



華潤創業有限公司

China Resources Enterprise, Limited



## Financial and operational review

H1 2014

### Investor presentation

21 August 2014

整裝待發!

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for the next Journey!

## Results Summary

	Q2 2014 HK\$m	Q2 2013 HK\$m	change	H1 2014 HK\$m	H1 2013 HK\$m	change
Turnover	41,694	35,704	+17%	83,506	71,857	+16%
EBITDA - Basic	2,694	2,405	+12%	4,721	4,217	+12%
EBITDA - Underlying*	2,440	2,388	+2%	4,462	4,200	+6%
Earnings	573	506	+13%	929	1,018	-9%
Underlying net profit*	319	493	-35%	668	1,005	-34%
EPS (HK¢) – Basic				39	42	-7%
DPS (HK¢)				11	13	-15%
ROE (%) (based on earnings)				1.8	2.5	-28%
ROE (%) (based on underlying net profit*)				1.3	2.4	-46%
Net cash				1,385	3,756	-63%

\* 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

	Q2 2014 HK\$m	Prop	Q2 2013 HK\$m	Prop	change	H1 2014 HK\$m	Prop	H1 2013 HK\$m	Prop	change
<b><i>Core businesses</i></b>										
<b>Retail</b>	<b>24,508</b>	58%	<b>21,984</b>	61%	<b>+11%</b>	<b>52,589</b>	62%	<b>47,907</b>	66%	<b>+10%</b>
<b>Beer</b>	<b>10,599</b>	25%	<b>9,530</b>	27%	<b>+11%</b>	<b>18,475</b>	22%	<b>16,078</b>	22%	<b>+15%</b>
<b>Food</b>	<b>4,093</b>	10%	<b>2,571</b>	7%	<b>+59%</b>	<b>8,035</b>	10%	<b>5,004</b>	7%	<b>+61%</b>
<b>Beverage</b>	<b>2,798</b>	7%	<b>1,922</b>	5%	<b>+46%</b>	<b>5,057</b>	6%	<b>3,375</b>	5%	<b>+50%</b>
	<b>41,998</b>	100%	<b>36,007</b>	100%	<b>+17%</b>	<b>84,156</b>	100%	<b>72,364</b>	100%	<b>+16%</b>
Less: inter-co transactions	(304)		(303)			(650)		(507)		
<b>Turnover – total</b>	<b>41,694</b>		<b>35,704</b>		<b>+17%</b>	<b>83,506</b>		<b>71,857</b>		<b>+16%</b>



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## Underlying Net Profit Breakdown - by Divisions

	Q2 2014 HK\$m	Prop	Q2 2013 HK\$m	Prop	change	H1 2014 HK\$m	Prop	H1 2013 HK\$m	Prop	change
<b><u>Core businesses</u></b>										
<b>Retail</b>	<b>(25)</b>	(6%)	<b>99</b>	19%	<b>-125%</b>	<b>439</b>	52%	<b>624</b>	57%	<b>-30%</b>
<b>Beer<sup>#</sup></b>	<b>411</b>	98%	<b>381</b>	72%	<b>+8%</b>	<b>417</b>	49%	<b>358</b>	33%	<b>+16%</b>
<b>Food</b>	<b>(22)</b>	(5%)	<b>14</b>	3%	<b>-257%</b>	<b>(72)</b>	(9%)	<b>71</b>	6%	<b>-201%</b>
<b>Beverage<sup>##</sup></b>	<b>56</b>	13%	<b>31</b>	6%	<b>+81%</b>	<b>66</b>	8%	<b>39</b>	4%	<b>+69%</b>
	<b>420</b>	100%	<b>525</b>	100%	<b>-20%</b>	<b>850</b>	100%	<b>1,092</b>	100%	<b>-22%</b>
Net corporate int. & expenses	(101)		(32)			(182)		(87)		
<b>Underlying Net Profit</b>	<b>319</b>		<b>493</b>		<b>-35%</b>	<b>668</b>		<b>1,005</b>		<b>-34%</b>
<b><u>Adjustment</u></b>										
Net valuation surplus on investment properties	254		13		-1854%	261		13		-1908%
<b>Earnings</b>	<b>573</b>		<b>506</b>		<b>+13%</b>	<b>929</b>		<b>1,018</b>		<b>-9%</b>

# The above profit was after 51% profit attributable to CRE.

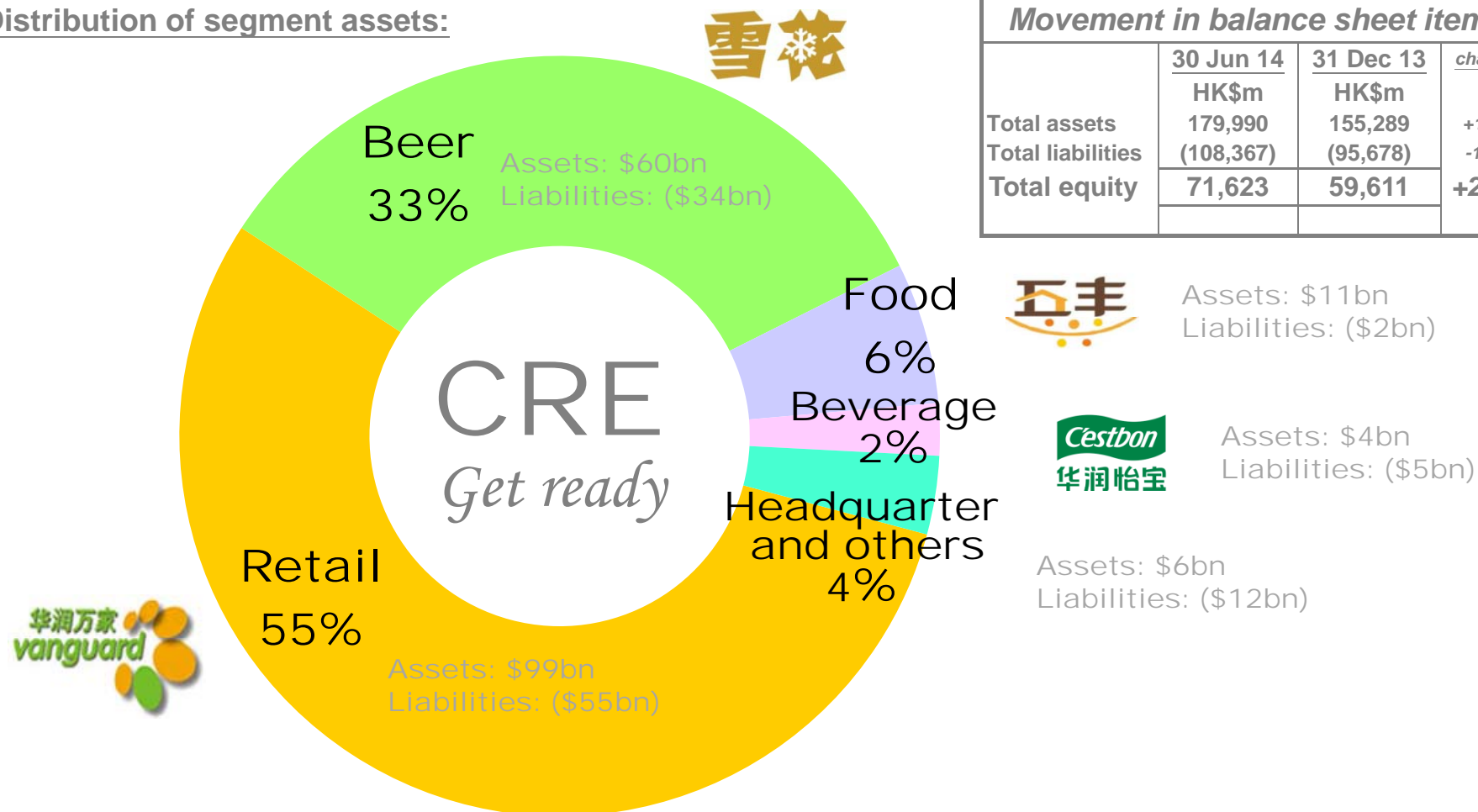
## The above profit was after 40% profit attributable to CRE.

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## Segment assets

- Unique with four consumer businesses complementing each other

### Distribution of segment assets:

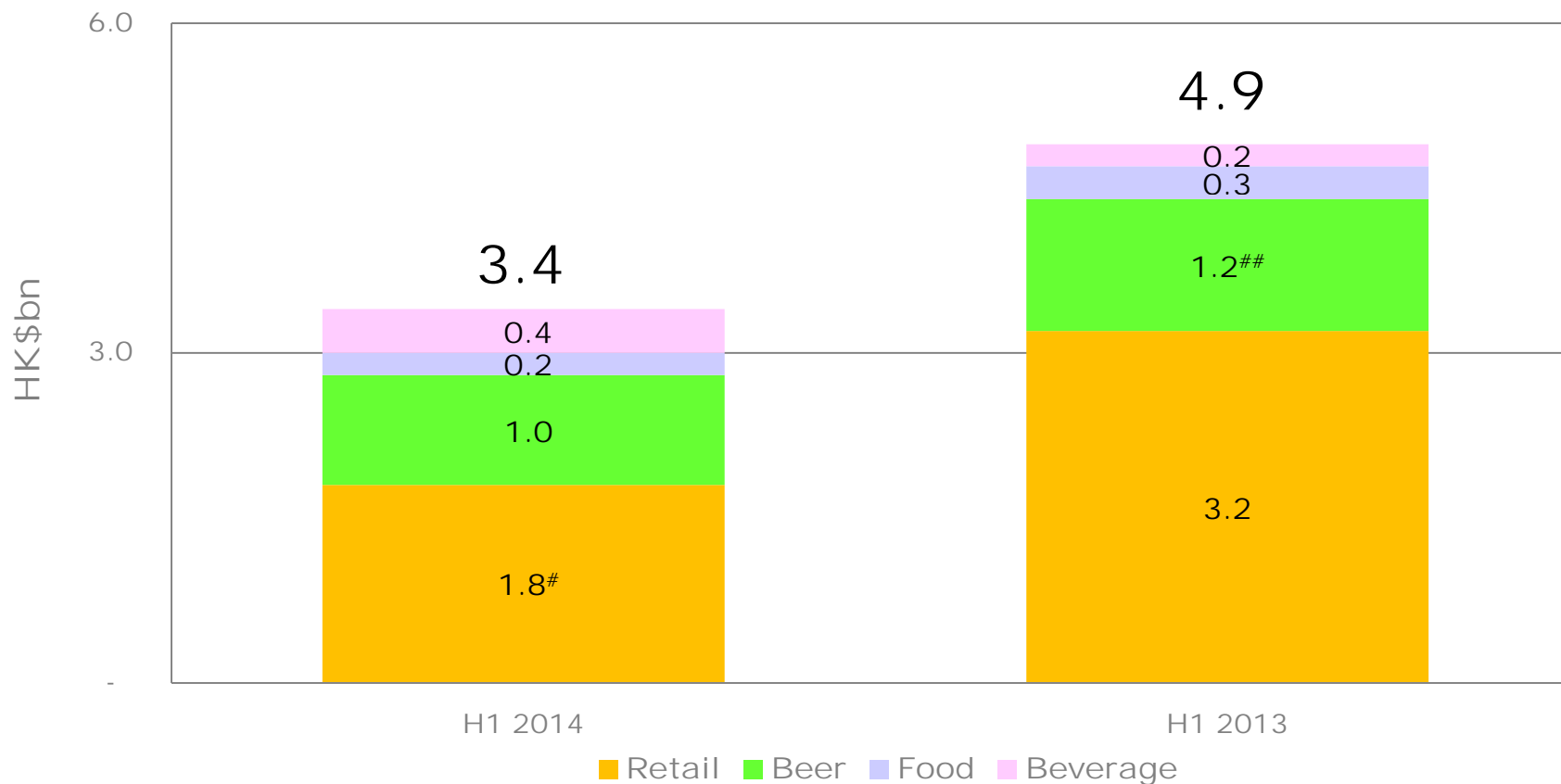


Movement in balance sheet items			
	30 Jun 14	31 Dec 13	change
	HK\$m	HK\$m	
Total assets	179,990	155,289	+16%
Total liabilities	(108,367)	(95,678)	-13%
Total equity	71,623	59,611	+20%

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## CAPEX

### ■ Grasping opportunities through expansion



<sup>#</sup> The CAPEX did not include CAPEX from Tesco JV of approximately \$12.8bn.

<sup>##</sup> The CAPEX did not include Kingway acquisition of approximately \$6.1bn.

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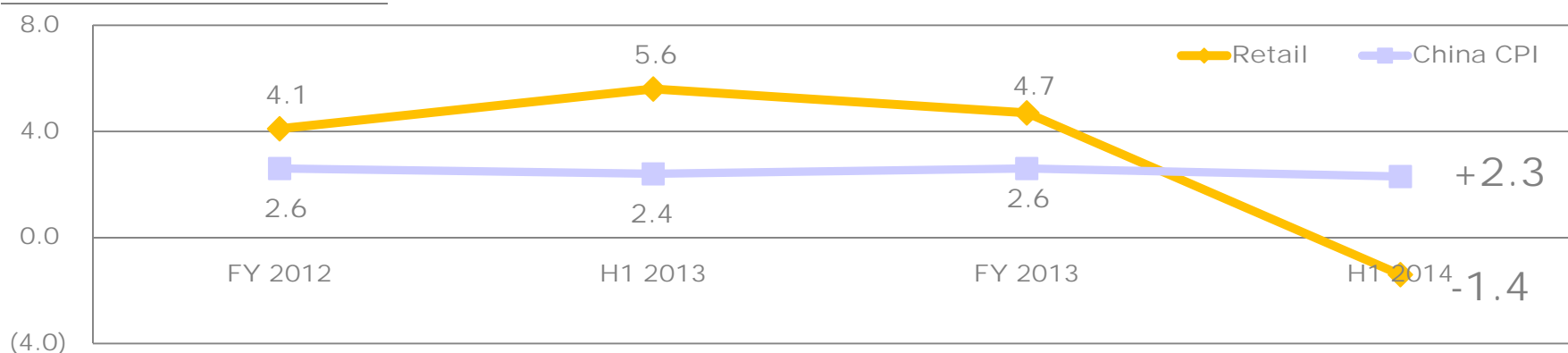
## Retail

- Growth through: Multi-format with regional leadership

	Q2 2014 HK\$m	Q2 2013 HK\$m	Change	H1 2014 HK\$m	H1 2013 HK\$m	change
Turnover	24,508	21,984	+11%	52,589	47,907	+10%
Underlying EBITDA #	618	725	-15%	1,894	1,949	-3%
Underlying net profit #	(25)	99	-125%	439	624	-30%
Underlying EBITDA margin (%) #	2.5	3.3	-24%	3.6	4.1	-12%
Underlying net profit margin (%) #	(0.1)	0.5	-120%	0.8	1.3	-38%

Slower economic growth, competition from e-commerce and integration with Tesco affected overall SSSG and profitability.

### SSSG of retail business:



# excluded the revaluation of investment property

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**4 (4)** [-] Inner Mongolia

**4 (4)** [-] Jilin

**144 (12)** [9] Beijing

**14 (12)** [7] Hebei

**269 (26)** [-40] Tianjin

**64 (41)** [32] Liaoning

**51 (15)** [-] Shandong

**1,893 (210)** [27] Jiangsu

**504 (61)** [14] Anhui

**86 (24)** [47] Shanghai

**178 (82)** [45] Zhejiang

**25 (24)** [1] Jiangxi

**16 (6)** [10] Fujian

**851 (88)** [89] Guangdong

**9 (3)** [3] Guangxi

**388 (-)** [-2] Hong Kong

**9 (-)** [1] Macau

**2 (1)** [1] Hainan

# Retail

- Growth through: Multi-format with regional leadership

## Geographical distribution of retail network

### Northern west areas

**4 (4)** [-1] Ningxia

**109 (44)** [22] Shaanxi

**7 (7)** [1] Gansu

**18 (14)** [-6] Henan

**1 (1)** [1] Xinjiang

**1 (1)** [-] Qinghai

**53 (6)** [2] Hubei

### Southern areas

**26 (-)** [10] Sichuan

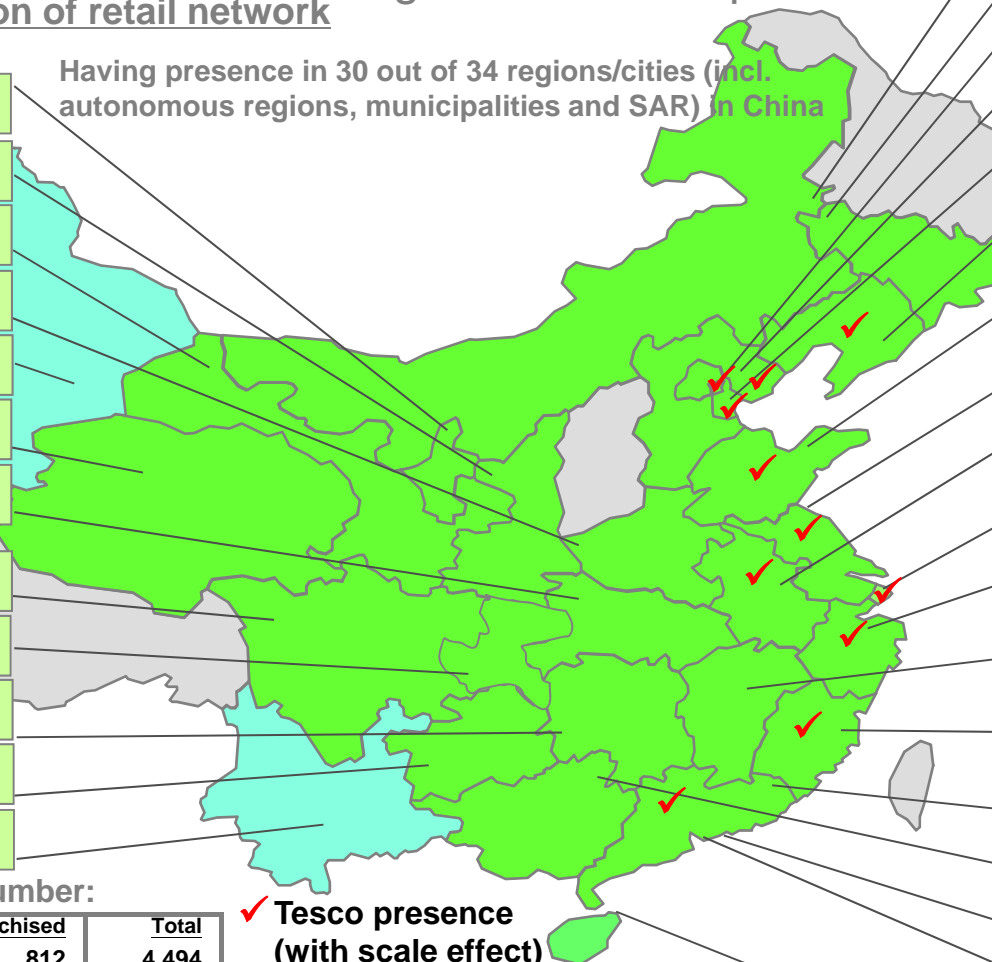
**18 (9)** [3] Chongqing

**12 (6)** [5] Hunan

**1 (1)** [-] Guizhou

**1 (-)** [1] Yunnan

Having presence in 30 out of 34 regions/cities (incl. autonomous regions, municipalities and SAR) in China



### Movement in retail shop number:

	Self-operated	Franchised	Total
30 Jun 13	3,682	812	4,494
Opening	647	95	742
Closing	(308)	(143)	(451)
30 Jun 14	4,021	764	4,785*

✓ **Tesco presence (with scale effect)**

\*Of which, 23 stores(2013: 14 stores) are located in Singapore, Malaysia and Cyprus.

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## Retail



- 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):



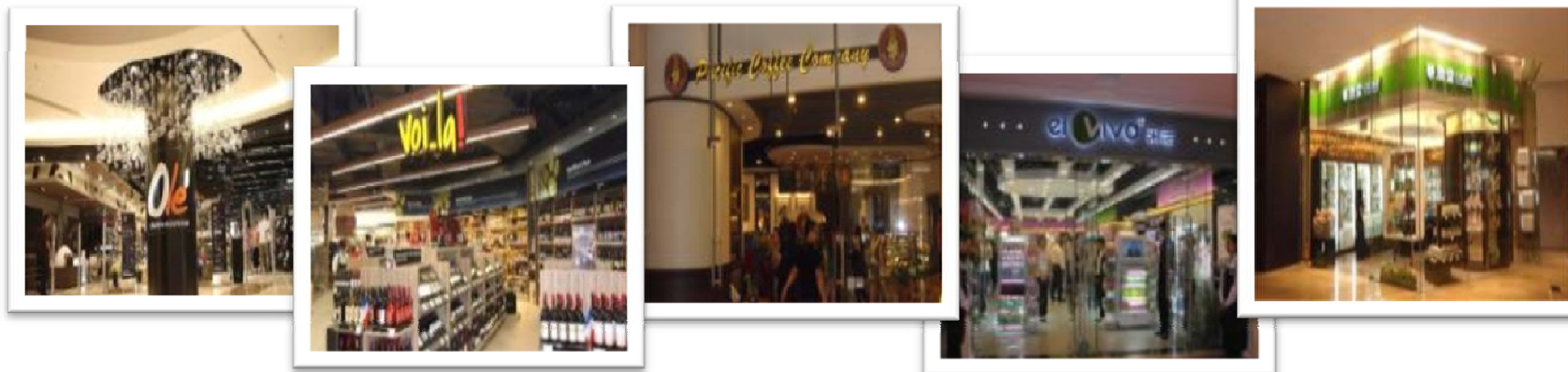
5 formats in Beijing

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

	Q2 2014 HK\$m	Q2 2013 HK\$m	change	H1 2014 HK\$m	H1 2013 HK\$m	change
Sales volume (million KL)	3.73	3.46	+8%	6.30	5.76	+9%
Turnover	10,599	9,530	+11%	18,475	16,078	+15%
EBITDA	1,619	1,492	+9%	2,291	1,928	+19%
Earnings (#)	806	747	+8%	819	702	+17%
EBITDA margin (%)	15.3	15.7	-3%	12.4	12.0	+3%
Net margin (%) (#)	7.6	7.8	-3%	4.4	4.4	-

Performance was mainly driven by higher growth on sales volume and turnover.



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

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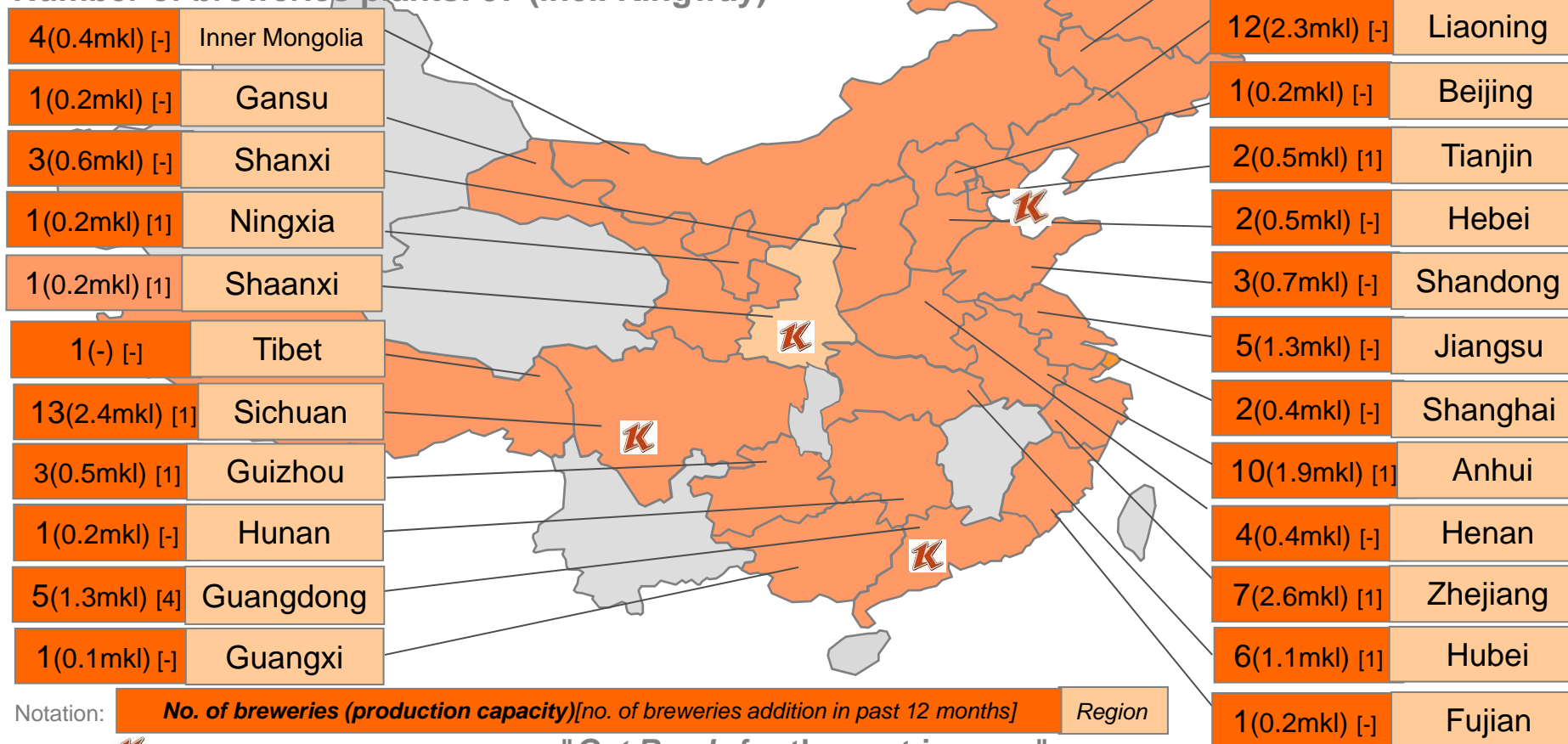
# Beer (No.1 brand by volume in the world since 2008) 雪花

- 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: 97 (incl. Kingway)



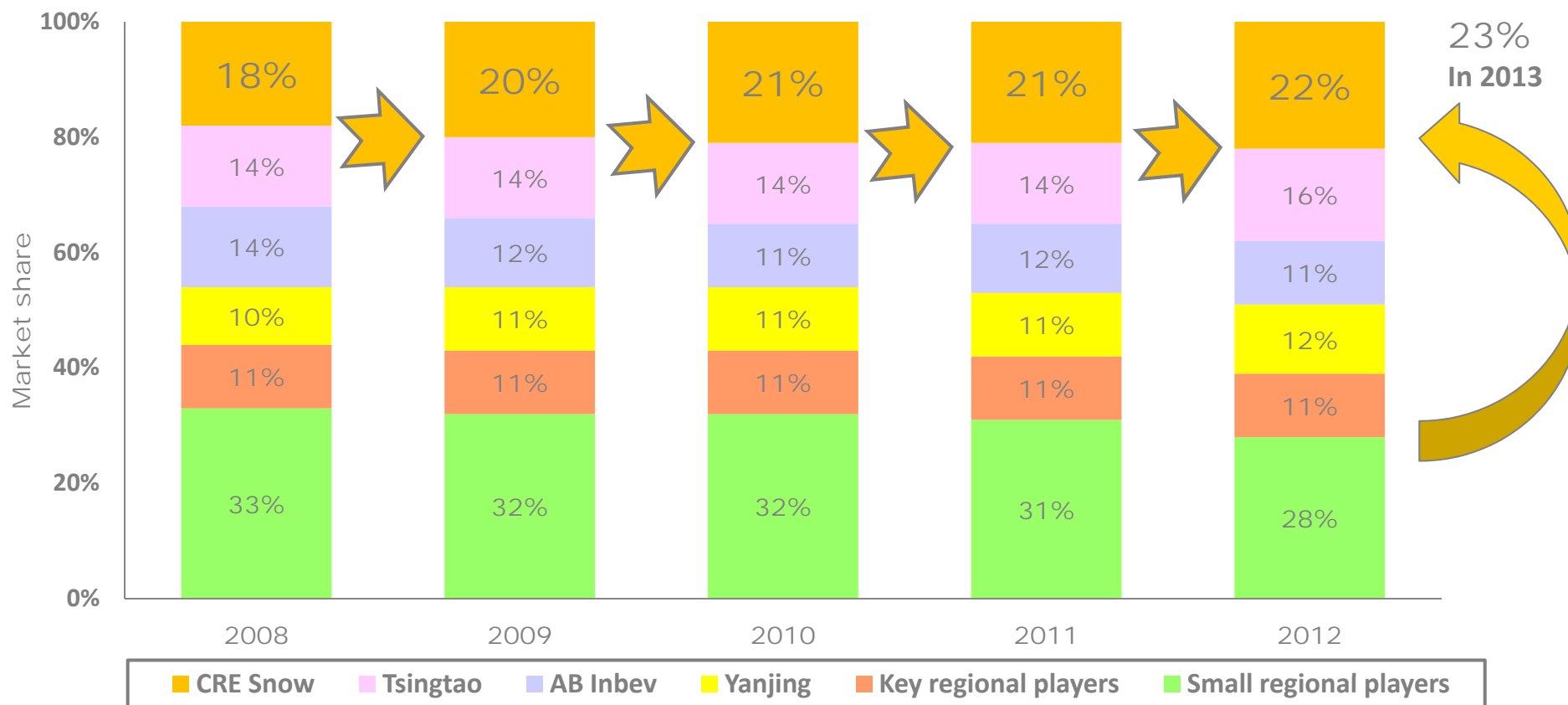
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## Beer (*No.1 brand by volume in the world since 2008*) 雪花

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

### Distribution of China beer market share:

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



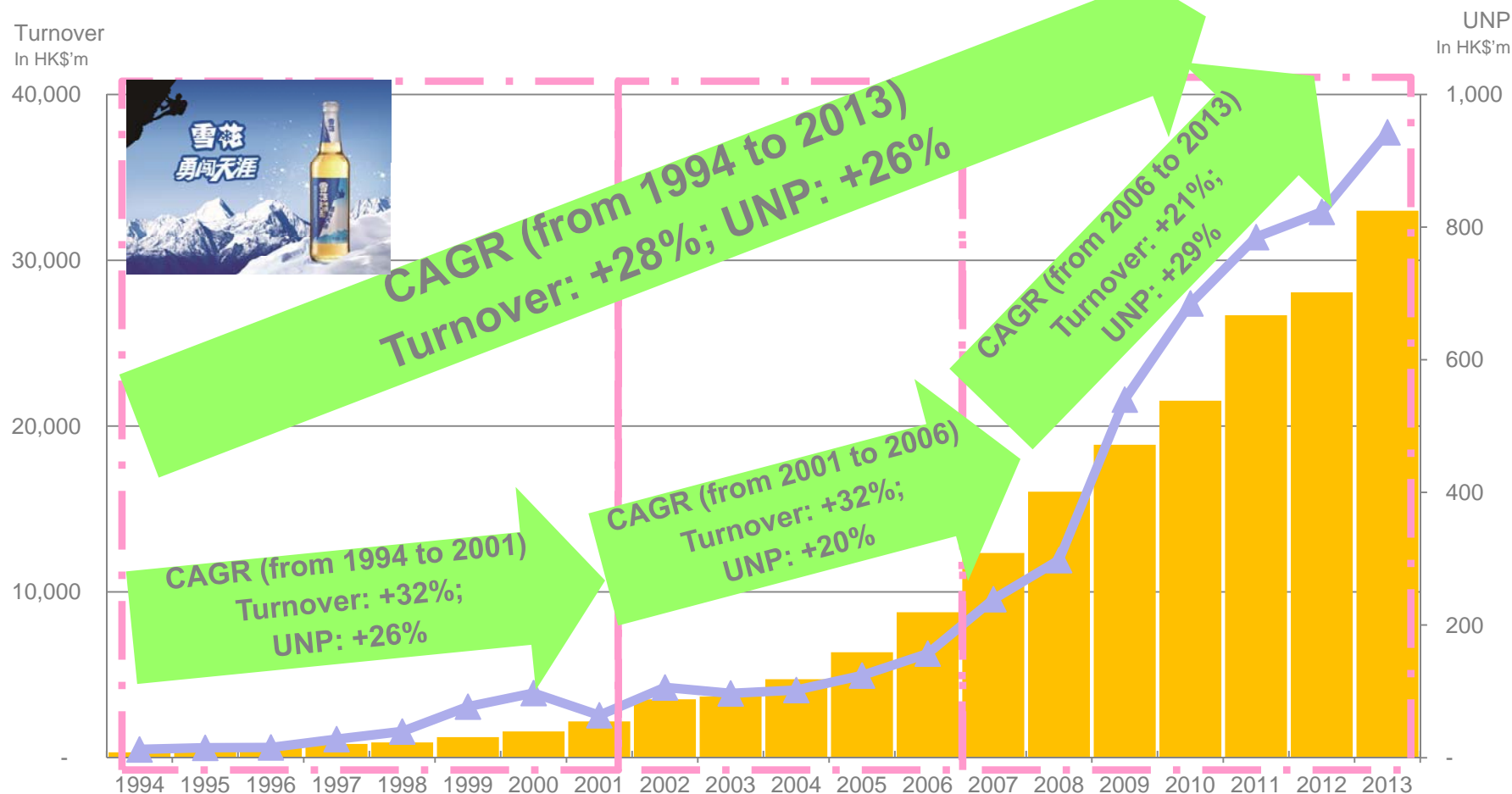
Source: State Statistical Bureau and CR Snow

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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

	Q2 2014 HK\$m	Q2 2013 HK\$m	change	H1 2014 HK\$m	H1 2013 HK\$m	change
Turnover	4,093	2,571	+59%	8,035	5,004	+61%
EBITDA	98	109	-10%	167	251	-33%
Earnings	(22)	14	-257%	(72)	71	-201%
EBITDA margin (%)	2.4	4.2	-43%	2.1	5.0	-58%
Net margin (%)	(0.5)	0.5	-200%	(0.9)	1.4	-164%

*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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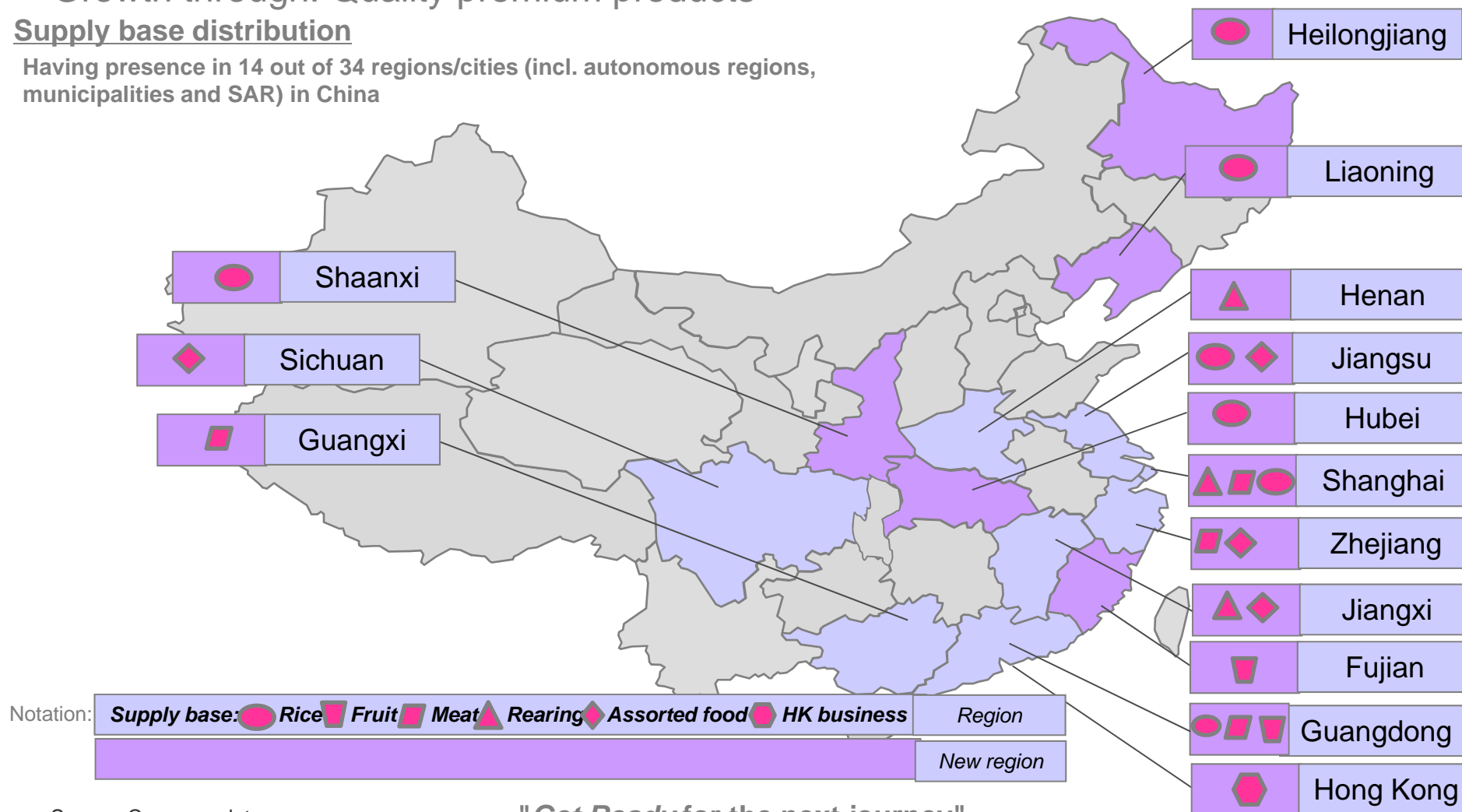
# Food



- 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

	Q2 2014 HK\$m	Q2 2013 HK\$m	change	H1 2014 HK\$m	H1 2013 HK\$m	change
Sales volume (million KL)	1.82	1.30	+40%	3.22	2.27	+42%
Turnover	2,798	1,922	+46%	5,057	3,375	+50%
EBITDA	156	92	+70%	212	134	+58%
Earnings (#)	96	51	+88%	111	65	+71%
EBITDA margin (%)	5.6	4.8	+17%	4.2	4.0	+5%
Net margin (%) (#)	3.4	2.7	+26%	2.2	1.9	+16%

*Higher sales volume generated turnover growth and profitability improvement.*



- 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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# Beverage

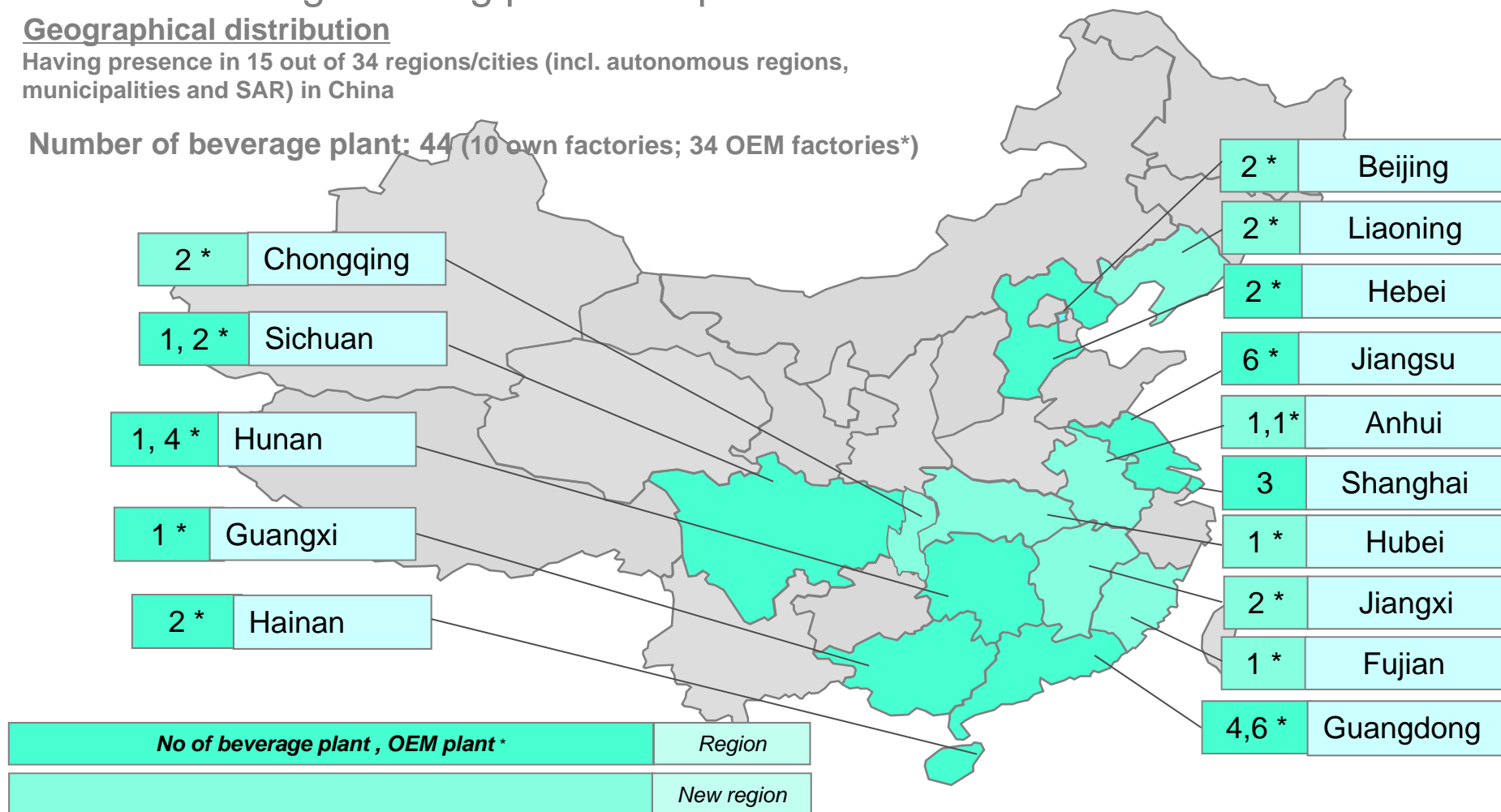


- Growth through: strong partnership with Kirin

## Geographical distribution












Having presence in 15 out of 34 regions/cities (incl. autonomous regions, municipalities and SAR) in China

Number of beverage plant: 44 (10 own factories; 34 OEM factories\*)



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## Appendix I – Details of Retail formats

Format	Major brands	Average areas (sq.m)	30 Jun 14				31 Dec 13		30 Jun 13	
			% of turnover	App. Average GP margin	Self-operated	Franchised	Self-operated	Franchised	Self-operated	Franchised
<b>I. Hypermarket</b>	 	Over 6,000	app.77%	20%	693	13	563	13	533	13
<b>II. Standard supermarket</b>		500 – 800	app.10%	21%	1,361	634	1,370	681	1,362	708
<b>III. Convenience stores</b>		30 – 120	app.4%	22%	1,232	75	1,174	70	1,126	61
<b>IV. Ole', blt</b>	 	4,000	app.3%	more than 25%	40	-	40	-	31	-
<b>V. Pacific Coffee</b>		120	app.1%	more than 50%	342	42	328	37	293	30
<b>VI. CAC and CR Care</b>	 	various	app.2%	more than 30%	155	-	155	-	152	-
<b>VII. Health and beauty stores</b>		200	less than 1%	more than 30%	172	-	168	-	165	-
<b>VIII. Wine cellar and others</b>		200	app. 2%	Various	26	-	15	-	20	-
<b>Total</b>							<b>4,021</b>	<b>764</b>	<b>3,813</b>	<b>801</b>
							<b>4,785</b>		<b>4,614</b>	
									<b>3,682</b>	
									<b>812</b>	
									<b>4,494</b>	

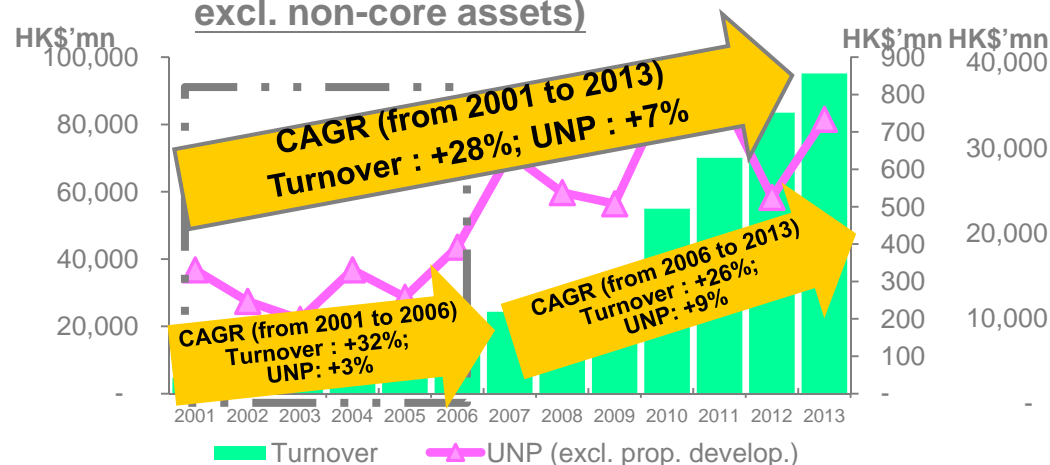
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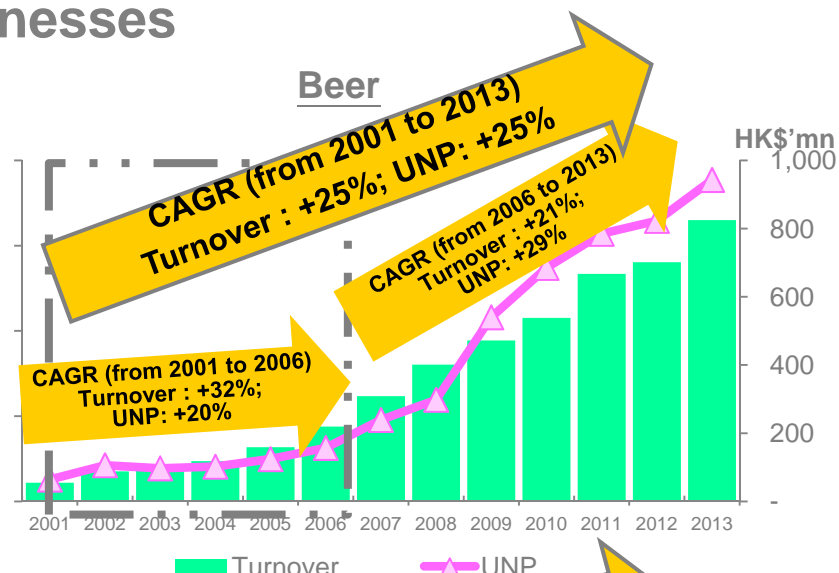
## Appendix II – Historical track record of CRE

### Strong growth momentum in each businesses

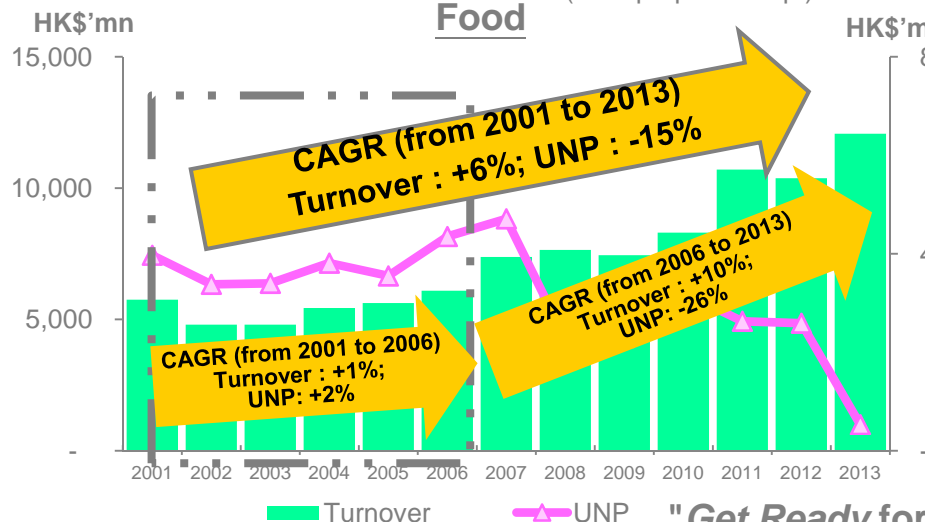
Retail (incl. investment property,  
excl. non-core assets)



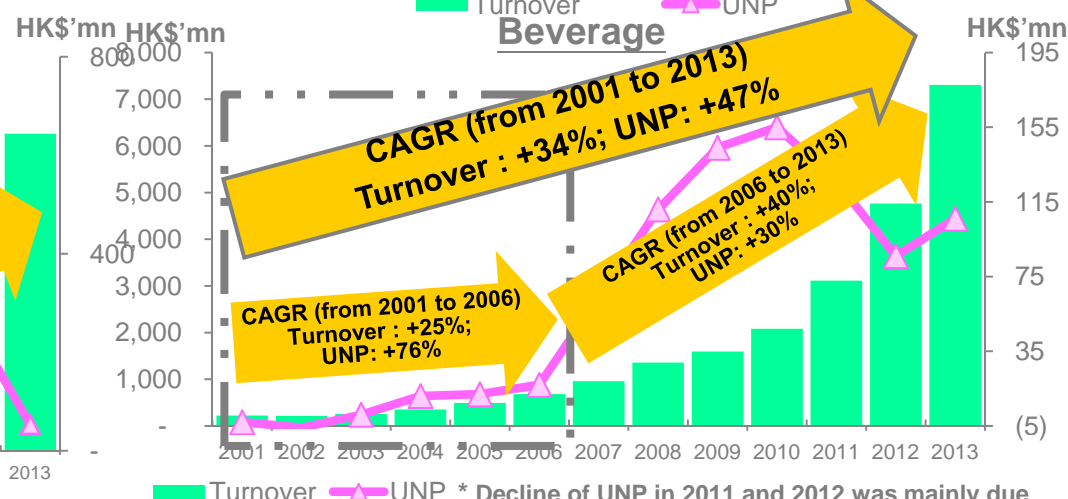
Beer



Food



Beverage

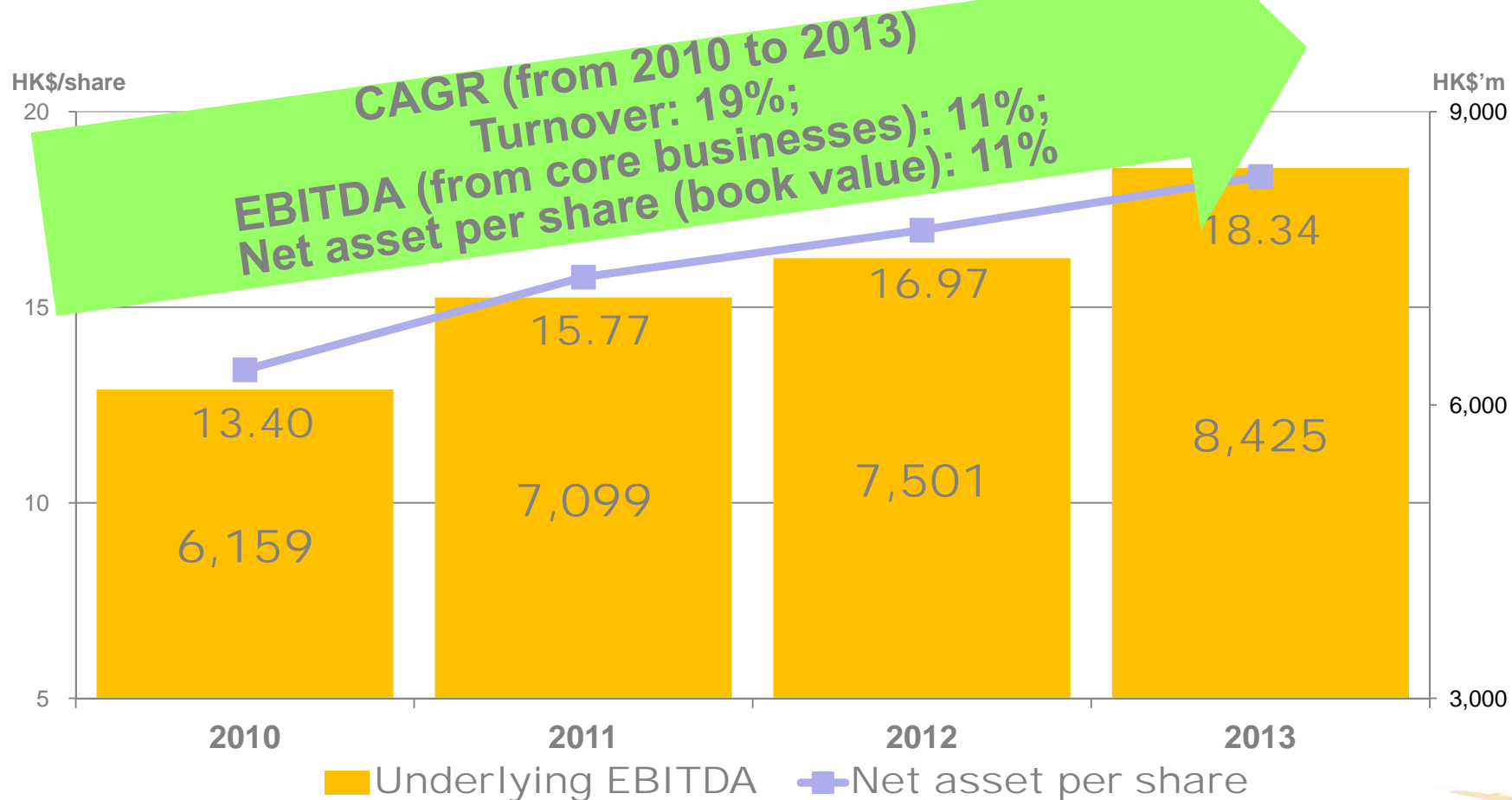


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\* Decline of UNP in 2011 and 2012 was mainly due to 40% share to Kirin since August 2011.

## Appendix III – Historical operating summary

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

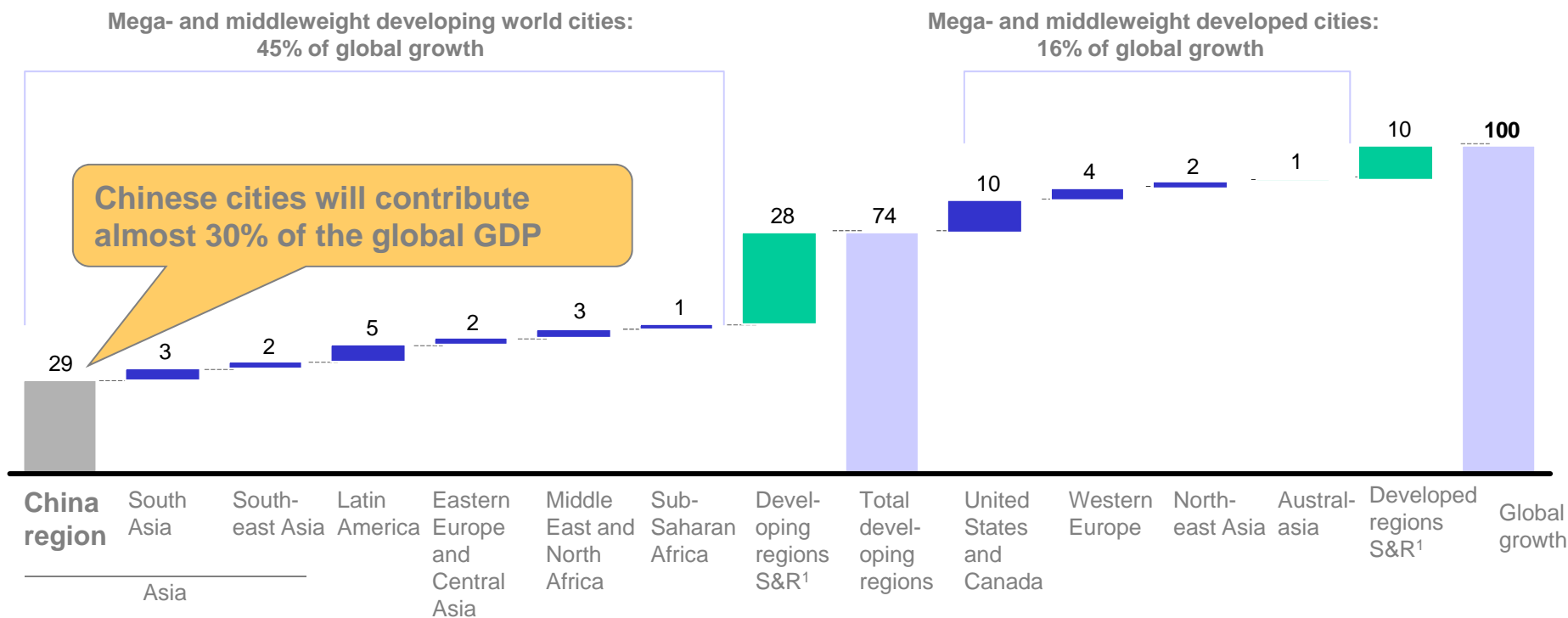


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## Appendix IV – Strong growth in China

### ■ 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.



1 S&R = small cities and rural areas.

Source: McKinsey

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## Appendix V – Better position for CRE

### ■ Better positioning to capture strong growth in China

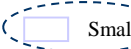
According to McKinsey, more than 90% of China's urban GDP in 2015 will come from 22 clusters.

Notation:

Expected cluster size:

CRE's presence

Cluster's hub city



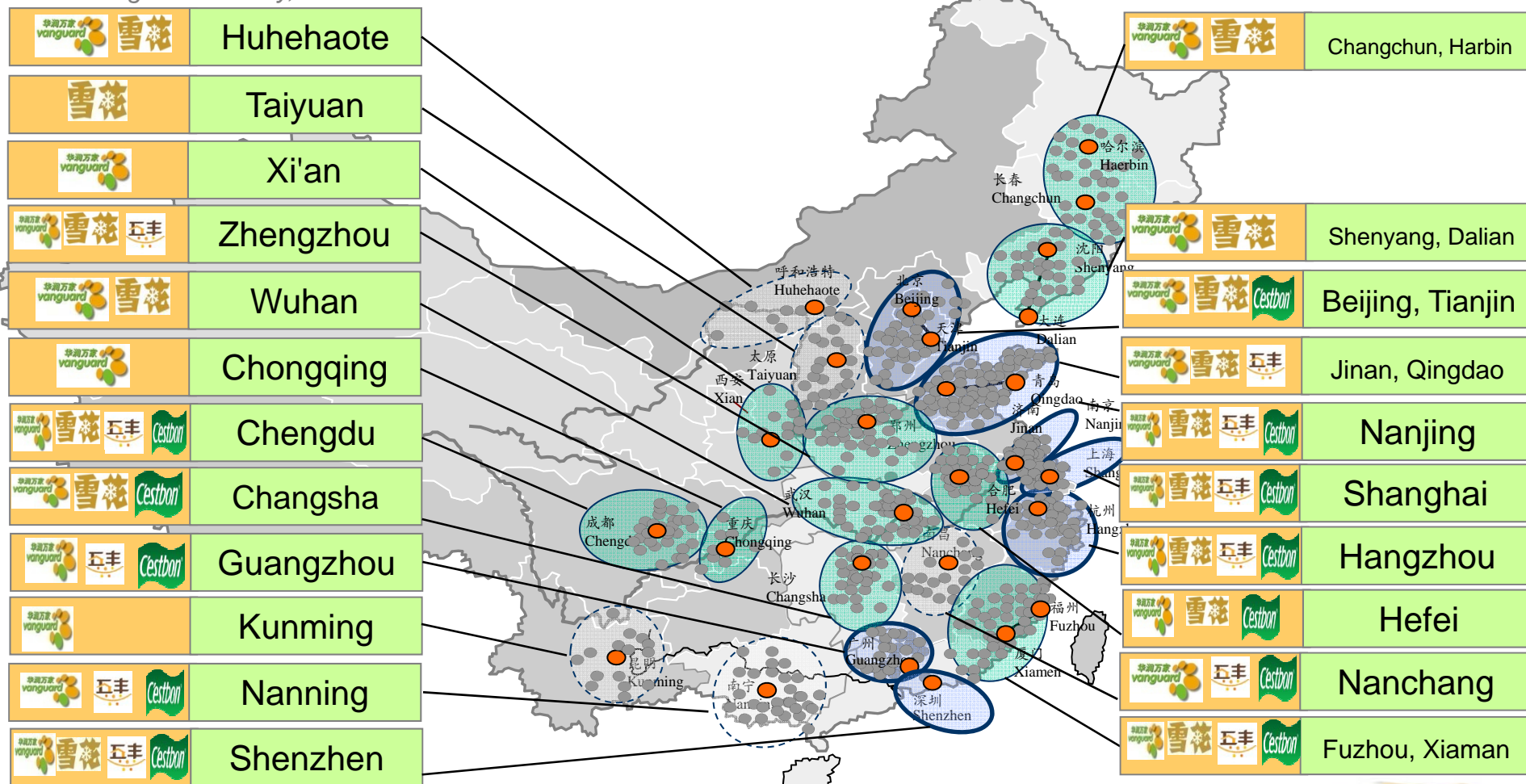
Small



Sizable



Mega

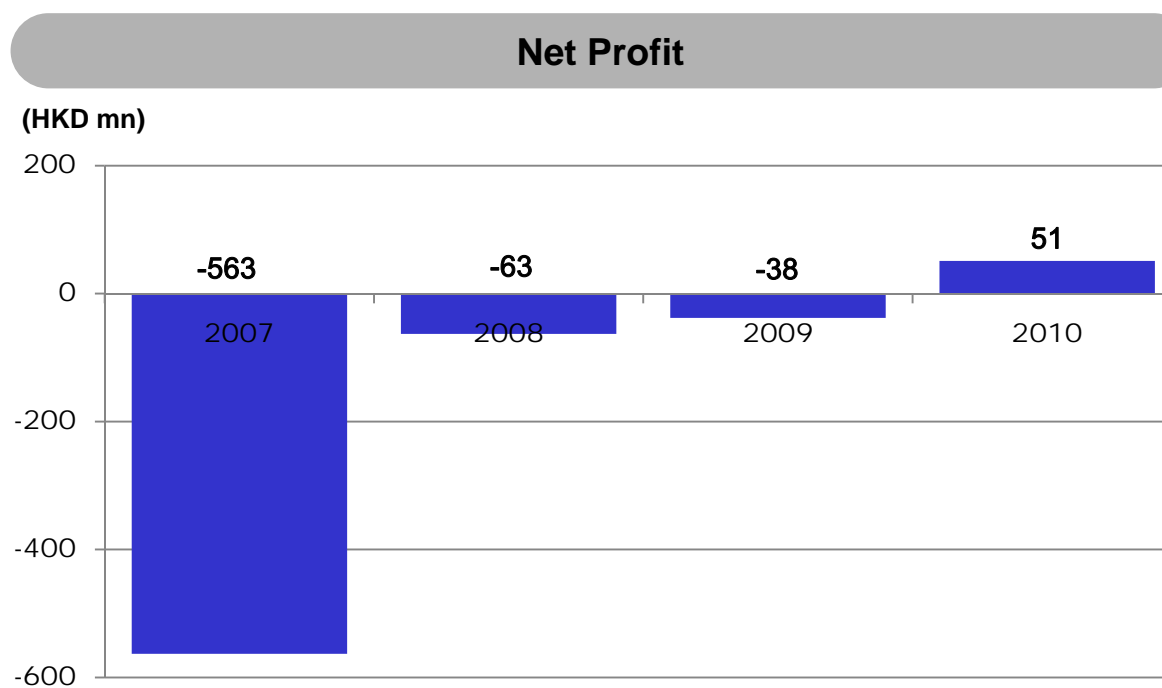


Source: McKinsey and Company data

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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:



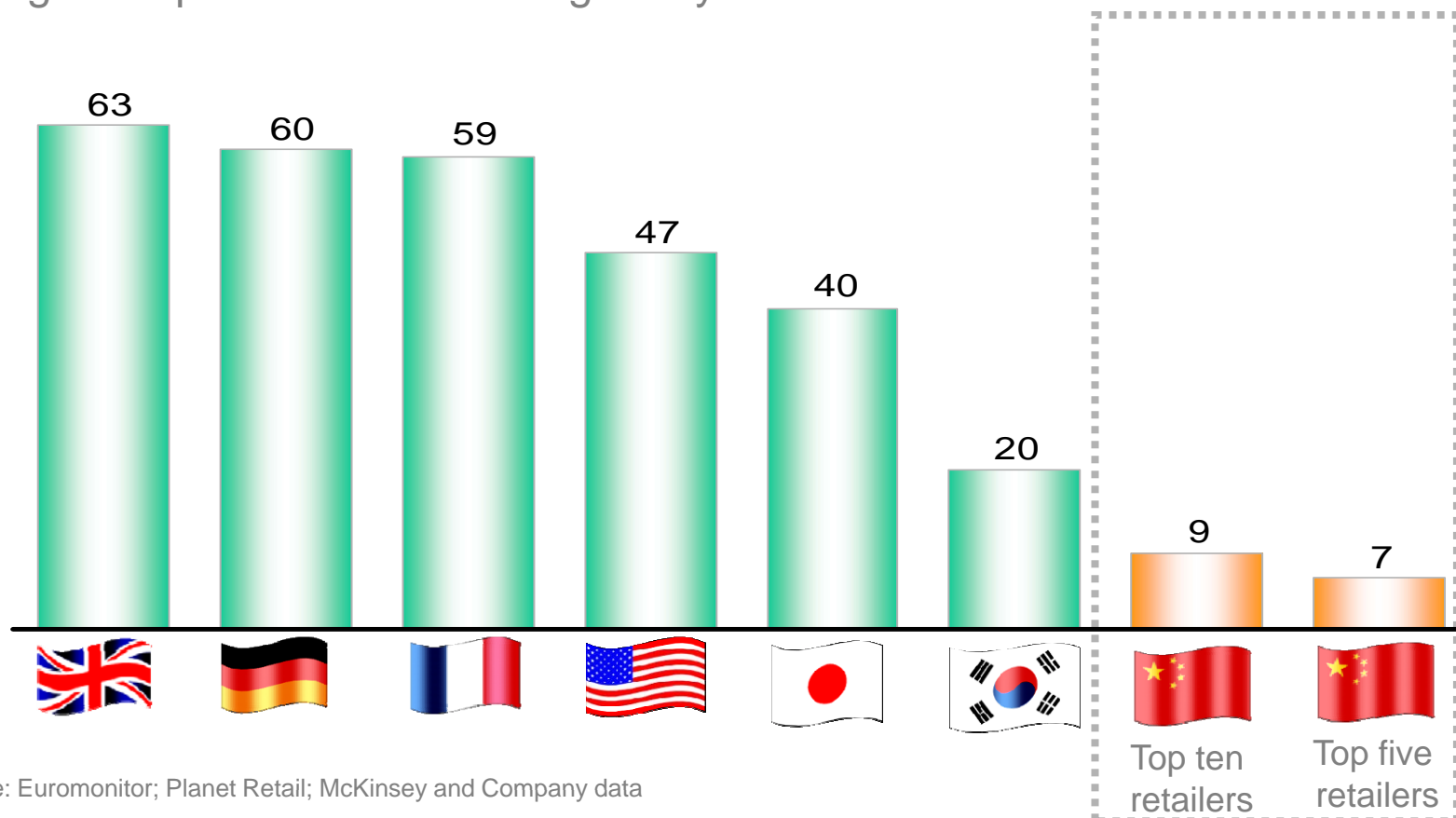
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## Appendix VII – Market share of Retail business

**Lower market concentration in China than other developed countries:**

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



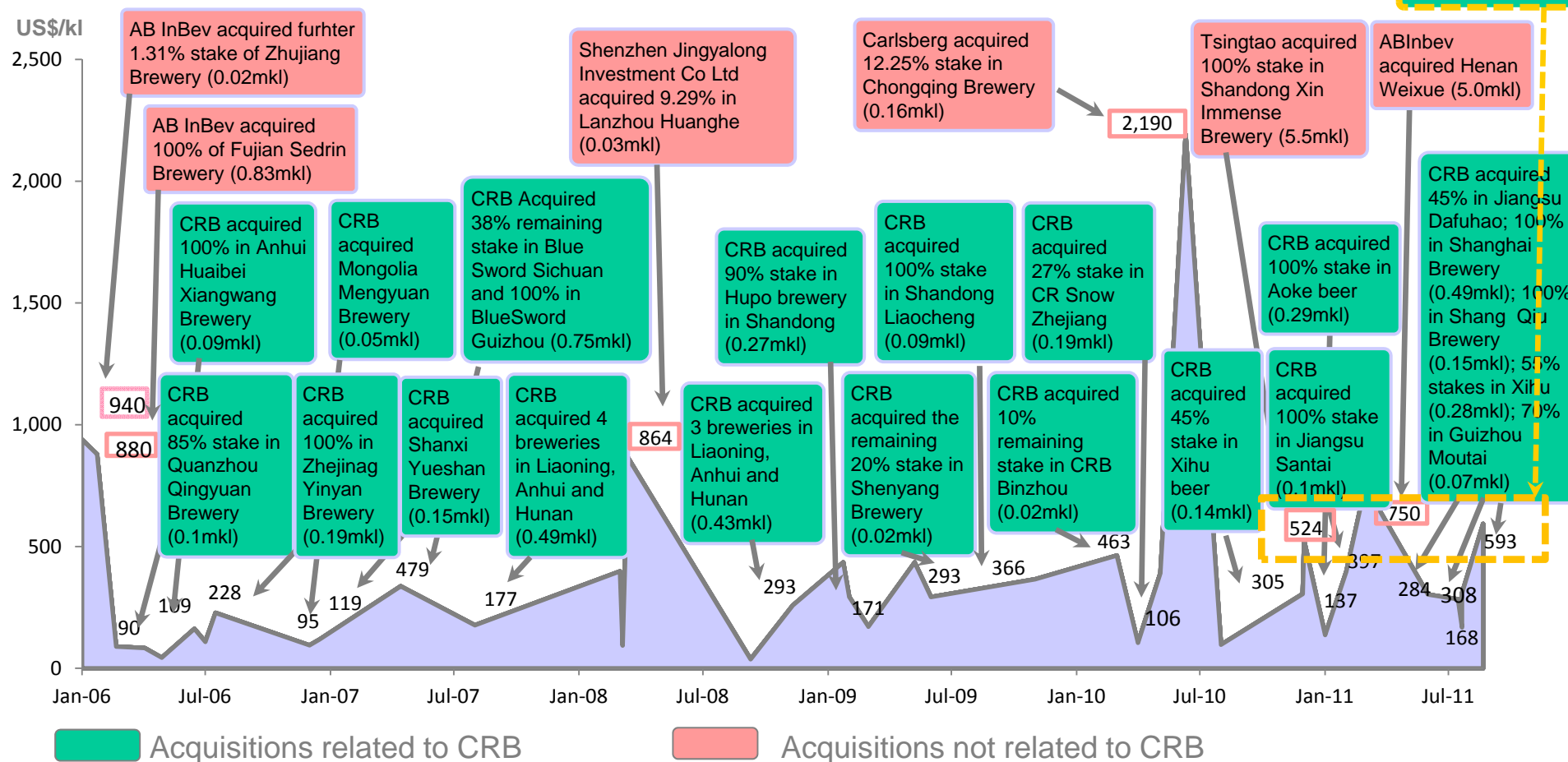
Source: Euromonitor; Planet Retail; McKinsey and Company data

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## Appendix VIII – Historical major M&As in beer business



### Strong bargaining power and lower acquisition cost on M&A



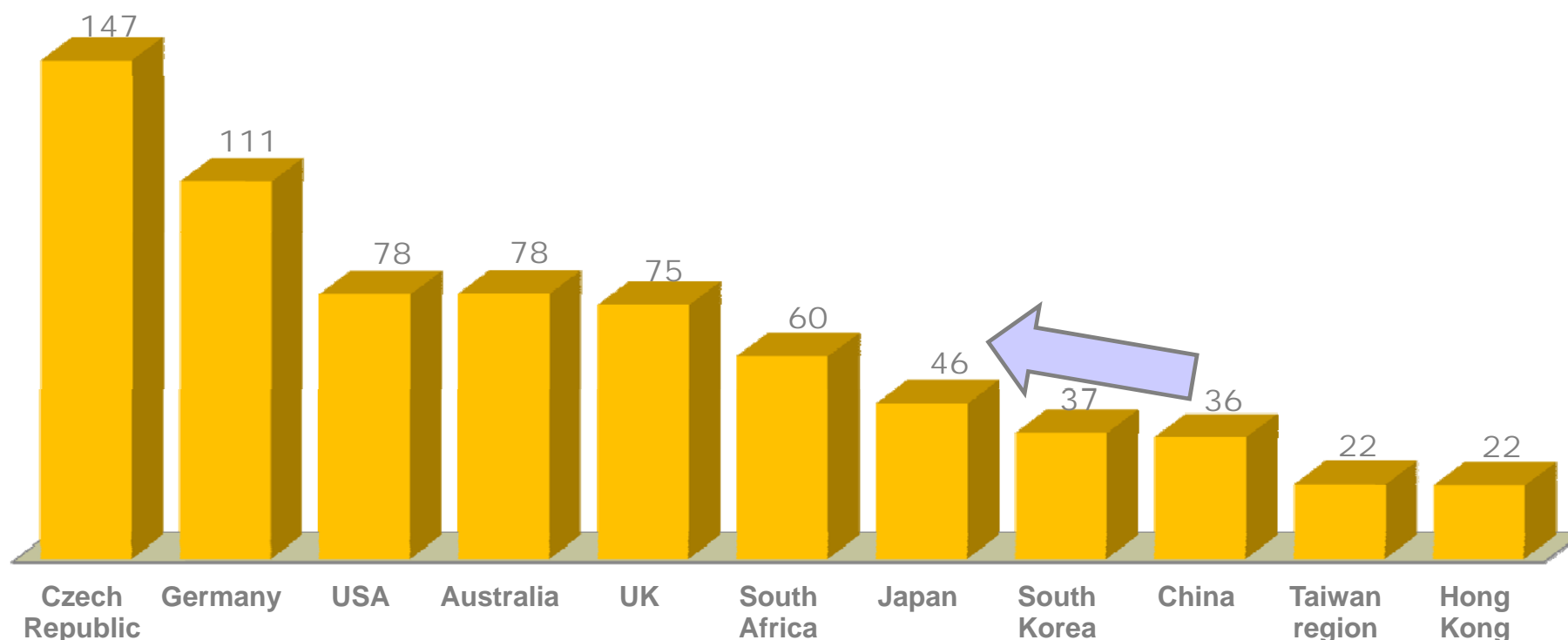
Source: Deutsche bank and Company data

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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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Please refer to our company website, [www.cre.com.hk](http://www.cre.com.hk), for further details of awards received prior to 2009.

2010-2013	Received awards for cover photo/design in the categories of food distributors, processors & wholesalers, manufacturing & Distributing, Food & Consumer Packaged Goods and Multi-Industry – Products & Services in International Annual Report Competition Awards from <i>MerComm, Inc.</i>
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2011 Received the Best Management Team Award in Golden Bauhinia Award by *Ta Kung Pao*

2011-2014      Ranked number 981/861/800/1067 in Global 2000 from *Forbes*

2010-2014	Selected as one of the companies receiving "Global Chinese Business 1000 – Outstanding Performance Award" by <i>Yazhou Zhoukan</i>
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## Appendix X – CRE awards (Cont'd)

### ■ Highlights of accolades received

2011-2014	Awarded as one of the companies receiving the commendation in Corporate Social Responsibility Award by <i>CAPITAL and CAPITAL Weekly</i>
2011–2013	Ranked number 39 /46/37 in <i>Fortune China 500</i>
2011	Received 2 best awards for investor relations and investor relations officer and 4 awards of ranked second in Best for overall for corporate governance, disclosure and transparency, responsibilities of management and the board of directors and shareholders' rights and equitable treatment in Hong Kong region by <i>Asiamoney</i>
2012/2013	Received Outstanding Corporate Social Responsibility Award by <i>The Mirror Monthly Magazine</i>
2012/2013	Awarded as Class of 2012/2013 - The Best of Asia (China) and Asian Corporate Director (China) – Mr. Chen Lang in 2013 in Corporate Governance Asia Recognition Awards by <i>Corporate Governance Asia</i>
2012/2013	Received Best IR Companies (Both Buy (2013) and Sell Side (2012/2013) – Consumer), Best CEO – Hong Jie (Sell Side – Consumer) in 2013, ranked second for Best CEO – Chen Lang (Sell Side – Consumer) in 2012, Best CFO – Frank Lai (Sell Side – Consumer), Best Investor Relations Professional – Mr. Vincent Tse (Both Buy and Sell Side – Consumer), ranked second for Best Investor Relations Professional – Mr. Kevin Leung (Sell Side – Consumer) in 2013 in The All-Asia Executive Team Survey by <i>Institutional Investor</i>
2012/2013	Awarded as Best in Sector – Consumer Goods & Services, Investor Relations by a Hong Kong Company (2012, 2013) and Investor Relations Officer (Hong Kong) (2012) by <i>IR Magazine</i>
2012	Ranked number 428 in Green Rankings – Global 500 List by <i>Newsweek</i>

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## Appendix X – CRE awards (Cont'd)

### ■ Highlights of accolades received

2013	Mr. Frank Lai was selected as Asian Company Secretary of the Year by <i>Corporate Governance Asia</i>
2013	Received award as the Winner of Global Top Mid-Cap and ranked 19 <sup>th</sup> in Global Top 50 Gold in <i>IR Magazine</i>
2013	Received award for Outstanding Listed Company of the Year by <i>the Hong Kong Institute of Financial Analysts and Professional Commentators Limited</i>
2013	Ranked 93 <sup>th</sup> in Top 250 Global Retailers from <i>Deloitte and STORES Media</i>

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