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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

2010 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 2010 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 2010.

FINANCIAL HIGHLIGHTS

	2010 (Unaudited) HK\$ million	2009 (Unaudited) HK\$ million
Three months ended 31 March		
Turnover		
– continuing operations	21,104	15,433
– discontinued operations ¹	410	1,740
	21,514	17,173
Profit attributable to shareholders of the Company		
– continuing operations	716	442
– discontinued operations ¹	3,011	(25)
	3,727	417
Basic earning per share ²		
– continuing operations	HK\$0.30	HK\$0.18
– discontinued operations ¹	HK\$1.26	HK\$(0.01)
	HK\$1.56	HK\$0.17
	At 31 March 2010 (Unaudited) HK\$ million	At 31 December 2009 (Audited) HK\$ million
Equity attributable to shareholders of the Company	29,473	25,847
Non-controlling interests	9,443	9,597
Total equity	38,916	35,444
Consolidated net borrowings	-	3,340
Gearing ratio ³	Net Cash	9.4%
Net assets per share (book value):	HK\$12.30	HK\$10.79

Notes:

- Pursuant to the Group reorganisation in 2009, textile and brand-fashion distribution businesses are presented as discontinued operation according to the Hong Kong Financial Reporting Standard 5. The Group terminated the license rights of the brand and completed the disposal of its brand-fashion distribution business in February 2010 with an after-tax gain of approximately HK\$3 billion.
- Diluted earnings per share for the three months ended 31 March 2010 and 2009 are HK\$1.55 and HK\$0.17 respectively. Diluted earnings/(loss) per share of the discontinued operations for the three months ended 31 March 2010 and 2009 are HK\$1.25 and HK\$(0.01) respectively.
- 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 2010	2009	Three months ended 31 March 2010	2009	Three months ended 31 March 2010	2009
	(Unaudited) HK\$ million	(Unaudited) HK\$ million	(Unaudited) HK\$ million	(Unaudited) HK\$ million	(Unaudited) HK\$ million	(Unaudited) HK\$ million
Core Businesses						
- Retail	14,891	9,820	597	281	398	270
- Beverage	4,460	3,930	26	17	26	17
- Food Processing and Distribution	1,823	1,742	116	116	90	76
Subtotal	21,174	15,492	739	414	514	363
Other Businesses						
- Investments and Others	-	-	-	62	-	62
	21,174	15,492	739	476	514	425
Elimination of inter-segment transactions	(70)	(59)	-	-	-	-
Net corporate interest and expenses	-	-	(23)	(34)	(23)	(34)
Total from continuing operations	21,104	15,433	716	442	491	391
Discontinued operations						
- Brand-fashion Distribution	410	748	3,011	49	26	49
- Textile	-	992	-	(74)	-	(74)
Total from discontinued operations	410	1,740	3,011	(25)	26	(25)
Total	21,514	17,173	3,727	417	517	366

Notes:

- 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:
 - Net valuation surplus of approximately HK\$199 million (2009: HK\$11 million) has been excluded from the results of the Retail division.
 - Net gain on disposal of non-core investments and valuation surplus with an aggregate amount of approximately HK\$26 million (2009: HK\$40 million) have been excluded from the results of Food Processing and Distribution division.
 - The Group terminated the license rights of the brand and completed the disposal of its brand-fashion distribution business in February 2010 with an after-tax gain of approximately HK\$3 billion.

PRINCIPAL ACCOUNTING POLICIES

Save as disclosed below, the accounting policies used in the preparation of the quarterly financial statements are consistent with those used in the annual financial statements for the year ended 31 December 2009.

In the current period, the Group has adopted the revised 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 2010.

The adoption of these new HKFRSs has had no material effects on the Group’s results and financial positions for the current and prior accounting periods. Accordingly, no prior period adjustments are required.

The Group has not early applied the new or revised standards, amendments or interpretations that have been issued by the HKICPA but are not yet effective. The directors of the Company anticipate that the application of these standards, amendments or interpretations will have no material impact on the Group’s results of operations and financial positions.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

Following the completion of its disposal of the entire textile division and investments in container terminal operations at the end of December 2009 and the sale of its entire interest in a brand-fashion distribution joint venture in the Chinese Mainland in February 2010, the Group focuses on the core businesses comprising retail business, beverage business and food processing and distribution business.

For the first quarter ended 31 March 2010, the Group’s unaudited consolidated profit attributable to the Company’s shareholders increased by about 8 times year-on-year to approximately HK\$3,727 million while that generated by the continuing operations amounted to approximately HK\$716 million, representing an increase of 62.0% over the corresponding period of last year; the Group’s unaudited consolidated turnover from the continuing operations amounted to approximately HK\$21,104 million, representing an increase of 36.7% over the same period of 2009. 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\$225 million and HK\$51 million for the first quarter of 2010 and 2009, respectively, the Group’s underlying unaudited consolidated profit attributable to the Company’s shareholder from the continuing operations would have increased by 25.6% year-on-year for the first quarter ended 31 March 2010.

Retail Business

The Group’s retail division recorded a turnover of HK\$14,891 million and an attributable profit of HK\$597 million for the first quarter of 2010, representing increases of 51.6% and 112.5% respectively over the same period of 2009. Excluding an after-tax revaluation surplus of approximately HK\$199 million (First quarter of 2009: HK\$11 million), the division’s attributable profit for the first quarter of 2010 would have increased by 47.4% over the same period of last year.

The retail division is geographically divided into two segments, one in the Chinese Mainland and the other in Hong Kong. The Group's completion of the acquisition of a hypermarket chain from its parent company, China Resources (Holdings) Company Limited, has considerably expanded its supermarket operations by enhancing its geographical coverage in the northern and central regions of the Chinese Mainland. As at the end of March 2010, the Group operated a total of over 2,800 stores in the Chinese Mainland and Hong Kong, of which approximately 65.7% were self-operated and the rest were franchised stores. The store formats principally include hypermarkets, supermarkets, convenience stores and specialty stores operating under the brands mainly comprising “華潤萬家 Vanguard”, “華潤蘇果 China Resources Suguo”, “蘇果 Suguo”, “Vango”, “Olé”, “中藝 Chinese Arts & Crafts” and “華潤堂 CR Care”.

During the quarter under review, the central government continued to implement stimulus policies to drive domestic demand against a backdrop of a gradual recovery of the global economy. Both the macroeconomic environment and consumer spending in the Chinese Mainland improved, supporting the domestic retail sector to pick up steadily.

In the first three months of 2010, the Chinese Mainland's GDP grew by 11.9% year-on-year, up from 6.1% in the same period of last year. The total retail sales of consumer goods in the Chinese Mainland rose by 17.9% in the first three months of 2010, up from 15.0% in the same period of last year.

In Hong Kong, there were continuous improvements in the overall retail industry amidst the falling unemployment rate and a rebound in consumer spending. The wealth effect attributed to the stock market rally and rise in values of properties in the first quarter of 2010 also gave rise to the uplift of consumer sentiment.

The Group has a strong retail base in the Chinese Mainland where it is actively expanding its presence in the consumer market. The Group believes that its retail division will keep benefiting from the opportunities arising from the economic upturn with stable turnover and profit growth. Excluding a revaluation surplus of approximately HK\$241 million (First quarter of 2009: HK\$13 million), the earnings before interest, tax, depreciation and amortization of the Group's retail division for the first quarter of 2010 amounted to HK\$869 million, representing a year-on-year increase of 37.1%. This was mainly contributed by the operation of a hypermarket chain acquired from the parent company as well as the operating profit growth resulting from satisfactory growth of same store sales and an increase in gross margin.

Retail Business in the Chinese Mainland

For the first quarter of 2010, the turnover and attributable profit of the Group's retail business in the Chinese Mainland amounted to HK\$13,908 million and HK\$235 million respectively, up by 55.6% and 50.6% year-on-year.

The retail business of the Group in the Chinese Mainland mainly comprised supermarket operations. The Group's acquisition of a hypermarket business from its parent company expanded the scale of its supermarket operations in the Chinese Mainland, and resulted in a marked increase in turnover. The improving macroeconomic environment in the Chinese Mainland where economic indicators such as the consumer price index and producer price index steadily went up and mild inflation occurred had offered healthy stimulus to the retail sector. Riding on the benefits coming along with such a favorable economic environment, the same store sales of the Group's supermarkets in the Chinese Mainland increased by 8.1% year-on-year during the quarter under review.

The Group completed the national standardization of category management and put in place a unified supplier policy and supplier management workflow during the quarter under review. A national purchasing office has also been set up to drive the nationwide integration of the supply chain and purchasing operation.

Looking ahead, the Group will pursue its national expansion strategy that features regional leadership and synergy on a multi-format business platform. The Group will continue to strengthen its leading positions in key regional markets while establishing stores of different formats such as high-end supermarkets, “Olé”, in other regions of the nation. The Group has new plans to drive integration among different regions to enhance management efficiency and strengthen the central management of professionalization and standardization of stores in various regions. In addition, the Group is pushing ahead with the integration of its national supply chain as well as the optimization of its product mix and supplier system.

Retail Business in Hong Kong

The Group’s retail business in Hong Kong recorded a turnover of HK\$983 million and an attributable profit of HK\$362 million for the first quarter of 2010, representing increases of 11.7% and 189.6% respectively over the same period of last year. Excluding an after-tax revaluation surplus of approximately HK\$200 million (First quarter of 2009: HK\$11 million), the attributable profit of this business for the first quarter of 2010 would have increased by 42.1% over the same period of last year.

The Group’s Hong Kong retail business mainly comprised operations of supermarkets, “中藝 Chinese Arts & Crafts” and “華潤堂 CR Care”. Driven by the remarkable sales growth of both “中藝 Chinese Arts and Crafts” and “華潤堂 CR Care” stores, which benefited from the improving economy and the high purchasing power of travelers from the Chinese Mainland, the same store sales of Hong Kong retail business increased by 9.1% year-on-year.

During the quarter under review, the Group opened its first wine cellar, “Voi_la!” in Hong Kong, offering a wide range of wine from different countries and regions. The wine cellar not only serves to open a new market for the Group in Hong Kong but also enhances its brand awareness, laying a solid foundation for the future development of this business.

In order to realize its objective to develop its retail business, the Group will further reinforce the cooperation among its various business segments. Initiatives include centralization of logistic arrangement of its retail business. The Group will also take advantage of its own resources of premium premises to open new specialty retail stores.

As the impact of the financial crisis recedes, Hong Kong’s retail sector is expected to stabilize gradually. Relief measures announced by the Hong Kong government will help to sustain the economic recovery and further improve consumer sentiment. Besides, the strong purchasing power of travelers from the Chinese Mainland will continue to benefit this business and the overall retail sector.

Beverage Business

For the first quarter of 2010, the beverage division reported a turnover of HK\$4,460 million, representing an increase of 13.5% over the same period of 2009. Its attributable profit for the quarter under review amounted to HK\$26 million, representing an increase of 52.9% year-on-year.

Beer Operation

The beer operation reported a turnover of HK\$4,080 million for the first quarter of 2010, representing an increase of 12.1% over the same period of 2009. Its attributable profit for the quarter under review amounted to HK\$19 million compared to a loss of HK\$4 million for the corresponding period of 2009.

Sales volume of beer rose by 10.4% to approximately 1,730,000 kiloliters during the quarter under review. The growth was mainly contributed by newly built and newly acquired breweries, as well as the effective brand and sales promotion. Sales volume of the Group's national brand “雪花 Snow” rose by 16.1% to approximately 1,550,000 kiloliters in the first quarter of 2010, accounting for 89.6% of the total sales volume. As the largest brewer by volume in the Chinese Mainland, the Group had a market share of about 19% as at the end of 2009.

The Group continued to dedicate itself to product upgrade and product mix optimization to cater for the increasing demand of consumer in quality. Increased proportion of sales of premium beer and mainstream beer helped to boost beer sales. During the quarter under review, lower raw material costs contributed to a rise in overall gross margin year-on-year.

As at the end of March 2010, the Group operated over 70 breweries in the Chinese Mainland with an annual production capacity exceeding 14 million kiloliters. The newly built and newly acquired breweries in Shanxi Province, Shanghai and Shandong Province, with a combined annual production capacity of approximately 670,000 kiloliters, commenced operation during the quarter under review.

The Group will keep up its efforts in promoting the “雪花 Snow” brand. In markets where it has strong presence, the Group will strengthen its exclusive distribution network to maximize its competitiveness. In other markets, the Group will also launch joint promotional activities to boost sales. The Group aims at expanding its market share tactically so as to reinforce its leadership position in the beer market. In addition, the Group will prudently seek and evaluate investment opportunities to implement its consolidation strategy, while emphasizing enhancement in operational efficiency.

Non-alcoholic Beverage Operation

The non-alcoholic beverage operation, with “怡寶 C'estbon” purified water as its key brand, reported a turnover of HK\$380 million and an attributable profit of HK\$7 million for the first quarter of 2010, representing an increase of 31.0% and a decrease of 66.7% respectively year-on-year. Total sales volume of the non-alcoholic beverage operation rose by 24% year-on-year to over 370,000 kiloliters for the first quarter of 2010.

During the quarter under review, the operation successfully entered into new markets such as Yunnan Province, Guizhou Province and Jiangxi Province, gradually extending its sales network and market coverage. Moreover, as a result of the optimization of its sales channels in the South-Western China region, distributors played a more proactive role to promote sales, driving sales growth of the operation.

The operation enhanced its product mix with the rollout of “零帕 0 PA”, a fruit-flavored nutritional drink, in April 2010. The new product is expected to increase both sources of revenue and profit. However, advertising and promotional expenses rose due to the launch of the new

product. Therefore, the profit contribution from the operation dropped during the quarter under review.

To capture opportunities brought by growing health awareness among consumers in China, the Group will carry on its new product promotion to optimize its product mix. It will also endeavor to explore new markets while further enhancing the market share and competitiveness of its existing operation.

Food Processing and Distribution Business

The food processing and distribution division reported a turnover of HK\$1,823 million for the first quarter of 2010, representing an increase of 4.6% year-on-year. Its attributable profit during the quarter under review amounted to HK\$116 million. Excluding the gains from reducing certain equity interests in strategic investments, the attributable profit of the division for the quarter under review would have increased by 18.4% year-on-year.

During the quarter under review, the turnover and profit contributed by the mainland market further increased. The meat processing, branded food processing, cold storage and trading as well as distribution businesses in the Chinese Mainland delivered satisfactory operating results. The Group had sped up the acquisitions of meat businesses in the Chinese Mainland so as to establish a safe food supply system covering livestock raising, slaughtering, meat processing, cold storage, trading and points of sales. During the period under review, the Group completed the acquisition project in Nanning. According to this project, it has plans to build a modern meat processing centre with an annual slaughtering volume of 1.5 million heads of live pigs. The centre will further be transformed and upgraded to be a cold storage and wholesale trading market serving Guangxi Autonomous Region, South-Western China regions and Association of Southeast Asian Nations (ASEAN) regions.

Moreover, the Group propelled the development of its frozen food and ice-cream business under the “五豐 Ng Fung” brand with various measures to strengthen cost control and marketing efforts of the “五豐 Ng Fung” brand. By reinforcing its high market share in Zhejiang and developing peripheral markets such as Jiangsu, Shanghai and Anhui, the business delivered satisfactory growth in both sales and profitability during the period under review. The Group also actively sought acquisition opportunities to expand its frozen food and ice-cream business. The Sichuan pepper oil business which was newly acquired at the beginning of the year recorded satisfactory profit growth during the period under review.

The division achieved higher gross profit margin through the synergy with its mainland livestock raising business and flexible operational strategy that helped ensure a steady supply of live pigs to Hong Kong at stable prices. During the quarter under review, the Hong Kong livestock distribution operation recorded sales, turnover and profit growth. After the renewal of the contract right to operate and manage the abattoir in Sheung Shui for a maximum of another ten years, the Group’s slaughtering business in Hong Kong continued to enhance the management systems in aspects such as Hazard Analysis and Critical Control Point (HACCP) System, occupational safety and health and environmental protection according to the specific needs of the Hong Kong market and the requirements in the contract with the government. It also established a food tracking system for tracing food safety information from upstream registered mainland pig farms to the downstream retail market. In order to ensure safety and stability of food supplies to Hong Kong fresh meat market, the Group optimized management methods and kept improving its operational management quality. During the period under review, the business achieved solid growth in both slaughtering volume and turnover.

The marine fishing and aquatic products processing operation will strive to increase its profitability through active expansion in the African, European and Japanese markets, product mix optimization, better deployment of shipping resources in different regions, improvement on resources sharing and enhancement of operational efficiency.

Looking forward, the Chinese Mainland will continue to be the key market for the division's growth. The Group will continue to carry out and replicate the "Vegetable Basket" project in regional core cities. It has dedicated itself to becoming a leading integrated safe food supplier with capabilities in research and development, processing, storage, logistics, wholesaling and retailing, and international trading. The Group plans to strengthen its mainland business through acquisitions.

FINANCIAL REVIEW

Pledge of Assets

As at 31 March 2010, assets with a carrying value of HK\$168 million (31 December 2009: HK\$275 million) were pledged for bank borrowings and notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 March 2010.

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 2010 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, 24 May 2010

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) and Mr. Lai Ni Hium (Deputy Managing Director). The non-executive directors are Mr. Jiang Wei, 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.