China Resources Enterprise, Limited

A Retail-led Distribution Model

22 May 2002

Francis Kwong, Executive Director
About CRE - Development History

**China Resources (Holdings) Limited**
- Foreign trade agency: Monopoly
- Owner of the enterprises: Market economy
- Diversification: Capital market
- Asset management:

**China Resources Enterprise, Limited**
- China concept stock: Naturally transformed
- Red chip: Unintentionally
- Property stock: Intentionally, no synergy
- Conglomerate stock: No specific driver
- General distribution stock:

Retail-led distribution stock

A retail-led distribution model
Market Statistics

- Retail sales growth has been faster than GDP growth in China
- Nominal retail sales grew 10.1% in 2001 compared with GDP’s 7.5%. Chain-store format sales growth was about 50% in 2001

Nominal retail sales growth vs GDP growth

Top 100 chain store sales as a proportion of nominal retail sales

Source: National Bureau of Statistics

A retail-led distribution model
Market Statistics

- Fragmented supermarket industry provides a platform for consolidation, like brewery
- Combined with Vanguard, our supermarket operation ranked #10 in 2001 from #13 in six months
- Stores are primarily self-operated and managed rather than franchised

Profile of leading chain stores in China 2001

<table>
<thead>
<tr>
<th>Rank</th>
<th>Retailer</th>
<th>Turnover (RMBm)</th>
<th>Y-o-y change (%)</th>
<th>Ranking in H1 2001</th>
<th>Est market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Shanghai Lianhua</td>
<td>14,063</td>
<td>+26</td>
<td>1</td>
<td>4.26</td>
</tr>
<tr>
<td>2</td>
<td>Shanghai Hualian</td>
<td>8,504</td>
<td>+52</td>
<td>3</td>
<td>2.58</td>
</tr>
<tr>
<td>3</td>
<td>Beijing Hualian</td>
<td>8,000</td>
<td>+60</td>
<td>5</td>
<td>2.42</td>
</tr>
<tr>
<td>4</td>
<td>Shanghai Nong Gong Sang</td>
<td>7,475</td>
<td>+38</td>
<td>2</td>
<td>2.27</td>
</tr>
<tr>
<td>5</td>
<td>San Lian (electrical goods)</td>
<td>7,026</td>
<td>+32</td>
<td>4</td>
<td>2.13</td>
</tr>
<tr>
<td>6</td>
<td>Beijing Guo Mei (electrical goods)</td>
<td>6,150</td>
<td>+120</td>
<td>9</td>
<td>1.86</td>
</tr>
<tr>
<td>7</td>
<td>Jiangsu Su Guo Supermarket</td>
<td>5,282</td>
<td>+31</td>
<td>6</td>
<td>1.60</td>
</tr>
<tr>
<td>8</td>
<td>Bai Sen (fast food)</td>
<td>5,205</td>
<td>+24</td>
<td>7</td>
<td>1.58</td>
</tr>
<tr>
<td>9</td>
<td>Shanghai Jinjiang Metro</td>
<td>4,949</td>
<td>+32</td>
<td>8</td>
<td>1.50</td>
</tr>
<tr>
<td>10</td>
<td>China Resources Vanguard</td>
<td>4,648</td>
<td>+35</td>
<td>13</td>
<td>1.41</td>
</tr>
</tbody>
</table>

* Based on estimated chain-store format sales in FY2001 of RMB330bn

Source: State Economic and Trade Commission

A retail-led distribution model
Retail-led Distribution Model

Supply chain management
- Increase synergy
- Optimize use of resources
- Empower first person bargaining and sourcing capabilities

Retail operations
- Supermarket
- Department store
- Retail fashion outlets
- CRC Medichall

Centralized functions
- shop selection
- renovation
- marketing
- procurement
- logistics
- MIS
- finance
- training

Manufacturing operations
- Fresh and frozen food
- Basic grocery
- Beer, distilled water
- Textile & garment
- Personal care products

First-party logistics

OEM

Private labels

A retail-led distribution model
Three-year Objectives

- Aim to become the largest retailer of consumer goods in China with a meaningful market share in the chain-store segment
- Operate the largest supermarket chain in China of the tiers: <1,000 sm; 3,000-5,000 sm and >10,000 sm
- Implement a retail-led distribution model via supply chain and logistics management
- Conclude a number of m&a transactions in the retailing segment and acquisition of Vanguard department store business is under study
- Establish a nationwide and centralized distribution network
Five-year Objectives

- 50% of revenue and pre-tax profit from China, versus 32% and 13% respectively in FY2001

- Target to achieve retailing turnover of RMB50bn in five years, compared with around RMB4bn in FY2001, through organic and acquisitive growth

- Establish a united structure in terms of shareholding, branding, procurement, logistics, MIS, finance and training

A retail-led distribution model
## Supermarket Format in China

<table>
<thead>
<tr>
<th></th>
<th>Hypermarket</th>
<th>Composite Supermarket</th>
<th>Discount Store</th>
<th>Traditional Supermarket</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average size</td>
<td>20,000 sm</td>
<td>3,000 sm</td>
<td>1,000 sm</td>
<td>500 sm</td>
</tr>
<tr>
<td>No of items</td>
<td>60,000</td>
<td>15,000</td>
<td>6,000</td>
<td>3,000</td>
</tr>
</tbody>
</table>

A retail-led distribution model
Vanguard

Shop Front

Composition of Chinese cultured fresh food and general merchandise

A retail-led distribution model
Two logistic centers are under construction in Shenzhen and Suzhou with a total GFA of around 80,000 sm. The one in Shenzhen (as shown) has a GFA of 65,000 sm in two phases. It has full capacity to service 40 Vanguard department stores and 400 supermarkets.

- A zero inventory concept
Strategies for Growing the Retail Division

- **Scale:** speedy expansion in good locations
- **Bargaining power:** district dominance, good relationship with suppliers
- **Integration:** via supply chain and logistics management
- **Brand building:** established brands in place, possibility of OEM and private labels
- **Cost efficiency:** stringent internal control
- **Team spirit:** training and progression

A retail-led distribution model
### Advantages in Retail-led Distribution

- Unique business model combining retailing and manufacturing operations
- A national network with businesses in all major cities
- Sound local knowledge and good relationship with provincial governments
- Existing core businesses integrated by supply chain and logistics management
- Strong balance sheet and cashflow
- Local management with extensive experience in China’s retail businesses
## Appendix – Turnover Breakdown

<table>
<thead>
<tr>
<th>Year end 31 Dec</th>
<th>H1 2001 HK$m</th>
<th>H2 2001 HK$m</th>
<th>FY2001 HK$m</th>
<th>H1 2000 HK$m</th>
<th>H2 2000 HK$m</th>
<th>FY2000 HK$m</th>
<th>Full year HK$m</th>
<th>% change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property development</td>
<td>498</td>
<td>501</td>
<td>999</td>
<td>483</td>
<td>2,342</td>
<td>2,825</td>
<td>-65</td>
<td></td>
</tr>
<tr>
<td>Rental properties (incl godown)</td>
<td>229</td>
<td>251</td>
<td>480</td>
<td>181</td>
<td>241</td>
<td>422</td>
<td>+14</td>
<td></td>
</tr>
<tr>
<td>Beverage</td>
<td>1,131</td>
<td>1,282</td>
<td>2,413</td>
<td>865</td>
<td>934</td>
<td>1,799</td>
<td>+34</td>
<td></td>
</tr>
<tr>
<td>Food processing and distribution</td>
<td>2,854</td>
<td>2,896</td>
<td>5,750</td>
<td>2,689</td>
<td>2,869</td>
<td>5,558</td>
<td>+3</td>
<td></td>
</tr>
<tr>
<td>Petroleum and chemicals</td>
<td>5,150</td>
<td>4,740</td>
<td>9,889</td>
<td>0</td>
<td>1,851</td>
<td>1,851</td>
<td>+434</td>
<td></td>
</tr>
<tr>
<td>Building materials</td>
<td>337</td>
<td>330</td>
<td>667</td>
<td>418</td>
<td>437</td>
<td>854</td>
<td>-22</td>
<td></td>
</tr>
<tr>
<td>Retail (incl supermarkets)</td>
<td>1,894</td>
<td>2,132</td>
<td>4,026</td>
<td>1,655</td>
<td>1,773</td>
<td>3,428</td>
<td>+17</td>
<td></td>
</tr>
<tr>
<td>Investment &amp; others</td>
<td>43</td>
<td>64</td>
<td>108</td>
<td>90</td>
<td>109</td>
<td>198</td>
<td>-46</td>
<td></td>
</tr>
<tr>
<td><strong>Less: inter-co transactions</strong></td>
<td>(76)</td>
<td>(58)</td>
<td>(135)</td>
<td>(59)</td>
<td>(67)</td>
<td>(125)</td>
<td>+7</td>
<td></td>
</tr>
<tr>
<td><strong>Turnover</strong></td>
<td>12,136</td>
<td>12,195</td>
<td>24,331</td>
<td>6,380</td>
<td>10,556</td>
<td>16,936</td>
<td>+44</td>
<td></td>
</tr>
</tbody>
</table>

---

**A retail-led distribution model**
## Appendix – Earnings Breakdown

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>HK$m</td>
<td>HK$m</td>
<td>HK$m</td>
<td>HK$m</td>
<td>HK$m</td>
<td>HK$m</td>
<td>HK$m</td>
<td></td>
</tr>
<tr>
<td>Property development</td>
<td>102</td>
<td>106</td>
<td>208</td>
<td>112</td>
<td>361</td>
<td>473</td>
<td>-56</td>
<td></td>
</tr>
<tr>
<td>Rental properties (incl godown)</td>
<td>147</td>
<td>158</td>
<td>305</td>
<td>110</td>
<td>144</td>
<td>253</td>
<td>+20</td>
<td></td>
</tr>
<tr>
<td>Beverage</td>
<td>48</td>
<td>13</td>
<td>61</td>
<td>44</td>
<td>45</td>
<td>89</td>
<td>-32</td>
<td></td>
</tr>
<tr>
<td>Food processing and distribution</td>
<td>221</td>
<td>176</td>
<td>397</td>
<td>195</td>
<td>116</td>
<td>311</td>
<td>+28</td>
<td></td>
</tr>
<tr>
<td>Petroleum and chemicals</td>
<td>91</td>
<td>137</td>
<td>228</td>
<td>0</td>
<td>26</td>
<td>26</td>
<td>+789</td>
<td></td>
</tr>
<tr>
<td>Building materials</td>
<td>72</td>
<td>70</td>
<td>142</td>
<td>98</td>
<td>107</td>
<td>205</td>
<td>-31</td>
<td></td>
</tr>
<tr>
<td>Retail (incl supermarkets)</td>
<td>(6)</td>
<td>37</td>
<td>31</td>
<td>26</td>
<td>7</td>
<td>34</td>
<td>-8</td>
<td></td>
</tr>
<tr>
<td>Investment &amp; others</td>
<td>225</td>
<td>(197)</td>
<td>28</td>
<td>241</td>
<td>147</td>
<td>388</td>
<td>-93</td>
<td></td>
</tr>
<tr>
<td>Net corporate interest &amp; expenses</td>
<td>(111)</td>
<td>(82)</td>
<td>(194)</td>
<td>(60)</td>
<td>(62)</td>
<td>(122)</td>
<td>+58</td>
<td></td>
</tr>
<tr>
<td>Earnings</td>
<td>788</td>
<td>417</td>
<td>1,205</td>
<td>765</td>
<td>891</td>
<td>1,657</td>
<td>-27</td>
<td></td>
</tr>
</tbody>
</table>

*A retail-led distribution model*
China Resources Enterprise, Limited

Questions and Answers

A retail-led distribution model