

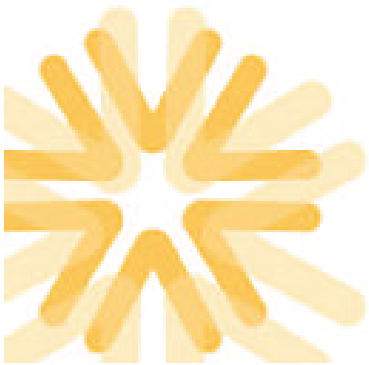
EMBA Programme  
The Chinese University of Hong Kong

## Managing a Conglomerate Company

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China Resources Enterprise, Limited

August 18, 2004





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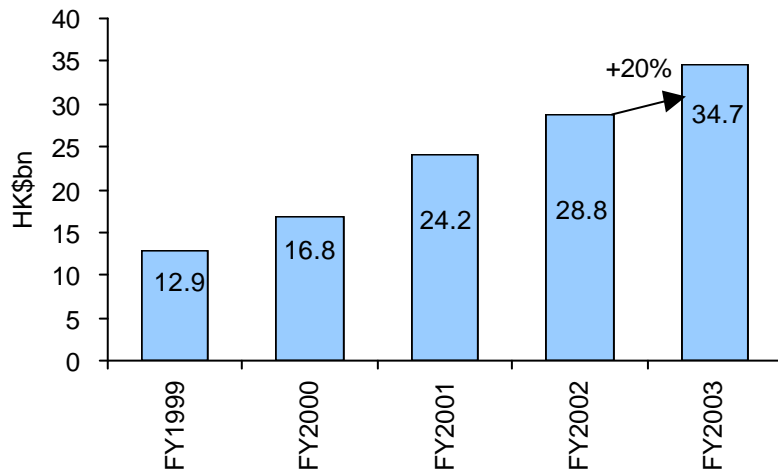
## Background

- CRE is a listed company on the Hong Kong Stock Exchange with a market cap of about US\$2.5bn and is one of the constituent stocks of the Hang Seng Index
- It is a conglomerate with a well-diversified range of businesses including retail, beverage, food processing, textile and petroleum distribution in both Hong Kong and the Chinese Mainland
- The Group employs over 80,000 staff, of which about 97% are working in the Chinese Mainland
- It is mainland China's second largest local supermarket operator and second largest brewer as well as Hong Kong's largest livestock distributor
- Its ultimate holding company is China Resources National Corporation with a 55.4% effective stake

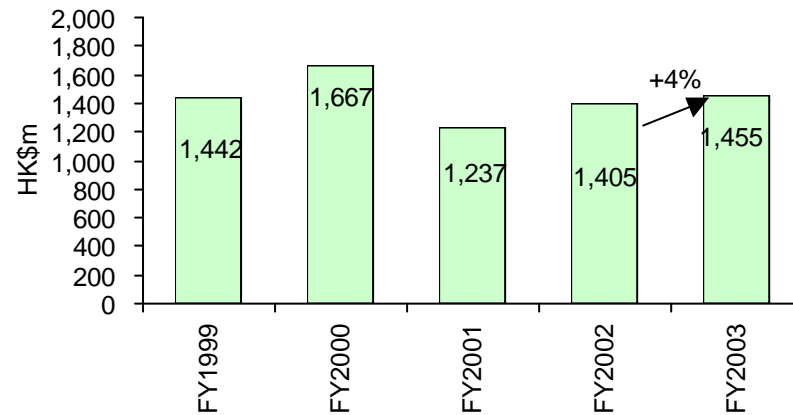


# Background

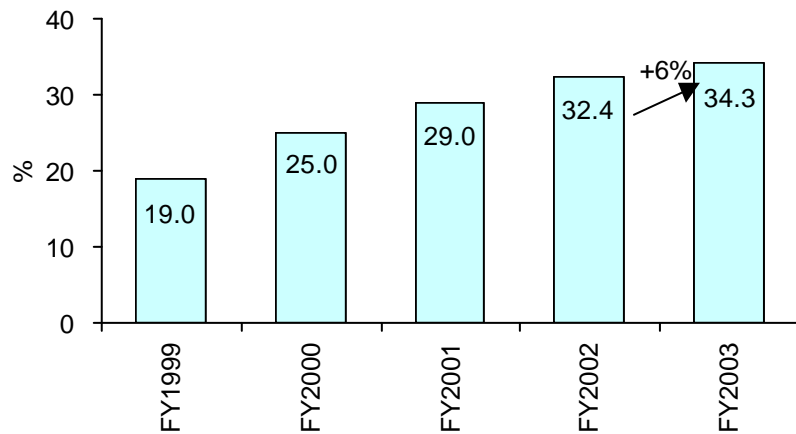
### Turnover



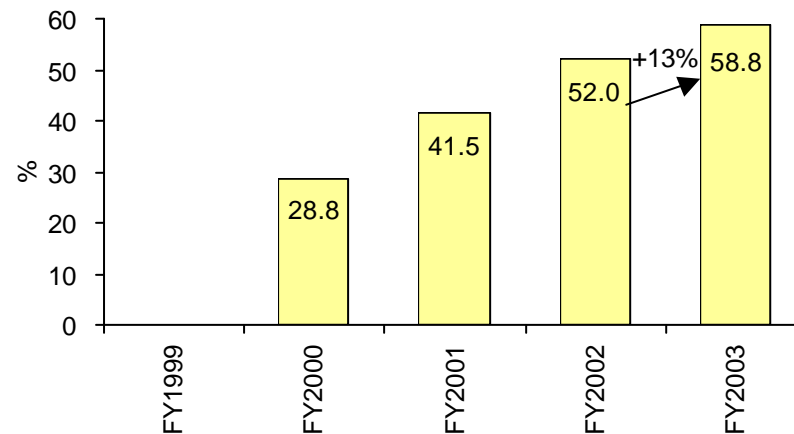
### Earnings



### Basic dividend payout ratio



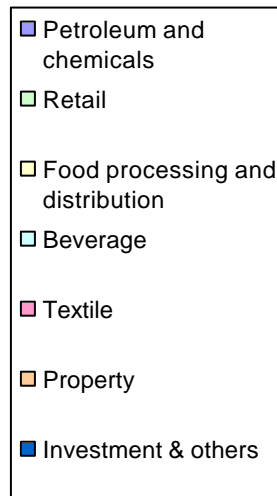
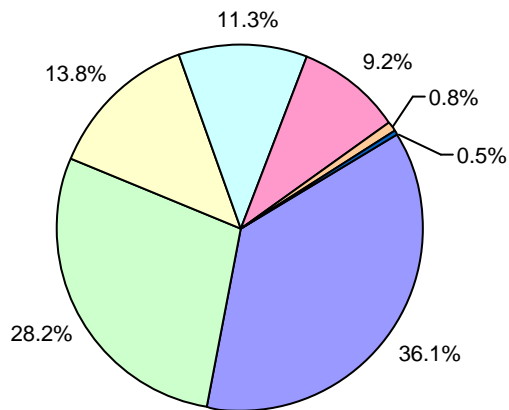
### Proportion of assets in mainland China



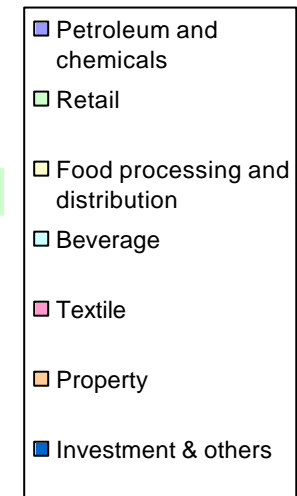
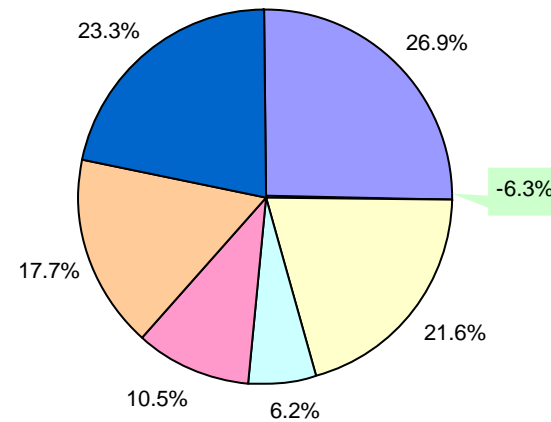


# Background

### Turnover

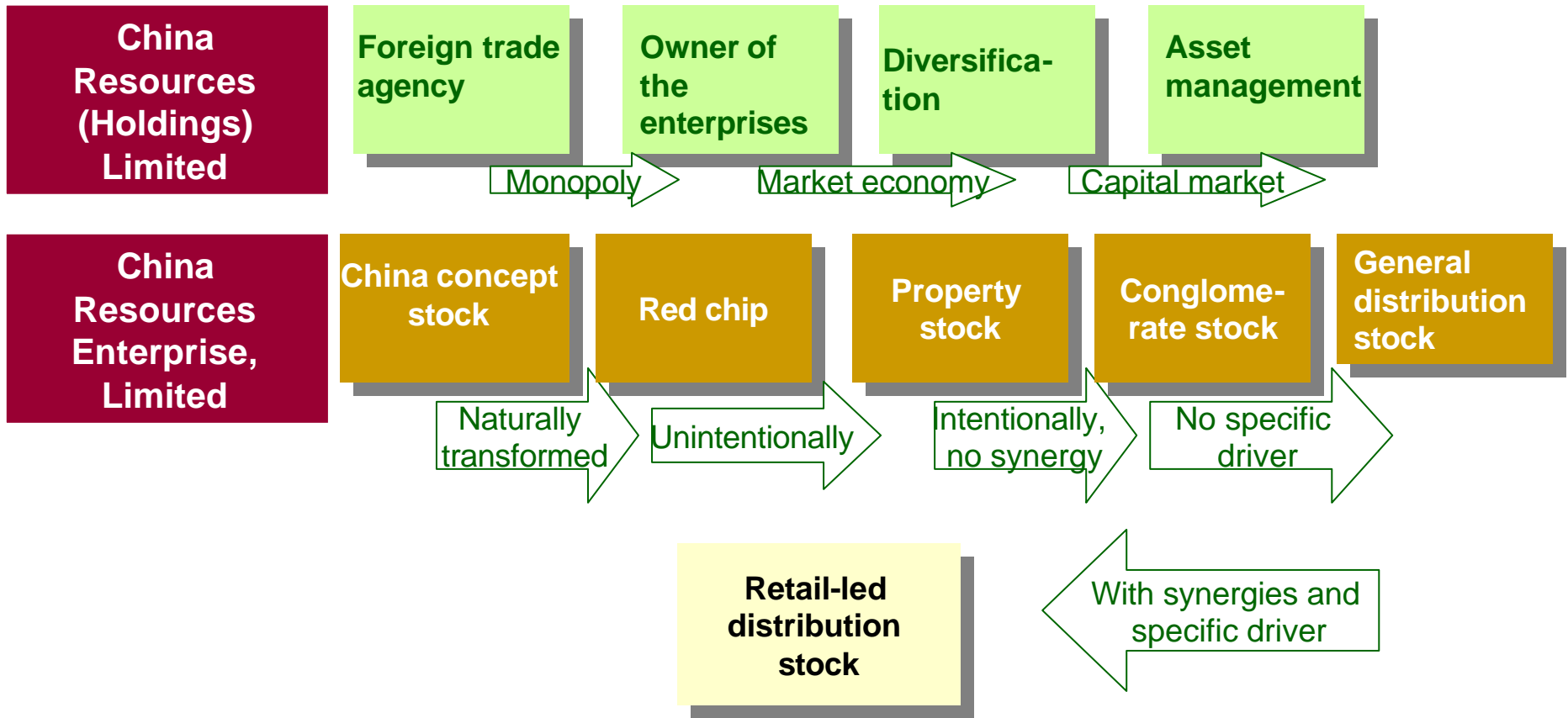


### Earnings





# Background





## Background

- CRE distinguishes itself from other mainland companies in terms of management style, strategic focus, foreign partnership, incentive scheme and corporate governance
- It has inherited Hong Kong management style and is highly commercially oriented
- Strategy is focused and based on a unique retail-led distribution model
- It has joint ventures with international companies including SAB Miller, Esprit, Richemont, LVMH, etc
- Young management team and employees are motivated via promotion and share options
- Corporate governance is emphasised and it is the first conglomerate company among the constituent stocks in the Hang Seng Index to announce quarterly results on a voluntary basis to promote transparency and investor relations



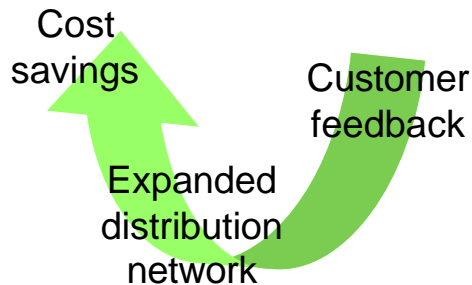
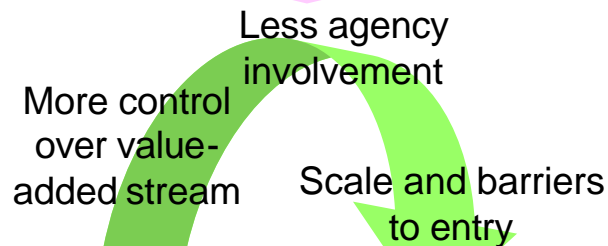
# Our Unique Retail-led Distribution Model

## Supply chain operations



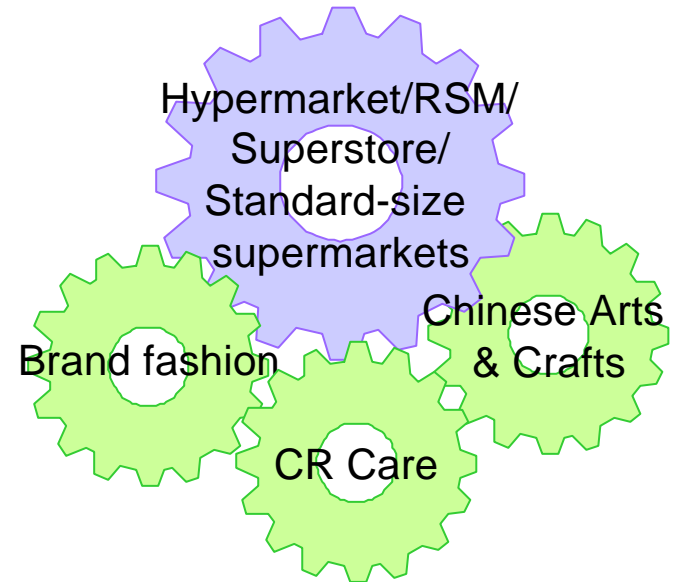
Private labels  
&  
OEM

## Supply chain management



## First party logistics

## Retail operations



Efficiency enhancement  
via centralized functions

Managing a Conglomerate Company

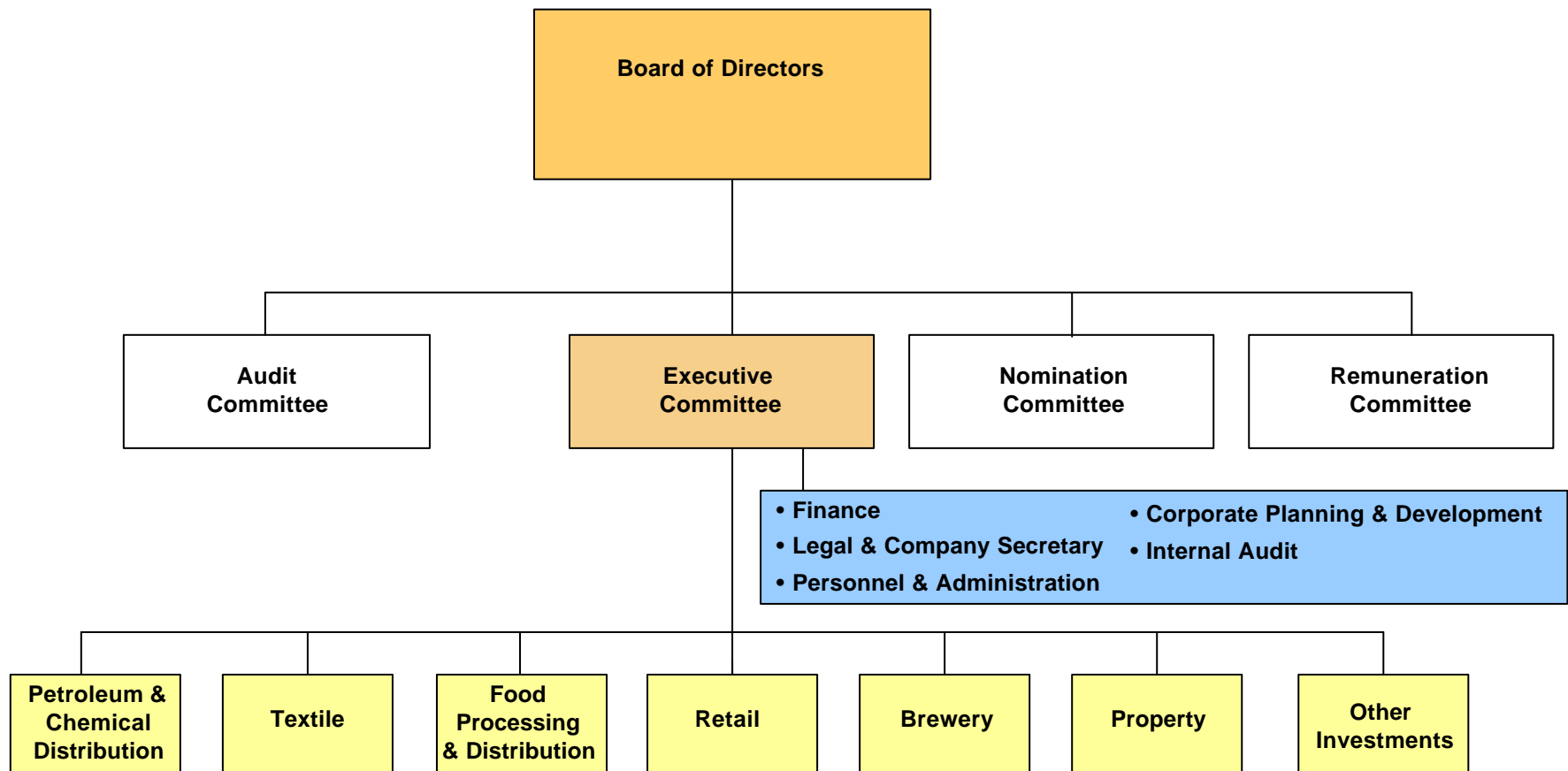


## Our Unique Retail-led Distribution Model

- To capitalize on the booming consumer market in mainland China and maximize the synergies among our businesses, the Group's food, textile and beverage operations have started to form part of the supply chain for our retail business
- The rapid growth of our retail business, led by our supermarket operation, will drive the development of our supply chain business
- For the retail business, there will be less agency involvement and more control over value-added stream as well as economies of scale and raising barriers to entry
- For the supply chain business, their benefits include expanded distribution network, reduced sales and marketing costs and effective customer feedback
- Our retail business will develop private labels and OEM products based on customer demand so that we can respond to the market more proactively and shorten the turnaround time



# Organizational Chart





# Challenges and Strategies

## 1. Challenges

- Presence of a fair appraisal system
- Alignment of the interests of employees with those of shareholders
- Reduction of the conglomerate discount
- Criteria of allocation of capital to different businesses
- Balance of short term performance versus long term development
- Shifting of investment focus from Hong Kong to mainland China
- Proliferation of connected transactions
- Establishment of corporate culture



# Challenges and Strategies

## 2. Strategies

- Adoption of KPI, balanced score cards etc
- Various motivation schemes including bonus and share options
- Restructuring of non-core businesses to become more focused and implementation of retail-led distribution strategies to drive earnings
- Requirement of hurdle ROI and Exco approval
- Promotion of internal synergies and tailored appraisal system
- Encouragement of internal transfer and coaching
- Handling by a team of professionals
- Training - workshops, seminars, conferences



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