



華潤創業有限公司

China Resources Enterprise, Limited



Financial and operational review

Q3 2014

Investor presentation

14 November 2014

整裝待發!

Get Ready
for the next Journey!

Results Summary

	Q3 2014	Q3 2013	change	Q3 YTD 2014	Q3 YTD 2013	change
	HK\$m	HK\$m		HK\$m	HK\$m	
Turnover	47,551	40,583	+17%	131,057	112,440	+17%
EBITDA - Basic	2,396	3,345	-28%	7,117	7,562	-6%
EBITDA - Underlying*	2,303	3,333	-31%	6,765	7,533	-10%
Earnings	(71)	920	-108%	858	1,938	-56%
Underlying net profit*	(101)	911	-111%	567	1,916	-70%
ROE (%) (based on earnings)				1.7	4.6	-63%
ROE (%) (based on underlying net profit*)				1.1	4.5	-76%
Net cash				2,342	2,575	-9%

* EBITDA/Earnings from core businesses excluding the after-tax effect of asset revaluation and major disposal of non-core assets/investments and after accounted for net corporate interest & expenses



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Turnover Breakdown - by Divisions

	Q3 2014 HK\$m	Prop	Q3 2013 HK\$m	Prop	change	Q3 YTD 2014 HK\$m	Prop	Q3 YTD 2013 HK\$m	Prop	change
Core businesses										
Retail	29,582	62%	23,920	58%	+24%	82,171	62%	71,827	64%	+14%
Beer	10,911	23%	11,332	28%	-4%	29,386	22%	27,410	24%	+7%
Food	4,334	9%	3,171	8%	+37%	12,369	10%	8,175	7%	+51%
Beverage	3,162	6%	2,494	6%	+27%	8,219	6%	5,869	5%	+40%
	47,989	100%	40,917	100%	+17%	132,145	100%	113,281	100%	+17%
Less: inter-co transactions	(438)		(334)			(1,088)		(841)		
Turnover – total	47,551		40,583		+17%	131,057		112,440		+17%



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Underlying Net Profit Breakdown - by Divisions

	Q3 2014 HK\$m	Prop	Q3 2013 HK\$m	Prop	change	Q3 YTD 2014 HK\$m	Prop	Q3 YTD 2013 HK\$m	Prop	change
<i>Core businesses</i>										
Retail	(732)	(1785%)	75	8%	-1076%	(293)	(36%)	699	34%	-142%
Beer#	625	1524%	749	79%	-17%	1,042	129%	1,107	55%	-6%
Food	(19)	(46%)	30	3%	-163%	(91)	(11%)	101	5%	-190%
Beverage##	85	207%	90	10%	-6%	151	18%	129	6%	+17%
	(41)	(100%)	944	100%	-104%	809	100%	2,036	100%	-60%
Net corporate int. & expenses	(60)		(33)			(242)		(120)		
Underlying Net Profit	(101)		911		-111%	567		1,916		-70%
<i>Adjustment</i>										
Net valuation surplus on investment properties	30		9		+233%	291		22		+1223%
Earnings	(71)		920		-108%	858		1,938		-56%

The above profit was 51% profit attributable to CRE.

The above profit was 60% profit attributable to CRE.

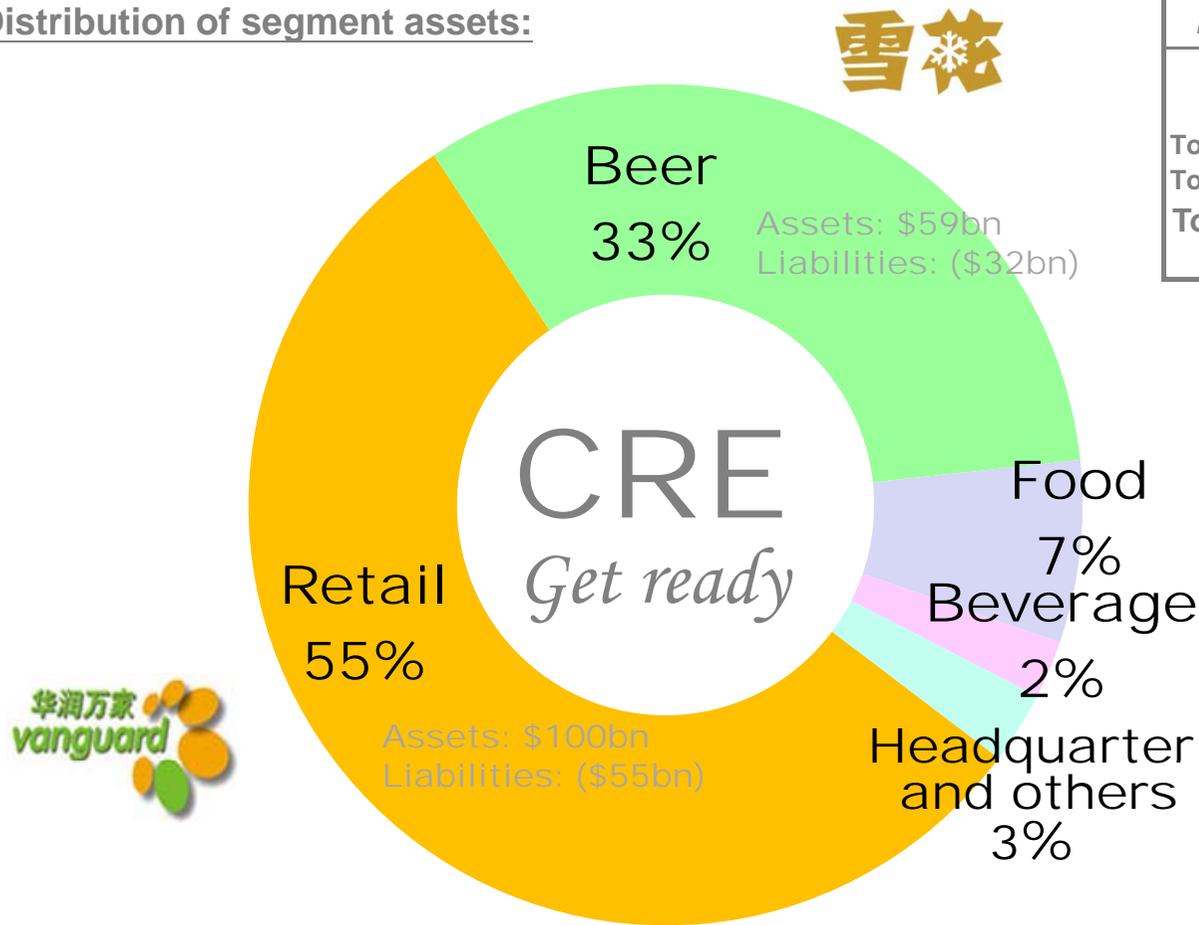
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Segment assets

- Unique with four consumer businesses complementing each other

Distribution of segment assets:

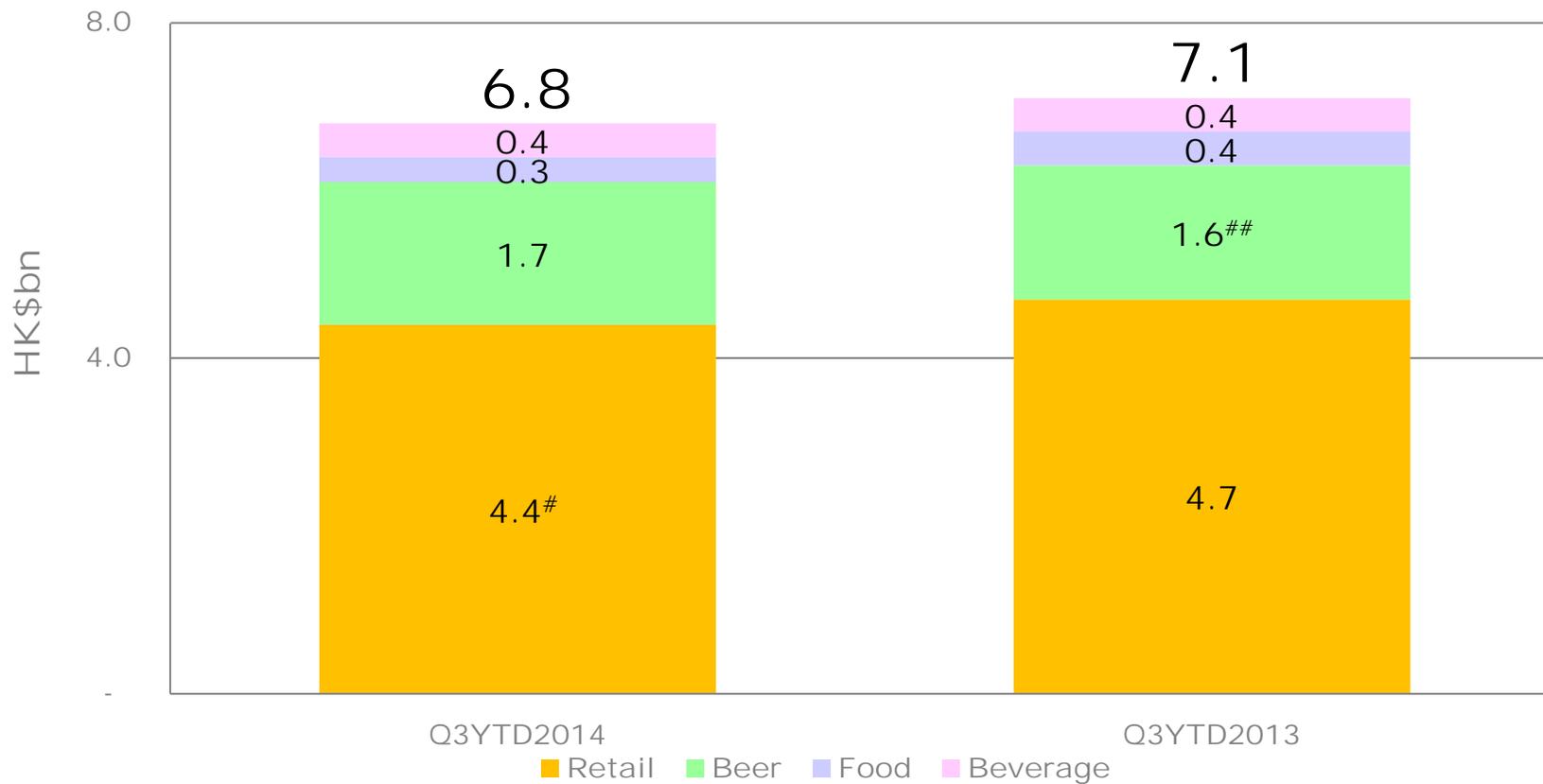


	30 Sep 14	31 Dec 13	change
	HK\$m	HK\$m	
Total assets	180,585	155,289	+16%
Total liabilities	(108,278)	(95,678)	-13%
Total equity	72,307	59,611	+21%

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CAPEX

- Grasping opportunities through expansion



The CAPEX did not include CAPEX from Tesco JV of approximately \$12.8bn at 28 May 2014.

The CAPEX did not include Kingway acquisition of approximately \$6.1bn.

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Notation:

Retail shop no. (no. of hypermarket) [addition in past 12 months]

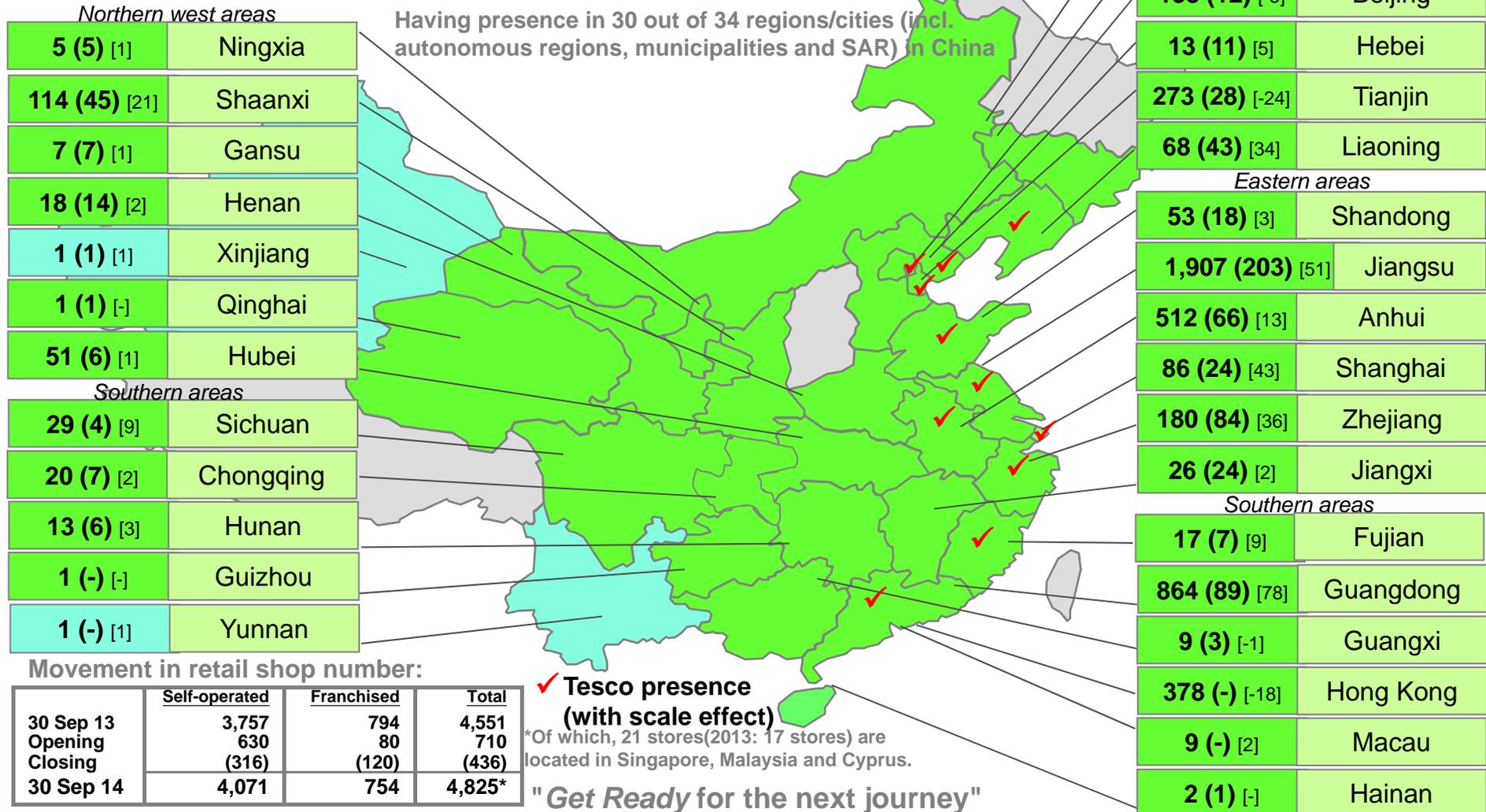
Region

New region

Retail

- Growth through: Multi-format with regional leadership

Geographical distribution of retail network



Movement in retail shop number:

	Self-operated	Franchised	Total
30 Sep 13	3,757	794	4,551
Opening	630	80	710
Closing	(316)	(120)	(436)
30 Sep 14	4,071	754	4,825*



- Growth through: Multi-format with regional leadership

Synergy: Multi-format experience

Leveraging global and local expertise to extend multi-format strategy



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- Growth through: Multi-format with regional leadership

Win-win strategy: Advanced knowledge with local network

Establishing a Joint Task Force

- ✓ The Joint Task Force comprising management from CRV and Tesco
- ✓ Facilitate smooth integration of the businesses
- ✓ Overseeing the continued development and expansion of the Joint Venture
- ✓ Implementing improvement of internal operations and systems

Key focus areas

- 1 Improving Tesco China
- 2 IT
- 3 Private label
- 4 Loyalty card and CRM
- 5 Inventory management
- 6 E-commerce
- 7 Sourcing

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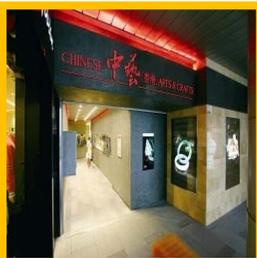
Retail

- Growth through: Multi-format with regional leadership

Business model

Winning market share by

- Multiple-format store approach
- Multiple distribution centres (more than 16 D.C.)
- Trade-up strategy
- Innovative in format
- Regional focus



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Retail

- Growth through: Multi-format with regional leadership

In a shopping mall

6 formats in Guangzhou

Taikoo Hui (Swire properties):



5 formats in Beijing

Galleria (CR Land):



In a city

5 formats in Nanjing:



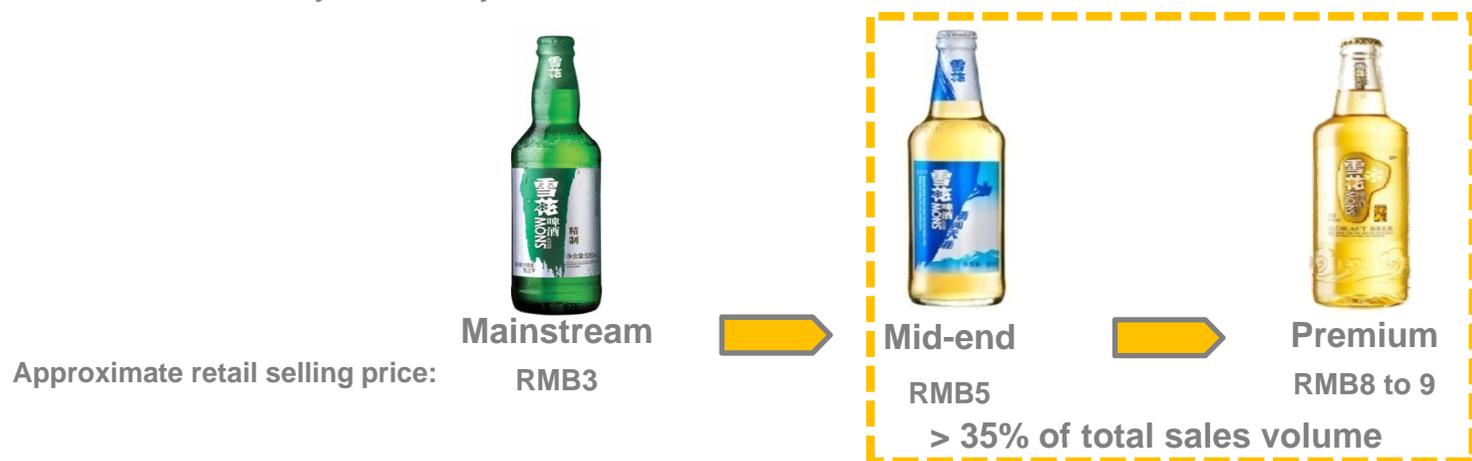
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Beer (No.1 brand by volume in the world since 2008) 雪花

- Growth through: Solidifying market leader position and upgrade of product mix

	Q3 2014 HK\$m	Q3 2013 HK\$m	change	Q3 YTD 2014 HK\$m	Q3 YTD 2013 HK\$m	change
Sales volume (million KL)	3.82	4.07	-6%	10.12	9.83	+3%
Turnover	10,911	11,332	-4%	29,386	27,410	+7%
EBITDA	2,118	2,290	-8%	4,409	4,218	+5%
Earnings (#)	1,225	1,468	-17%	2,044	2,171	-6%
EBITDA margin (%)	19.4	20.2	-4%	15.0	15.4	-3%
Net margin (%) (#)	11.2	13.0	-14%	7.0	7.9	-11%

Performance was mainly affected by bad weather situation in eastern China in contrast to hot summer in Q3 2013.



(#) Profit attributable to CRE was 51% share of the above earnings.

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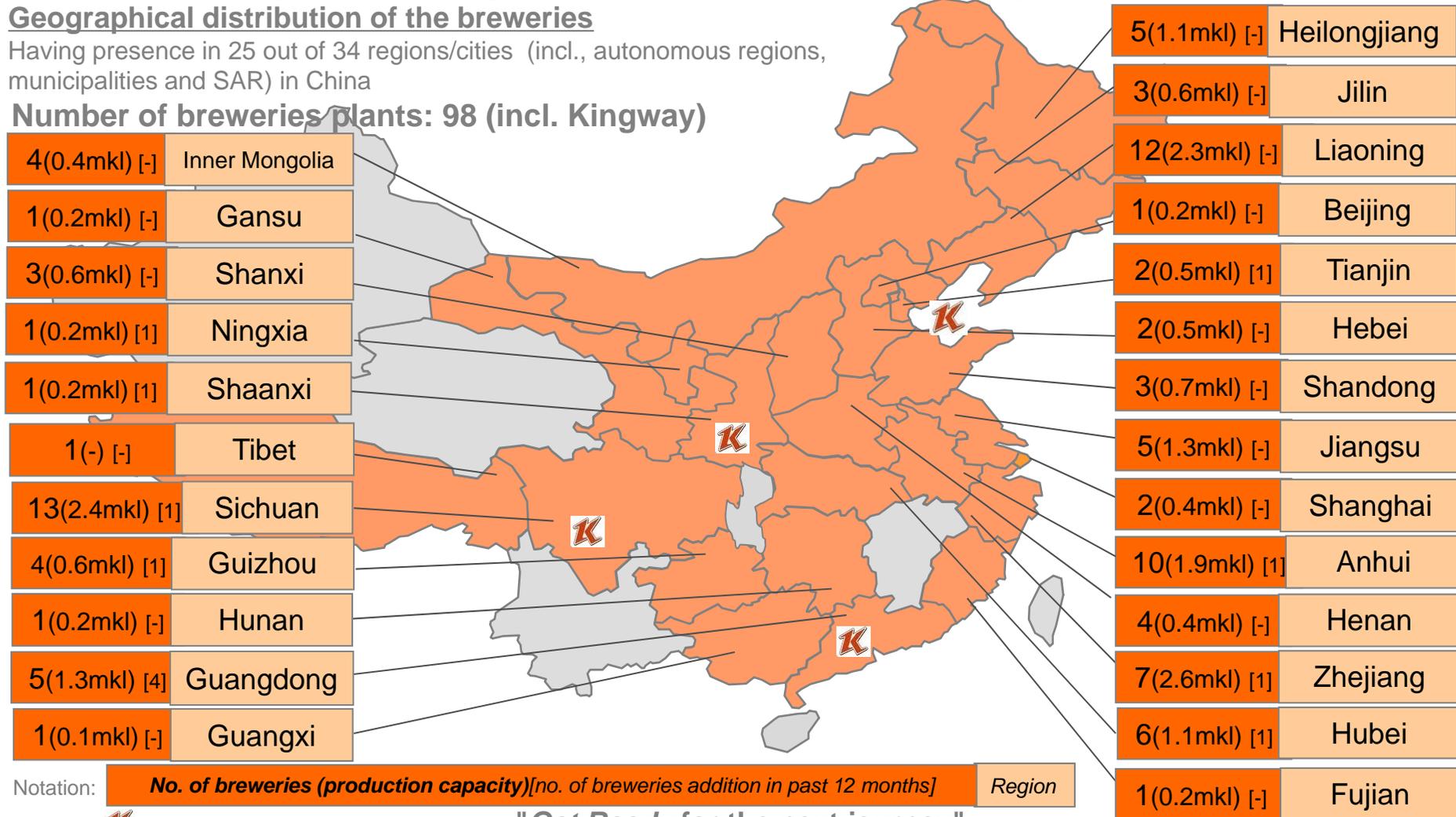
Beer (No.1 brand by volume in the world since 2008) 雪花

▪ Growth through: Solidifying market leader position and upgrade of product mix

Geographical distribution of the breweries

Having presence in 25 out of 34 regions/cities (incl., autonomous regions, municipalities and SAR) in China

Number of breweries plants: 98 (incl. Kingway)



Notation: **No. of breweries (production capacity)**[no. of breweries addition in past 12 months] **Region**

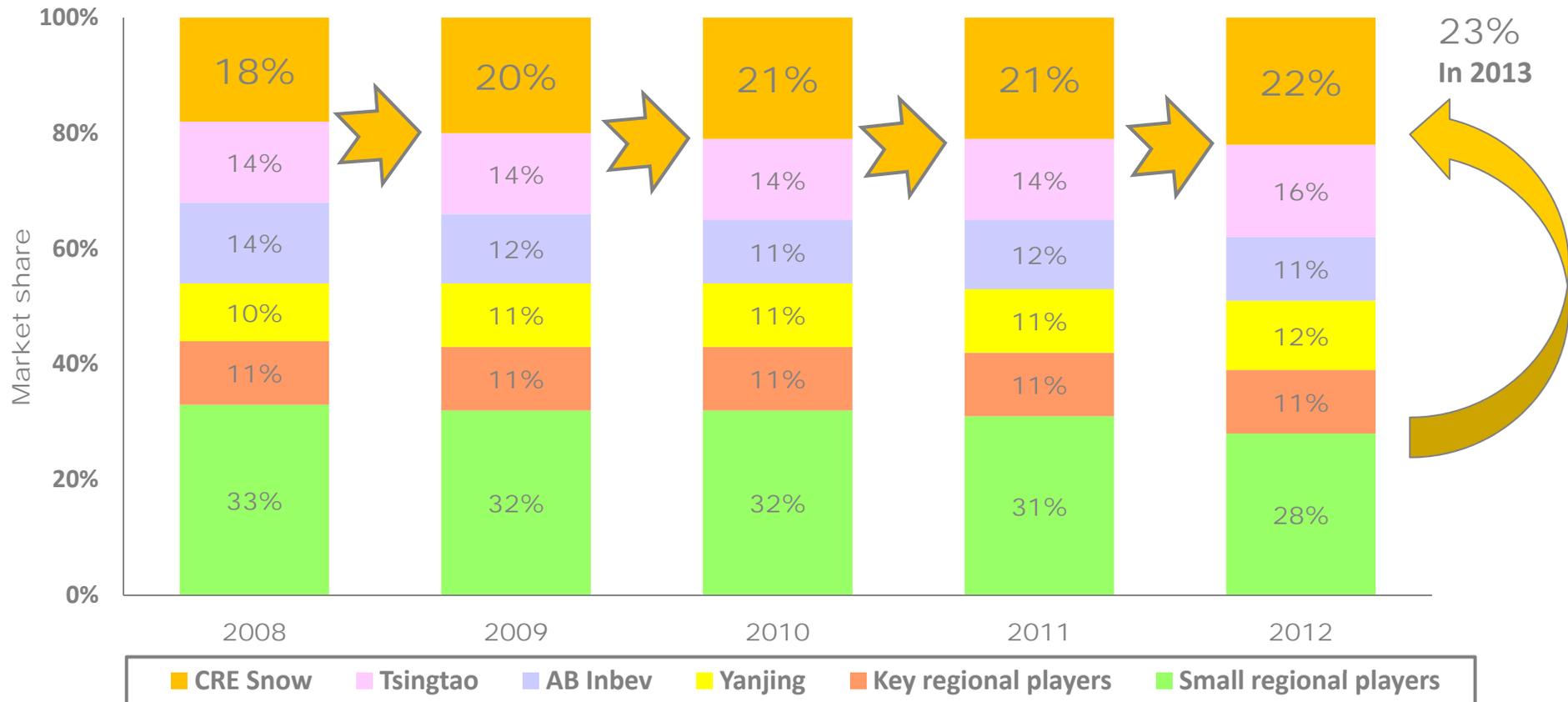
K Incl. Kingway brewery plants "Get Ready for the next journey"

Beer (No.1 brand by volume in the world since 2008) 雪花

- Growth through: Solidifying market leader position and upgrade of product mix

Distribution of China beer market share:

Total market share of top 4 players was 61% in 2012, of which Snow has 22%.



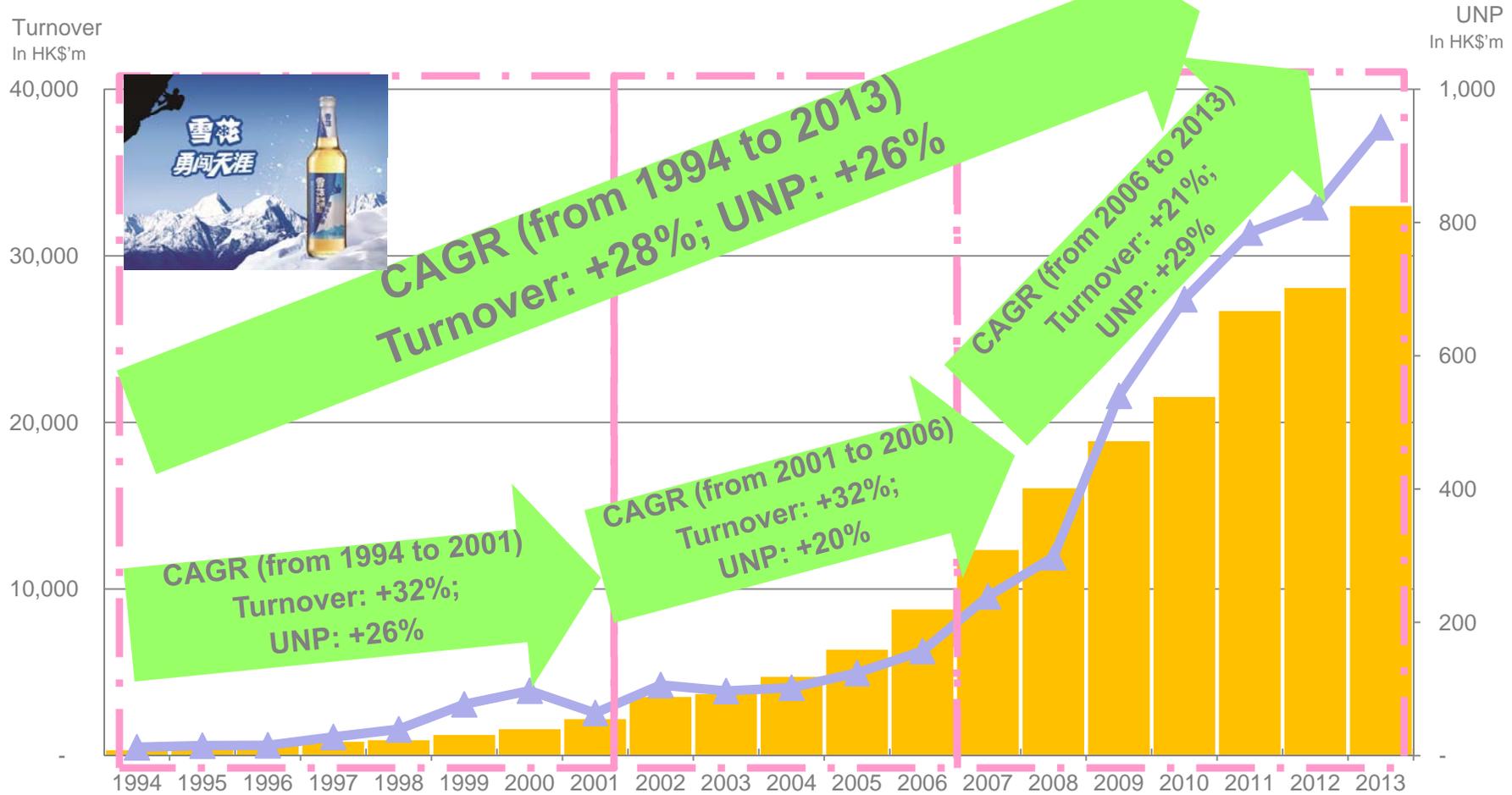
Source: State Statistical Bureau and CR Snow

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Beer (No.1 brand by volume in the world since 2008)



- Strong robust growth in both turnover and profitability



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▪ Growth through: Quality premium products

	Q3 2014 HK\$m	Q3 2013 HK\$m	change	Q3 YTD 2014 HK\$m	Q3 YTD 2013 HK\$m	change
Turnover	4,334	3,171	+37%	12,369	8,175	+51%
EBITDA	87	134	-35%	254	385	-34%
Earnings	(19)	30	-163%	(91)	101	-190%
EBITDA margin (%)	2.0	4.2	-52%	2.1	4.7	-55%
Net margin (%)	(0.4)	0.9	-144%	(0.7)	1.2	-158%

Profitability was mainly affected by initial investment on rice distribution business.

Business Model

- One of the leading integrated food suppliers in China
- Increasing focus on China
- High food safety standard
- Product differentiation
- A variety of food products offered to customers



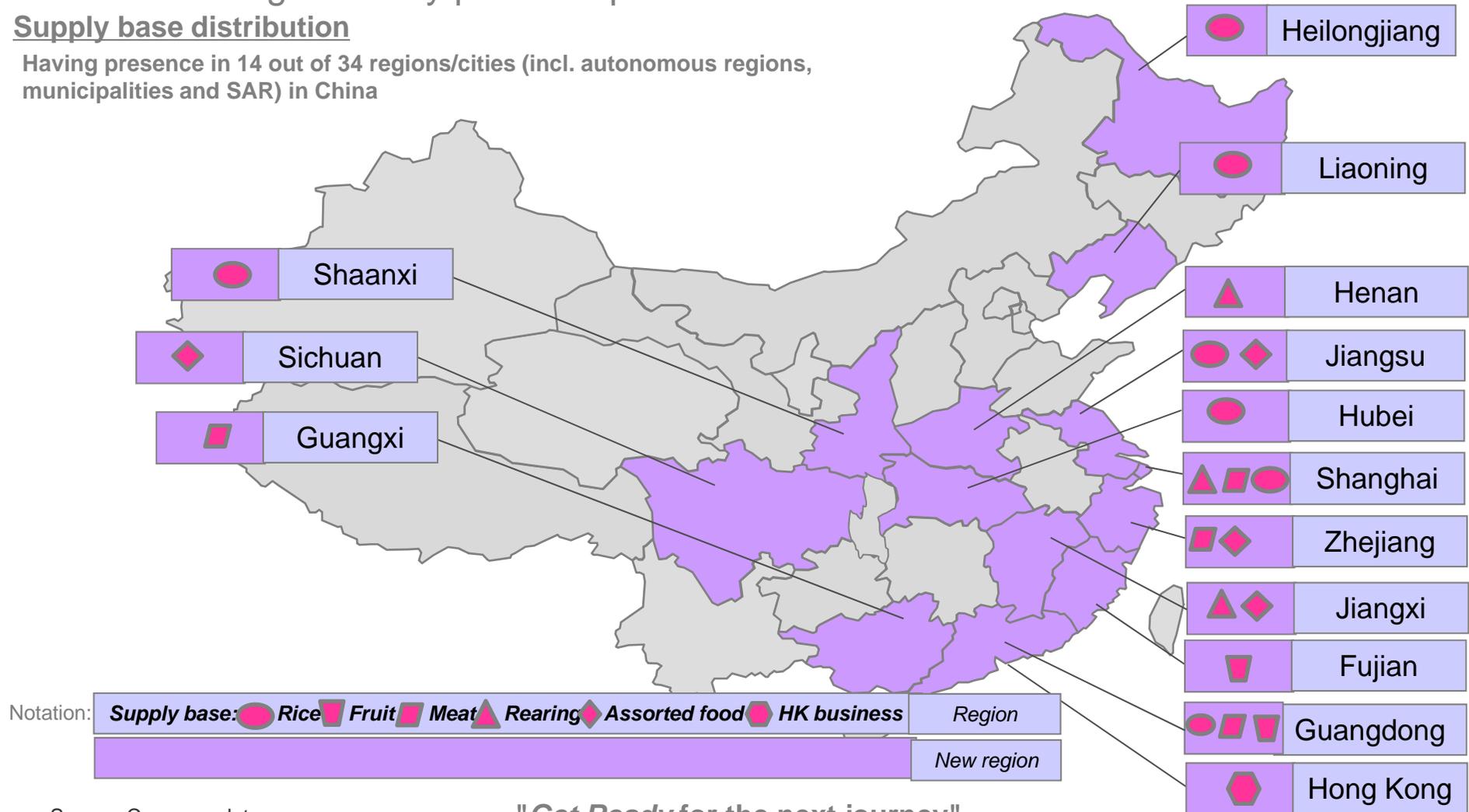
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▪ Growth through: Quality premium products

Supply base distribution

Having presence in 14 out of 34 regions/cities (incl. autonomous regions, municipalities and SAR) in China



Source: Company data

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Beverage



- Growth through: strong partnership with Kirin

	Q3 2014 HK\$m	Q3 2013 HK\$m	change	Q3 YTD 2014 HK\$m	Q3 YTD 2013 HK\$m	change
Sales volume (million KL)	2.18	1.69	+29%	5.40	3.96	+37%
Turnover	3,162	2,494	+27%	8,219	5,869	+40%
EBITDA	233	218	+7%	446	352	+27%
Earnings (#)	142	151	-6%	253	217	+17%
EBITDA margin (%)	7.4	8.7	-15%	5.4	6.0	-10%
Net margin (%) (#)	4.5	6.1	-26%	3.1	3.7	-16%

Turnover growth was mainly driven by higher sales volume.



- wide distribution network
- rich experience in China retails
- successful co-operation with foreign players
- competitive advantage with other CR group companies

- strong R&D capability
- rich experience in beverage business
- a variety of products
- high technology on manufacture of beverage products



(#) Profit attributable to CRE was 60% share of the above earnings since August 2011.

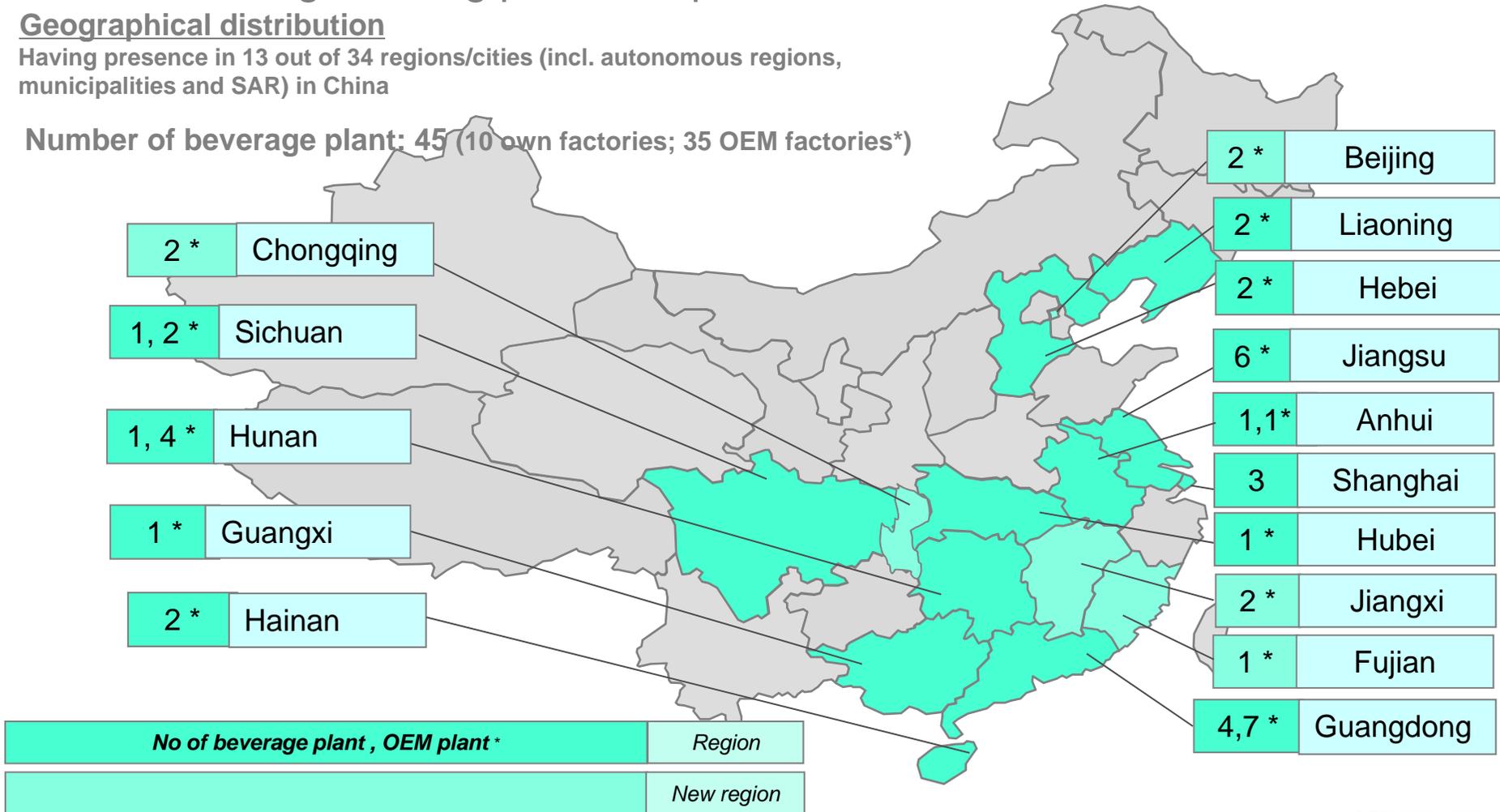
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■ Growth through: strong partnership with Kirin

Geographical distribution

Having presence in 13 out of 34 regions/cities (incl. autonomous regions, municipalities and SAR) in China

Number of beverage plant: 45 (10 own factories; 35 OEM factories*)



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Appendix I – Details of Retail formats

Format	Major brands	Average areas (sq.m)	30 Sep 14				31 Dec 13		30 Sep 13	
			% of turnover	App. Average GP margin	Self-operated	Franchised	Self-operated	Franchised	Self-operated	Franchised
<i>I. Hypermarket</i>		Over 6,000	app.78%	20%	704	13	563	13	547	13
<i>II. Standard supermarket</i>		500 – 800	app.10%	21%	1,373	628	1,370	681	1,371	681
<i>III. Convenience stores</i>		30 – 120	app.4%	23%	1,253	71	1,174	70	1,149	67
<i>IV. Ole', blt</i>		4,000	app.3%	more than 25%	41	-	40	-	36	-
<i>V. Pacific Coffee</i>		120	app.1%	more than 50%	356	42	328	37	308	33
<i>VI. CAC and CR Care</i>		various	app.2%	more than 25%	157	-	155	-	160	-
<i>VII. Health and beauty stores</i>		200	less than 1%	more than 25%	161	-	168	-	164	-
<i>VIII. Wine cellar and others</i>		200	app. 2%	Various	26	-	15	-	22	-
Total					4,071	754	3,813	801	3,757	794
					4,825		4,614		4,551	

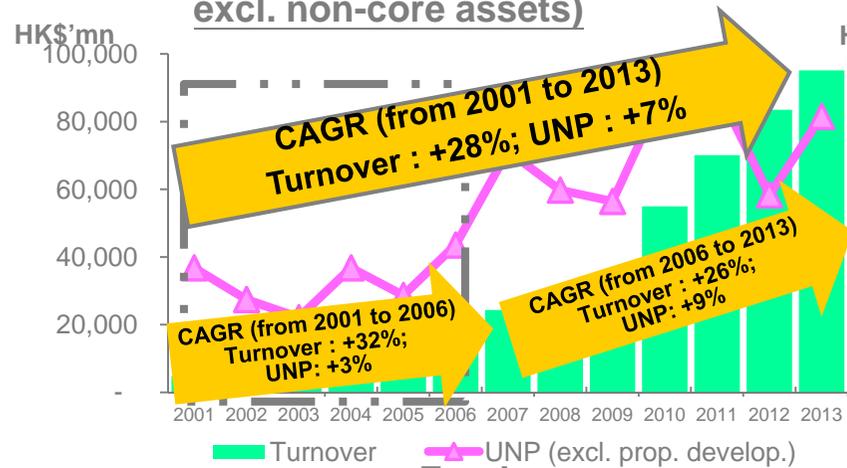
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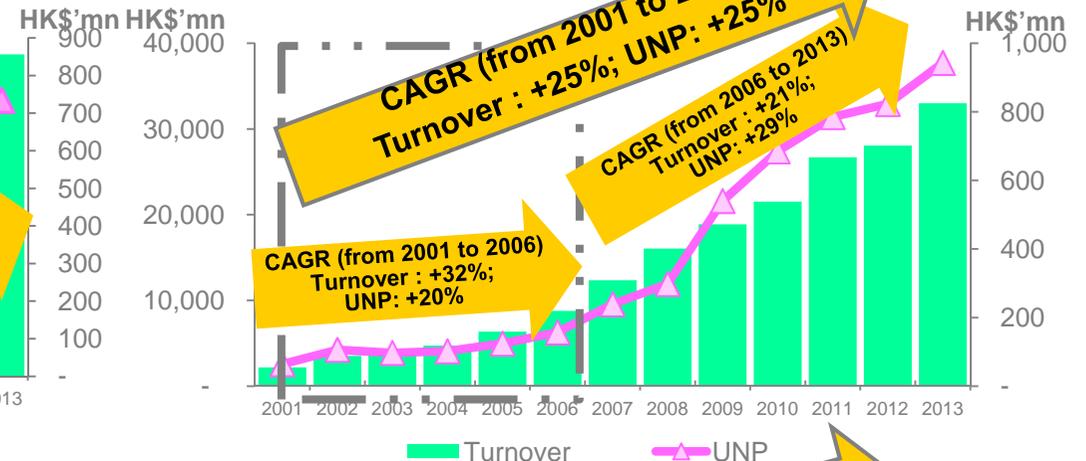
Appendix II – Historical track record of CRE

Strong growth momentum in each businesses

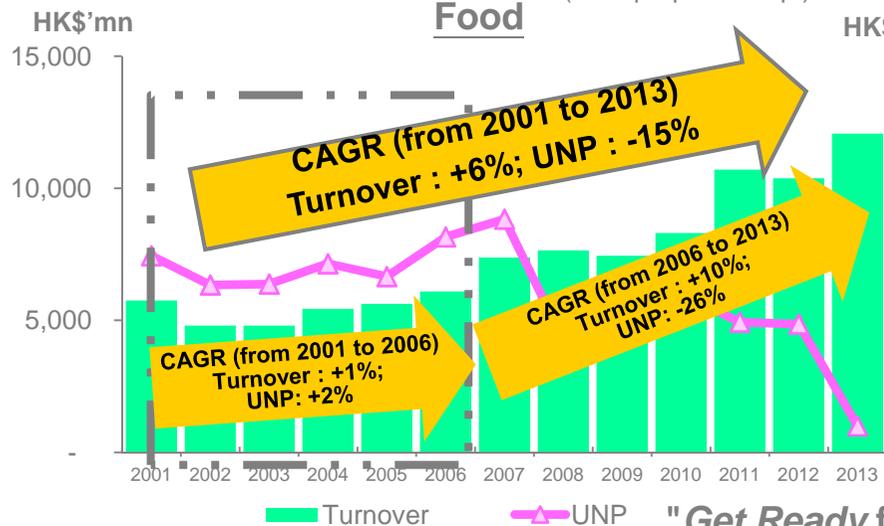
Retail (incl. investment property, excl. non-core assets)



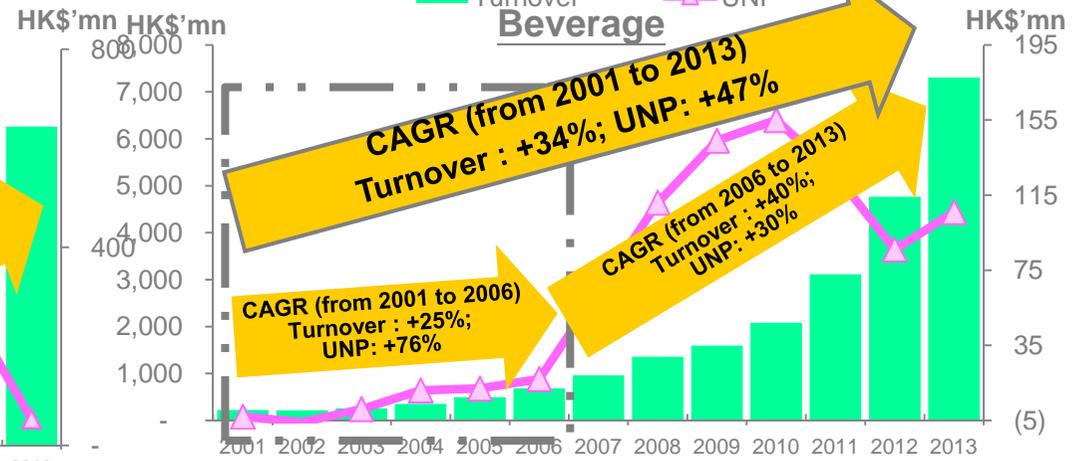
Beer



Food



Beverage

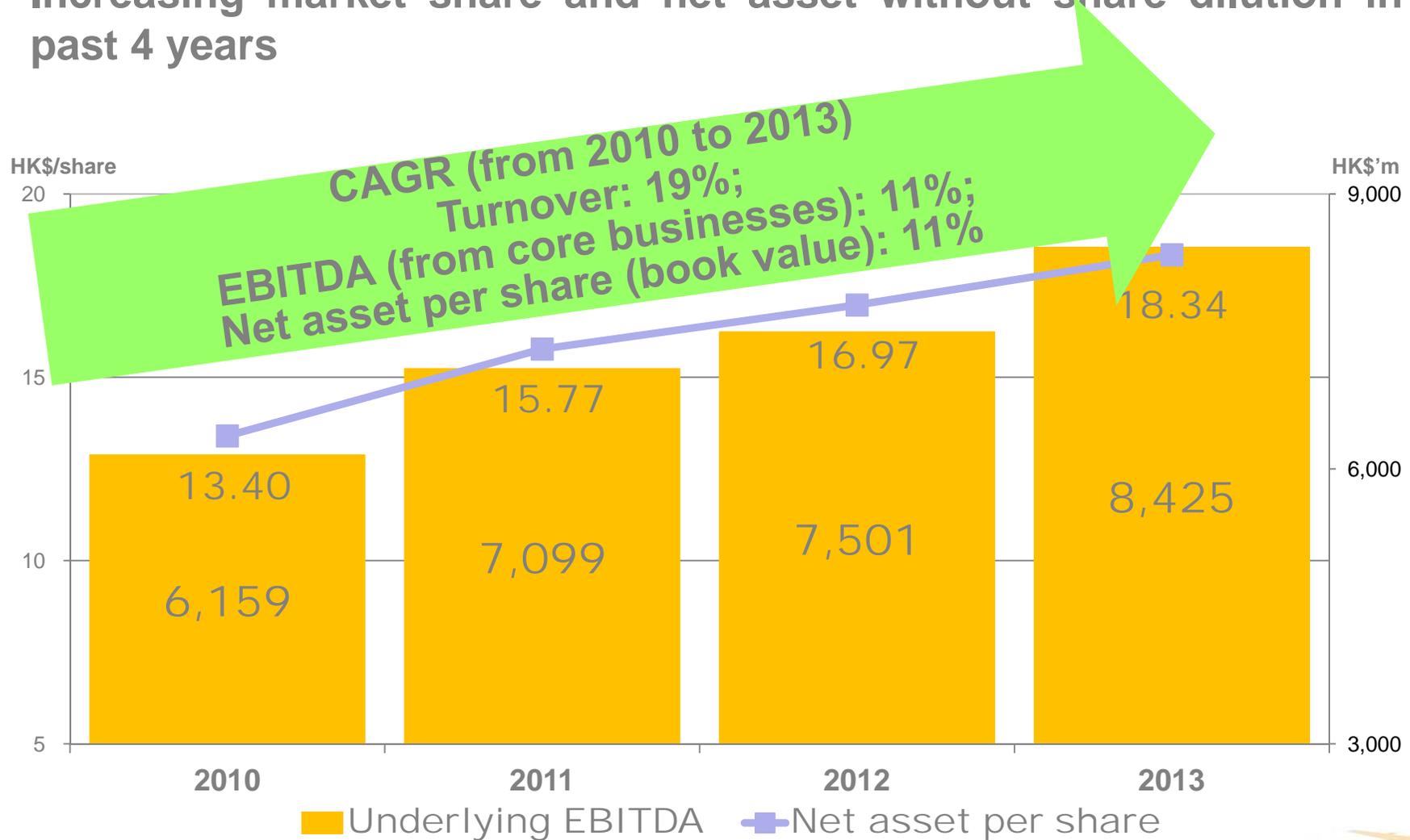


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* Decline of UNP in 2011 and 2012 was mainly due to 40% share to Kirin since August 2011.

Appendix III – Historical operating summary

- Increasing market share and net asset without share dilution in past 4 years

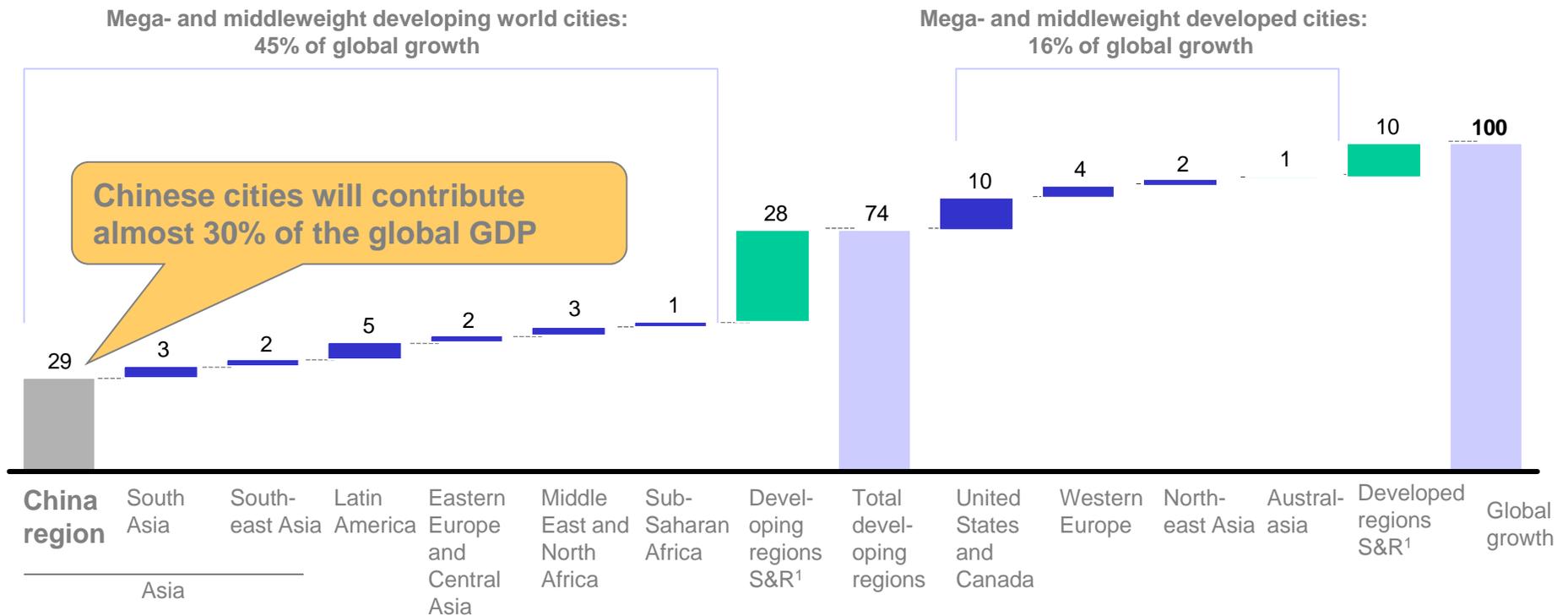


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Appendix IV – Strong growth in China

Strong growth in China

According to McKinsey, top 225 cities of China will contribute app. 30% of global GDP growth in the next 10-15 years.



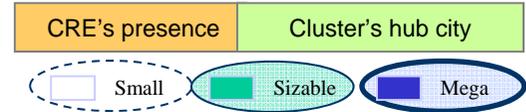
Source: McKinsey

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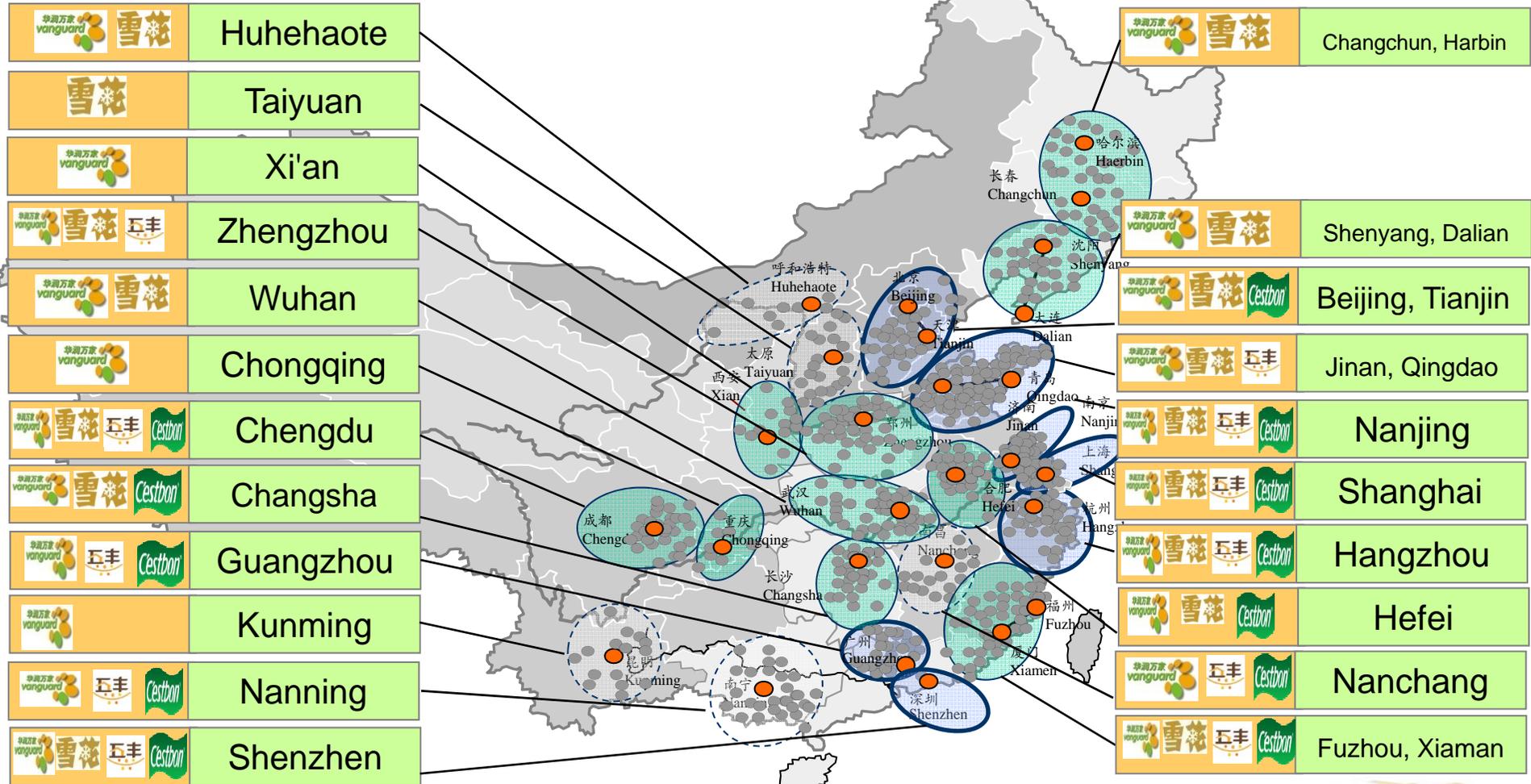
Appendix V – Better position for CRE

Notation:
Expected cluster size:



■ Better positioning to capture strong growth in China

According to McKinsey, more than 90% of China's urban GDP in 2015 will come from 22 clusters.



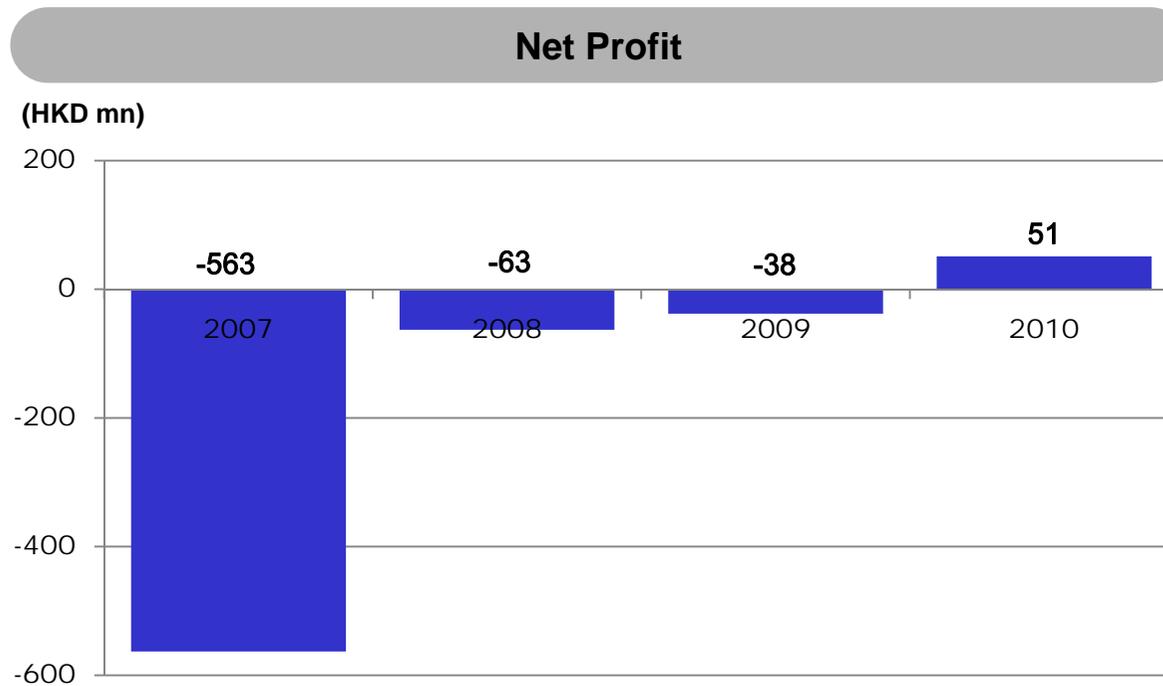
Source: McKinsey and Company data

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Appendix VI – Experience in Homeworld's turnaround



Management with experience and abilities to turnaround of loss-making acquisition in retail business:



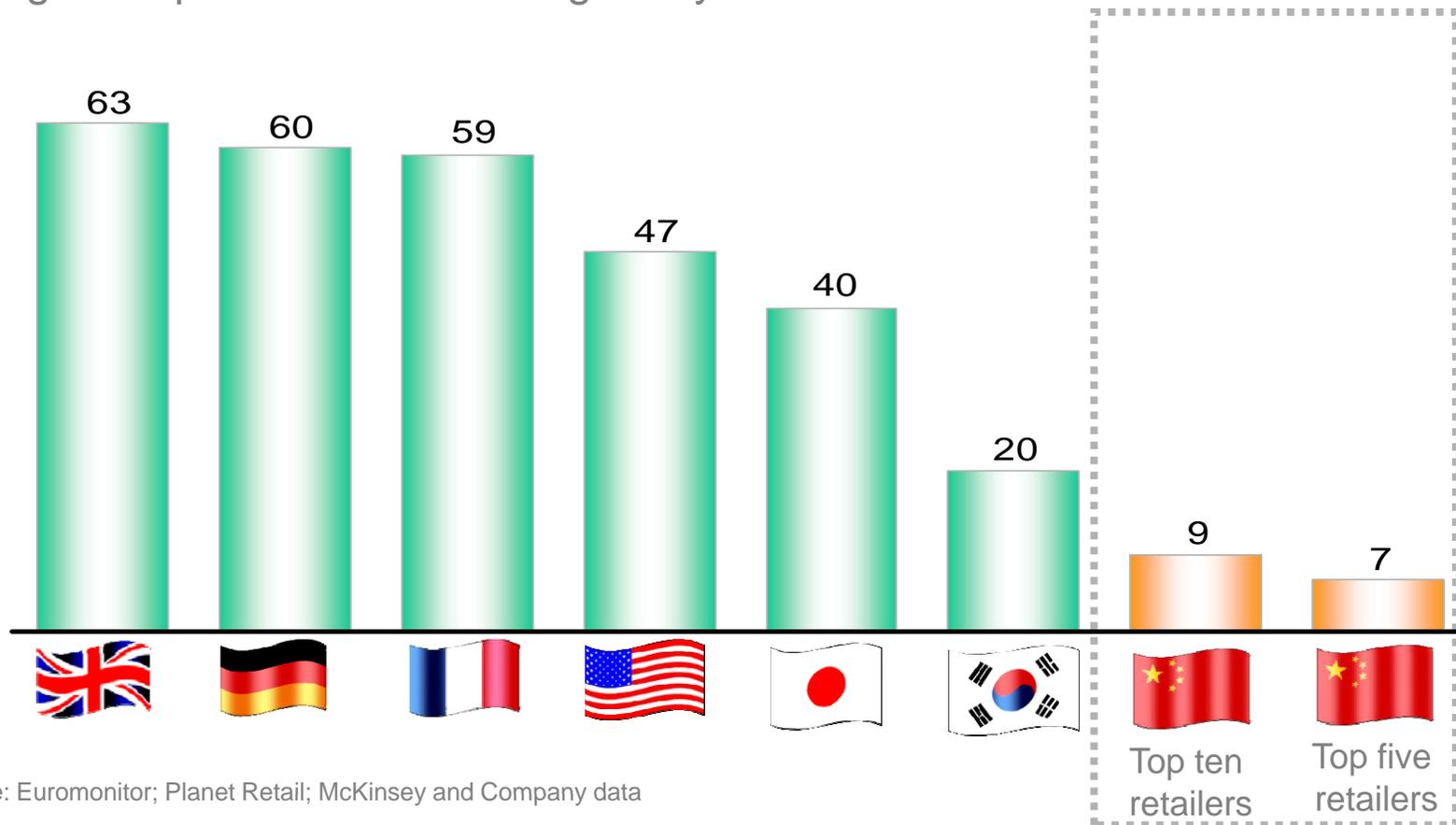
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Appendix VII – Market share of Retail business

Lower market concentration in China than other developed countries:

Percentage of top 5 retailers to total grocery retail market share in the state:



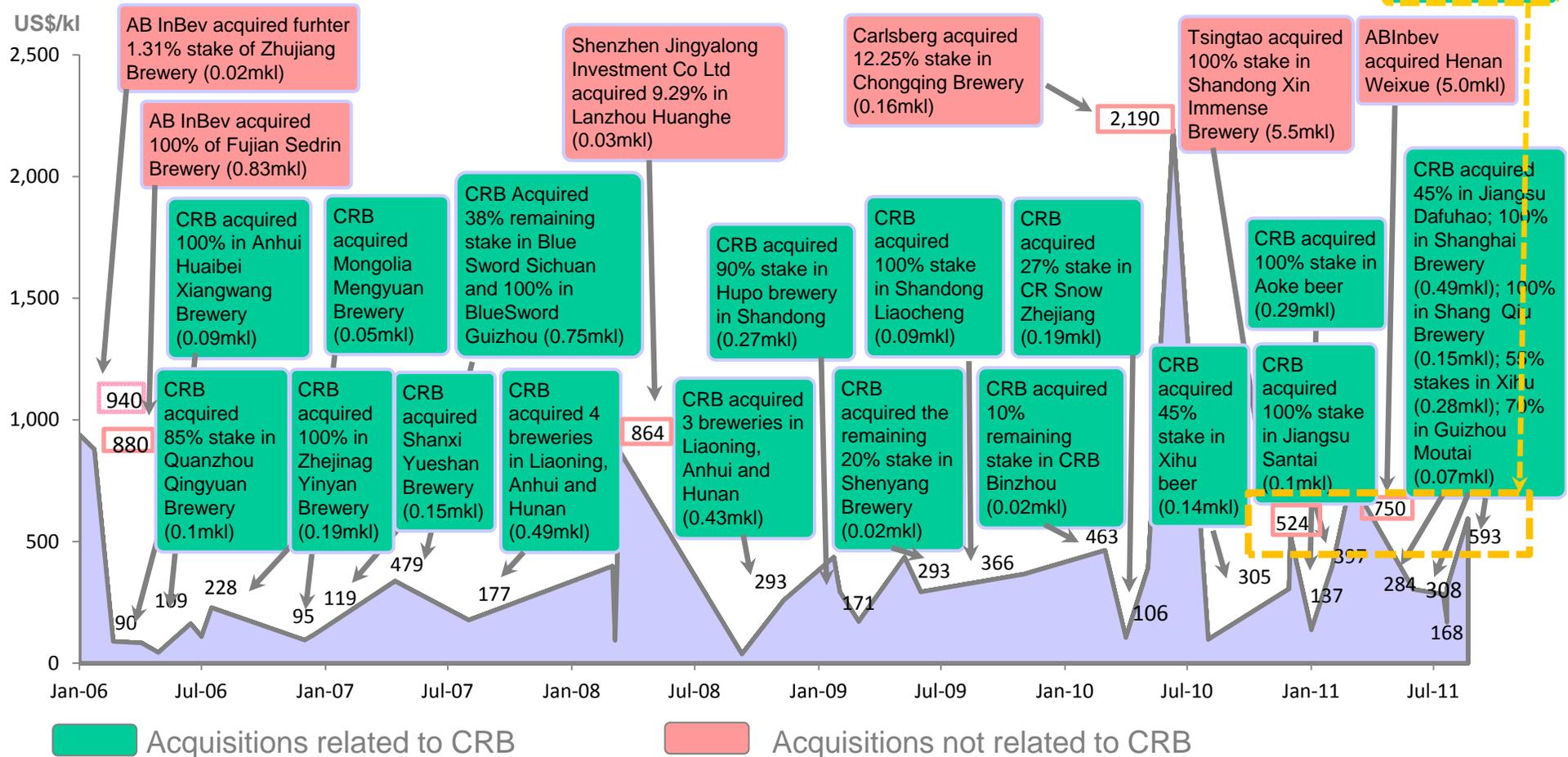
Source: Euromonitor; Planet Retail; McKinsey and Company data

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Appendix VIII – Historical major M&As in beer business

Strong bargaining power and lower acquisition cost on M&A



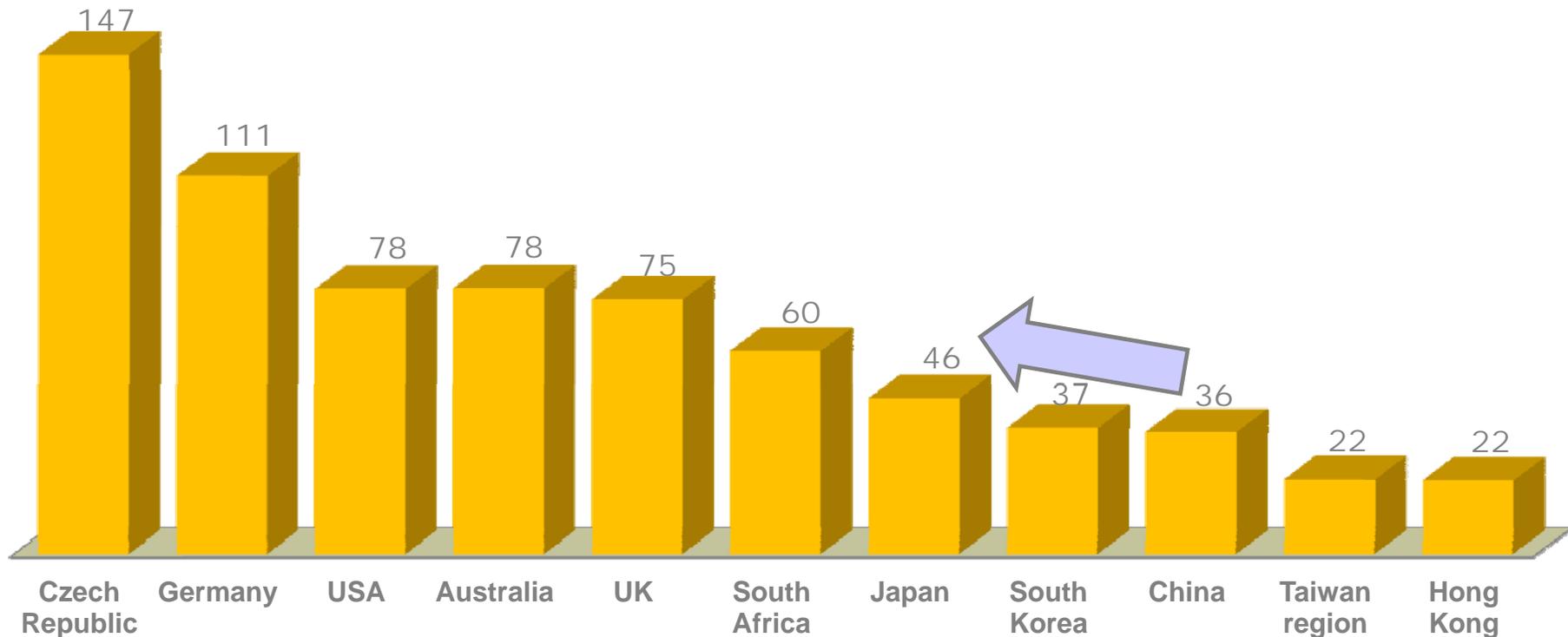
Source: Deutsche bank and Company data

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Appendix IX – Global beer consumption summary

Beer consumption per capita in China increased double in past 10 years (from 18 litres in 2001 to 36 litres in 2011 (provisional)).



Source: Plato logic

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Appendix X – CRE awards (Cont'd)

■ Highlights of accolades received

- | | |
|--------------------|--|
| 2010-2014 | Received awards for cover photo/design; printing and production; non-traditional in the categories of food distributors, processors & wholesalers, manufacturing & Distributing, Food & Consumer Packaged Goods and Multi-Industry – Products & Services, Retail – Supermarket, Food Processing, Retail – Convenience and Department Stores in International Annual Report Competition Awards from <i>MerComm, Inc.</i> |
| 2010/2013
/2014 | Awarded as Asia's best CEO (Investor Relations) – Mr. Chen Lang/Mr. Hong Jie, Asia's best CFO (Investor Relations) – Mr. Frank Lai, Best Investor relations professional – Mr. Vincent Tse, Best Investor Relations Company, Best Environmental Responsibility (2010, 2013, 2014) and Asia's Best Corporate Social Responsibility (2013, 2014) by <i>Corporate Governance Asia</i> |
| 2011 | Received the Best Management Team Award in Golden Bauhinia Award by <i>Ta Kung Pao</i> |
| 2010/2012 | Received Overall Best companies in Asia for Corporate Governance, best awards in Asia region (ex-Japan) for disclosure and transparency, responsibilities of management and the board of directors, shareholders' rights and equitable treatment , Best for Investor Relations (2012) and best awards in Hong Kong region for overall corporate governance, disclosure and transparency, responsibilities of management and the board of directors, shareholders' rights and equitable treatment, investor relations and investor relations officer (2010) by <i>Asiamoney</i> |
| 2011-2014 | Ranked number 981/861/800/1067 in Global 2000 from <i>Forbes</i> |
| 2011 | Received "The Largest Capitalization Company Award" in Mainland Enterprises Listed in Hong Kong Ranking 2010 by <i>Yazhou Zhoukan</i> |

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