華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

FINANCIAL AND OPERATIONAL REVIEW
2007 FIRST QUARTER

This announcement is made by China Resources Enterprise, Limited ("the Company") on a voluntary basis in pursuit of a higher standard of corporate governance and in promoting the Company's transparency. The Company currently intends to continue to publish the quarterly financial and operational review in the future.

The financial and operational review for the 2007 first quarter was not audited and was prepared in accordance with accounting principles generally accepted in Hong Kong.

The directors of the Company are pleased to present the following unaudited financial and operational information for the first quarter ended 31 March 2007.

FINANCIAL HIGHLIGHTS

	Three months ended 31 March	
	2007	2006
	(Unaudited)	(Unaudited)
	HK$ million	*HK$ million*
Turnover[1]	**17,453**	15,377
Profit attributable to shareholders of the Company[1]	**740**	674
Basic earnings per share[2]	**HK$0.31**	HK$0.29
Diluted earnings per share[2]	**HK$0.31**	HK$0.29
	At 31 March 2007	At 31 December 2006
	(Unaudited)	(Audited)
	HK$ million	*HK$ million*
Equity attributable to shareholders of the Company	**20,157**	19,141
Minority interests	**6,729**	5,824
Total equity	**26,886**	24,965
Consolidated net borrowings[3]	**320**	1,781
Gearing ratio[4]	**1.2%**	7.1%
Net assets per share:		
Book value	**HK$8.51**	HK$8.12

Notes:

1. These amounts include turnover and profit attributable to shareholders contributed by the Petroleum and Related Products Distribution division, which is presented as discontinued operation according to the Hong Kong Financial Reporting Standard 5. The respective amounts of the discontinued operation are separately disclosed in the analysis of turnover and profit.

2. The amounts include basic earnings per share and diluted earnings per share of the discontinued operation of HK$0.05 and HK$0.05 (2006: HK$0.03 and HK$0.03) respectively.

3. The consolidated net borrowings include the amount of net cash attributable to the discontinued operation of HK$366 million (31 December 2006: HK$133 million).

4. Gearing ratio represents the ratio of consolidated net borrowings to total equity.

ANALYSIS OF TURNOVER AND PROFIT

	Turnover		Profit Attributable to Shareholders ("PAS")		PAS excluding the effect of investment property revaluation (Note 1)	
	Three months ended 31 March		Three months ended 31 March		Three months ended 31 March	
	2007	2006	**2007**	2006	**2007**	2006
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Core Businesses						
- Retail	**6,995**	5,449	**168**	127	**168**	127
- Beverage	**2,300**	1,512	**(32)**	(29)	**(32)**	(29)
- Food Processing and Distribution	**1,641**	1,408	**108**	101	**108**	101
- Textile	**1,070**	1,020	**32**	18	**30**	18
- Investment Property	**90**	83	**296**	339	**55**	56
Subtotal	**12,096**	9,472	**572**	556	**329**	273
Other Businesses						
- Petroleum and Related Products Distribution (discontinued operation)[2]	**5,416**	5,960	**119**	80	**119**	80
- Investments and Others	**–**	–	**88**	88	**88**	88
Subtotal	**5,416**	5,960	**207**	168	**207**	168
	17,512	15,432	**779**	724	**536**	441
Elimination of inter-segment transactions	**(59)**	(55)	**–**	–	**–**	–
Net corporate interest and expenses	**–**	–	**(39)**	(50)	**(39)**	(50)
Total	**17,453**	15,377	**740**	674	**497**	391

Notes:

1. For the analysis of PAS excluding the effect of investment property revaluation:

   a. Net valuation surplus amounting to HK$241 million (2006: HK$283 million) has been excluded in the results of the Investment Property division.

   b. Net valuation surplus amounting to HK$2 million (2006: nil) has been excluded in the results of the Textile division.

2. The Group entered into a formal agreement on 19 April 2007 to dispose of its 100% equity interest in Petroleum and Related Products Distribution business. For details, please refer to the announcement dated 19 April 2007. Completion of the transaction is expected to take place at the end of June 2007 subject to the fulfilment of the conditions of the agreement.

3. There were no major disposal of non-core assets and investments in the period under review and the corresponding period.

PRINCIPAL ACCOUNTING POLICIES

The quarterly financial statements have been prepared under the historical cost convention, as modified for the revaluation of investment properties.

The accounting policies used in the preparation of the quarterly financial statements are the same as those used in the annual financial statements for the year ended 31 December 2006.

The Hong Kong Institute of Certified Public Accountants has issued a number of new standards, amendments and interpretations that are effective for the financial year beginning 1 January 2007. The adoption of these standards, amendments or interpretations did not result in material changes to the Group's accounting policies.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group's unaudited consolidated turnover and profit attributable to shareholders for the first quarter ended 31 March 2007 amounted to approximately HK$17,453 million and HK$740 million respectively, representing an increase of 13.5% and 9.8% from the same quarter of 2006. Excluding the after-tax effect of revaluation of investment properties of HK$243 million and HK$283 million in the first quarter of 2007 and 2006 respectively, the Group's underlying unaudited consolidated profit attributable to the shareholders would have increased by 27.1% for the quarter ended 31 March 2007.

Retail

The Group's retail division mainly comprises three business segments: (1) supermarket and logistics; (2) brand-fashion distribution in the Chinese Mainland and (3) other retail stores operation.

For the first quarter of 2007, the Group's retail division showed an encouraging improvement in its operating results, underpinned by sustained organic growth in the supermarket operation. Turnover and attributable profit for the quarter under review amounted to HK$6,995 million and HK$168 million respectively, representing an increase of 28.4% and 32.3% over the same period of 2006.

The economy of the Chinese Mainland continued to be robust and GDP growth reached 11.1% in the first quarter of 2007. Increase in individual income level particularly in the urban and suburban areas, has stimulated domestic consumption which drove up retail sales of local consumer goods, and the Group's consumer businesses have thus benefited as a whole.

With the flourishing economy in Hong Kong and better-than-expected budget surplus in 2006/2007, local consumption expenditure continued to grow. Market outlook of the local retail industry is encouraging with steady growth.

Supermarket and Logistics

Turnover of the supermarket and logistics operation for the first quarter of 2007 was HK$6,328 million, representing an increase of 30.3% over the same period of 2006. Attributable profit for the first quarter of 2007 amounted to HK$130 million, representing an increase of 28.7% over the same period of 2006.

Through new store openings, acquisitions and line-up with franchised stores, the Group continued to increase its market share in target regions in the first quarter of 2007. As at the end of March 2007, the Group operated a total of approximately 2,200 stores in the Chinese Mainland and Hong Kong, of which approximately 50.0% were self-operated and the rest were franchised stores. Major store formats are hypermarket, superstore, supermarket and convenience store. In terms of geographical contribution, Eastern and Central China, Southern China, Hong Kong and Northern China respectively accounted for 58.5%, 28.1%, 8.8% and 4.6% of the division's turnover for the first quarter of 2007.

Turnover growth in the first quarter of 2007 was mainly driven by store openings as well as a remarkable same store growth. Overall same store growth for the quarter was 7.9%, in particular a 8.7% increase was achieved for the Chinese Mainland. The increasingly centralized procurement and optimization of key processes helped improve operational efficiency and achieve cost effectiveness. Consolidated earnings before interest, tax, depreciation and amortization ("EBITDA") for the first quarter of the year amounted to HK$319 million, representing a 18.1% growth over the same period of 2006.

The Eastern and Central China operation recorded a satisfactory same store growth of 7.3%. Suguo succeeded in maintaining its market share and optimizing its distribution network through the adoption of a multi-format approach, a district dominance strategy and the consolidation of franchised stores, resulting in a same store growth of 6.8%. Its hypermarkets, a new store format started in 2005 for Suguo, showed improvement in profitability for the quarter under review with turnaround in profitability in certain hypermarkets located in Nanjing. Owing to head-on competition from other local and foreign retail operators, the performance of the stores in Ningbo, which were acquired in 2006, was still slack for the period under review. Future efforts will concentrate on optimization of the merchandise mix and enhancement of store layout.

In Southern China, store facelifts, better supply chain management and innovative marketing initiatives delivered satisfactory results. Same store growth of hypermarkets and superstores reached 12.8% and 17.9% respectively. For some non-performing stores in Zhongshan and Dongguan, the Group continues to put in efforts to enrich the product mix as well as to strengthen the supply chain to drive the profitability.

Turnaround in profitability of the operation in Northern China was mainly attributable to the results of rationalization of existing stores and their related supply chains and management structures which drove down costs. In addition, the Group entered into an agreement in October 2006 to set up a distribution center in Beijing for the integration of procurement and logistics network in Northern China.

The Hong Kong operation faced strong competition from major local market players. The Group cautiously monitored the concessions offered to customers while securing its market share at the same time. With solid revival in domestic consumption expenditure, sustainable retail sales growth and growing demand for quality warehouse space, it is believed that the Hong Kong operation will benefit in medium to long term.

To cope with prevailing keen competition in the retail market, the Group will focus on new acquisitions and development of certain store formats such as hypermarket and standard supermarket through new store openings and moving into second and third tier cities in order to raise market presence in the target regions.

Brand-fashion Distribution

The brand-fashion distribution segment reported turnover and attributable profit for the first quarter of 2007 of HK$478 million and HK$23 million respectively, representing an increase of 14.4% and 109.1% over those of 2006.

During the period under review, the "Esprit" brand delivered strong growth in turnover and attributable profit of 33.7% and 25.6% respectively and its new operations in Chengdu further boosted the brand's retail turnover. Self-operated stores recorded a same store growth of 23.1%, while satisfactory sales growth of franchised stores also helped improve the performance of the wholesale business. The distribution network of the "Esprit" brand as at the end of March 2007 comprised approximately 750 self-operated and franchised stores in the Chinese Mainland. In addition, the cessation of certain brands in the same period of last year partly accounted for the improvement in profitability.

Other Retail Stores

Turnover of the other retail stores segment for the first quarter of 2007 was HK$189 million, representing an increase of 9.2%. The operation recorded attributable profit of HK$15 million, comparable to the same period of 2006. The Group's chain of retail stores as at the end of March 2007 consisted of 5 Chinese Arts & Crafts 中藝 stores in Hong Kong and 38 CR Care 華潤堂 stores in Hong Kong and the Chinese Mainland.

Turnover and profit contribution of Chinese Arts & Crafts 中藝 for the first quarter of 2007 remained comparable to the same period of last year.

Rising health awareness amongst the local community has increased the market demand of traditional Chinese medicine and health food. For the period under review, sales of certain premium products increased significantly, which contributed to the increase in gross profit for CR Care 華潤堂 stores. A remarkable same store growth of 22.0% was also recorded. However, cost pressure from increased store rental and labor costs had negative impact on the overall profitability. The overall profit of our CR Care 華潤堂 stores remained steady for the period under review.

Beverage

The beverage division reported turnover of HK$2,300 million for the first quarter of 2007, representing an increase of 52.1% over the same period of 2006. Attributable loss was HK$32 million, representing an increase of 10.3% over the corresponding period of 2006, largely reflecting seasonality and the initial losses of the new breweries.

The Group reported a remarkable growth in turnover for the first quarter of 2007 with sales volume of beer rose by 43.4% to approximately 1,167,000 kiloliters, of which 37.1% was organic growth. In particular, sales volume of our national brand “SNOW” reached 824,000 kiloliters, representing 70.6% of the total sales volume and an impressive growth of 96.2%. The increase in turnover and sales volume was mainly contributed by organic growth with a notable sales volume increase in the Sichuan, Liaoning, Auhui and Heilongjiang/Jilin regions, driven by successful brand name integration through initiatives in the “SNOW” brand promotion and market distribution. Market demand was further increased by the warmer weather in winter.

The Group put in continuous efforts for product mix enrichment to cater for increasingly demanding consumers. Sales of premium beers recorded an encouraging growth of 80.0% for the first quarter of 2007 leading to an increase in average selling price per kiloliter. However, this favorable effect was offset by the increase in production cost, and overall gross profit margin remained comparable with the same period of last year. In addition, considerable investments were expended on building sales distribution channel and raising customer popularity of the “SNOW” brand, giving rise to slightly higher loss compared to the same period of 2006.

At the end of March 2007, the Group operated approximately 50 breweries in the Chinese Mainland with an annual production capacity of approximately 7.9 million kiloliters. Capitalizing on the rapid economic development and the fast growing beer market in China, the Group continued to grow its production capacity through acquisitions, investments in greenfield breweries and capacity upgrade of existing breweries. The Group has recently completed the acquisition of a 90% interest in 安徽聖力釀酒有限公司 (Anhui Shengli Brewery Company Limited) and a 100% interest in 內蒙古巴特罕酒業股份有限公司 (Inner Mongolia Batehan Brewery Company Limited) with annual production capacity of 128,000 kiloliters and 110,000 kiloliters respectively, to further complement its existing operations in Anhui, Inner Mongolia and the nearby regions. The Group plans to build greenfield plants in Lanzhou and Nanjing as well as to enlarge the production capacity of certain breweries that have currently reached maximum beer production capacity. In addition, the Group successfully completed the acquisition of the entire interest in 藍劍（集團）有限責任公司 (Blue Sword (Group) Company Limited) in April 2007, which has in turn increased its equity interests in the existing 13 brewery companies in Sichuan to 100%. The completion of the transaction will further enhance the overall profitability of the Group.

To strengthen its competitive advantage, the Group will keep on emphasizing on branded product mix enrichment, operational improvement for cost saving, continuous market integration and expansion to capitalize on the growing momentum of the beer consumption in the Chinese Mainland.

Food Processing and Distribution

The food processing and distribution division reported turnover and attributable profit for the first quarter of 2007 of HK$1,641 million and HK$108 million respectively, representing an increase of 16.5% and 6.9% over those of 2006.

Foodstuff distribution operation reported a steady growth in profitability for the quarter under review amidst rising cost of livestock. In light of growing concerns over food safety and quality, together with efforts in distribution channel rationalization, the “Ng Fung” brand of high quality fresh meat continued to be highly appreciated. The growth in sales of frozen food and other assorted foodstuff also contributed to the increase in profitability.

Despite high fuel costs, the marine fishing and aquatic products processing operation reported a turnaround in profitability for the period under review. This was mainly contributed by the increase in sales volume by about 23.3% as well as the higher proportion of high-end fishes and aquatic products as a result of enhancement of catching capability. Further, regular on-site review of fishing fleet fuel utilization and cost saving measures were implemented to keep the production costs under control.

The Shenzhen operation reported a satisfactory turnover contribution for the period under review. Despite the high procurement costs and increase in selling and distribution expenses, the operation maintained a steady profit contribution to the Group. Its brand "喜上喜" is recognized as one of the most well-known brands in Shenzhen. Backed by its competitive edge in sourcing, slaughtering and fresh meat production, the operation continues to increase the supply of its meat products to the Group's supermarkets in Southern China.

The Shanghai meat processing center, which commenced operation at the end of 2005, recorded a marked improvement in profit contribution to the Group for the quarter under review with an increase in slaughtering volume by approximately 53.2%. As at 31 March 2007, there were nearly 1,100 sales outlets, including supermarkets and specialty shops, for its brand "五豐上食". The effective launch of promotional activities has raised the brand popularity and awareness in the local market.

Textile

Turnover of the textile division for the first quarter of 2007 was HK$1,070 million, representing an increase of 4.9% over the same period of 2006. Attributable profit for the quarter amounted to HK$32 million, representing an increase of 77.8% over that of 2006.

Turnover growth was mainly driven by a boost in export sales of high-end products, namely nylon HOY, FDY yarns and MAKO yarns. In addition, the increase in proportion of high-end products as a result of technology upgrade contributed to an increase in average selling price of yarns.

The operation recorded notable improvement in profitability for the first quarter of 2007. This was contributed by the increase in gross profit margin driven by product mix enhancement. In addition, a one-off worker compensation incurred in one of the textile factories last year affected adversely the profitability in the comparative quarter in 2006. Despite the reduction in attributable loss, the dyeing business' underperformance had a negative impact on the overall profitability of the operation. Further, the pressure from the increase in electricity costs and labor costs and the reduction in VAT refund continue to be unfavorable factors for the textile industry in the Chinese Mainland and may still affect the profitability for the current year.

Moving forward, our focus will be primarily on the production of high-end products. Scheduled technology upgrade of certain production facilities this year will further improve the production efficiency and quality and in turn will help drive the overall turnover and profitability of the division in the long run.

Investment Property

The investment property division, which mainly comprises retail property rental segment, reported turnover for the first quarter of 2007 of HK$90 million, representing an increase of 8.4% over the same quarter in 2006. Attributable profit for the first quarter in 2007 amounted to HK$296 million. Excluding the net-of-tax valuation surplus of approximately HK$241 million (First quarter of 2006: approximately HK$283 million), attributable profit of the division for the first quarter of 2007 decreased by 1.8%.

Retail rentals continued to edge up in the first quarter of 2007. With the continuous improvement in economy, the increase in consumption expenditure of the local households, together with the growing number of inbound visitors, retail sales sustained an upward trend driving up retail rentals.

Capitalizing on the favorable retail market opportunities, the retail properties located in Tsimshatsui and Causeway Bay were fully let out throughout the first quarter in 2007, with satisfactory increment in rental. Solicitation of tenancies for JD Mall, the newly redeveloped multi-storey retail property in Jordan, has commenced which will provide further growth impetus to the Group's retail property segment in future.

With the experience in operating the Group's retail properties in Hong Kong, our property division started in 2006 to operate shopping malls in the Chinese Mainland, part of which will be for our supermarket use. The mall 江門新の城 at Jiangmen, with our supermarket as its anchor tenant, recorded a latest occupancy rate of about 86%. Specific measures and events were launched to further improve rentals and shoppers flow. The shopping mall at Xinhui is currently under renovation. Both malls, being the property division's initial market entries to the Chinese Mainland, will bring in new revenue streams as well as experience to capture further investment opportunities in the mainland market.

Petroleum and Related Products Distribution

Turnover and attributable profit of the petroleum and related products distribution division for the first quarter of 2007 amounted to HK$5,416 million and HK$119 million respectively, representing a corresponding decrease of 9.1% and an increase of 48.8% over the same period of 2006.

Oil trading business reported a satisfactory growth in profitability. This was mainly contributed by the steadily rising oil price, the increase in sales volume and improvement in profit margin through effective inventory management. Besides, there was turnaround in profitability of filling stations operation in Hong Kong due to the reduced intermission of price-fixing mechanism effective from March 2006.

Following the disposal of the Group's interests in the piped gas, chemicals distribution and other petroleum related businesses in the Chinese Mainland in November 2006 in order to focus on its core consumer businesses, the Group entered into a formal agreement on 19 April 2007 to dispose of its 100% equity interest in China Resources Petrochems Investments Limited, which is the holding company of the Group's entire petroleum distribution business in Hong Kong, including the wholesaling of petroleum products and the operation of petrol stations. Completion is expected to take place at the end of June 2007 subject to the fulfilment of the conditions of the agreement.

Investments and Others

Attributable profit for the first quarter of 2007 amounted to HK$88 million (First quarter of 2006: HK$88 million).

Container Terminal

The Group has a 10% interest in HIT Investments Limited and Hutchison Ports Yantian Investments Limited. The Hong Kong and Yantian deepwater port operations continued to maintain a stable profit performance for the current quarter under review.

FINANCIAL REVIEW

Capital and Funding

As at 31 March 2007, the Group's consolidated cash and cash equivalents amounted to HK$9,301 million. The Group's borrowings as at 31 March 2007 were HK$9,621 million with HK$5,747 million repayable within 1 year, HK$3,870 million repayable after 1 year but within 5 years and HK$4 million repayable after 5 years. Committed borrowing facilities available to the Group, but not drawn as at 31 March 2007 amounted to HK$1,300 million. All the borrowings were subject to floating rates.

On the basis of the Group's net borrowings relative to the shareholders' funds and minority interests, the Group's gearing was approximately at 1.2% as at 31 March 2007 (31 December 2006: 7.1%). The decrease in net debt of the Group was mainly resulted from capital injection from minority shareholder of the beverage business and the cash inflow from operating activities, particularly the retail businesses.

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 31 March 2007, 21.0% of the Group's cash deposit balances was held in Hong Kong dollars, 37.8% in Renminbi and 40.3% in US dollars; whereas 60.0% of the Group's borrowings was denominated in Hong Kong dollars and 28.9% in Renminbi with 10.8% in US dollars. Moreover, to mitigate the interest rate exposure, the Group entered into certain interest rate swaps to hedge against part of its borrowings.

Pledge of Assets

As at 31 March 2007, assets with a carrying value of HK$83 million (31 December 2006: HK$153 million) were pledged for total borrowings of HK$201 million (31 December 2006: HK$214 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 March 2007.

CAUTION STATEMENT

The Board wishes to remind investors that the above financial data are based on the Company's internal records and management accounts. The above financial data for the first quarter of 2007 have not been reviewed or audited by the auditors. Shareholders of the Company and potential investors should exercise caution when dealing in shares of the Company.

By order of the Board
LEE YIP WAH, PETER
Company Secretary

Hong Kong, 23 May 2007

As at the date of this announcement, the executive directors of the Company are Mr. Song Lin (Chairman), Mr. Chen Shulin (Managing Director), Mr. Keung Chi Wang, Ralph (Deputy Managing Director), Mr. Wang Qun (Deputy Managing Director), Mr. Lau Pak Shing (Deputy Managing Director) and Mr. Kwong Man Him (Deputy Managing Director). The non-executive directors are Mr. Qiao Shibo, Mr. Yan Biao, Mr. Jiang Wei, Mr. Wang Shuaiting and Mr. Xie Shengxi. The independent non-executive directors are Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Mr. Cheng Mo Chi, The Hon. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.

Please also refer to the published version of this announcement in The Standard.