



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

<u>Results Summary</u>	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
<i>Core businesses</i>										
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
<u>Core businesses</u>										
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%
<u>Adjustment</u>										
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.

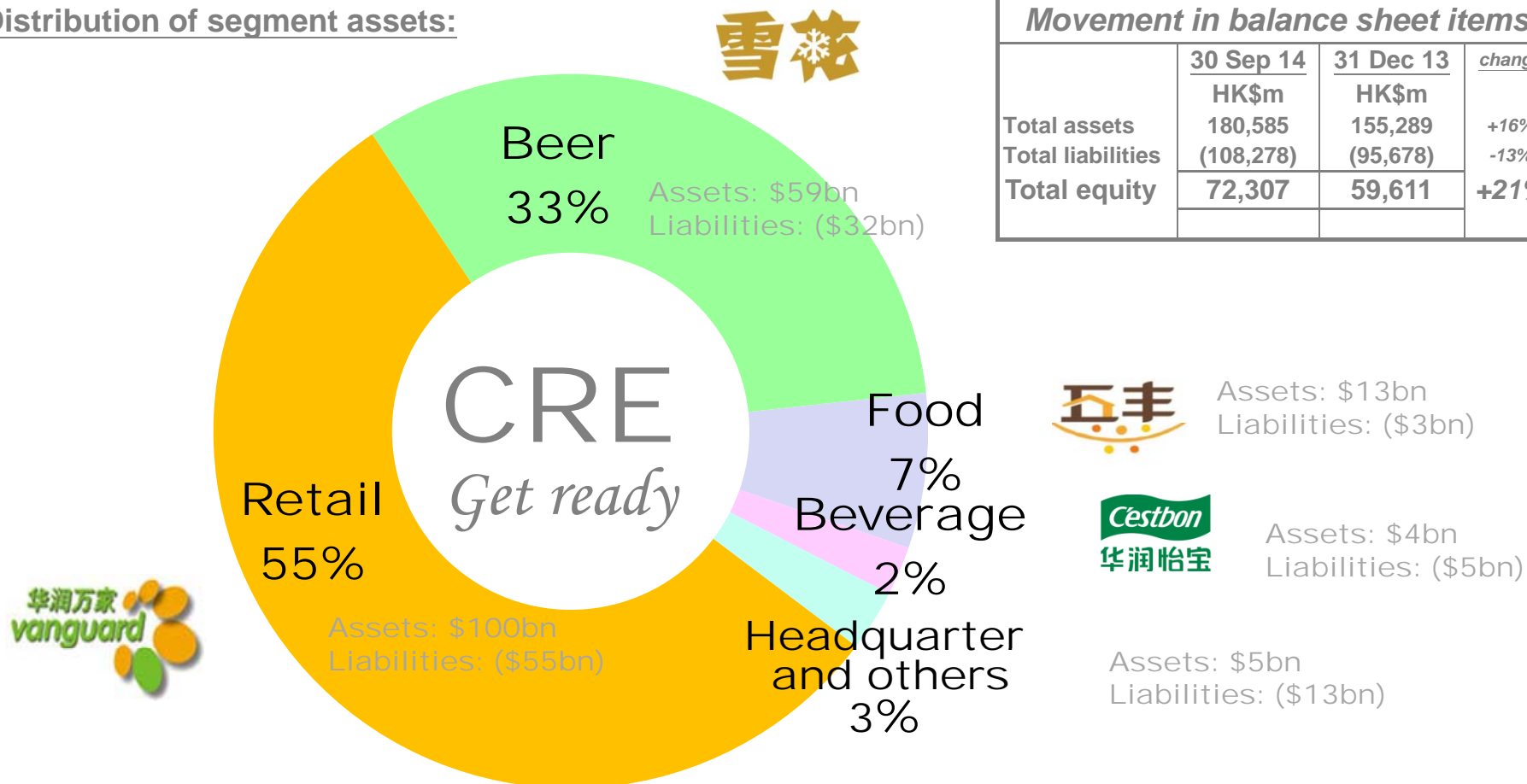
The above profit was 60% profit attributable to CRE.

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Segment assets

- Unique with four consumer businesses complementing each other

Distribution of segment assets:

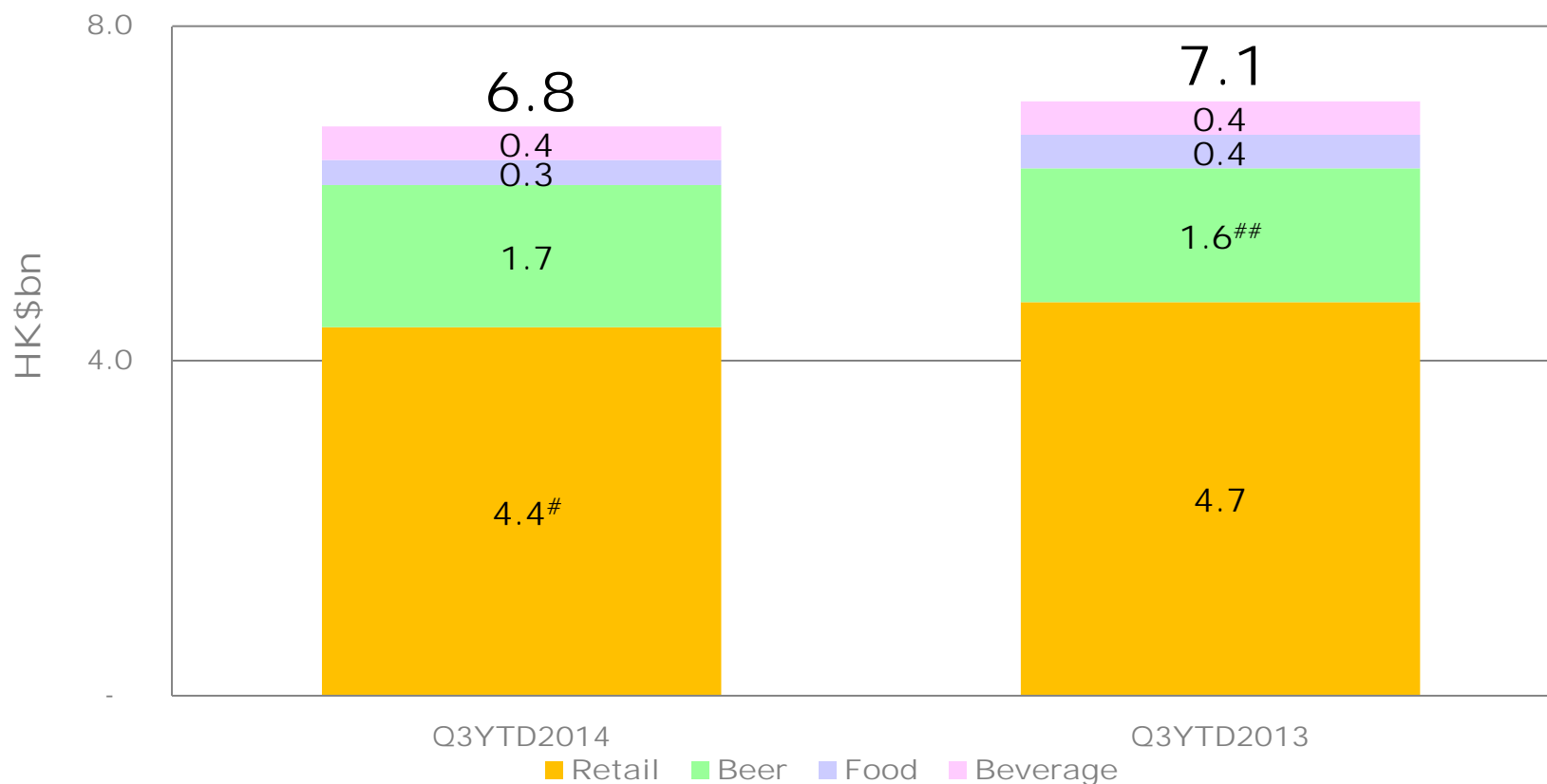


Movement in balance sheet items			
	30 Sep 14	31 Dec 13	change
	HK\$m	HK\$m	
Total assets	180,585	155,289	+16%
Total liabilities	(108,278)	(95,678)	-13%
Total equity	72,307	59,611	+21%

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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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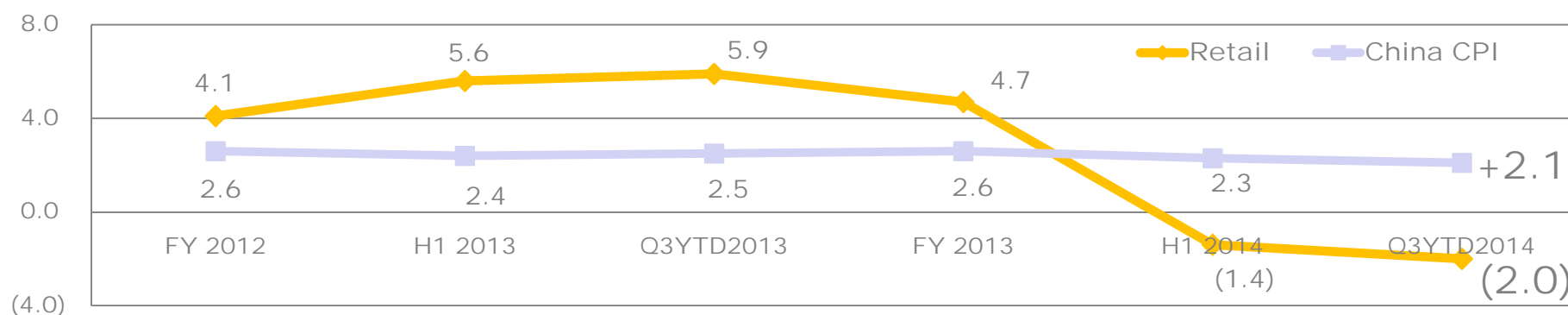
Retail

- Growth through: Multi-format with regional leadership

	Q3 2014 HK\$m	Q3 2013 HK\$m	change	Q3 YTD 2014 HK\$m	Q3 YTD 2013 HK\$m	change
Turnover	29,582	23,920	+24%	82,171	71,827	+14%
Underlying EBITDA #	(84)	733	-111%	1,810	2,682	-33%
Underlying net profit #	(732)	75	-1076%	(293)	699	-142%
Underlying EBITDA margin (%) #	(0.3)	3.1	-110%	2.2	3.7	-41%
Underlying net profit margin (%) #	(2.5)	0.3	-933%	(0.4)	1.0	-140%

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

138 (12) [-5] Beijing

13 (11) [5] Hebei

273 (28) [-24] Tianjin

68 (43) [34] Liaoning

53 (18) [3] Shandong

1,907 (203) [51] Jiangsu

512 (66) [13] Anhui

86 (24) [43] Shanghai

180 (84) [36] Zhejiang

26 (24) [2] Jiangxi

17 (7) [9] Fujian

864 (89) [78] Guangdong

9 (3) [-1] Guangxi

378 (-) [-18] Hong Kong

9 (-) [2] Macau

2 (1) [-] Hainan

Retail

- Growth through: Multi-format with regional leadership

Geographical distribution of retail network

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

5 (5) [1] Ningxia

114 (45) [21] Shaanxi

7 (7) [1] Gansu

18 (14) [2] Henan

1 (1) [1] Xinjiang

1 (1) [-] Qinghai

51 (6) [1] Hubei

Southern areas

29 (4) [9] Sichuan

20 (7) [2] Chongqing

13 (6) [3] Hunan

1 (-) [-] Guizhou

1 (-) [1] Yunnan

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*

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

*Of which, 21 stores(2013: 17 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):



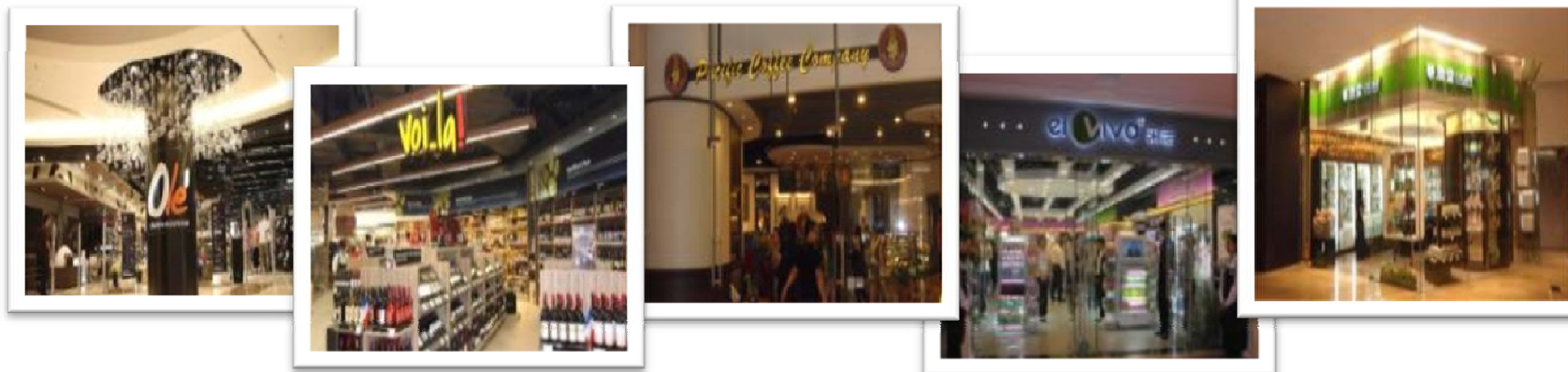
5 formats in Beijing

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

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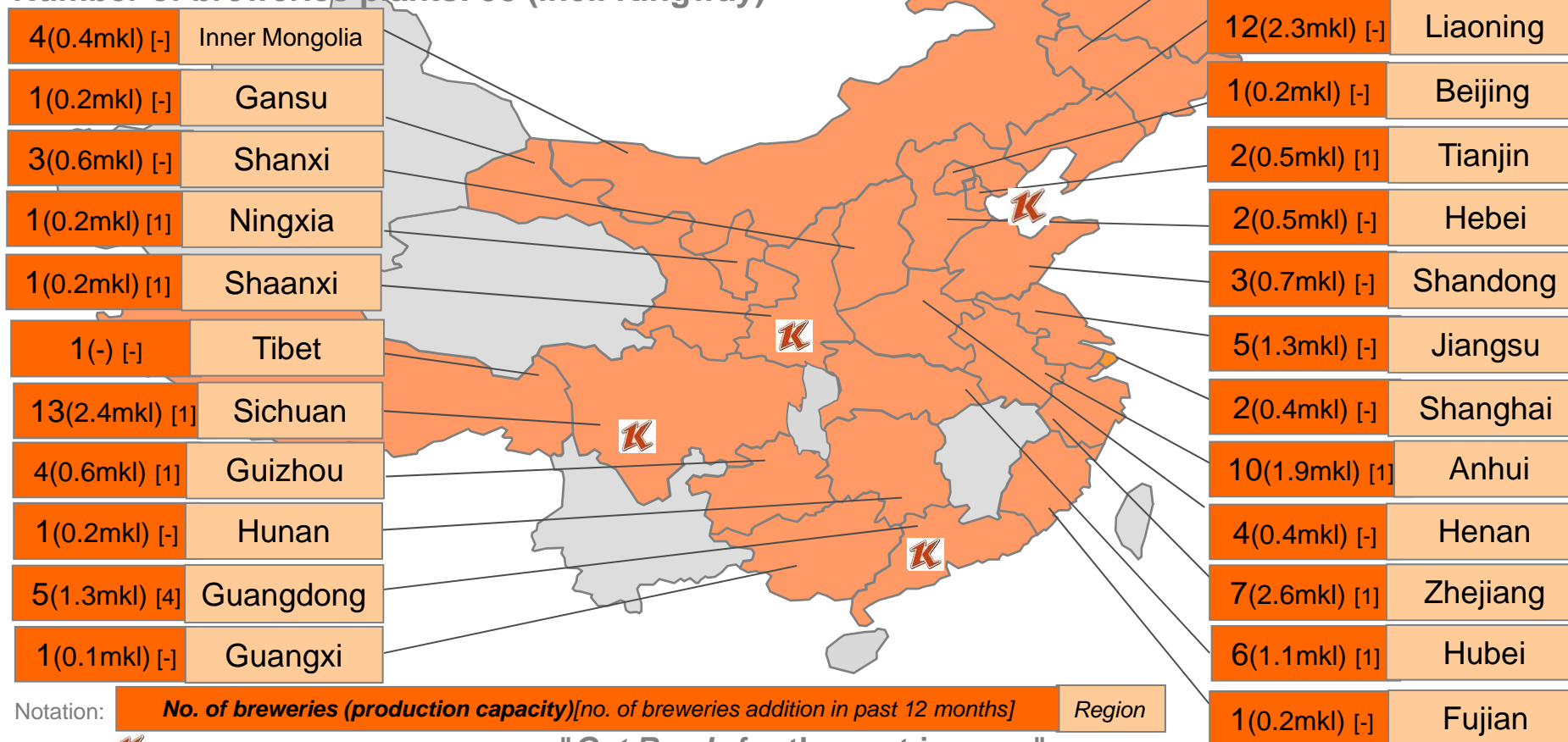
Beer (No.1 brand by volume in the world since 2008) 雪花

- 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)



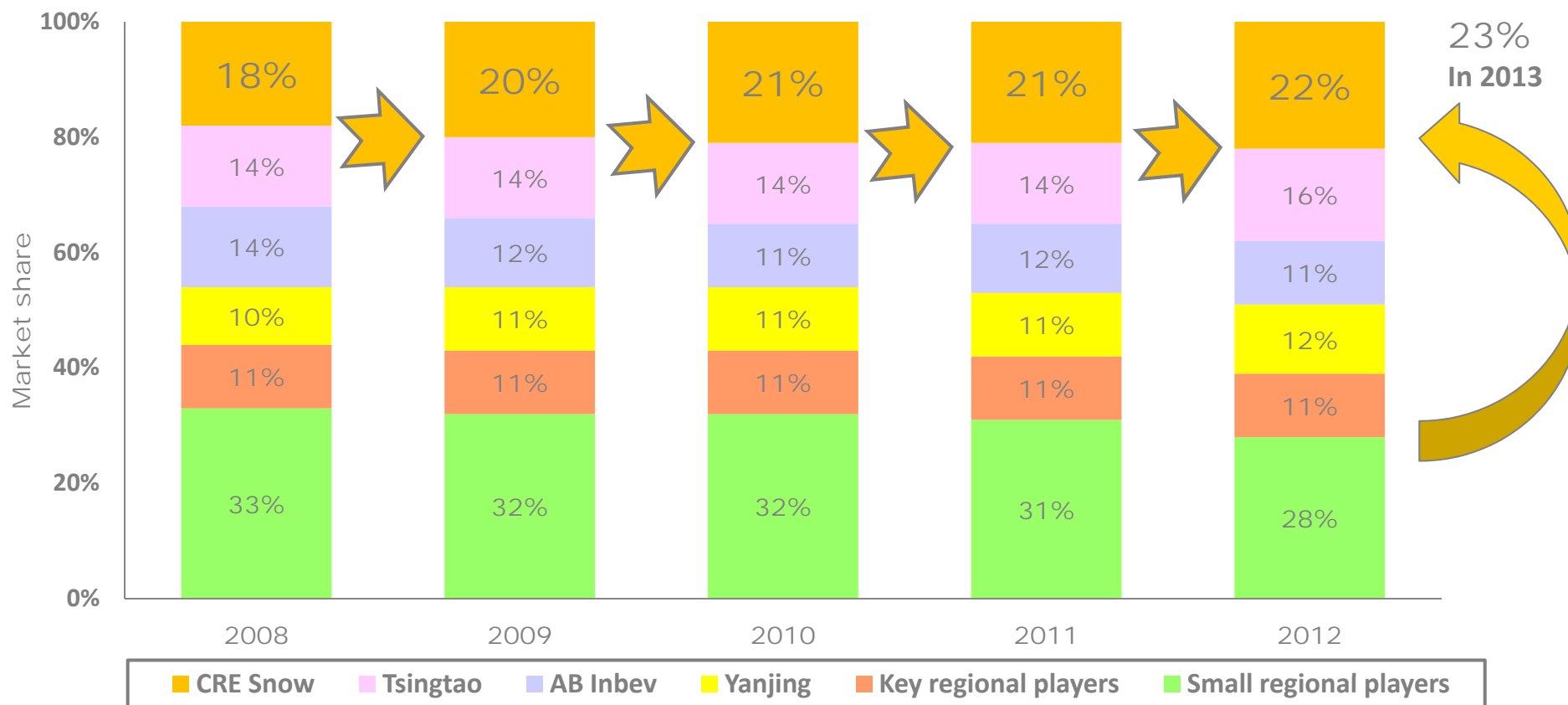
"Get Ready for the next journey"

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%.



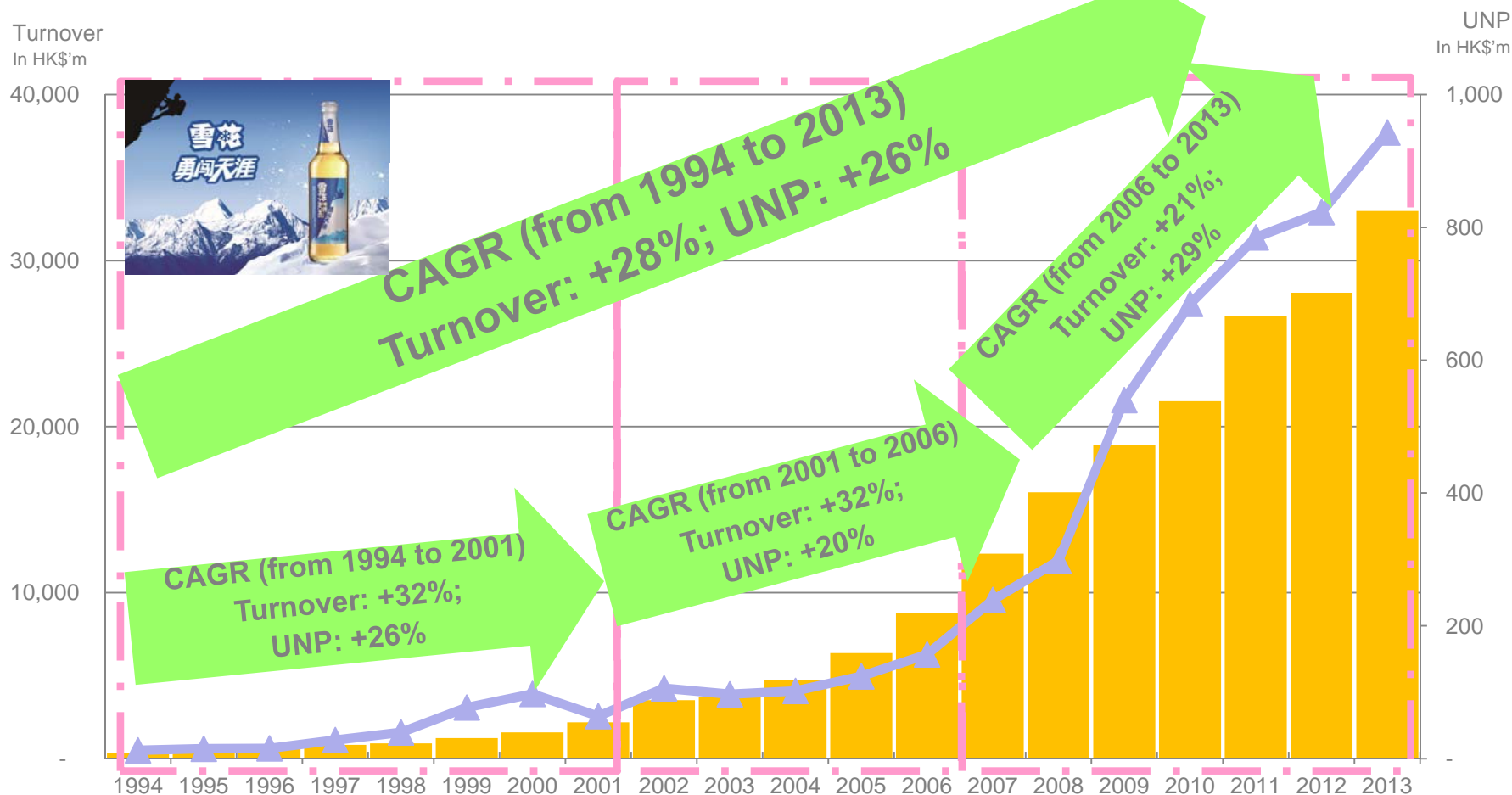
Source: State Statistical Bureau and CR Snow

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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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Food



- 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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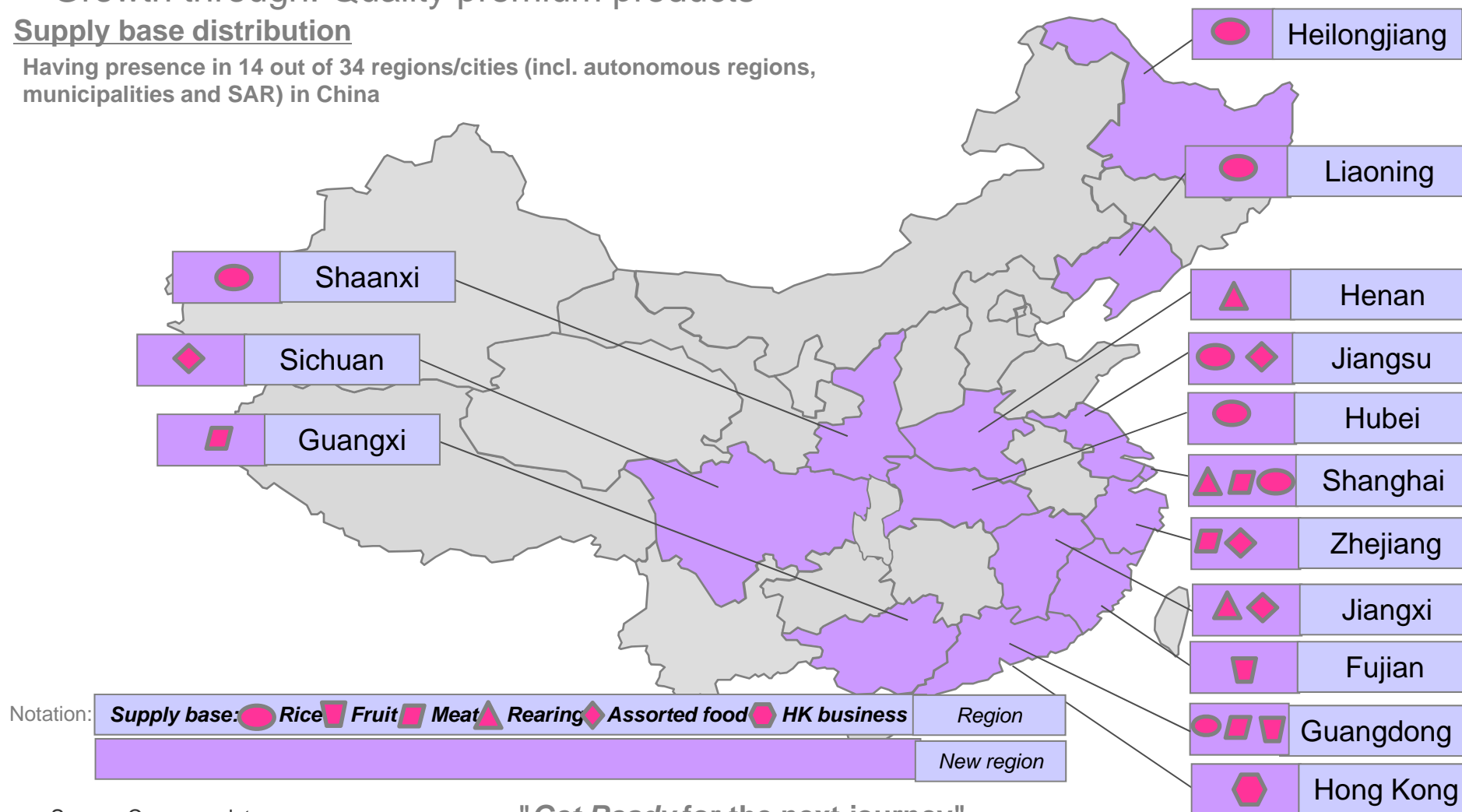
Food



- 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

	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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Beverage

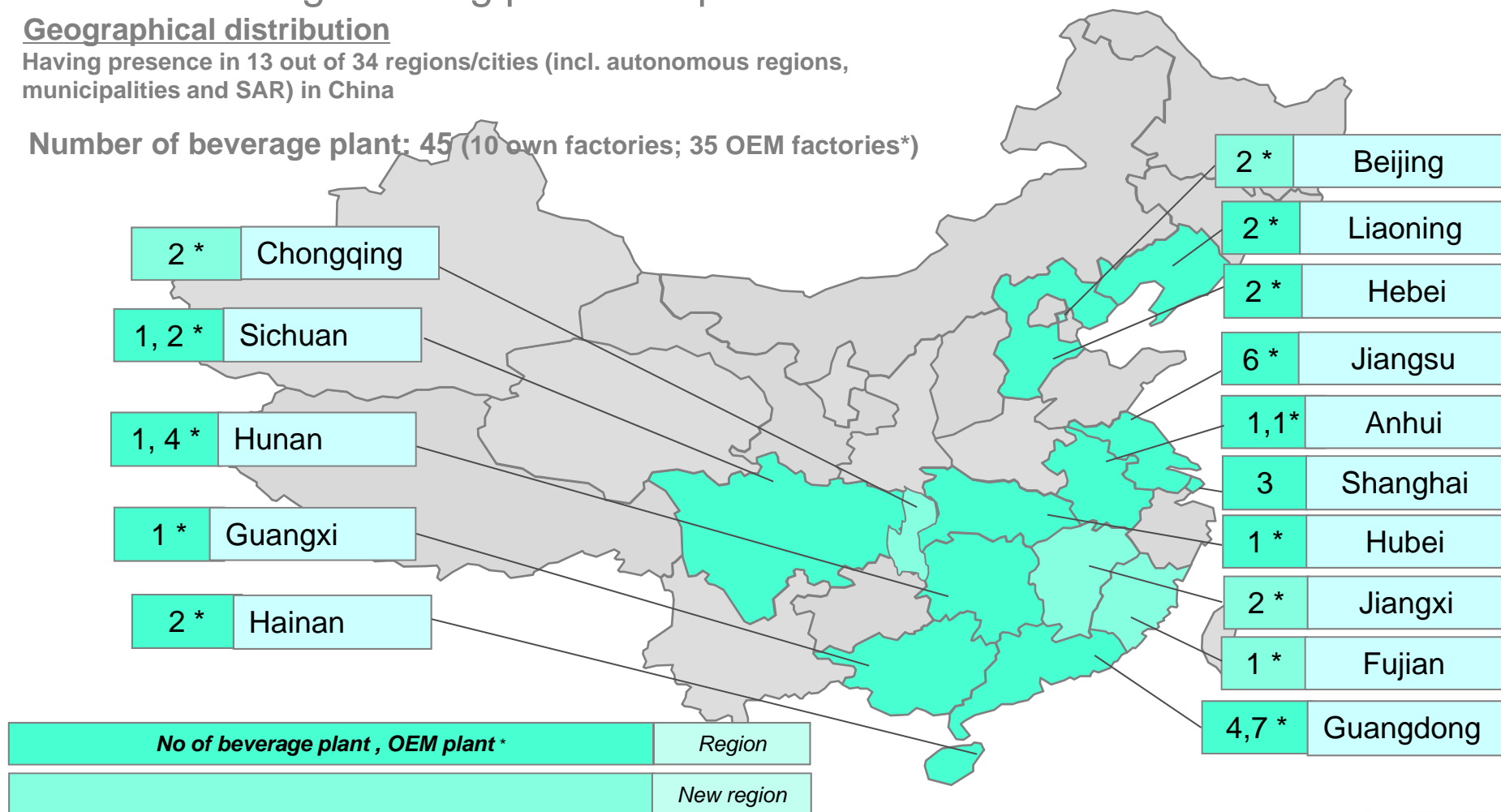


- Growth through: strong partnership with Kirin

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. Hypermarket	 	Over 6,000	app.78%	20%	704	13	563	13	547	13
II. Standard supermarket		500 – 800	app.10%	21%	1,373	628	1,370	681	1,371	681
III. Convenience stores		30 – 120	app.4%	23%	1,253	71	1,174	70	1,149	67
IV. Ole', blt	 	4,000	app.3%	more than 25%	41	-	40	-	36	-
V. Pacific Coffee		120	app.1%	more than 50%	356	42	328	37	308	33
VI. CAC and CR Care	 	various	app.2%	more than 25%	157	-	155	-	160	-
VII. Health and beauty stores		200	less than 1%	more than 25%	161	-	168	-	164	-
VIII. Wine cellar and others		200	app. 2%	Various	26	-	15	-	22	-
Total					4,071	754	3,813	801	3,757	794
					4,825		4,614		4,551	

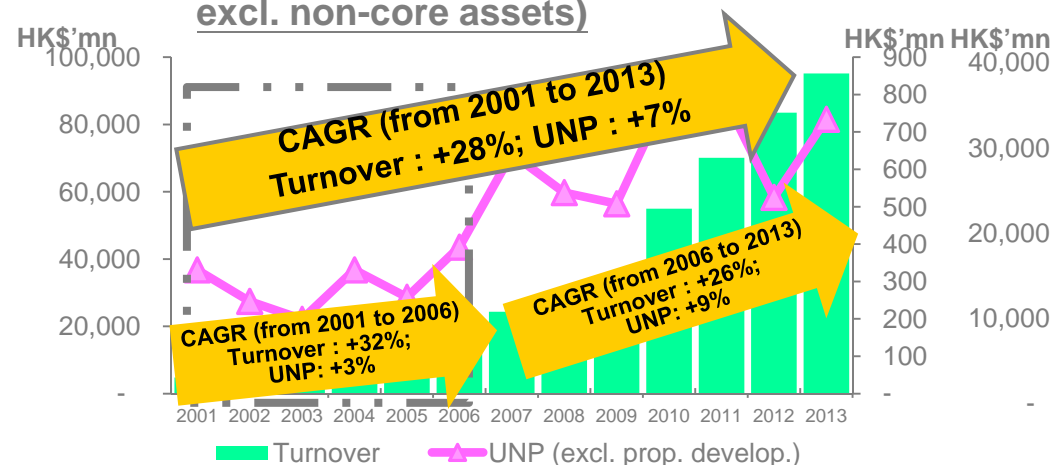
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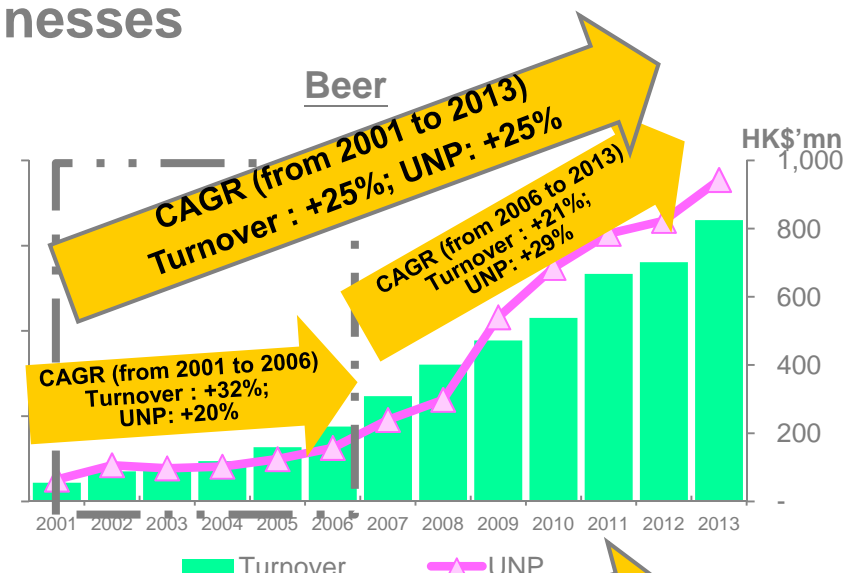
Appendix II – Historical track record of CRE

Strong growth momentum in each businesses

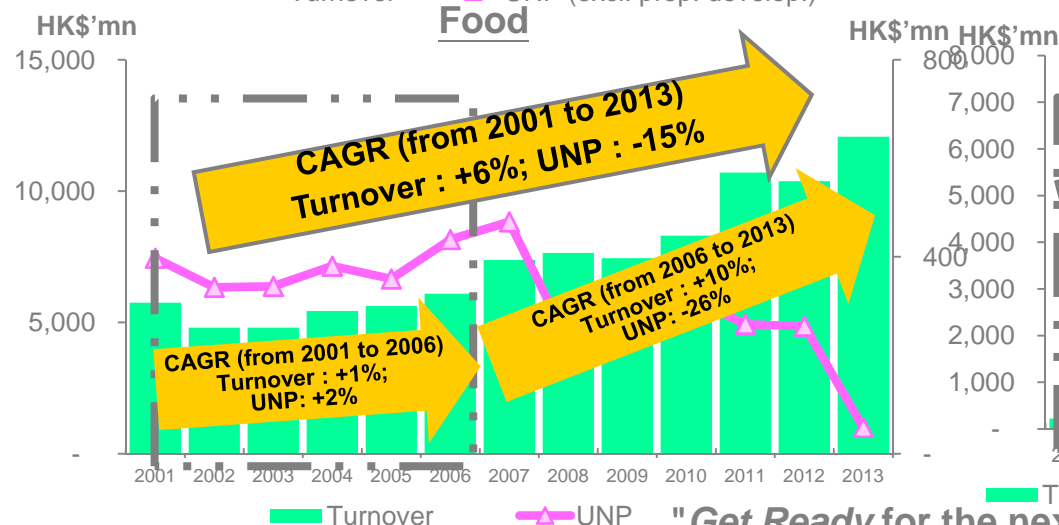
Retail (incl. investment property,
excl. non-core assets)



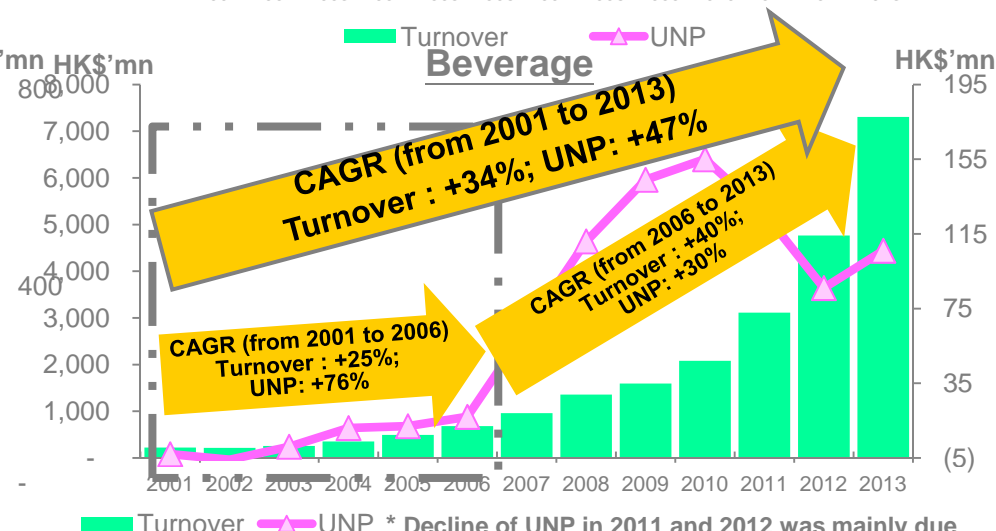
Beer



Food



Beverage

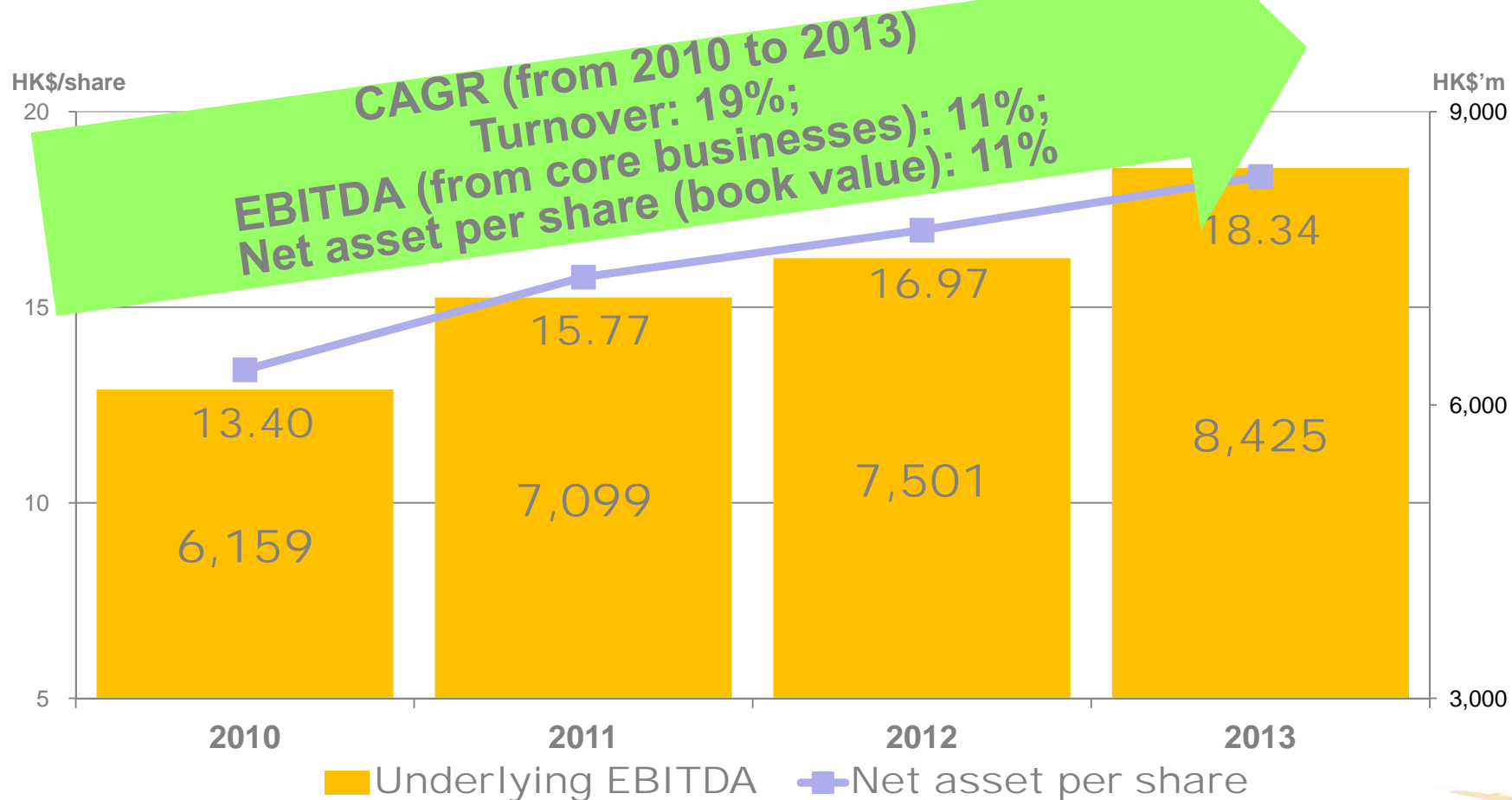


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* Decline of UNP in 2011 and 2012 was mainly due to 40% share to Kirin since August 2011.

Appendix III – Historical operating summary

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

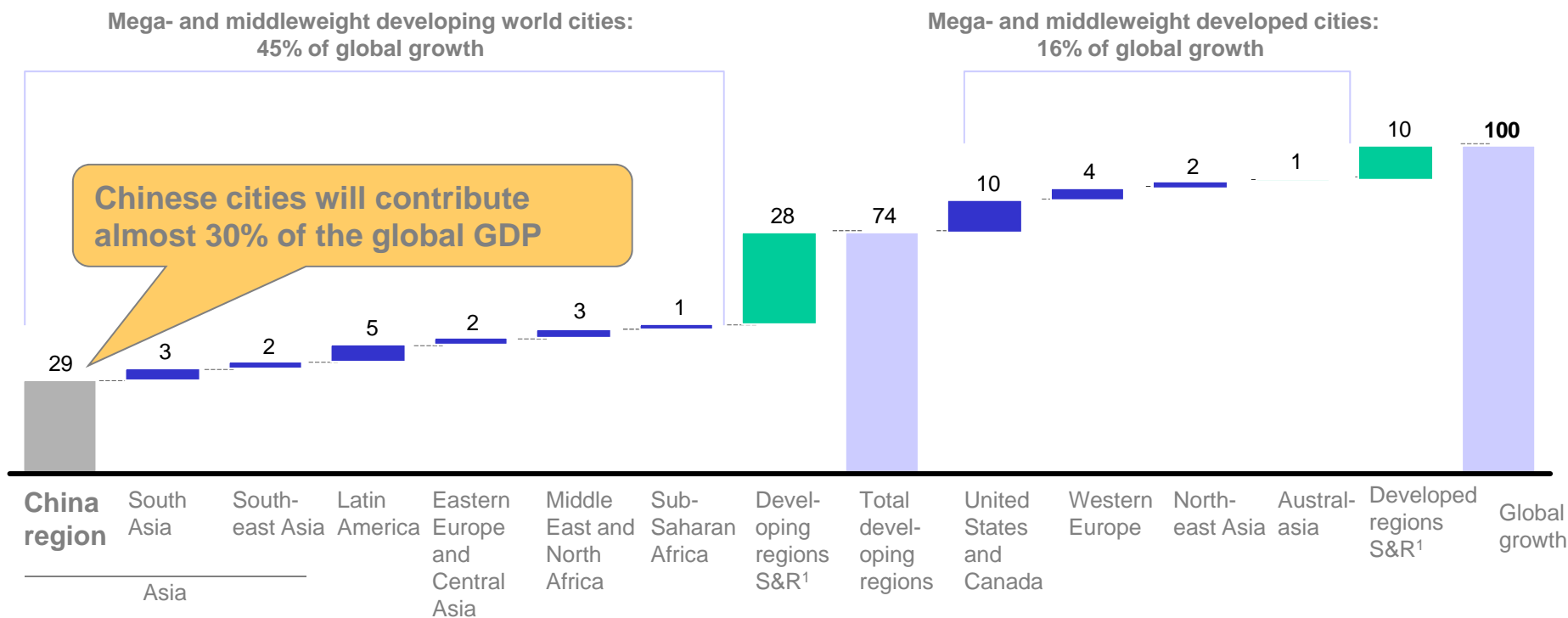


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Appendix IV – Strong growth in China

■ 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.



1 S&R = small cities and rural areas.

Source: McKinsey

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Appendix V – Better position for CRE

Notation:
Expected cluster size:

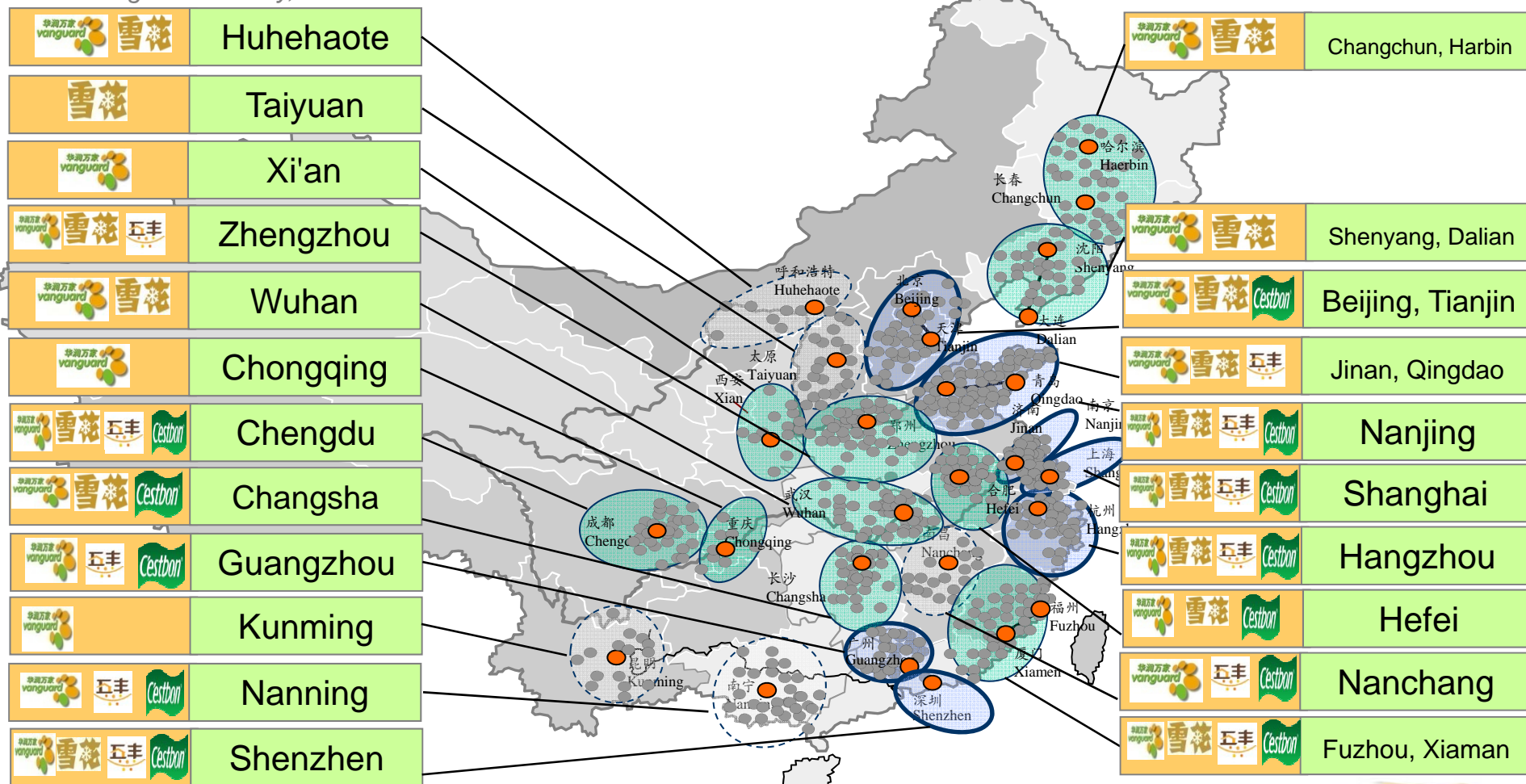
CRE's presence

Cluster's hub city



■ 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.*

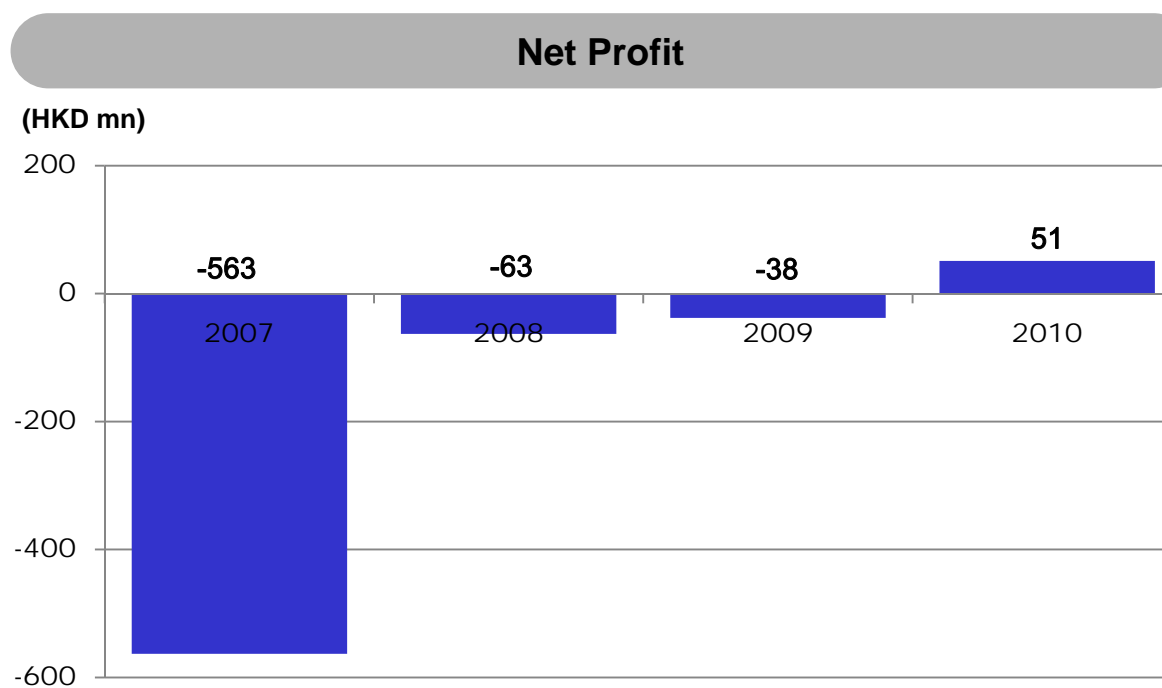


Source: McKinsey and Company data

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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:



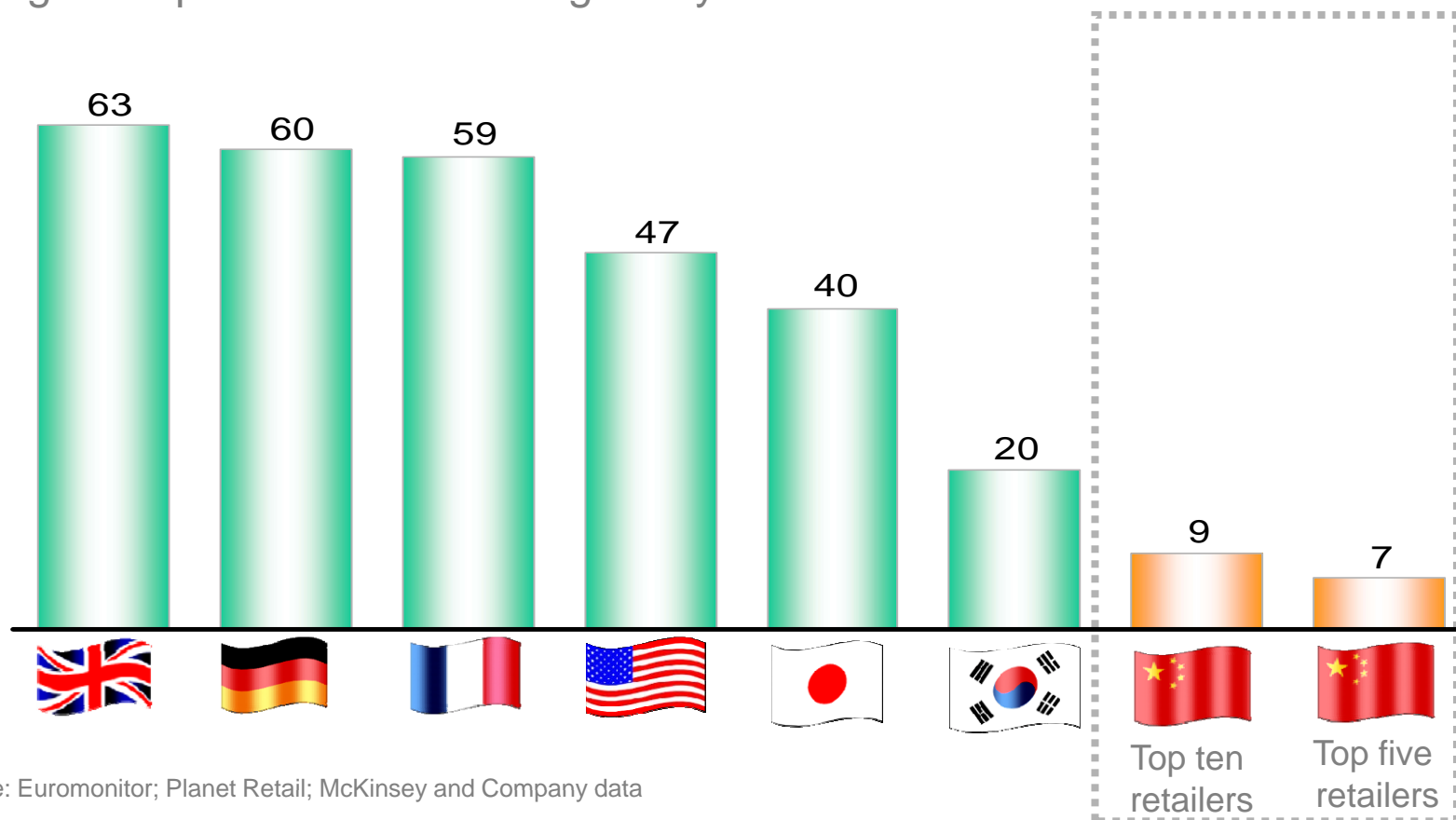
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Appendix VII – Market share of Retail business

Lower market concentration in China than other developed countries:

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



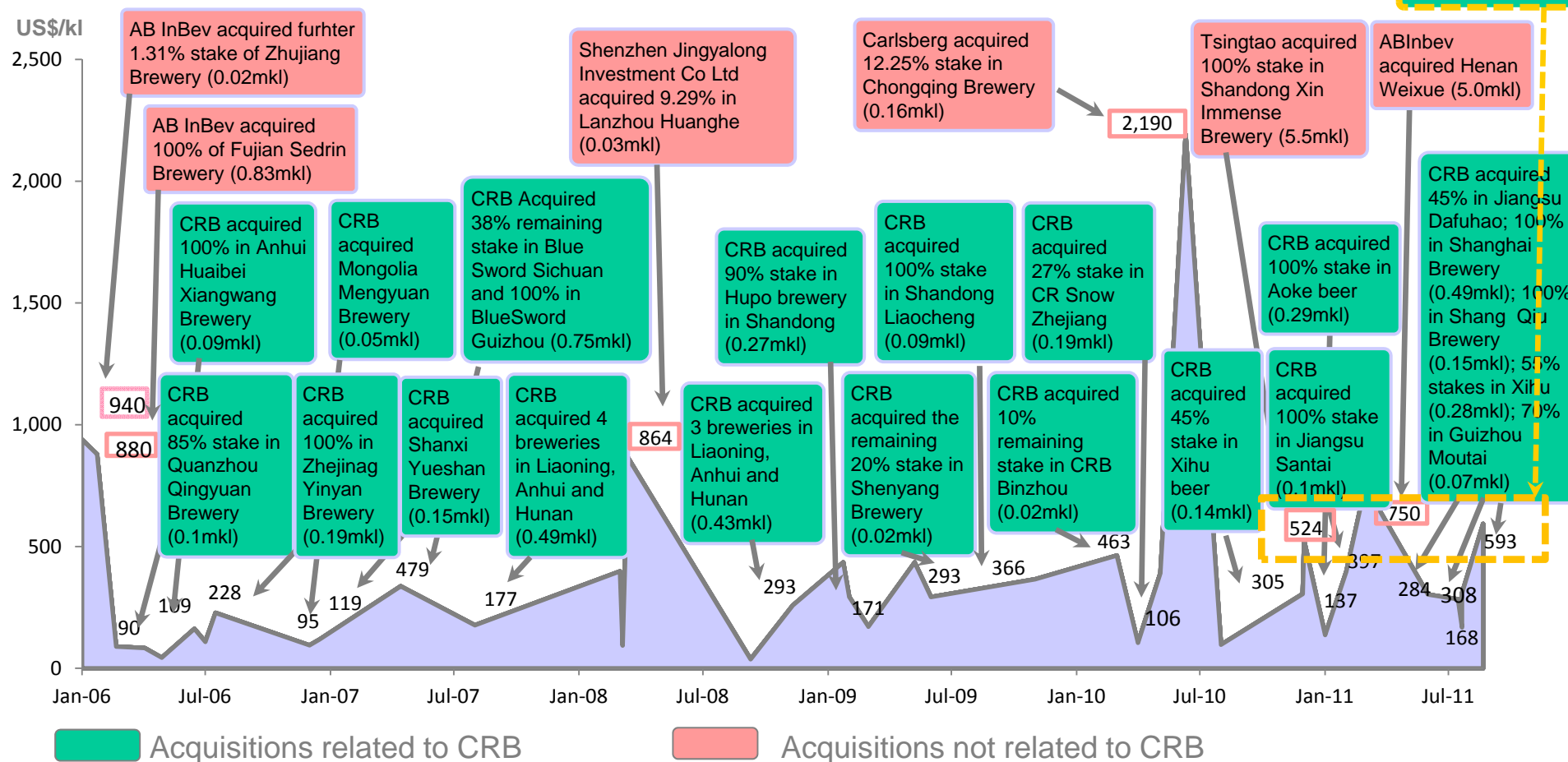
Source: Euromonitor; Planet Retail; McKinsey and Company data

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Appendix VIII – Historical major M&As in beer business



Strong bargaining power and lower acquisition cost on M&A



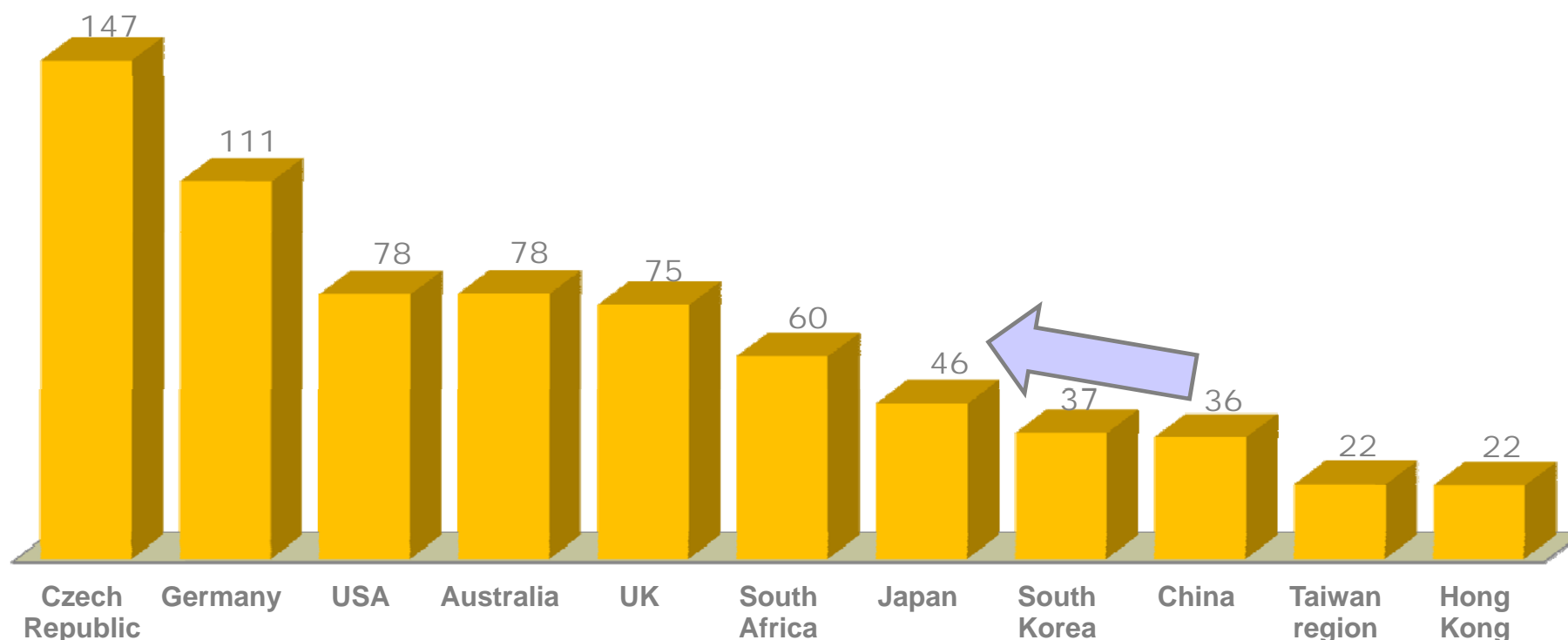
Source: Deutsche bank and Company data

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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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Please refer to our company website, www.cre.com.hk, for further details of awards received prior to 2009.

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>
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2011	Received the Best Management Team Award in Golden Bauhinia Award by <i>Ta Kung Pao</i>
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2011-2014 Ranked number 981/861/800/1067 in Global 2000 from *Forbes*

2011	Received "The Largest Captialization Company Award" in Mainland Enterprises Listed in Hong Kong Ranking 2010 by <i>Yazhou Zhoukan</i>
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Better Life Together

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>
2012-2014	Awarded as Class of 2012/2013 - The Best of Asia (China), Asian Corporate Director (China) – Mr. Chen Lang in 2013, Asia's icon on Corporate Governance 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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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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This presentation and subsequent discussion may contain forward-looking statements that are based on the current beliefs, assumptions, expectations, estimates, and projections of the management of China Resources Enterprise, Limited about its business and the industry and markets in which it operates. These forward-looking statements include, without limitation, statements relating to revenues, earnings and stock performance. The words “believe”, “intend”, “expect”, “anticipate”, “project”, “estimate”, “predict” and similar expressions are also intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, including but not limited to price fluctuations, actual demand, exchange rate fluctuations, development outcomes, market shares, competition, environmental risks, changes in legal, financial and regulatory frameworks, international economic and financial market conditions, political risks, project delay, project approval, cost estimates and other risks, which are beyond the control of China Resources Enterprise, Limited and are difficult to predict. Consequently, actual results could differ materially from those expressed or forecasted in the forward-looking statements.