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
2009 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 2009 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 2009.

FINANCIAL HIGHLIGHTS

Three months ended 31 March	**2009 (Unaudited)** ***HK$ million***	2008 (Unaudited) *HK$ million*
Turnover	**17,173**	15,870
Profit attributable to shareholders of the Company	**417**	639
Basic earning per share[1]	**HK$0.17**	HK$0.27
	At 31 March 2009 (Unaudited) ***HK$ million***	At 31 December 2008 (Audited) *HK$ million*
Equity attributable to shareholders of the Company	**25,513**	25,159
Minority interests	**9,466**	9,339
Total equity	**34,979**	34,498
Consolidated net borrowings	**5,704**	6,463
Gearing ratio[2]	**16.3%**	18.7%
Net assets per share (book value):	**HK$10.68**	HK$10.53

Notes:

1. Diluted earnings per share for the three months ended 31 March 2009 and 2008 are HK$0.17 and HK$0.27 respectively.
2. 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 and major disposal of non-core assets/investments (Note 1)	
	Three months ended 31 March		Three months ended 31 March		Three months ended 31 March	
	2009	2008	**2009**	2008	**2009**	2008
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Core Businesses						
- Retail	**10,447**	9,577	**232**	268	**232**	265
- Beverage	**3,930**	3,160	**17**	(19)	**17**	(19)
- Food Processing and Distribution	**1,742**	1,929	**116**	156	**76**	83
- Textile	**992**	1,191	**(74)**	28	**(74)**	28
- Investment Property	**129**	103	**98**	168	**87**	121
Subtotal	**17,240**	15,960	**389**	601	**338**	478
Other Businesses						
- Investments and Others	–	–	**62**	90	**62**	90
	17,240	15,960	**451**	691	**400**	568
Elimination of inter-segment transactions	**(67)**	(90)	**–**	–	**–**	–
Net corporate interest and expenses	–	–	**(34)**	(52)	**(34)**	(52)
Total	**17,173**	15,870	**417**	639	**366**	516

Notes:

1. For the analysis of PAS excluding the effect of investment property revaluation and major disposal of non-core assets/investments, the effect of the following transactions have been excluded in PAS of the respective division:

   a. Net valuation surplus of approximately HK$3 million arising mainly from industrial building held by the Retail division has been excluded from its 2008 results.

   b. Net gain on disposal of non-core investments amounting to approximately HK$40 million (2008: HK$73 million) has been excluded from the results of the Food Processing and Distribution division.

   c. Net valuation surplus of approximately HK$11 million (2008: HK$47 million) has been excluded from the results of the Investment Property division.

PRINCIPAL ACCOUNTING POLICIES

Save as disclosed below, the accounting policies used in the preparation of the management accounts are consistent with those used in the annual financial statements for the year ended 31 December 2008.

In the current period, the Group has adopted the new standards, amendments and interpretations (new "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), which are effective for accounting periods beginning on 1 January 2009.

The adoption of these new HKFRSs has had no material effect on the Group's results or financial positions and did not result in substantial changes to the Group's accounting policies. No prior period adjustments are required.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group's unaudited consolidated turnover for the first quarter ended 31 March 2009 amounted to approximately HK$17,173 million, representing an increase of 8.2% over the same quarter of 2008. Unaudited consolidated profit attributable to the Company's shareholders for the quarter under review amounted to approximately HK$417 million. Excluding the after-tax effect of revaluation of investment properties and major disposal of non-core assets and investments, which led to aggregate gains of HK$51 million in the first quarter of 2009 and HK$123 million in the first quarter of 2008, the Group's underlying unaudited consolidated profit attributable to the Company's shareholders would have decreased by 29.1% for the first quarter ended 31 March 2009.

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.

During the quarter under review, slowdown of economic growth and deflationary expectations curbed consumer spending. Retailers were prompted to introduce various types of discounts and promotional activities to boost sales which undermined the profitability of the retail market in general. Against such deteriorating business environment, turnover and attributable profit of the Group's retail division for the quarter under review amounted to HK$10,447 million and HK$232 million respectively, representing a corresponding increase of 9.1% and a decrease of 13.4% over the same quarter of 2008.

Export trade in the Chinese Mainland registered a significant contraction this year and unemployment worsened as the global financial crisis cut demand, deepening the economic downturn. GDP growth in the Chinese Mainland continued to show a downward trend and grew 6.1% for the first quarter of 2009, representing decreases of 4.5 percentage points year-on-year and 0.7 percentage point quarter-on-quarter. Total retail sales of consumer goods for the first quarter of 2009 only increased by 15.0% compared to 20.6% for the same period in 2008, and fell 3.9% over the previous quarter. Additionally, a 0.6% drop in consumer price index for the first quarter of 2009 partially indicated weakening demand. On account of a series of measures taken by the central government to stimulate domestic demand and sustain economic growth, the overall mainland economy performed better than expected with emerging signs of bottoming out and stabilization. As it takes time for the benefits of the stimulus measures to flow into the broader economy, any recovery in the retail industry is expected to be slow and gradual.

With waning global demand, Hong Kong’s external merchandise trading value decreased significantly. Unemployment rate surged to a three-year high and dampened consumer sentiment, leading to sluggish demand in the overall market as reflected by the decline in local retail sales volume for the first quarter of the year. Slowing economic activities and deteriorating labor market signal a gloomy outlook for the Hong Kong retail industry in the near term.

Supermarket and Logistics

Turnover and attributable profit of the supermarket and logistics operation for the first quarter of 2009 were HK$9,477 million and HK$185 million respectively, representing a corresponding increase of 9.9% and a decrease of 1.1% over the same quarter of 2008. The Group’s logistics business was significantly impacted by the economic downturn and a substantial reduction in export trades in Hong Kong, resulting in a notable decline in its operating profit contribution. Through effective cost control measures, there was modest improvement in the operating profit of the supermarket business.

As at the end of March 2009, the Group operated a total of over 2,600 stores in the Chinese Mainland and Hong Kong, of which approximately 56.1% were self-operated and the rest were franchised stores. Major store formats are hypermarket, superstore, supermarket and convenience store, mainly operated under the brands of “華潤萬家 vanguard”, “華潤蘇果 CHINA RESOURCES SUGUO”, “蘇果 SUGUO”, “Vango” and “Olé”. In terms of geographical contribution, Eastern China, Southern China, Hong Kong and Northern China respectively accounted for 64.6%, 25.1%, 6.0% and 4.3% of the operation’s turnover for the quarter under review.

There has been a rapid drop in same store sales growth since the fourth quarter of 2008 as the financial crisis persisted, and the same store sales further fell 3.6% for the quarter under review. The Group will continue with ongoing product mix improvement and operational enhancement to cater for customer preferences as well as maintain an efficient supply chain management for stock turnover improvement to foster organic growth.

The Group adopts a multi-format approach to swiftly increase its share in target markets, so that it can build up an extensive local store network and business scope to achieve economies of scale in operation. Enhancement of price negotiation and business cooperation with suppliers together with stringent cost controls have led to higher profitability. The consolidated earnings before interest, tax, depreciation and amortization (“EBITDA”) for the first quarter of 2009 amounted to HK$520 million, representing growth of 15.8% over the same quarter of 2008. Satisfactory EBITDA growth of the supermarket operation offset the reduction in EBITDA contribution from the logistics business. In order to improve profitability of non-performing stores, the Group will devote its efforts to stringent cost controls and shop layout modification. In addition, the Group will focus on customer service improvement and network expansion so as to mitigate the negative impact of the drop in profit contribution from its logistics business.

In view of the high level of global economic uncertainty in the short term, the Group will concentrate its efforts on improving operational efficiency, strengthening business alliance with suppliers, consolidating internal resources to maximize economies of scale as well as reinforcing and raising its market share in target regions. The Group will place more emphasis on quality when opening new stores in target districts and actively explore new acquisition opportunities in the future.

Brand-fashion Distribution

Turnover and attributable profit of the brand-fashion distribution segment for the first quarter of 2009 were HK$790 million and HK$49 million respectively, representing a corresponding increase of 11.0% and a decrease of 7.5% over the same period of 2008.

As at the end of March 2009, the "Esprit" and "Red Earth" brand distribution network had over 1,090 self-operated and franchised stores in the Chinese Mainland. Benefited from enhanced distribution network and through adoption of flexible sales strategies, the operation reported moderate growth in turnover for the quarter under review. However, slowdown of economic growth in the Chinese Mainland since the second half of last year further dampened consumer sentiment. Sales of self-operated stores declined 6.1% on a same-store basis, while franchised stores reduced their orders in the first quarter of the year. Launching of discounts and promotional activities in the apparel retail industry to boost local consumption lowered profit margin, affecting the profitability of the operation for the period under review.

The better-than-expected economic data announced recently show early signs of a gradual economic recovery in the Chinese Mainland. However, restoring consumer confidence takes time and the operation will face challenges in the near term.

Other Retail Stores

Turnover of the other retail stores segment for the first quarter of 2009 amounted to HK$180 million, representing a decrease of 24.4% over the same period of 2008. Attributable loss for the quarter under review amounted to HK$2 million compared to an attributable profit of HK$28 million for the corresponding period in 2008. As at the end of March 2009, the Group's chain of retail stores mainly consisted of 4 Chinese Arts & Crafts 中藝 stores in Hong Kong and 47 CR Care 華潤堂 stores in Hong Kong and the Chinese Mainland.

Owing to the challenging global economy since the second half of last year, local consumption sentiment remained conservative during the first quarter of 2009. The Chinese Arts & Crafts 中藝 operation, targeting sales of high quality and premium products, was more vulnerable to the economic slump and reported a marked decrease in turnover for the period under review. Nevertheless, through effective improvement in product mix, gross profit margin of the operation remained comparable to that of the same period in 2008. After conducting a performance review aiming to improve overall profitability of the operation, a non-performing store was closed during the quarter under review, and the losses on store closure further impacted the operating results of the operation.

Lower demand for premium products owing to economic downturn coupled with the intensified market competition squeezed the profitability of the CR Care 華潤堂 operation. Escalating store rentals further lowered its profitability. These factors led to a decline in both turnover and operating results of the operation for the first quarter of 2009.

Looking forward, retail market sentiment in Hong Kong will remain depressed by the financial crisis. The Group will implement flexible pricing strategies and product mix enhancement to cater for customer preferences so as to weather the current economic slowdown.

Beverage

The beverage division reported turnover for the first quarter of 2009 of HK$3,930 million, representing an increase of 24.4% over the same period of 2008. Attributable profit for the quarter under review amounted to HK$17 million compared to a loss of HK$19 million for the corresponding period in 2008.

Beer operation

The beer operation reported turnover and attributable loss for the first quarter of 2009 of HK$3,640 million and HK$4 million respectively, representing a corresponding increase of 26.0% and a reduction in loss of 87.5% over the same period of 2008.

Sales volume of beer rose by 20.5% to approximately 1,567,000 kiloliters for the quarter under review. In particular, organic sales volume growth of 12.5% was posted, with notable increases in Sichuan Province, Anhui Province, Zhejiang Province and Hubei Province. Such growth was mainly attributable to higher market demand driven by warmer weather during the first quarter of the year against the same period of last year and the operation's ongoing brand and sales promotion efforts which began to show effects. Sales volume from newly built factories further contributed to the overall sales volume growth for the quarter under review. Our national brand "SNOW" recorded encouraging sales volume growth of 24.7% to 1,336,000 kiloliters in the first quarter of 2009 accounting for 85.3% of the total sales volume.

The Group's dedication to optimizing its product mix to cater for higher demand of consumer taste gave rise to an increase in proportion of premium beer sales. Despite an increase in fixed production costs incurred by newly built factories, effective stock measures through centralized procurement and a year-on-year decrease in costs of malt and hops helped driving down the total production costs, and improved the overall gross profit margin as compared to that of 2008.

As at the end of March 2009, the Group operated over 60 breweries in the Chinese Mainland with an annual production capacity of approximately 12.6 million kiloliters. In order to strengthen our market position, enhance operational efficiency and optimize product structure, the Group has been accelerating its investment in the national operations. Following the acquisition of the brewing assets in 遼寧松林啤酒集團有限公司 (Liaoning Songlin Brewery Group Company Limited), 安慶天柱啤酒有限責任公司 (Anqing Tianzhu Beer Company Limited) and 浙江洛克啤酒有限公司 (Zhejiang Luck Beer Company Limited), the Group has also initiated the acquisition of the brewing assets in 山東琥珀啤酒廠 (Shandong Hupo Brewery) in northern Shandong Province. Coupled with a greenfield brewery under construction in Yantai, the Group will have an aggregate annual production capacity of about 0.5 million kiloliters for the first time in Shandong Province.

In order to capitalize on the difficult economic conditions prevailing at the moment, the Group will cautiously seek and evaluate investment opportunities to implement our consolidation strategy, while emphasizing enhancement in operational efficiency.

Purified Water Operation

The purified water operation, with "C'estbon 怡寶" as its sole brand, reported turnover and attributable profit for the first quarter of 2009 of HK$290 million and HK$21 million respectively, representing increases of 7.4% and 61.5% over the same quarter of 2008. Sales volume of purified water for the quarter under review rose by 6.9% to approximately 300,000 kiloliters.

Turnover growth for the quarter under review was mainly attributable to the increase in sales volume through effective launch of promotional campaign to raise brand awareness, enhanced distribution channels in the existing markets and expansion of sales networks in the new ones. Coupled with reduced production costs in respect of plastic packing materials due to global decline in oil prices, attributable profit improved substantially.

In view of increasing demand for packaged water driven by rising health consciousness among mainland consumers, the packaged water market in the Chinese Mainland is believed to be relatively more resilient to the economic downturn. As the market is still highly fragmented, the Group will prudently expand into new markets and streamline distribution process to lower production costs. The Group will also continue to look for acquisition opportunities and upgrade production capacity to sustain its growth in market share.

Food Processing and Distribution

The food processing and distribution division reported turnover and attributable profit for the first quarter of 2009 of HK$1,742 million and HK$116 million respectively, representing decreases of 9.7% and 25.6% over the same period of 2008. Excluding the gains from reducing certain equity interests in strategic investments in the first quarter of 2008 and 2009, attributable profit of the division for the quarter under review would have decreased by 8.4%, mainly affected by the weak performance of the Hong Kong livestock distribution business.

Intensified market competition subsequent to the opening of the Hong Kong live pig market caused decreases in both sales quantity and gross margin of the livestock distribution business, resulting in lower profitability. In addition, consumer sentiment was affected by the economic downturn and rising unemployment rate. Accordingly, turnover and attributable profit of frozen food distribution for the quarter under review both recorded year-on-year declines.

The Hong Kong government announced the result of an international open tender for operating and managing the abattoir in Sheung Shui in April this year, and the Group successfully renewed the contract right to operate and manage the abattoir for a maximum of another ten years. During the new operation period, the Group will improve the food safety system of the Hong Kong fresh meat market through further innovation and enhancement of management quality as well as strengthening the synergies with livestock-related businesses for value creation.

In recent years, the division has shifted its focus to business expansion in meat processing, branded food processing and distribution in the Chinese Mainland, which reported satisfactory results for the period under review. The mainland slaughtering volume of live pigs increased by

60.1% while turnover of mainland meat business and assorted foodstuff business went up by 17.7% compared to the first quarter of 2008. The accelerated pace of investments has strengthened the synergies among different operations and enhanced the Group's competitive edge in livestock raising, slaughtering, meat processing, cold storage, logistics and sales distribution. At the same time, livestock raising business in the Chinese Mainland also provided strong support to the division's livestock supply to Hong Kong and mainland meat processing business.

Through rearranging shipping resources in different districts and promoting resource sharing, the production capacity of marine fishing and aquatic products processing operation has been boosted. As a result, the volume of aquatic product catches increased over the same period of last year. Benefited from the drop in fuel prices that eased operating cost pressure, overall gross profit improved. In addition, sales measures like expansion of market to Africa and the Chinese Mainland as well as enhancement of product mix helped improve the operating conditions, and the operation thus recorded satisfactory profit contribution for the period under review.

In view of the recent outbreak of H1N1 Influenza A in Mexico and the increasing number of confirmed cases around the world, the division has tightened up sanitation control and disinfection procedures in its slaughterhouses, meat processing factories and pig farms as well as put further stress on the importance of personal hygiene of related working staff. Furthermore, to ensure normal operation of individual business units, the division has formulated measures to minimize the possible impact on its business arising from worsening epidemic situation.

Looking ahead, the Group will continue to improve its supply chain of safe food and capitalize on organic expansion and acquisition so as to become an outstanding safe food supplier with integrated research and development, processing and distribution.

Textile

Turnover of the textile division for the first quarter of 2009 was HK$992 million, representing a decrease of 16.7% over the same period in 2008. Attributable loss for the quarter under review amounted to HK$74 million compared to an attributable profit of HK$28 million for the same period in 2008.

The operating environment of the division has become increasingly difficult as the export of textile products continued to contract because of the global economic downturn. To counteract such unfavorable market conditions, the division actively explored the domestic market during the period under review. Product mix was slightly adjusted from high-end to mid-range products, which caused the average selling prices to decrease and thus lowered the turnover for the quarter under review. In response to fierce competition in the mainland textile product market, the Group adopted discounted sales strategy to maintain its market share, and gross margin was therefore affected. In addition, a provision for the planned closure of a dyeing factory further contributed to the operating loss of the division.

To cope with challenging operating environment of the textile product market, the Group will continue to tighten cost control measures including intermittent production suspension to reduce yarn inventory and cutting staff costs. Apart from actively exploring new markets to increase sales, the division will also devote more efforts to the research and development of new technology and new products for product mix enrichment to boost profitability in the long run. The increase in export tax rebate for certain textile and garment products to 16% with effect from April 2009 will also give positive impetus to the export-reliant textile industry in the Chinese Mainland.

Investment Property

The investment property division, which mainly comprises retail property rental segment, reported turnover of HK$129 million for the first quarter of 2009, representing an increase of 25.2% over the same quarter of 2008. Attributable profit for the quarter under review amounted to HK$98 million. Excluding the after-tax revaluation surplus of approximately HK$11 million (First quarter of 2008: approximately HK$47 million) and the decrease in deferred tax liabilities of approximately HK$52 million resulted from the reduction in the Hong Kong profits tax rate in the first quarter of 2008, attributable profit of the division for the first quarter of 2009 would have increased by 26.1%.

As the new tenancy agreements of the Group's Silvercord property in Tsimshatsui became effective, the division recorded considerable growth in rental income for the quarter under review. Other retail properties also recorded moderate rental increments and increases in occupancy rates.

Looking forward, retail market sentiment in Hong Kong will continue to be influenced by the impact of the financial crisis. However, the growing number of mainland tourists and limited supply of prime retail spaces should collectively help lessen its impact on the retail rental level of core shopping districts. The division will review its retail properties for renovation potential from time to time with a view to enhancing rental income.

Investments and Others

Attributable profit for first quarter of 2009 amounted to HK$62 million (First quarter of 2008: HK$90 million).

Container Terminal

The Group has a 10% interest in HIT Investments Limited and Hutchison Ports Yantian Investments Limited. Performance of the Hong Kong and Yantian deepwater port operations was adversely affected by the declining exports from the Chinese Mainland during the quarter under review.

FINANCIAL REVIEW

Capital and Funding

As at 31 March 2009, the Group's consolidated cash and bank balance amounted to HK$8,846 million. The Group's borrowings as at 31 March 2009 were HK$14,550 million with HK$5,540 million repayable within 1 year, HK$9,007 million repayable after 1 year but within 5 years and HK$3 million repayable after 5 years. Committed borrowing facilities available to the Group but not drawn as at 31 March 2009 amounted to approximately HK$1,100 million.

On the basis of the Group's net borrowings relative to the shareholders' funds and minority interests, the Group's gearing was approximately at 16.3% as at 31 March 2009 (31 December 2008: 18.7%).

The Group's principal assets, liabilities, revenue and payments are denominated in Hong Kong dollars, Renminbi and US dollars. As at 31 March 2009, 20.9% of the Group's cash deposit balances was held in Hong Kong dollars, 70.3% in Renminbi and 7.3% in US dollars; whereas 58.5% of the Group's borrowings was denominated in Hong Kong dollars and 35.6% in Renminbi with 5.8% in US dollars.

Pledge of Assets

As at 31 March 2009, assets with a carrying value of HK$241 million (31 December 2008: HK$289 million) were pledged for total borrowings of HK$304 million (31 December 2008: HK$312 million).

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 March 2009.

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 2009 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
CHEN LANG
Managing Director

Hong Kong, 22 May 2009

As at the date of this announcement, the executive directors of the Company are Mr. Qiao Shibo (Chairman), Mr. Chen Lang (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. Jiang Wei, Mr. Wang Shuaiting, Mr. Yan Biao, Mr. Li Fuzuo and Mr. Du Wenmin. The independent non-executive directors are Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.