



China Resources Enterprise, Limited

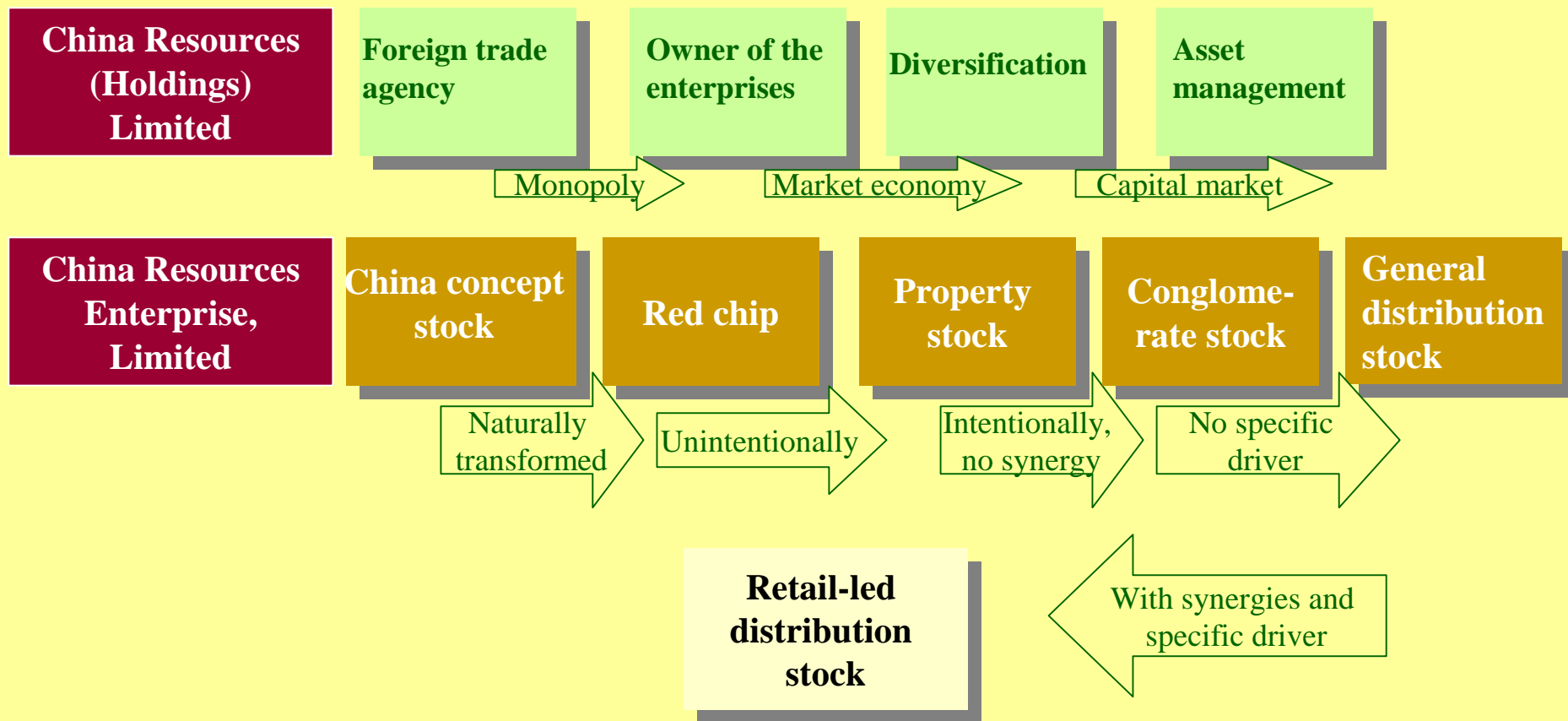
A Retail-led Distribution Model

22 May 2002

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About CRE - Development History

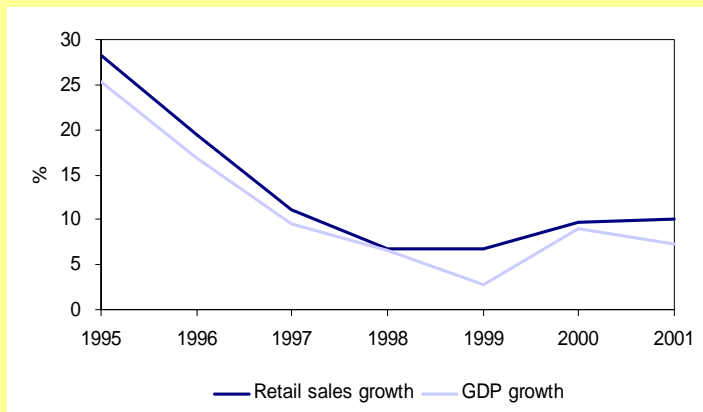


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Market Statistics

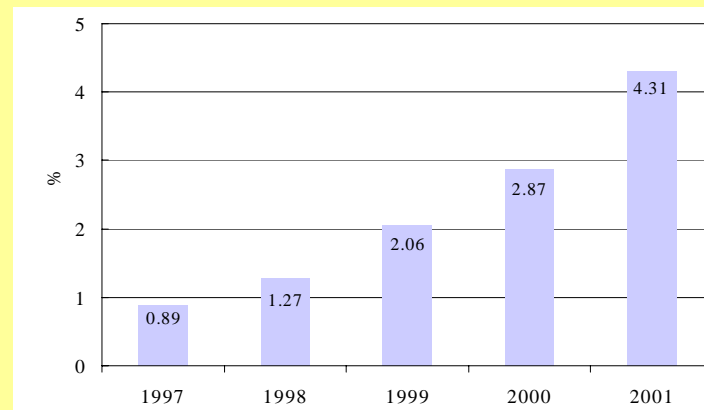
- Retail sales growth has been faster than GDP growth in China
- Nominal retail sales grew 10.1% in 2001 compared with GDP's 7.5%. Chain-store format sales growth was about 50% in 2001

Nominal retail sales growth vs GDP growth



Source: National Bureau of Statistics

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



Source: China Chain Stores Association

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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

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

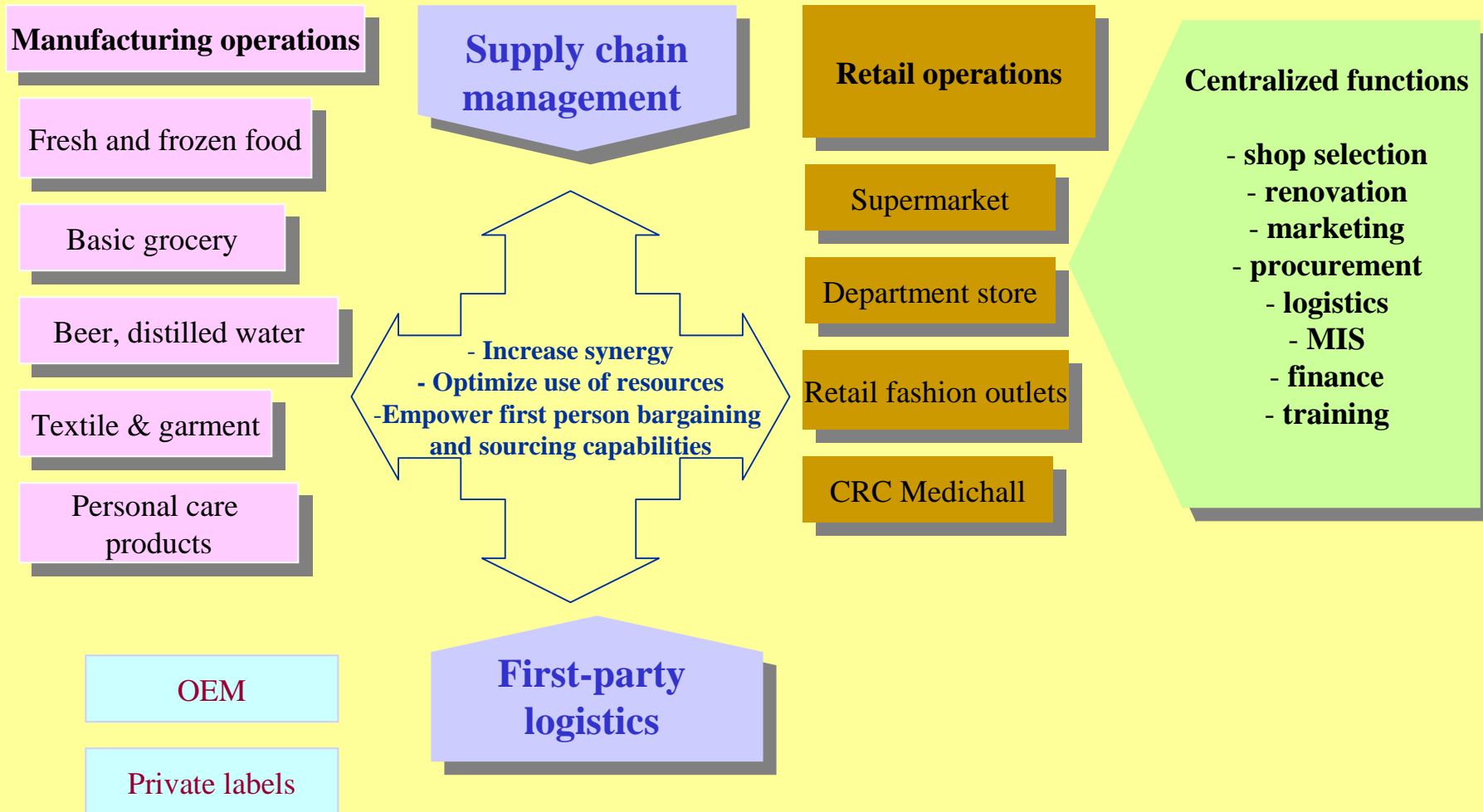
* Based on estimated chain-store format sales in FY2001 of RMB330bn

Source: State Economic and Trade Commission

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Retail-led Distribution Model



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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**



Supermarket Format in China

	<u>Hypermarket</u>	<u>Composite Supermarket</u>	<u>Discount Store</u>	<u>Traditional Supermarket</u>
Average size	20,000 sm	3,000 sm	1,000 sm	500 sm
No of items	60,000	15,000	6,000	3,000

Vanguard



Shop Front



Composition of Chinese cultured fresh food and general merchandise



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Logistic Center



- 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



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

Year end 31 Dec	H1 2001 HK\$m	H2 2001 HK\$m	FY2001 HK\$m	H1 2000 HK\$m	H2 2000 HK\$m	FY2000 HK\$m	Full year % change
Property development	498	501	999	483	2,342	2,825	-65
Rental properties (incl godown)	229	251	480	181	241	422	+14
Beverage	1,131	1,282	2,413	865	934	1,799	+34
Food processing and distribution	2,854	2,896	5,750	2,689	2,869	5,558	+3
Petroleum and chemicals	5,150	4,740	9,889	0	1,851	1,851	+434
Building materials	337	330	667	418	437	854	-22
Retail (incl supermarkets)	1,894	2,132	4,026	1,655	1,773	3,428	+17
Investment & others	43	64	108	90	109	198	-46
	12,136	12,195	24,331	6,380	10,556	16,936	+44
Less: inter-co transactions	(76)	(58)	(135)	(59)	(67)	(125)	+7
Turnover	12,059	12,137	24,196	6,321	10,489	16,810	+44

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Appendix – Earnings Breakdown

Year end 31 Dec	H1 2001 HK\$m	H2 2001 HK\$m	FY2001 HK\$m	H1 2000 HK\$m	H2 2000 HK\$m	FY2000 HK\$m	Full year % change
Property development	102	106	208	112	361	473	-56
Rental properties (incl godown)	147	158	305	110	144	253	+20
Beverage	48	13	61	44	45	89	-32
Food processing and distribution	221	176	397	195	116	311	+28
Petroleum and chemicals	91	137	228	0	26	26	+789
Building materials	72	70	142	98	107	205	-31
Retail (incl supermarkets)	(6)	37	31	26	7	34	-8
Investment & others	225	(197)	28	241	147	388	-93
	899	499	1,399	825	954	1,779	-21
Net corporate interest & expenses	(111)	(82)	(194)	(60)	(62)	(122)	+58
Earnings	788	417	1,205	765	891	1,657	-27

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Questions and Answers

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