



華潤創業有限公司
China Resources Enterprise, Limited

雪
花
啤酒
SNOW
BEER



迎 * 新

Embrace the **FUTURE**

**Financial and
operational review**

H1 2015

Investor presentation

21 August 2015



Turnover Breakdown - by Divisions

	H1 2015 HK\$m	Prop	H1 2014 HK\$m	Prop	change
<i>Continuing operations</i>					
Beer	19,609	21%	18,475	22%	+6%
<i>Discontinued operations</i>					
Retail	61,146	64%	52,589	63%	+16%
Food	8,480	9%	8,035	10%	+6%
Beverage	6,307	7%	5,057	6%	+25%
Less: inter-co transactions	(786)	(1%)	(600)	(1%)	
	75,147	79%	65,081	78%	+15%
Less: inter-co transactions	(96)	-	(50)		
Turnover – total	94,660	100%	83,506	100%	+13%

Continuing operations



Discontinued operations



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Underlying Net Profit Breakdown - by Divisions

	H1 2015	Prop	H1 2014	Prop	change
	HK\$m		HK\$m		
<i>Continuing operations</i>					
Beer[#]	544	12%	417	63%	+30%
Net corporate int. & expenses	(16)	-	(11)	(2%)	
	528	12%	406	61%	+30%
<i>Discontinued operations</i>					
Retail	(2,847)	(65%)	439	66%	-749%
Food	(15)	-	(72)	(11%)	+79%
Beverage^{##}	194	4%	66	10%	+194%
Net corporate int. & expenses	(44)	(1%)	(171)	(26%)	
	(2,712)	(62%)	262	39%	-1135%
Loss on re-measurement of disposal group	(2,222)	(50%)	-	-	
Underlying Net Profit	(4,406)	(100%)	668	100%	-760%
<i>Adjustment</i>					
Net valuation surplus on investment properties	79		261		-70%
Earnings	(4,327)		929		-566%

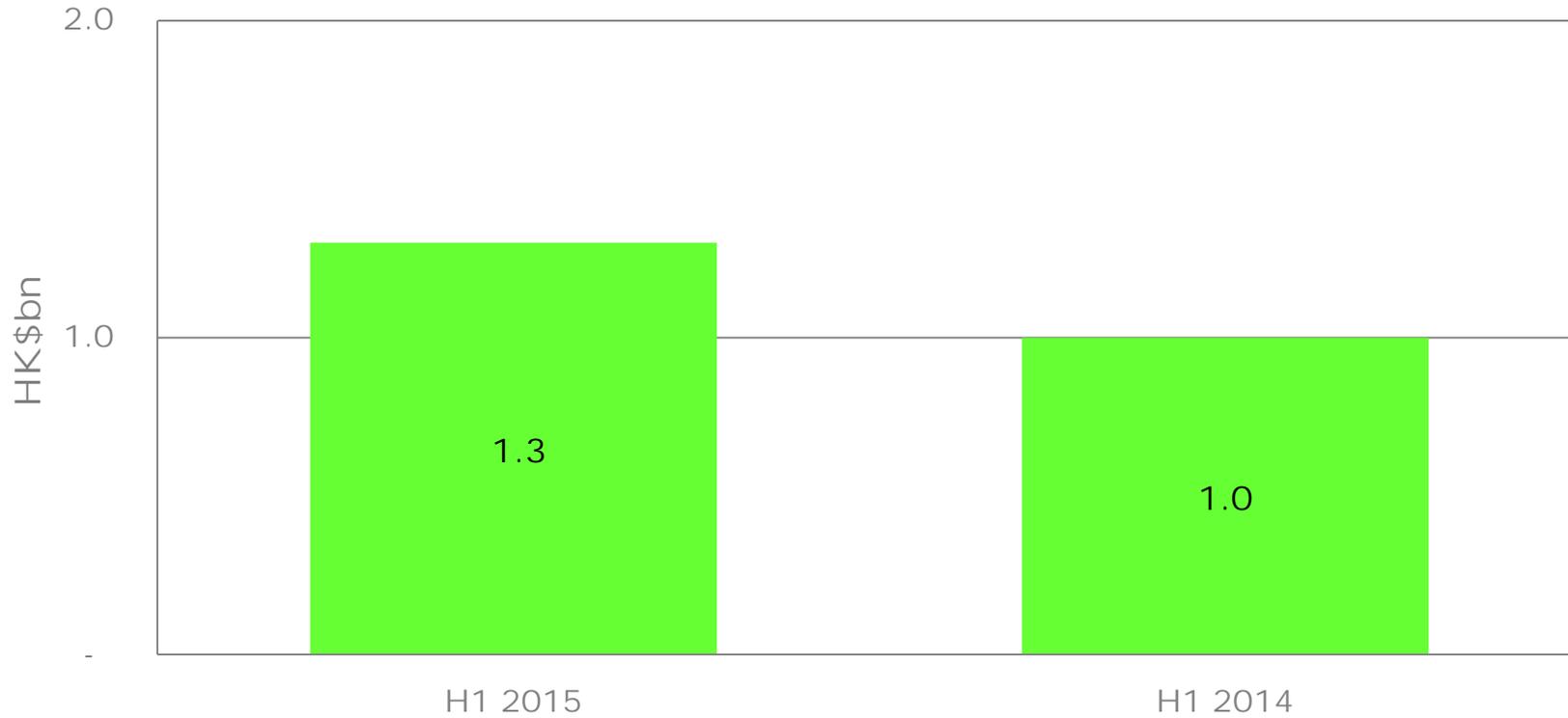
The above profit was 51% profit attributable to CRE.

The above profit was 60% profit attributable to CRE.

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■ Beer



CRH will provide shareholder's loan(s) of up to HK\$10.0bn for not more than 3 years at prevailing market rate obtained by / available to CRH to support beer business development.

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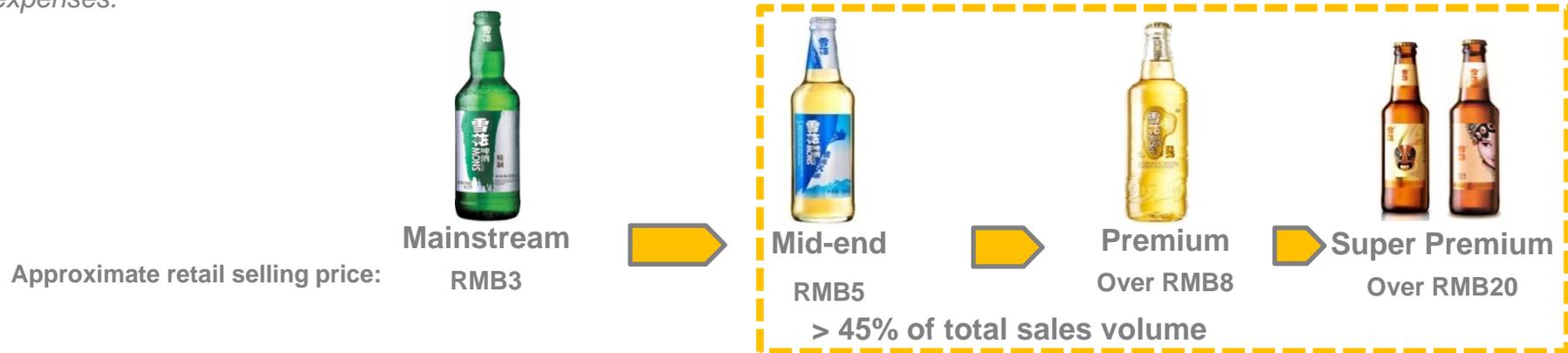
Beer (No.1 brand by volume in the world since 2008)



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

	H1 2015 HK\$m	H1 2014 HK\$m	change
Sales volume (million kl)	6.25	6.30	-1%
ASP (in RMB/kl)	2,480	2,322	+7%
Turnover	19,609	18,475	+6%
EBITDA	2,615	2,291	+14%
Earnings (#)	1,067	818	+30%
EBITDA margin (%)	13.3	12.4	+7%
Net margin (%) (#)	5.4	4.4	+23%

Improvement was mainly contributed by continuous product mix upgrade, economy of scale and better management on selling expenses.



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

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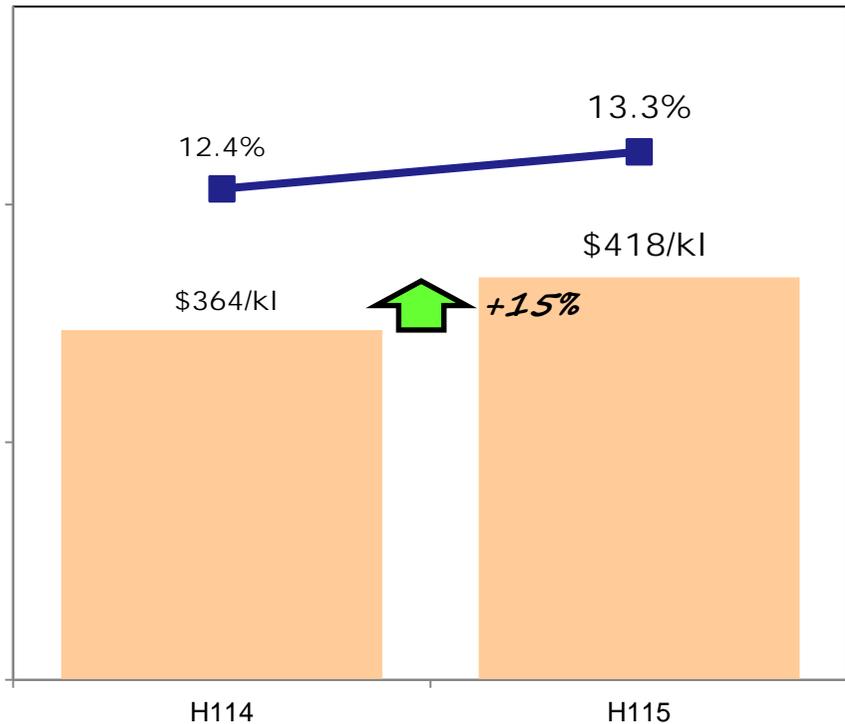
Beer (No.1 brand by volume in the world since 2008)



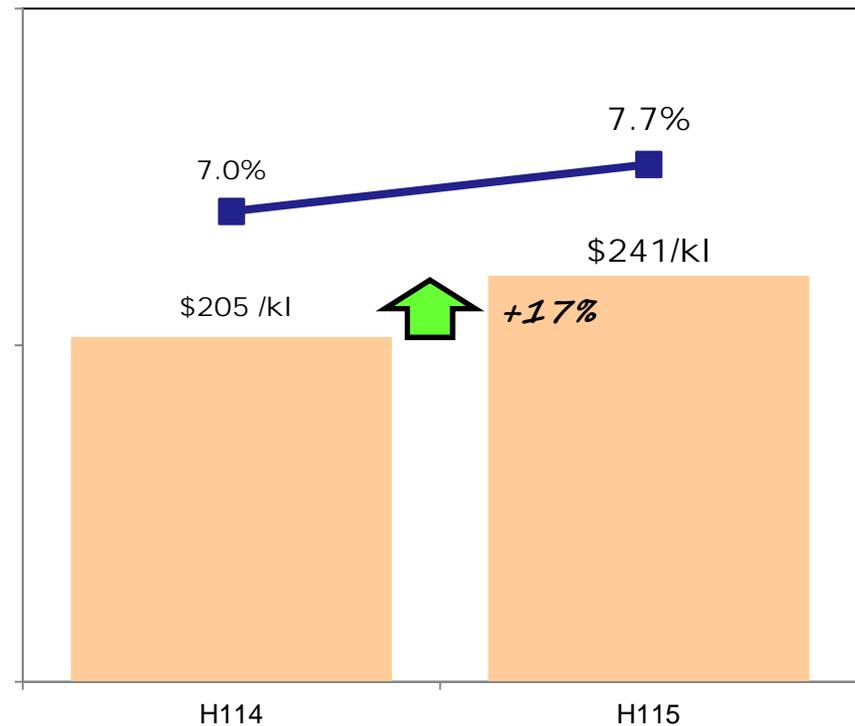
- Growth through: Solidifying market leader position and upgrade of product mix

Improvement on operating efficiency:

EBITDA margin and EBITDA/kl (in HK\$)



EBIT margin and EBIT/kl (in HK\$)



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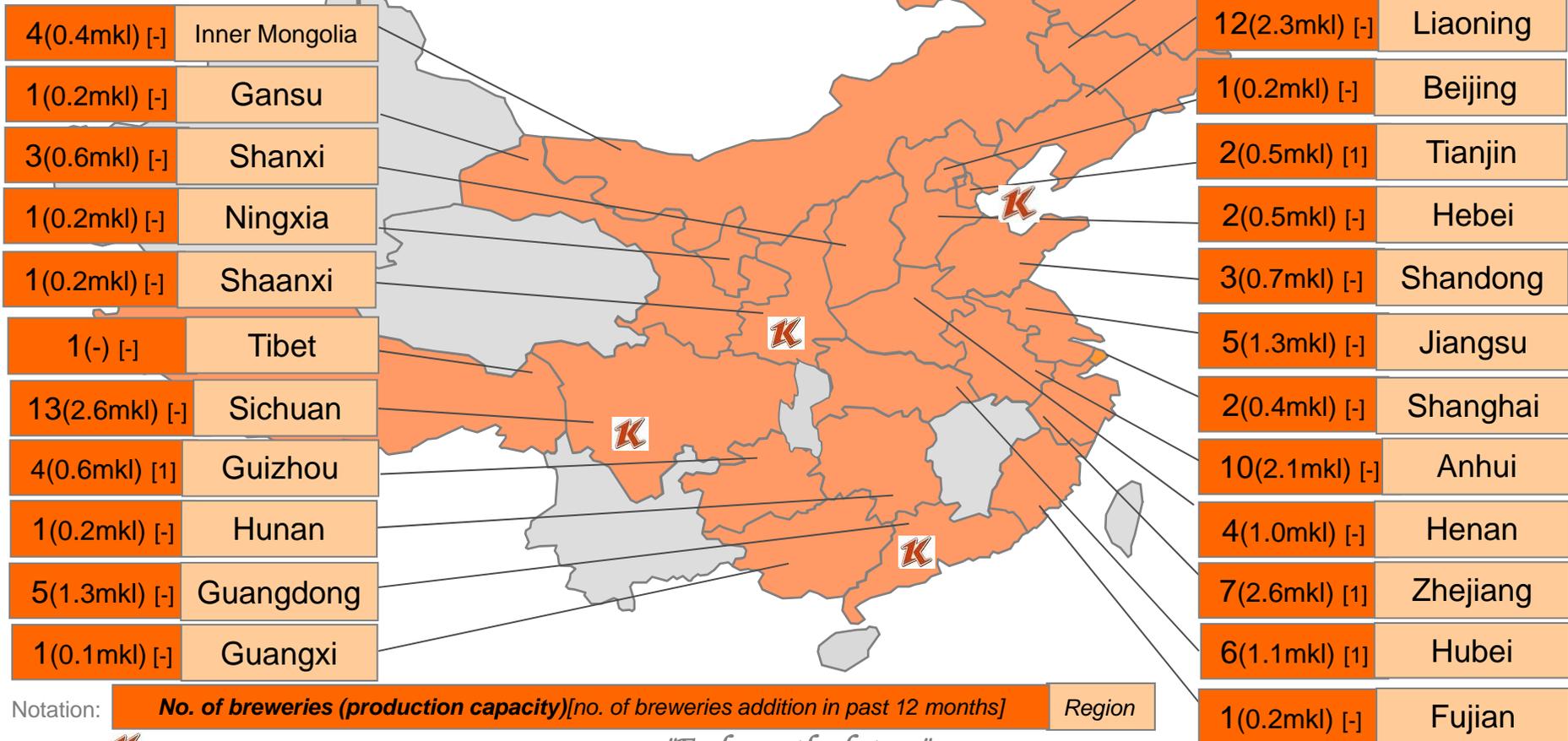
Beer (No.1 brand by volume in the world since 2008)

- 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



Notation:

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

K Incl. Kingway brewery plants

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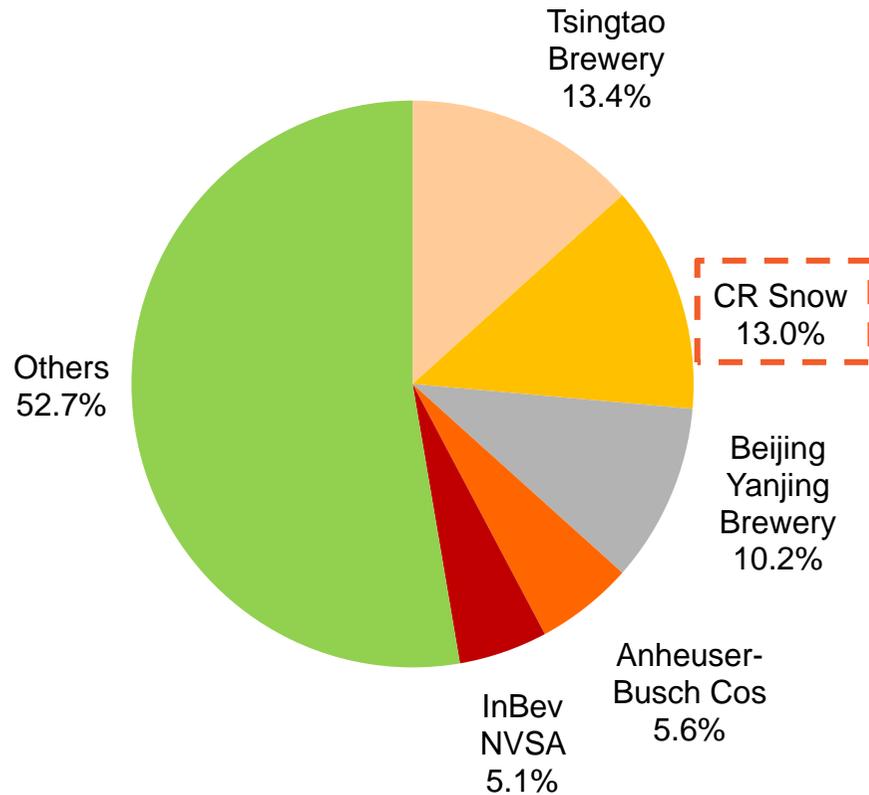
Beer (No.1 brand by volume in the world since 2008)



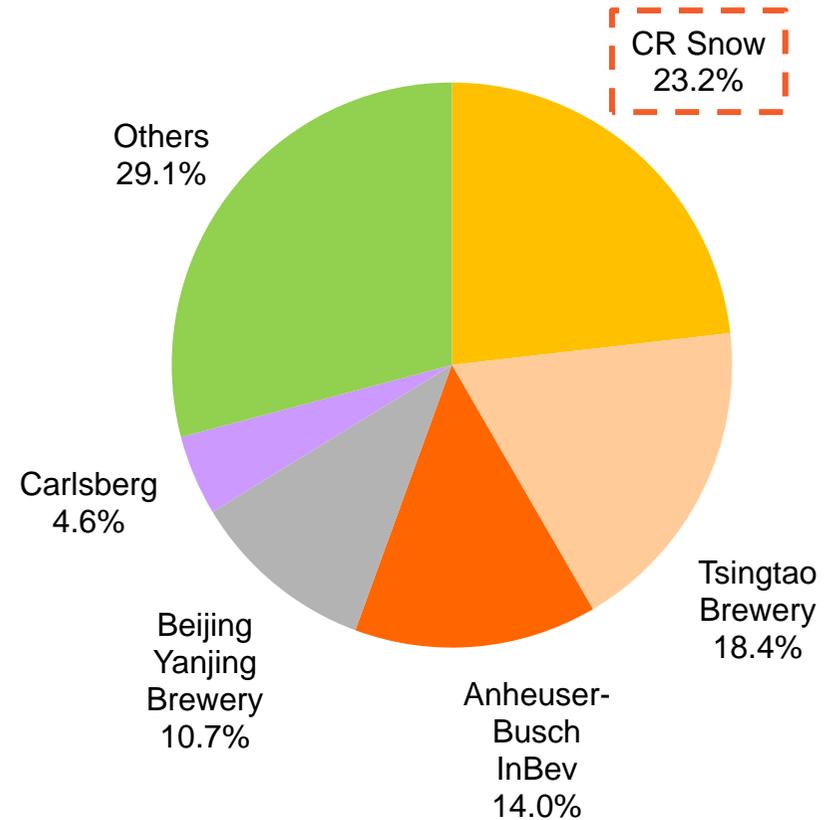
- Growth through: Solidifying market leader position and upgrade of product mix

China beer market competitive landscape by volume

2005 Top five market share = 47.3%



2014 Top five market share = 70.9%



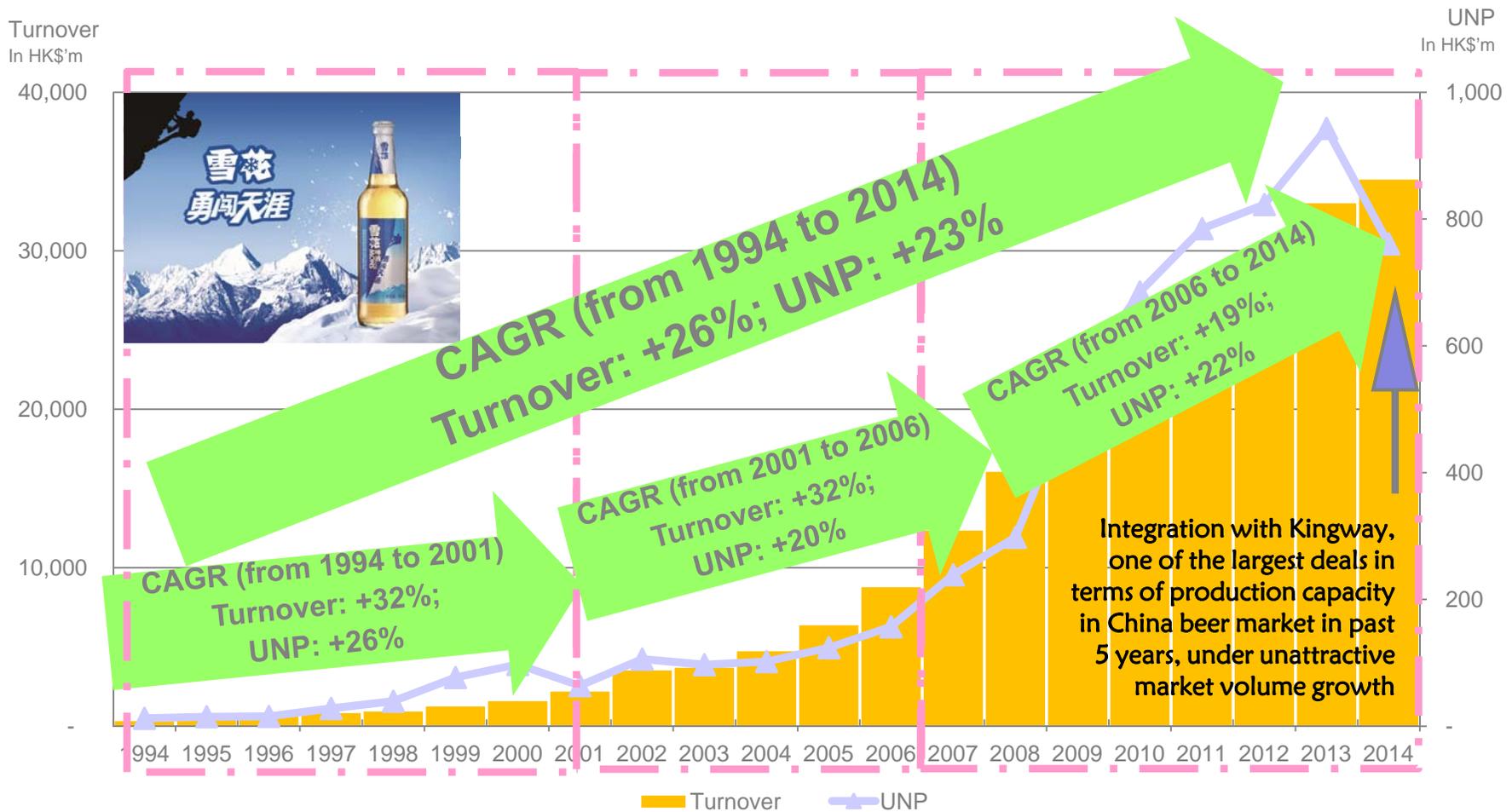
Source: Euromonitor International

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

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



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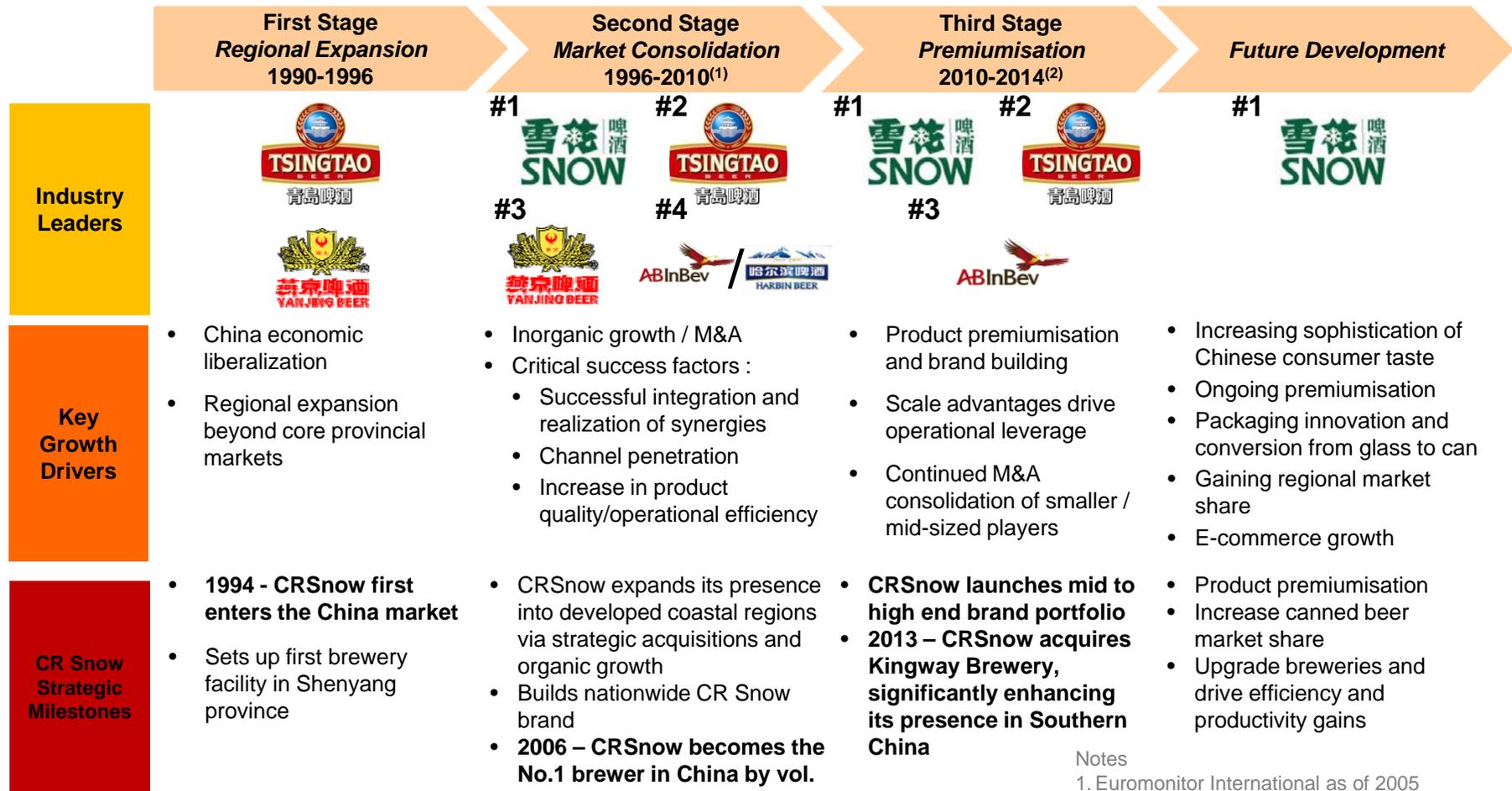


Beer (No.1 brand by volume in the world since 2008)



Evolution of the China Beer Market Over the Past 3 Decades

CR Snow has been at the forefront of evolution, effectively positioning itself to capture outsized growth



Notes

1. Euromonitor International as of 2005

2. Euromonitor International as of 2014

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



▪ New CRE: Pure beer business

- 1 The Undisputed Leader in World's Most Attractive Beer Market**
 - China is the largest¹ and most attractive beer market globally valued at US\$79bn in 2014 with expected next 5 year CAGR of 10%
 - CRE is the #1 brewer in China for the past 9 years with 23% market share¹ vs. 18% for the next player in 2014
- 2 Irreplaceable Heritage Brands That Resonate Nationwide with the Local Consumer**
 - Snow (“雪花”) is the world's largest selling beer brand by volume since 2008
 - Portfolio of 30+ sub-brands and products catering across the entire consumer spectrum
 - Nationwide presence operating 98 breweries in 25 out of 34 provinces in China
- 3 Successful 21 Year Strategic Partnership with the Second Largest Global Brewer**
 - Successful partnership with SABMiller since 1994 providing global best practices, technology and operational know-how
 - Pioneer in collaboration with global players (Tsingtao's collaboration with Asahi only since 2009 and not fully integrated)
- 4 Proven Track Record of Double-Digit Growth Through Premiumisation and Innovation**
 - Successful track record of growth through increasing volumes and ASPs
 - Sales and net income CAGR of 26% and 23%, respectively since inception in 1994
 - Increasing focus on premiumisation of mid-end to high-end products
- 5 The Leading Platform for Industry Consolidation**
 - Leading market consolidator with successful acquisition and integration of domestic breweries in the past
 - Track record of M&A with 20+ acquisitions over last 10 years, including the HK\$6.6bn acquisition of Kingway in 2013
- 6 Consistent and Proven Management Leadership Since Formation of Partnership**
 - Experienced management team led by Wang Qun who has been leading CR Snow since its inception in 1994
 - Sponsorship from one of the leading SOEs in China and the second largest global brewer

Note

1. By volume according to Euromonitor International

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

- Differentiated sales channel strategy with unique on-the-ground capabilities
Distribution strategy focused on professionalism, exclusivity and flatness of network

Urban markets

High end on-trade channel	<ul style="list-style-type: none"> □ Specific sales force to target on-trade customers such as high-end restaurants and night clubs to promote sales of mid to high-end products □ Build and maintain a strong channel and customer relationship
Other on-trade channel and traditional retail channel	<ul style="list-style-type: none"> □ Established a flat distributor network by dividing targeted markets into smaller areas which eliminates layers of distributors □ Allows for higher profitability, closer proximity to end customers and better management of distributors and retailers
Modern retail channel	<ul style="list-style-type: none"> □ Sales team at headquarters covers and negotiates with nationwide retailers directly □ Regional sales team coordinate negotiations with regional retailers and provide comprehensive sales support and monitor performance
E-commerce channel	<ul style="list-style-type: none"> □ Sales on e-commerce platforms such as Yihaodian, JD.com □ Flagship stores on platforms such as T-mall, Haigou.com □ Establishing own e-commerce platform to directly interact with end customers and consumers

Source: Company Filings, Company Information

Regional markets¹

<ul style="list-style-type: none"> □ Maintain long standing relationships with local distributors to broaden coverage and penetration □ Flat distribution model through careful and finer division of regional markets □ Utilize secondary distributors to supply to rural areas
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Regional markets in smaller towns and rural areas

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



▪ Diverse product portfolio and innovation across brands and price points addressing premiumization trend

- Developed mainstream, mid and high-end products across different retail price points ranging from RMB3 to RMB25 per bottle to cater for a full spectrum of consumers
- Driving of mid to high-end products in recent years in recognition of the premiumization trend in China
- Regional brands complementing product offerings in certain markets
- Brand strategy focused on solidifying aspirational appeal to consumers

Snow – the brand for all consumer groups

Mainstream ← → Super Premium



Price range

RMB 3 - 5



RMB 5 - 7



RMB 9 - 12



Over RMB 25

Complemented by Regional Brands

North



Central / East



South



Southwest



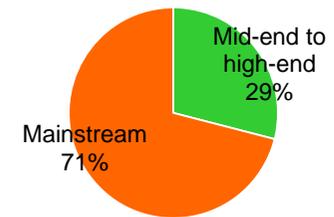
Northwest



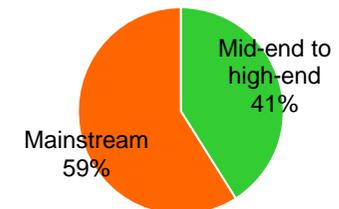
Source: Company Filings, Company Information

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2012 Sales volume breakdown



2014 Sales volume breakdown



Note: Mid-end to high-end products defined as products with a retail price of c.RMB5 per 500ml or above



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

▪ Future growth strategy

1

Further penetrate the high-end on-trade and modern retail channels well suited for premium brands

- Focus on premiumization to drive sales and profitability growth
- Grow higher-priced and higher margin brands and products

2

Strengthen our regional presence through organic growth and acquisitions

- Continue to grow market share on a regional basis both organically and through acquisitions
 - Focus on expanding and upgrading current breweries and improve efficiencies
 - Ongoing evaluation of acquisition targets that can help strengthen regional presence

3

Utilise the Kingway production plants to manufacture CR Snow beer products

- Continue to integrate Kingway into the platform with expectations to complete within the next three to four years
 - Upgrade Kingway's breweries to CR Snow's best-in-class operating standards
 - Integrate Kingway's distribution and channel strategy into platform

4

Collaboration with SABMiller

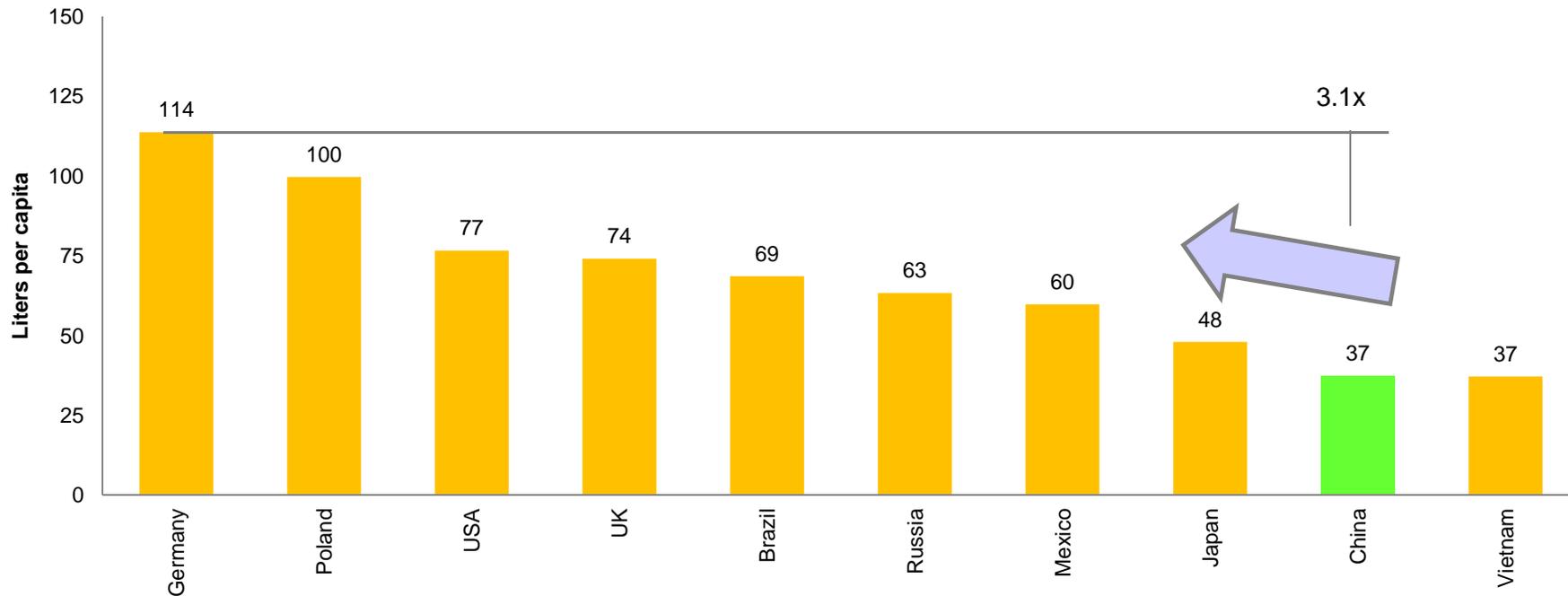
- Continue to improve operating efficiencies and optimizing production to ensure the most cost effective end-to-end supply chain
- Leverage SABMiller technology and know how to improve production facilities, methods and expertise of management



Appendix I – Global beer consumption summary

Huge long term potential on volume growth (32% of Germany only)

2014 Top ten beer markets per capita volume consumption



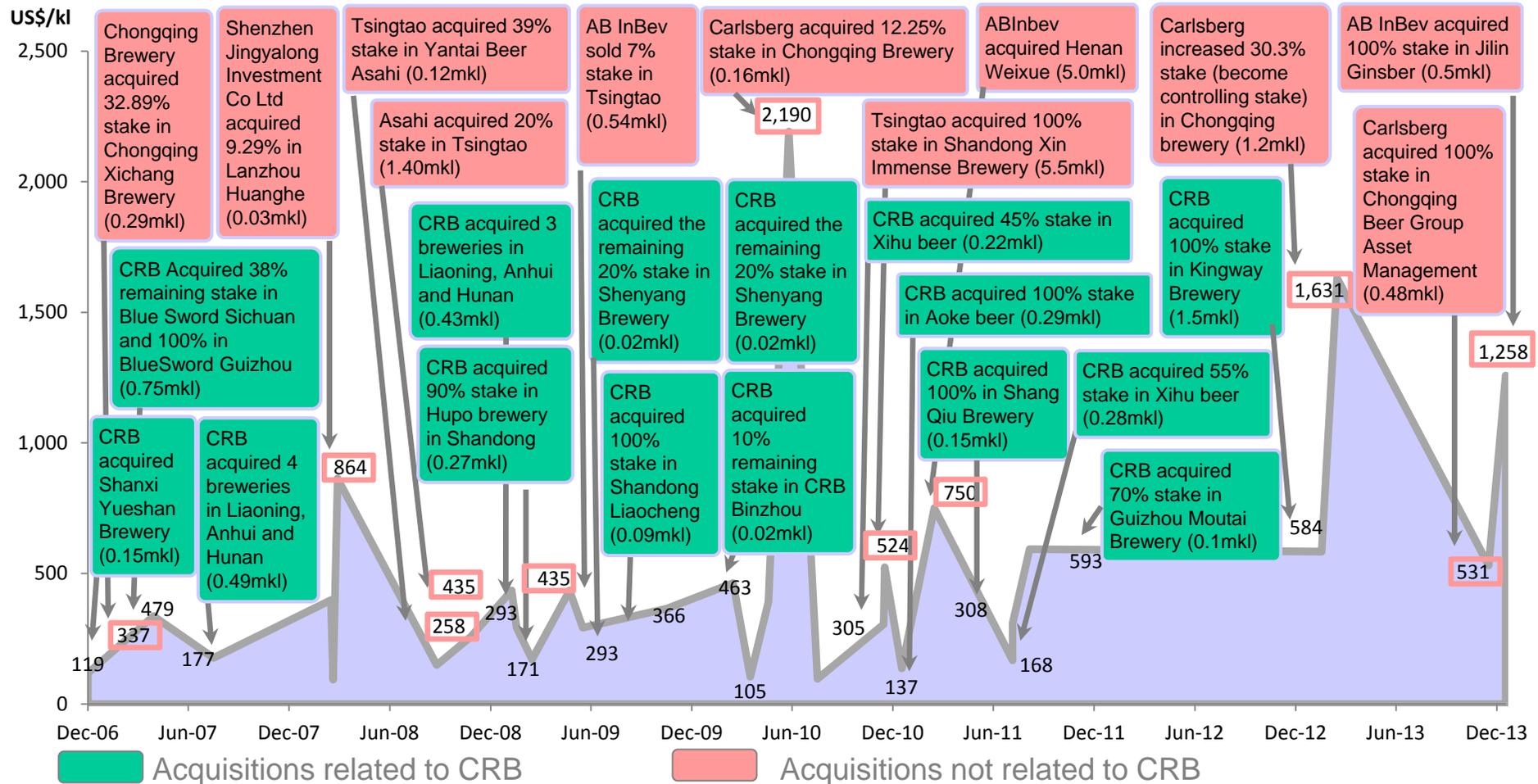
Source: Euromonitor International

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Appendix II – 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 III – Retail operation

- Growth through: Multi-format with operational balance and efficiency

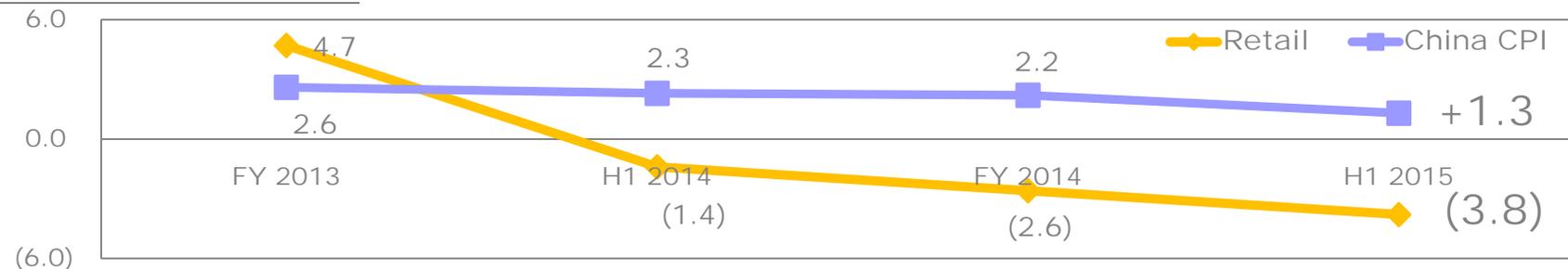
	H1 2015 HK\$m	H1 2014 HK\$m	change
Turnover	61,146	52,589	+16%
Underlying EBITDA #	(1,445)	1,894	-176%
Underlying net profit #	(2,847)	439	-749%
Underlying EBITDA margin (%) #	(2.4)	3.6	-167%
Underlying net profit margin (%) #	(4.7)	0.8	-688%

Slower economic growth, competition from e-commerce and integration continued to affect the performance.

The EBITDA and underlying net profit in H115 included the provision for goodwill impairment (HK\$2,014m attributable to shareholders) and provision for stores closure (HK\$422m attributable to shareholders).

Turnover and underlying net profit contribution from Tesco China in H1 2015 was HK\$9,157m and HK\$(283)m, respectively.

SSSG of retail business:



excluded the revaluation of investment property

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Notation:

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

Region

New region

Appendix III

■ Growth through: Multi-format with operational balance and efficiency Geographical distribution of retail network

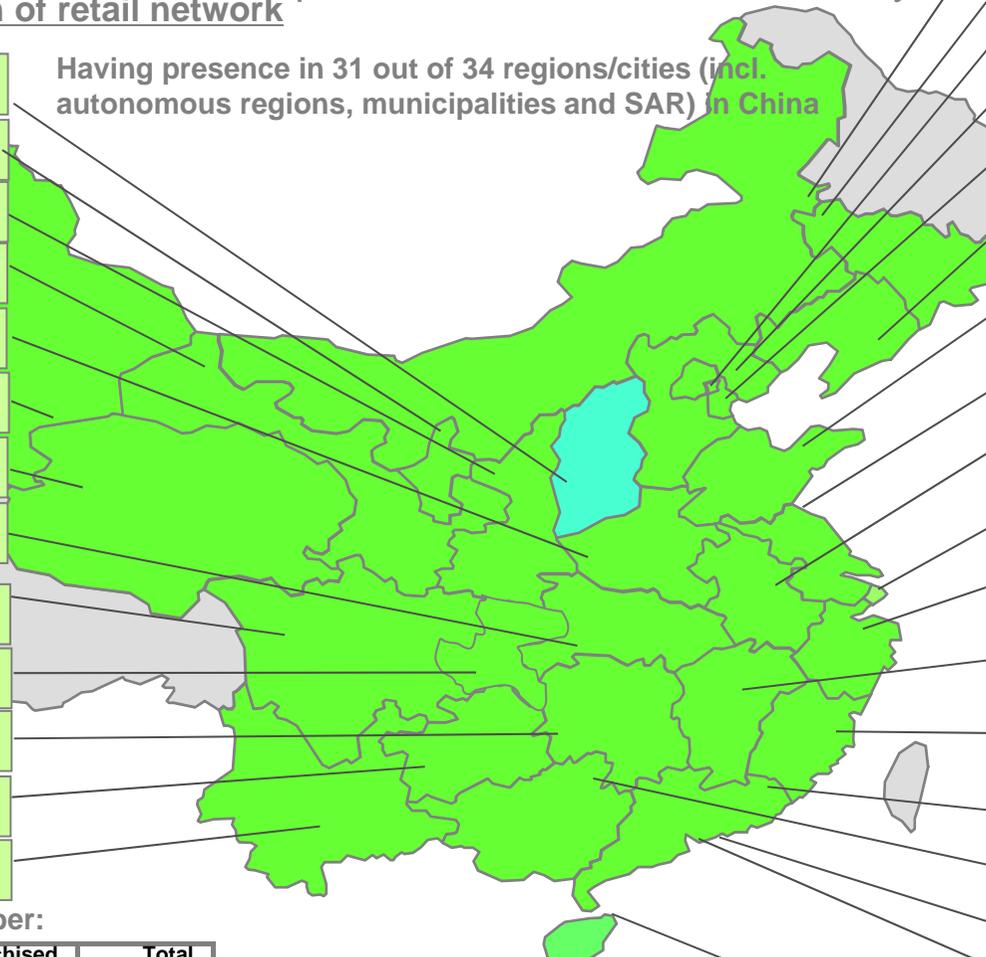
Northern west areas

1 (1) [1]	Shanxi
5 (5) [1]	Ningxia
124 (48) [15]	Shaanxi
8 (8) [1]	Gansu
20 (11) [2]	Henan
2 (2) [1]	Xinjiang
1 (1) [-]	Qinghai
51 (6) [-2]	Hubei

Southern areas

27 (1) [1]	Sichuan
24 (10) [6]	Chongqing
14 (9) [2]	Hunan
1 (-) [-]	Guizhou
2 (1) [1]	Yunnan

Having presence in 31 out of 34 regions/cities (incl. autonomous regions, municipalities and SAR) in China



Northern areas

4 (4) [-]	Inner Mongolia
3 (3) [-1]	Jilin
128 (12) [-16]	Beijing
11 (9) [3]	Hebei
248 (27) [-21]	Tianjin
68 (43) [4]	Liaoning

Eastern areas

51 (16) [-]	Shandong
1,894 (203) [1]	Jiangsu
510 (70) [6]	Anhui
95 (23) [9]	Shanghai
195 (81) [17]	Zhejiang
25 (22) [-]	Jiangxi

Southern areas

19 (8) [3]	Fujian
908 (94) [57]	Guangdong
10 (4) [1]	Guangxi
369 (-) [-19]	Hong Kong
9 (-) [-]	Macau
2 (1) [-]	Hainan

Movement in retail shop number:

	Self-operated	Franchised	Total
30 Jun 14	4,021	764	4,785
Opening	461	79	540
Closing	(361)	(122)	(483)
30 Jun 15	4,121	721	4,842*

*Of which, 13 stores(2014: 23 stores) are located in Singapore, Malaysia and Cyprus.

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Appendix III – Retail operation

Vanguard*
华润万家

Format	Major brands	Average areas (sq.m)	30 Jun 15				31 Dec 14		30 Jun 14	
			% of turnover	App. average GP margin	Self-operated	Franchised	Self-operated	Franchised	Self-operated	Franchised
I. Hypermarket	Vanguard* 华润万家 V+ 苏果	Over 6,000	App.81%	21%	710	13	711	13	693	13
II. Standard supermarket	Vanguard* 华润万家	500 – 800	App.10%	22%	1,354	586	1,382	603	1,361	634
III. Convenience stores	VnGO	30 – 120	App.3%	24%	1,292	80	1,285	74	1,232	75
IV. Ole', blt	Ole' blt	4,000	App.3%	more than 25%	48	-	46	-	40	-
V. Pacific Coffee	Pacific Coffee	120	App.1%	more than 50%	387	42	377	41	342	42
VI. CAC and CR Care	CHINESE ARTS & CRAFTS 翠园堂	various	App.1%	more than 30%	153	-	158	-	155	-
VII. Health and beauty stores	elVivo	200	less than 1%	more than 25%	146	-	150	-	172	-
VIII. Wine cellar and others	voila!	200	less than 1%	Various	31	-	26	-	26	-
Total					4,121	721	4,135	731	4,021	764
					4,842		4,866		4,785	

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Appendix III – Food operation

- Growth through: Quality premium products

	H1 2015 HK\$m	H1 2014 HK\$m	change
Turnover	8,480	8,035	+6%
Underlying EBITDA#	207	167	+24%
Underlying net profit#	(15)	(72)	+79%
Underlying EBITDA margin (%)	2.4	2.1	+14%
Underlying net margin (%)	(0.2)	(0.9)	+78%

The division was still in a transition period with further investment required.



excluded the valuation surplus on investment properties

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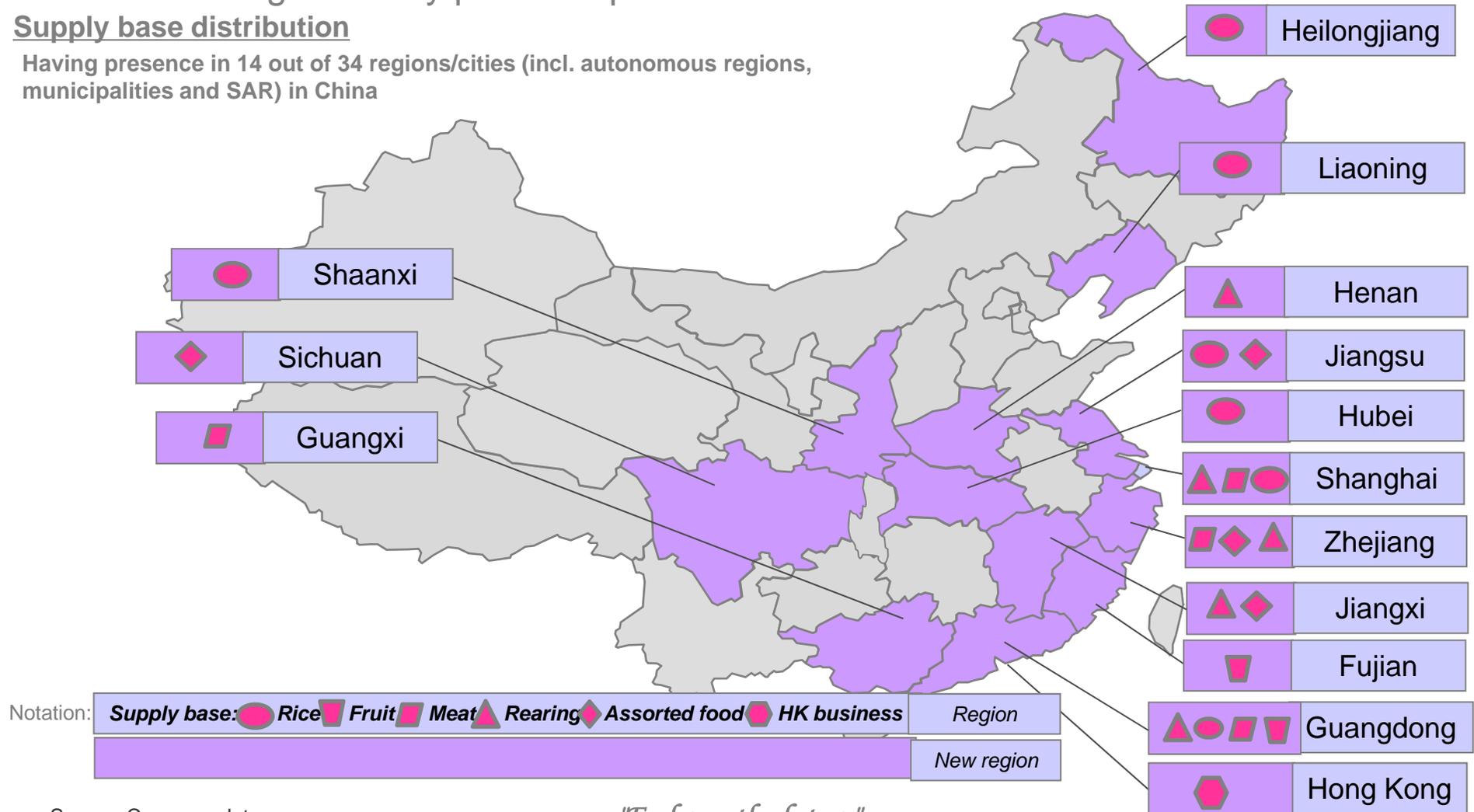


Appendix III – Food operation

- 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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Appendix III – Beverage operation

- Growth through: strong partnership with Kirin



	H1 2015 HK\$m	H1 2014 HK\$m	change
Sales volume (million KL)	3.98	3.22	+24%
Turnover	6,307	5,057	+25%
EBITDA	548	212	+158%
Earnings (#)	324	111	+192%
EBITDA margin (%)	8.7	4.2	+107%
Net margin (%) (#)	5.1	2.2	+132%

Additional ongoing investment is needed to maintain its leading position in purified water products and develop market leading brands in other categories.



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

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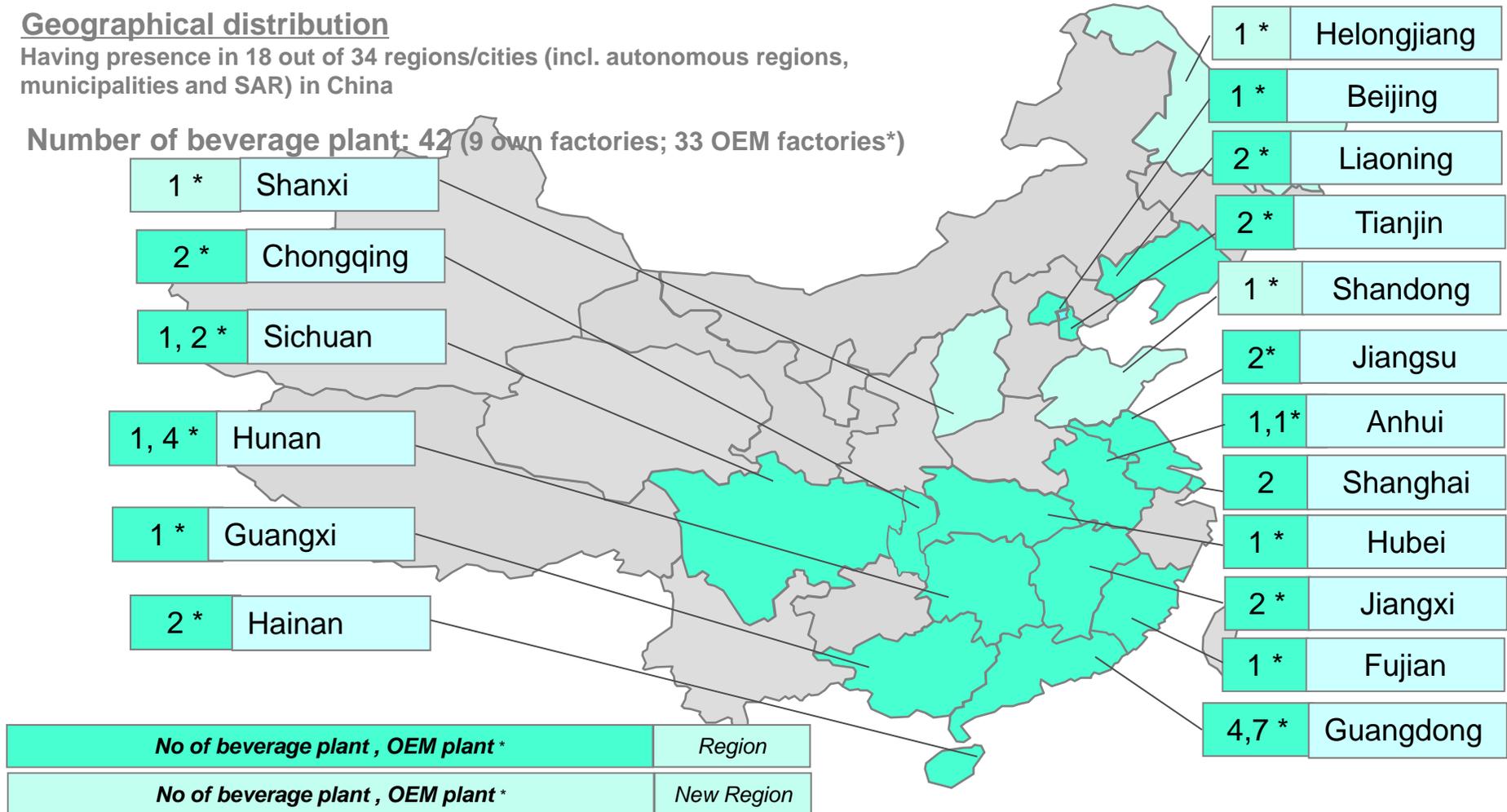
Appendix III – Beverage operation

- Growth through: strong partnership with Kirin

Geographical distribution

Having presence in 18 out of 34 regions/cities (incl. autonomous regions, municipalities and SAR) in China

Number of beverage plant: 42 (9 own factories; 33 OEM factories*)



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