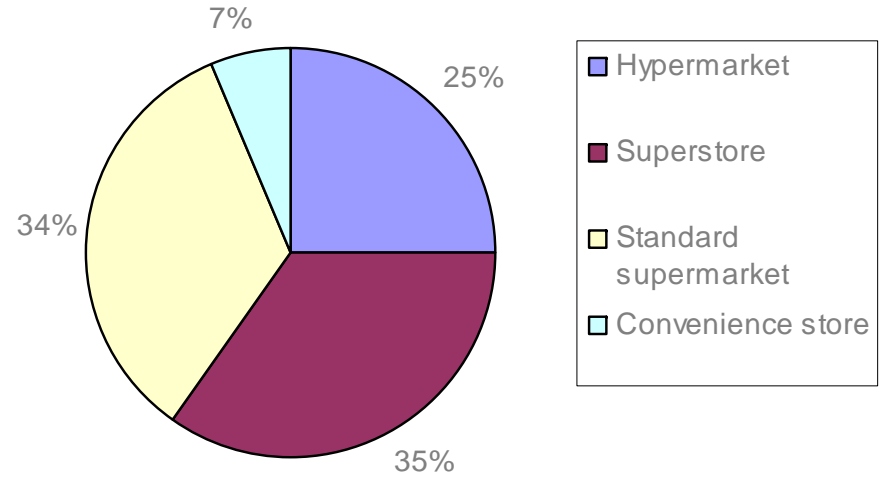
# Background of Our Supermarket Business

## Turnover breakdown by store format

FY2005



FY2004



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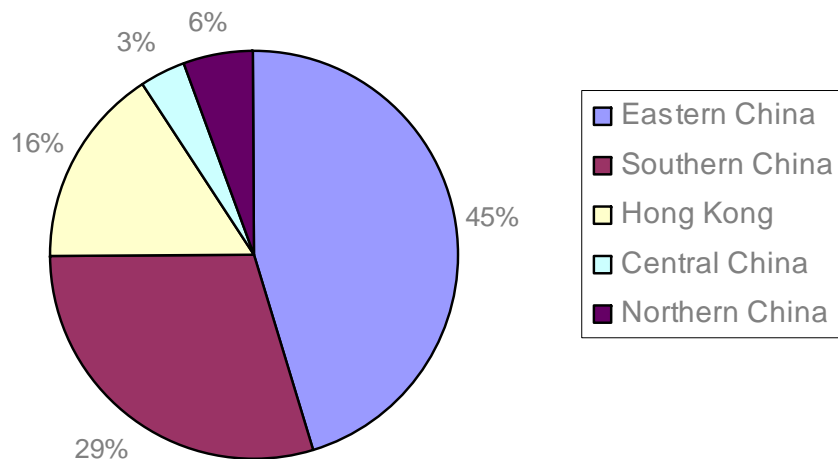




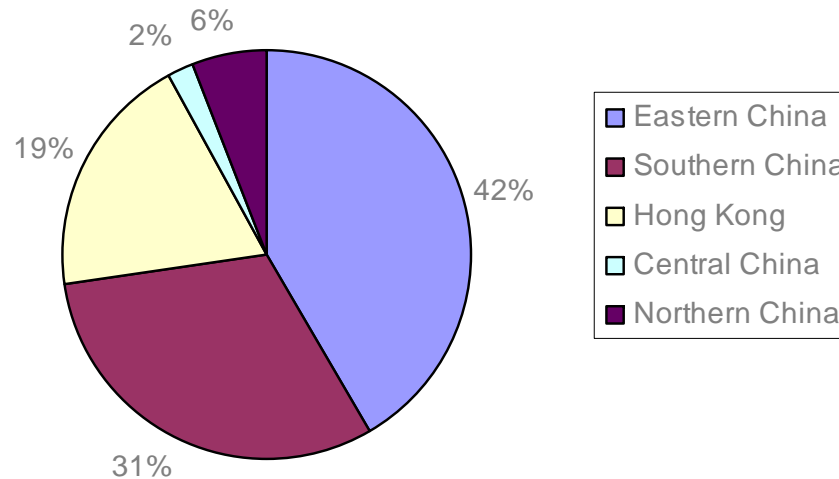
# Background of Our Supermarket Business

## Turnover breakdown by geographical district

FY2005



FY2004



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## Competition and Market Trend

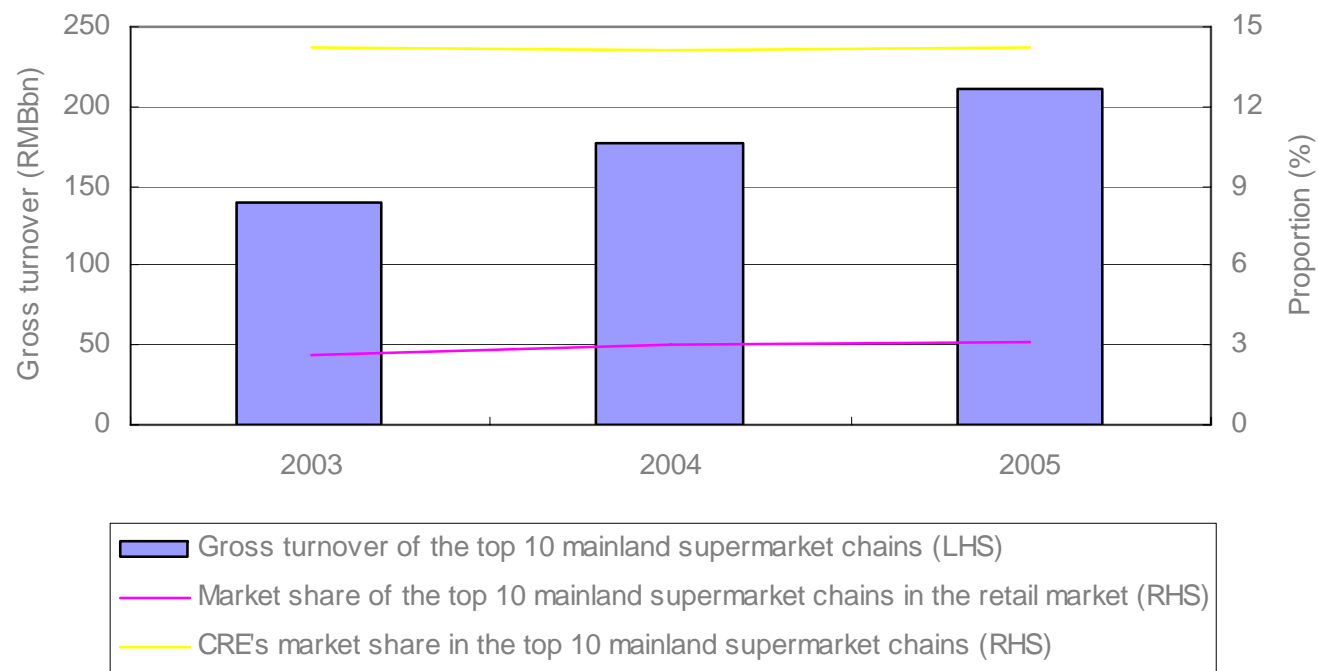
- Nominal retail sales of the mainland increased by 12.9% in 2005
- Gross turnover (incl. franchised stores and VAT) of the top 10 supermarket chains in the mainland increased by 20% in 2005 whilst the number of stores grew by 16%
- The mainland retail is highly fragmented with the top 10 supermarket chains accounting for only 3% of total retail sales
- Competitive environment in Hong Kong was relatively stable with total retail sales and supermarket sales increased by 6.8% and 5.8% respectively last year

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# Competition and Market Trend

## Growth of the top 10 supermarket operators and CRE



Source: National Statistical Bureau, Ministry of Commerce and CR Vanguard

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## Competition and Market Trend

- CRE's supermarket business, combining CR Vanguard and Suguo, is believed to be the second largest on the mainland

### Top 10 mainland supermarket chains

Ranking	Supermarket chain	2005		2004		Ranking
		Gross turnover RMBbn	No of stores	Gross turnover RMBbn	No of stores	
1	Balian	72.1	6,345	67.2	5,500	1
2	Beijing Hualian	20.8	74	16.0	70	3
3	Wumart	19.1	659	13.3	608	6
<b>4</b>	<b>Suguo</b>	<b>18.1</b>	<b>1,503</b>	<b>13.9</b>	<b>1,345</b>	<b>4</b>
5	Nong Gong Sang	17.5	1,572	13.7	1,232	5
6	Carrefour	17.4	78	14.0	62	2
7	Trustmart	13.2	96	12.0	88	7
<b>8</b>	<b>CR Vanguard</b>	<b>12.0</b>	<b>522</b>	<b>11.0</b>	<b>476</b>	<b>8</b>
9	Xin Yi Jia	11.8	79	8.5	58	9
10	The Home World	9.2	79	7.2	69	12

Source: Ministry of Commerce

Note: From China Chain Store & Franchise Association (中國連鎖經營協會), Walmart's gross turnover in China was said to be about RMB9.9bn in 2005

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## Competition and Market Trend

- International operators, such as Carrefour and Walmart, are following a mushroom strategy with stores scattered all over the country
- We have a district dominance strategy so as to develop a more efficient supply chain with well-established presence in Jiangsu and Guangdong provinces
- In terms of store format, hypermarket is still the most popular format to gain market share
- Expansion through m&a is accelerating with notable examples of the acquisitions of Hymall and Trustmart
- Potential of the second and third tier cities is also being rapidly explored

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# Competition and Market Trend

## Supermarket competition by region

Wal-mart	0
Carrefour	3
Lianhua	0
Wumart	0
CRE	0
<b>GDP per capita</b>	<b>6K~11K</b>

Wal-mart	9
Carrefour	15
Lianhua	23
Wumart	45
CRE	11
<b>GDP per capita</b>	<b>9K~37K</b>

Wal-mart	11
Carrefour	10
Lianhua	10
Wumart	0
CRE	0
<b>GDP per capita</b>	<b>11K~16K</b>

**North-eastern**

Wal-mart	3
Carrefour	16
Lianhua	60
Wumart	10
CRE	67
<b>GDP per capita</b>	<b>21K~55K</b>

**Northern**

**Eastern**

Wal-mart	6
Carrefour	7
Lianhua	8
Wumart	1
CRE	11
<b>GDP per capita</b>	<b>8K~11K</b>

**North-western**

**South-western**

**Central**

**Southern**

Wal-mart	20
Carrefour	13
Lianhua	7
Wumart	0
CRE	34
<b>GDP per capita</b>	<b>7K~59K</b>

**Remarks:** The stores included here are all stores with floor space of 4,000 sm or above. The data above are based on the latest available information.

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# Improving Operating Performance

## Supermarket turnover, EBITDA and earnings breakdown

Year End 31 Dec	FY2005 HK\$m	FY2004 HK\$m	% change
<b>Turnover</b>			
- HK	2,270	2,273	-0.1
- China	11,862	9,669	+23
	14,132	11,941	+18
<b>EBITDA</b>			
- HK	201	201	+0
- China	395	204	+94
- option expenses	(20)	(31)	na
	576	374	+54
<b>Earnings</b>			
- HK	110	112	-2
- China	(36)	(76)	na
- goodwill and option expenses	(20)	(43)	na
	54	(7)	na
<b>EBITDA margin (%)</b>			
- 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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## Improving Operating Performance

- High same store growth in China underpins overall improvement

### Same store growth trend

	FY2005 %	FY2004 %	FY2003 %
<b>China</b>	<b>+5.9</b>	<b>+5.9</b>	<b>+0.7</b>
- CR Vanguard	+3.0	+0.9	-4.0
- Suguo	+10.0	+14.6	+7.8
Hong Kong	-3.2	-5.0	-1.6
<b>Overall supermarket</b>	<b>+4.4</b>	<b>+3.7</b>	<b>+0.1</b>

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## Our Niche

- Strong brand presence – CR Vanguard and Suguo are the largest supermarket operators in Southern China and Eastern China (excluding Shanghai)
- District dominance – target to develop dominance in Pearl River Delta, Yangtze River Delta and two northern cities to secure an efficient supply chain
- Multi-store format – four formats, including hypermarket, superstore, standard supermarket and convenience store, targeting different districts and cities; we will keep on improving our competence and responding to customer needs swiftly
- Sound local knowledge and good relationship with provincial governments leveraging on the Group's resources

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## Future Plan

- Our current priority is to convert our established market share into better profitability
- Challenges of CR Vanguard: -
  - Strategic expansion only started in end 2002 and it has gone through a series of integration
  - It is operating in multi-districts with high administrative costs and low efficiency initially
  - Rental costs are relatively high due to historical reasons and geared exposure to the developed areas
  - To establish long-term competitiveness, we have invested heavily on store format modeling and standardization, the costs of which are reflected outright but their benefits would only come in 2-3 years

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## Future Plan

- Action plan to improve profitability: -
  - Build up district dominance
    - ⇒ Use superstore plus (SSP), an improved hypermarket format, and standard supermarket to lead new store opening
    - ⇒ Acquisitions will focus on existing districts
  - Differentiate from competition
    - ⇒ Implement a trade up strategy for hypermarkets
    - ⇒ Adopts multi-store format to increase flexibility
  - Optimize product mix and category management
    - ⇒ Emphasize the competence of fresh
    - ⇒ Expand the private label business with a target of 1.5% turnover in FY2006

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## Future Plan

- Action plan to improve profitability: - (cont'd)
  - Reduce operating costs
    - ⇒ Centralize procurement and optimize workflow
    - ⇒ Reduce rentals through re-negotiation and property purchase
  - Strengthen the supply chain
    - ⇒ Develop partnership with more valuable suppliers
    - ⇒ Proceed to integrate the supply chains in Eastern China

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## Peer Comparison

- A wide discrepancy over the valuation of CRE's supermarket business

### Peer comparison using current share prices and FY2004 operational data

	Lianhua	Wumart	CRE	CRE
	HK\$m	HK\$m	HK\$m	HK\$m
<b><u>Performance:</u></b>	<u>FY2004</u>	<u>FY2004</u>	<u>FY2004</u>	<u>FY2005</u>
Turnover	10,952	2,441	11,941	14,132
Gross margin (%)	18.4	14.8	19.7	19.7
Salary/turnover (%)	5.3	3.4	5.6	5.6
Rent/turnover (%)	3.8	2.5	5.2	4.8
EBITDA	587	189	374	576
EBITDA margin (%)	5.4	7.7	3.1	4.1
Earnings	203	101	(7)	54
Net margin (%)	1.9	4.2	(0.1)	0.4
ROE (%)	12.5	9.3	(0.4)	3.4
ROCE (%)	12.6	13.6	0.4	4.0
<b><u>Valuation:</u></b>				
Share price (@ 1/4/2006)	HK\$8.50	HK\$27.00	na	na
Market cap (HK\$m)	5,058	7,457	na	na
EV	4,344	7,213	na	na
PER (x)	25.0	73.5	na	na
EV/EBITDA (x)	7.4	38.1	na	na
EV/turnover (x)	0.4	3.0	na	na

Hypothetical value of CRE's supermarket business using peers' :-		
	Lowest	Highest
- EV/EBITDA	2,767	14,246
- EV/turnover	4,737	35,278
- Average	3,752	24,762

Note: Adjustments were made for the difference in accounting standards between different companies

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## Part III – Brewery: Rapid Integration and Growth

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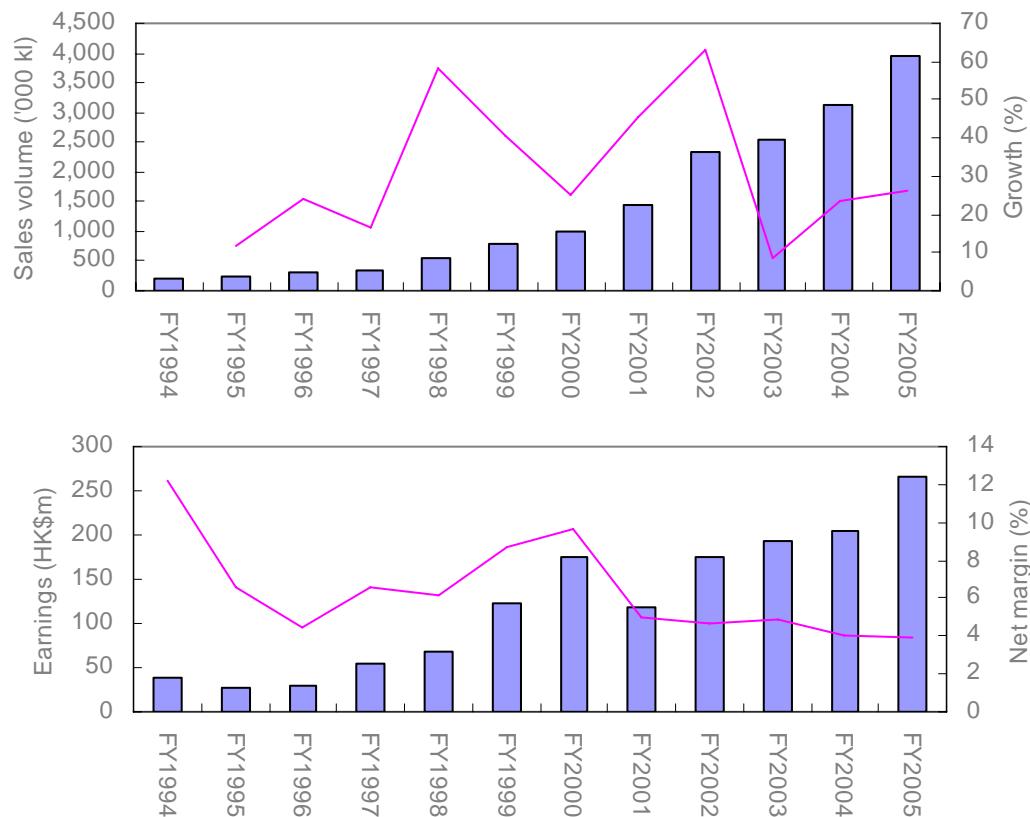




## Background of CR Snow

- A 51/49 joint venture between CRE and SABMiller formed in 1994 with CRE responsible for day-to-day management

### Sales and earnings trend of CR Snow since 1994



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## Background of CR Snow

- Largest in China in terms of production capacity and the second largest in terms of sales volume but the gap with Tsingtao has been narrowing

### Sales volume by brewery

Year end 31 Dec

	Province	Area	No of breweries	FY2005 '000 k litre	FY2004 '000 k litre	% change
<i><u>I) Breweries acquired prior to FY2004</u></i>						
Shenyang	Liaoning	North East	3	448	417	+7
Dalian	Liaoning	North East	2	214	184	+16
Jilin	Jilin	North East	1	211	216	-2
Tianjin		North	1	145	135	+7
Anshan	Liaoning	North East	1	105	86	+23
Anhui	Anhui	Central	2	279	244	+15
Harbin	Heilongjiang	North East	1	326	268	+22
Liaoyang Meiyue	Liaoning	North East	1	22	22	-0
Blue Sword	Sichuan	South West	12	892	789	+13
Changchun Snow Leopard	Jilin	North East	1	93	76	+22
Wuhan Dongxihu	Hubei	Central	2	341	295	+15
Panjin	Liaoning	North East	1	64	46	+38
Beijing		North	1	79	57	+38
<i><u>II) Breweries acquired since FY2004</u></i>						
Suining (part of Blue Sword)	Sichuan	South West	1	16	12	
Qianjiang	Zhejiang	East	1	290	177	
Longjin	Anhui	Central	2	142	80	
Jiangsu	Jiangsu	East	3	206	32	
Qamdo	Tibet	West	1	15		
Wuhan Yichang (part of Dongxihu)	Hubei	Central	1	14		
Fuyang	Anhui	Central	1	72		
Less: inter-co transactions and others				(26)	(0)	
			39	3,948	3,134	+26
Existing breweries				3,279	2,850	+15

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## Background of CR Snow

- Turnover growth of 35% in FY2005 with beer sales volume increasing 26%, of which 15% was organic, to 3.95m kl, representing a market share of about 13%
- Profit increased by 30% to HK\$136m last year
- 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 and the newly acquired breweries in Jiangsu and Zhejiang provinces were profitable

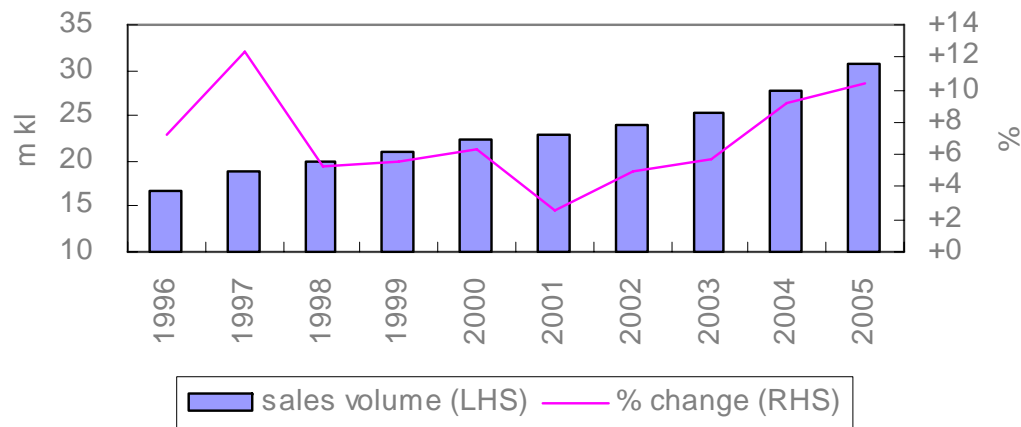
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## Development of the Mainland Beer Market

- Mainland beer market has grown at a CAGR of 6.9% for the past 10 years to over 30m kl in 2005 and remained as the world's largest beer market
- Demand has been boosted by the rise in income per capita, which was averaged at approximately 9% per annum during the same period

### Steady growth in consumption at present



Source: China Statistical Yearbook, China Beer Industry Association, ABN Amro

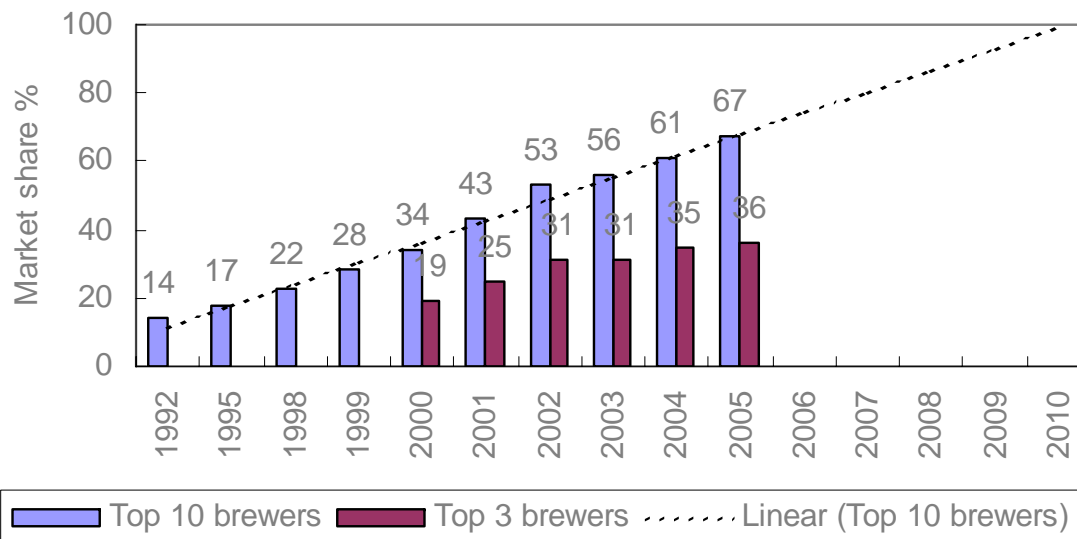
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## Development of the Mainland Beer Market

- Market consolidation is taking effect with the top 10 accounted for about 67% of the market in 2005, compared with 14% in 1992
- Market share of the top three has increased from 19% in 2000 to around 36% in 2005

### Market share of the top brewers in China



Source: Annual Reports, China Statistical Yearbook, CR Snow

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# Development of the Mainland Beer Market

## Recent transactions in the mainland beer market (pricing based on production capacity)

		US\$/hl
Harbin Brewery HK IPO	Jun-02	28.4
Interbrew increases stake in Zhujiang Beer	Nov-02	20.7
Guangdong Brewery Sale to Parent	Feb-03	17.5
Anheuser-Busch Convertible Bond in Tsingtao	Feb-03	19.8
Harbin Brewery Placement	Mar-03	38.8
InBev bought 70% stake in the KK Brewery	Apr-03	22.7
SAB Miller buys 29.7% in Harbin Brewery	Jul-03	22.5
Tsingtao buys 45% in Hunan Brewery	Aug-03	21.8
Interbrew buys 50% of Lion interests in China	Sep-03	42.0
Scottish & Newcastle acquired 19.51% stake of Chongqing Brewery	Nov-03	35.8
Lion Nathan buys 70% in Hua Xia brewery	Dec-03	31.9
Heineken buys 21% in Guangdong Brewery	Jan-04	63.0
Anheuser-Busch buys 29.1% stake in Harbin Brewery	May-04	36.6
CRB buys 70% in Qianjiang Brewery	Jun-04	20.0
CRB buys 90% in Anhui Longjin Brewery	Jun-04	12.0
Interbrew S.A. buys 70% stake of Zhejiang Shiliang Brewery	Jun-04	38.0
Anheuser-Busch buys 70.9% stake in Harbin Brewery	Jul-04	55.2
Carlsberg and the Danish Industrialization Fund for Developing Countries (IFU) acquire 50% of the Lanzhou Huanghe Enterprise Group's operations in the Gansu and Qinghai provinces	Jul-04	17.0
CRB buys approximately 100% in Lion Nathan's China operation	Oct-04	30.0
InBev acquires the remaining 45% interest in Hunan Debier Brewery	Nov-04	31.1
China Resources Snow Breweries acquired 100% Fuyang City Snowland Brewery Company	Apr-05	10.7
Heineken acquired 40% stake of Jiangsu DaFuHao	Apr-05	20.4
InBev bought the remaining 30% in the KK Brewery	Sep-05	72.2
InBev increased stakes by 1.31% on Zhujiang Beer	Jan-06	97.9
InBev acquires Sedrin Brewery	Jan-06	80.5
China Resources Snow Breweries acquired 85% Quanzhou Qingyuan Brewery Limited	Feb-06	13.0
Average		34.6

Source: Citigroup

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## Development of the Mainland Beer Market

- We paid reasonable prices for new breweries

### Major breweries acquired in 2005 and 2006

Month	Brewery	Stake %	Province	Production capacity* k litres
Aug-05	Anhui Fuyang	100	Anhui	122,000
Oct-05	Hubei Zijiang	100	Hubei	35,000
Nov-05	Hubei Tianmen	100	Hubei	30,000
Dec-05	Hebei Qinhuangdao	90	Hebei	90,000
Feb-06	Fujian Quanzhou Qingyuan	85	Fujian	118,000
				<hr/>
				395,000

\* At the time of acquisition

Note: The above acquisitions have excluded the greenfield brewery to be built in Dongguan which has an ultimate production capacity of 300,000 k litres

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## Branding Strategies

- A three-tier strategy for national, district and fighter brands

<b>Tier</b>	<b>Brand</b>	<b>Future development</b>
National brand	SNOW (雪花)	Extensive investment to develop the brand for the long term
District brands	Zhonghua (中華), Taihushui (太湖水), New3star (新三星), Haden (華丹), Löwen (黑獅), Leedo (麗都), Singo(行吟閣), Bluesword (藍劍), Anshan (鞍山), Dalian (大連), Shengquan (聖泉) etc	Steady investment to ensure stable growth but the number of brands may be reduced
Fighter brands	Tianjin (天津), ChuTan (楚天), YaTai (亞太) etc	For fencing off competition in the short term, no additional investment, gradually phased out

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## Branding Strategies

- CR Snow's top 10 brands in 2005

	Sales volume '000 k litres	Prop of total volume sold %
SNOW (雪花)	1,583	40
Bluesword (藍劍)	478	12
Singo (行吟閣)	301	8
New3star (新三星)	226	6
Zhonghua (中華)	219	6
Haden (華丹)	218	6
Shengquan (聖泉)	120	3
Taihushui (太湖水)	78	2
Löwen (黑獅)	74	2
Qianjiang (錢江)	68	2
		<hr/>
		85

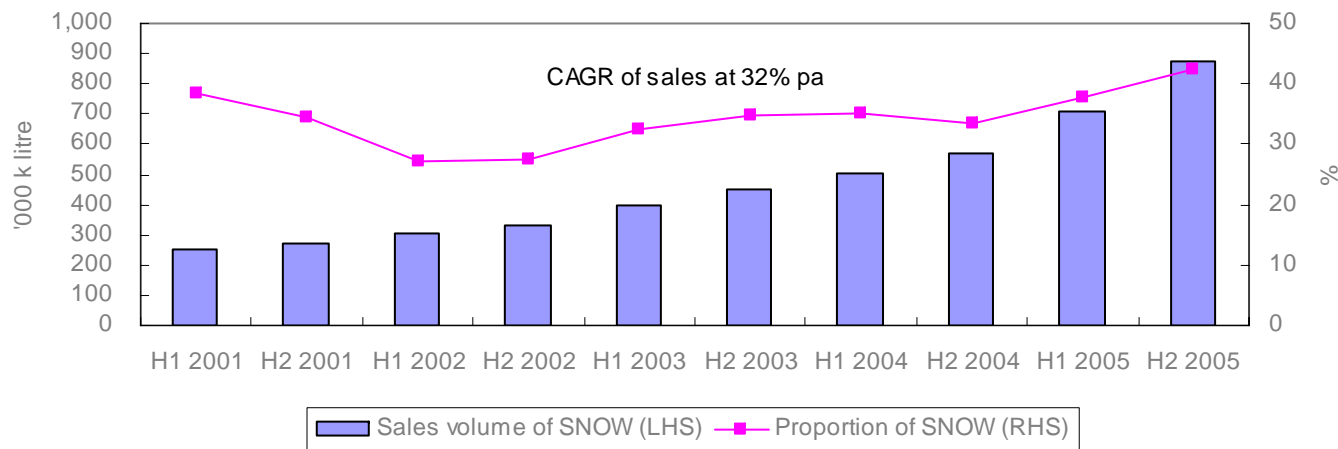
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## Branding Strategies

- The national branding programme for SNOW was only launched in early 2002 but its CAGR has been averaged at 32% for four years
- Approximately 1,583,000 kl of SNOW was sold in FY2005, representing 40% of the total volume sold
- About 64% of SNOW was sold outside Liaoning, its home, and 10% in districts where we do not have brewery, reflecting its rapid penetration

### Sales volume of SNOW + Shenyang brand and its significance



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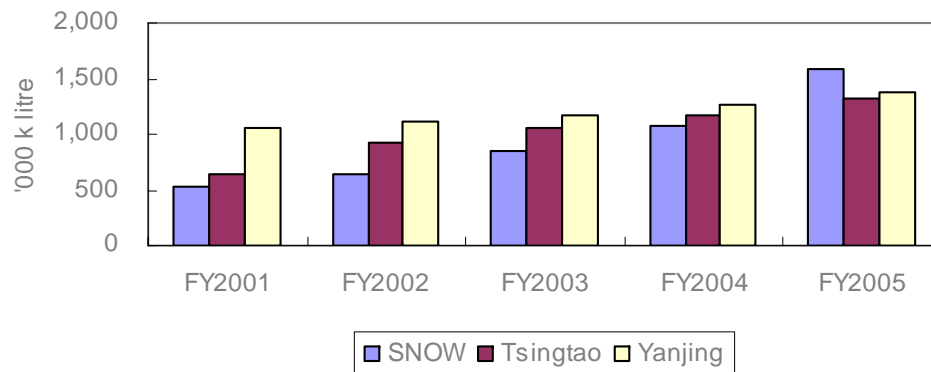




## Branding Strategies

- Sales volume of SNOW increased 47% last year, compared with 14% of Tsingtao brand and an estimated 8% of Yanjing brand, and it has probably become the largest single beer brand in China in terms of sales volume

### SNOW is the fastest growing national brand in China



Source: CR Snow, Annual Reports, ABN

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# Branding Strategies

## International brands in terms of sales volume

Ranking	Brand	Owner	2004 '000 kl	Share %
1	Bud (range)	A-B	4,820	3.1
2	Budweiser	A-B	4,740	3.1
3	Skol	InBev	3,120	2.0
4	Corona	Grupo Modelo	2,820	1.8
5	Heineken	Heineken	2,280	1.5
6	Coors Light	Coors	2,120	1.4
7	Miller Lite	SABMiller	2,070	1.3
8	Brahma Chopp	InBev	1,970	1.3
9	Asahi Super Dry	Asahi	1,960	1.3
10	Busch (range)	A-B	1,580	1.0
11	Yanjing	Yanjing	1,270	0.8
12	Carlsberg	Carlsberg	1,180	0.8
13	Tsingtao	Tsingtao	1,170	0.8
14	Schincariol/Nova Schin	Schincariol	1,140	0.7
15	Carling Black Label	SABMiller	1,130	0.7
16	Michelob (range)	A-B	1,130	0.7
17	San Miguel Pale Pilsen	San Miguel Corp.	1,110	0.7
18	Amstel	Heineken	1,110	0.7
19	Polar (range)	Polar	1,110	0.7
20	<b>SNOW*</b>	<b>CR Snow</b>	<b>1,074</b>	<b>0.7</b>
	<b>Top 20</b>		<b>38,904</b>	<b>25.2</b>
	Others		115,376	74.8
	<b>World Volumes</b>		<b>154,280</b>	<b>100.0</b>
	Top 20 share (%)		25	

\* No. 20 was Guinness Stout with 1,050,000kl according to Plato Logic. Plato Logic's figure of SNOW was not updated

Source: SABMiller, Plato Logic Limited, CR Snow

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## Branding Strategies

- SNOW received the first appraised brand value of RMB8.8bn at the end of last year

### Brand value of national brands

National Brand	FY2004 sales volume '000 kl	yoy chg %	FY2005 sales volume '000 kl	yoy chg %	Brand value (1) RMB bn	Brand value (2) RMB bn	Market cap of the listed company RMB bn *
Tsingtao	1,170	+10	1,330	+14	12.6	20.0	14.9
Yanjing	1,270	+9	1,370	+8	11.2	10.2	7.5
SNOW	1,074	+27	1,583	+47	8.8	na	na

Note: Brand value (1) is from Beijing Brand Appraisal Company (北京名牌資產評估有限公司) released in December 2005

Brand value (2) is from World Brand Laboratory for the top 500 brands in China released in August 2005

\* At 1 April 2006

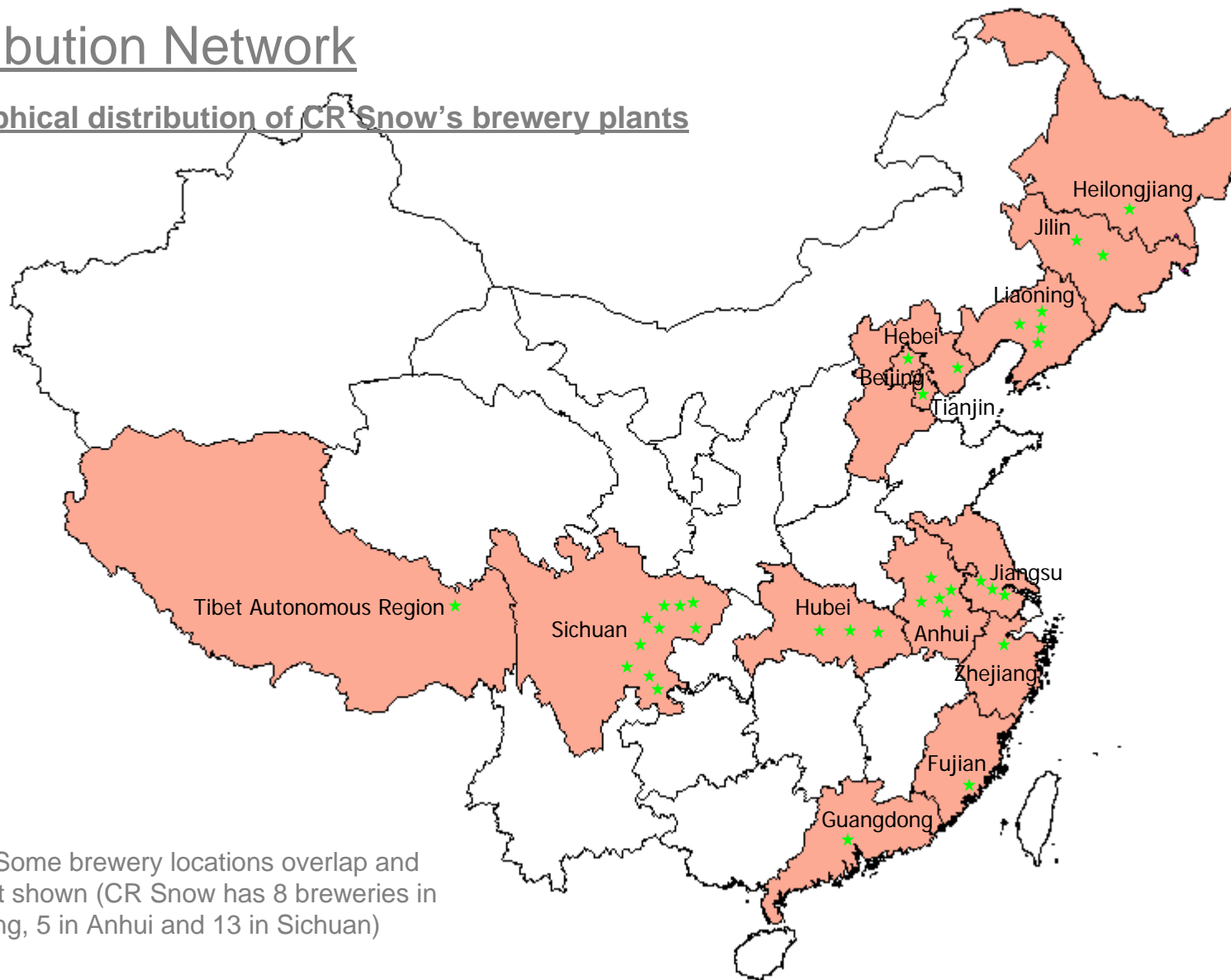
Source: ABN, CR Snow

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# Distribution Network

## Geographical distribution of CR Snow's brewery plants



Note: Some brewery locations overlap and are not shown (CR Snow has 8 breweries in Liaoning, 5 in Anhui and 13 in Sichuan)

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# Distribution Network

## Market share data for key regions

Province	Cities/regions	2005 CR Snow sales ('000 kl)	2005 market sales ('000 kl)	CR Snow market share (%)
Liaoning	Dalian	178	254	70
	Dalian City Area	142	195	73
	Shenyang	305	421	72
	Shenyang City Area	269	350	77
	Entire Province	805	1,900	42
Sichuan	Chengdu	259	275	94
	Chengdu City Area	172	182	95
	Mianyang	54	68	80
	Mianyang City Area	23	26	91
	Entire Province	765	1,100	70
Anhui	Hefei	96	129	75
	Hefei City Area	69	82	85
	Entire Province	456	1,230	37
Hubei	Wuhan	191	297	64
	Entire Province	338	1,330	25
Tianjin	Tianjin City Area	154	217	71
	Entire City	168	400	42
Heilongjiang	Harbin	177	430	41
	Harbin City Area	117	310	38
	Entire Province	331	1,720	19
Jilin	Changchun	120	223	54
	Changchun City Area	75	160	47
	Jilin	83	120	69
	Jilin City Area	46	75	61
	Entire Province	302	870	35
Jiangsu/Zhejiang	Entire Province	482	3,640	13

Source: CR Snow

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## Our Niche

- Ability to expand at low cost – buying our competitors in existing districts
- Regional dominance and extensive distribution network – target to have over 50% market share in the districts we operate
- Centralized management – including procurement, cash allocation, brand development and personnel appointment
- Fast growing national brand, SNOW – reinforced by marketing campaigns and unique brand positioning
- Capability to turn around loss making breweries – through costs savings, improvement in utilization rate and expenses reduction
- Strong financial support from CRE and SAB Miller

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## A New Phase with Profitability Focus

- Unlike the retailing sector, the mainland brewery market has been undergoing consolidation for more than ten years and is now in a steady phase
- There is improving pricing power generally and the significance of branding is rising
- For the next five years, we believe the top three brewers will account for about half of the market and one or two real national brands will emerge
- For CR Snow, it has developed a fast growing national brand targeting the mid-stream, a well articulated national distribution network through integration and dominant market presence in the key districts
- It has positioned itself for the next phase of growth with an emphasis on ROE

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## Peer Comparison

- High valuation for CR Snow using the listed peers as benchmark

### Peer comparison using current share prices and FY2004 operational data

	Tsingtao	Yanjing	Kingway	CR Snow	CR Snow
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
<b>Performance:</b>	<u>FY2004</u>	<u>FY2004</u>	<u>FY2004</u>	<u>FY2004</u>	<u>FY2005</u>
Beer sales volume (kl)	3,710,000	2,850,000	386,308	3,134,471	3,948,339
Beer production capacity (kl)	5,137,600	3,319,680	395,200	5,518,261	5,810,546
Turnover	7,395	3,889	925	5,079	6,855
EBITDA	1,026	775	279	905	1,047
Earnings	274	254	166	221	282
Net margin (%)	3.7	6.5	18.0	4.4	4.1
ROE (%)	6.0	6.3	10.1	6.4	5.0 *
ROCE (%)	6.5	6.5	11.4	5.8	7.0
<b>Valuation:</b>					
Share price (@1/4/2006)	HK\$10.80	RMB7.41	HK\$3.35	na	na
Market cap (HK\$m)	14,129	7,246	4,636	na	na
EV	15,383	8,014	4,138	na	na
PER (x)	51.1	27.9	27.9	na	na
EV/EBITDA (x)	15.0	10.3	14.8	na	na
EV per hectolitre on capacity (US\$/hl)	38.4	30.9	134.2	na	na

Hypothetical value of CR Snow using peers' :-	Lowest	Highest
- PER	6,180	11,326
- EV/EBITDA	9,350	13,560
- EV/hl	13,321	57,784
- Average	9,617	27,557

\* CR Snow's FY2005 ROE would have been 7.2% if the shareholders' loans amounting to HK\$1.7bn were not converted in FY2005

Note: Adjustments were made for the difference in accounting standards between different companies

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## Appendix I – Definition of Our Supermarket Format

<u>CR Vanguard</u>	Hypermarket		Superstore	Standard supermarket
	Existing	SSP		
Size	10,000-23,000 sm	av 12000 sm (hypermarket of 7,000 sm + mall of 5,000 sm)	4,000-6,000 sm	av 500 sm
Assortment	25,000 SKU	16,000 SKU	7,000-11,000 SKU	3,000 SKU
Product mix	55% food (incl. HBA), 45% non food	63% food (incl. HBA), 37% non food	70% food (incl. HBA), 30% non food	90% food (incl. HBA), 10% non food
Location of stores	Shenzhen, Guangzhou	First and second tier cities of major provinces	Second and third tier cities of major provinces	All districts
Penetration	Major residential and commercial districts	Major residential districts	Major residential districts	All residential districts
Strategies	One-stop shopping, rich merchandising	Attractive pricing, one-shop shopping with complementary shops in the same property	Attractive pricing, product differentiation	Convenience

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## Appendix I – Definition of Our Supermarket Format (cont'd)

<u>Suguo</u>	Hypermarket	Superstore	Standard supermarket	Convenience store
Size	7,000-18,000 sm	av 4,000 sm	av 500 sm	av 150 sm
Assortment	20,000 SKU	7,000 SKU	4,000 SKU	2,000 SKU
Product mix	50% food (incl. HBA), 50% non food	55% food (incl. HBA), 45% non food	53% food (incl. HBA), 47% non food	65% food (incl. HBA), 35% non food
Location of stores	Jiangsu, Anhui	Jiangsu, Anhui	Jiangsu, Anhui	Jiangsu, Anhui
Penetration	Prosperous commercial districts	Residential districts	Main roads and city outskirts	Scattered in the Nanjing city
Strategies	One-stop shopping	One-stop shopping for residents in small districts	Fill the gap of superstore and convenience store	Provide convenience with its extensive coverage

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## Appendix II – Snow’s Packaging (selective)



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