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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

2011 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 2011 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 2011.

FINANCIAL HIGHLIGHTS

	2011 (Unaudited) HK\$ million	2010 (Unaudited) HK\$ million
Three months ended 31 March		
Turnover		
– continuing operations	26,671	21,104
– discontinued operations ¹	-	410
	26,671	21,514
Profit attributable to shareholders of the Company		
– continuing operations	826	716
– discontinued operations ¹	-	3,011
	826	3,727
Basic earnings per share ²		
– continuing operations	HK\$0.34	HK\$0.30
– discontinued operations ¹	-	HK\$1.26
	HK\$0.34	HK\$1.56
	At 31 March 2011 (Unaudited) HK\$ million	At 31 December 2010 (Audited) HK\$ million
Equity attributable to shareholders of the Company	31,831	30,819
Non-controlling interests	10,764	10,470
Total equity	42,595	41,289
Consolidated net borrowings	-	-
Gearing ratio ³	Net Cash	Net Cash
Net assets per share (book value):	HK\$13.27	HK\$12.85

Notes:

1. The Group disposed of its brand-fashion distribution business interest in February 2010 with a net gain of approximately HK\$3 billion.
2. Diluted earnings per share for the three months ended 31 March 2011 and 2010 are HK\$0.34 and HK\$1.55, respectively. Diluted earnings per share of discontinued operations for the three months ended 31 March 2010 is HK\$1.25.
3. 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 asset revaluation and major disposal of non-core assets/investments by segment (Note 1)	
	2011 HK\$ million	2010 HK\$ million	2011 HK\$ million	2010 HK\$ million	2011 HK\$ million	2010 HK\$ million
Core Businesses						
- Retail	19,019	14,891	694	597	532	398
- Beer	4,902	4,080	20	19	20	19
- Food	2,262	1,823	118	116	114	90
- Beverage	567	380	10	7	10	7
	26,750	21,174	842	739	676	514
Elimination of inter-segment transactions	(79)	(70)	-	-	-	-
Net corporate interest and expenses	-	-	(16)	(23)	(16)	(23)
Total from core businesses (Note 2)	26,671	21,104	826	716	660	491
Other Businesses						
Discontinued operations						
- Brand-fashion distribution	-	410	-	3,011	-	26
Total from other businesses	-	410	-	3,011	-	26
Total	26,671	21,514	826	3,727	660	517

Notes:

- For the analysis of PAS excluding the effect of asset revaluation and major disposal of non-core assets/investments, the effect of the following transactions have been excluded in the PAS of the respective division:
 - Net valuation surplus on investment properties of approximately HK\$162 million (2010: HK\$199 million) has been excluded from the results of Retail division.
 - Net gain on disposal of non-core investments and valuation surplus on investment properties with an aggregate amount of approximately HK\$4 million (2010: HK\$26 million) have been excluded from the results of the Food division.
 - The Group disposed of its brand-fashion distribution business interest in February 2010 with a net gain of approximately HK\$3 billion.
- The attributable impact of urban maintenance and construction tax and education surcharges applicable on foreign-invested enterprises effective from December 2010 was approximately HK\$118 million for the first quarter ended 31 March 2011.

PRINCIPAL ACCOUNTING POLICIES

The accounting policies used in the preparation of the quarterly financial information are consistent with those used in the annual financial statements for the year ended 31 December 2010 except for the adoption of certain revised standards, amendments and interpretations issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”), which are effective for the Group’s financial year beginning 1 January 2011.

The adoption of these revised standards, amendments and interpretations has had no material effect on the results or financial positions of the Group for the current and prior accounting periods. Accordingly, no prior period adjustments are required.

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

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

For the first quarter ended 31 March 2011, the Group’s core businesses, including retail, beer, food and beverage divisions, generated unaudited consolidated turnover of HK\$26,671 million and unaudited consolidated profit attributable to the Company’s shareholders of HK\$826 million, representing increases of 26.4% and 15.4% respectively over the corresponding period of the previous year. Excluding the after-tax profit of asset revaluation and major disposals, the Group’s underlying unaudited consolidated profit attributable to the Company’s shareholders from the core businesses would have increased by 34.4% year-on-year to HK\$660 million for the first quarter ended 31 March 2011.

Retail

The Group’s retail division recorded a turnover of HK\$19,019 million and an attributable profit of HK\$694 million for the first quarter of 2011, representing increases of 27.7% and 16.2% respectively over the corresponding period of 2010. Excluding an after-tax revaluation surplus, the division’s attributable profit for the first quarter of 2011 would have increased by 33.7% year-on-year.

The Group’s retail division mainly consists of supermarkets, “中藝 Chinese Arts & Crafts” stores, “華潤堂 CR Care” stores, “VivoPlus” health and beauty stores and “Pacific Coffee” stores. As at the end of March 2011, the Group operated over 3,300 stores in China, of which over 70% were self-operated while the rest were franchised.

Since the beginning of this year, increases in the minimum wage in different regions and taxes such as China’s Urban Maintenance and Construction Tax and Education Surcharges imposed on foreign enterprises have put pressure on the operating costs in the Chinese Mainland. However, rising food prices caused by factors such as lower global food production and higher production costs were the major driver in lifting the consumer price index and lent support to the increases in sales per transaction at the stores. As a result, same store sales of the retail division increased by 12.7% year-on-year during the quarter under review. The Group sought to improve gross margins

and profitability through various initiatives such as leveraging its economies of scale, establishing direct trading bases between farmers and supermarkets, and minimizing product wastage. Earnings before interest, tax, depreciation and amortization of the Group's retail division for the first quarter of 2011 amounted to HK\$1,314 million, representing a year-on-year increase of 18.4%. The higher operating profit was mainly attributable to a substantial improvement in sales during the Chinese New Year period.

During the quarter under review, the Group's "華潤萬家 Vanguard" and "Olé" supermarkets extended their reach to new markets such as West Guangdong, Baise of Guangxi and Chongqing. Moreover, in line with its strategy to further harness synergy on a multi-format business platform, the Group's "中藝 Chinese Arts & Crafts" and "華潤堂 CR Care" stores further expanded their network in the mainland market. For example, "中藝 Chinese Arts & Crafts" has opened its fourth mainland high-end branch on Jinrong Street, Beijing. In addition, with an aim to enhance the shopping environment and image of its stores, the Group accelerated the renovation and re-branding of newly acquired stores during the quarter under review.

China's "12th Five-Year Plan" has placed great strategic importance on expanding consumption and transforming the structure of China's economic growth. This will give a long-term impetus to China's retail sector. Although higher minimum wages will increase labor costs, they will also stimulate consumer spending and benefit the sales of daily consumer goods such as fresh food and other food items. The Group will keep on pursuing a national expansion strategy that emphasizes regional leadership and synergy on a multi-format business platform to strengthen its leading position in China's major regional markets, and at the same time extend its multi-format business model to other regions of the country. The Group's new business plans include: promoting specific standards of its retail formats, enhancing operational capabilities and efficiency, adopting a centralized inventory management system and work-flow to establish an optimal mix of core merchandise that fully satisfies customers' needs, as well as further improving the logistics network and standardizing its flow to lower logistics costs.

Beer

The beer division reported a turnover of HK\$4,902 million for the first quarter of 2011, representing an increase of 20.1% over the corresponding period of the previous year. The division's attributable profit for the quarter under review increased by 5.3% to HK\$20 million compared with the same period in the previous year.

The Group continued to enhance its production strength through building and acquiring new breweries as well as reconfiguring and expanding the existing breweries. In addition, the Group launched effective and unique promotional activities at targeted market segments to capture higher market share. During the quarter under review, its beer sales volume increased by 10% to approximately 1,908,000 kiloliters. The sales volume of the Group's national brand "雪花 Snow" increased by 11% to approximately 1,725,000 kiloliters, accounting for more than 90% of the Group's total beer sales volume in the first quarter of 2011. The sales volume growth resulted from a series of marketing campaigns tailored for the "雪花 Snow" brand which helped enhance its image further.

However, the rapid increase in the cost of primary and secondary raw materials, higher labor cost and taxes such as the Urban Maintenance and Construction Tax and Education Surcharges imposed on foreign enterprises increased the operating costs. By leveraging its economies of scale, the Group further enhanced its production efficiency and saved energy. Besides, the

division has made a concerted effort to lift the sales of premium beers and enhance its product mix in order to improve average selling prices and relieve cost pressure.

The Group's newly acquired brewery in Jiangsu commenced production in the quarter under review. As at the end of March 2011, the Group operated over 70 breweries in China with an aggregate annual production capacity of more than 14,600,000 kiloliters.

Looking forward, the Group will continue to promote the “雪花 Snow” brand to strengthen the brand's reputation and customer loyalty. While strengthening the sales of premium beers, the Group will optimize the product mix and reinforce the centralized purchasing system. At the same time, the Group will continue to seek and evaluate investment opportunities in a prudent manner while pursuing organic growth so as to achieve higher market share and thus maintain a leading position in the market.

Food

The food division reported a turnover of HK\$2,262 million for the first quarter of 2011, representing an increase of 24.1% over the corresponding period of the previous year. The division's attributable profit for the quarter under review increased by 1.7% to HK\$118 million compared with the same period in the previous year. Excluding the after-tax revaluation surplus and after-tax profits from the reduction of certain equity interests in strategic investments in the corresponding period of last year, the division's attributable profit would have increased by 26.7% year-on-year in the first quarter of 2011.

During the quarter under review, the business in the mainland market further expanded its revenue and profit contribution. The mainland meat processing, branded food processing, cold storage and trading, as well as distribution businesses achieved robust operating results. Faced with the higher costs of raw materials, labor and pigs, the Group actively fine-tuned its sales strategy and optimized its product mix to offset cost pressure. In order to establish an integrated quality supply system from livestock raising, slaughtering, meat processing, cold storage and trading to points of sales, the Group acquired a meat business in Jiaying during the period under review. It has helped lay a solid foundation for the Group's strategic development in the Yangtze River Delta region.

By modifying operational strategy, enhancing the coordination between supply, logistics and sales, and ensuring steady supply and prices of live pigs, the Hong Kong livestock distribution operation enhanced gross margins and achieved growth in turnover and profit during the quarter under review. The Group will continue to enhance the management and efficiency of its abattoir operation in Sheung Shui to ensure the safe, stable and balanced supply of fresh meat to Hong Kong.

The assorted foodstuff operation recorded satisfactory growth in operating results during the quarter under review thanks to the active promotion of the “五豐 Ng Fung” brand. Both the sales volume and profitability of the frozen food and ice-cream operation increased as it further consolidated the existing market in Zhejiang and made significant inroads to neighboring markets such as Jiangsu. Furthermore, by launching various brand promotion events in Yangzhou and Hangzhou, the operation boosted its market share and brand reputation in Jiangsu. Moreover, participation in exhibitions allowed the operation to further enrich its understanding of consumer behavior, market practices and strategic cooperation opportunities of the food industry in different markets. It also strengthened the operation's image as a healthy, safe and trendy food specialist.

The marine fishing and aquatic products processing operation has extended its value chain. Leveraging the Group's strong distribution network in China, the division has not only expanded its China's deep-sea aquatic product business but also successfully boosted the reputation of the “五豐 Ng Fung” brand in the aquatic products market.

Looking ahead, China remains a key market for the division's growth. The Group will continue to carry out and replicate its “Food Basket” strategy in core regional cities. It has dedicated itself to becoming a leading integrated quality food supplier with capabilities in research and development, processing, storage, logistics, wholesaling, retailing, and international trade. Besides enhancing operational efficiency, the Group will also seek to strengthen its business in China through acquisitions.

Beverage

The beverage division reported a turnover of HK\$567 million and an attributable profit of HK\$10 million for the first quarter of 2011, representing increases of 49.2% and 42.9% respectively over the corresponding period of 2010. With its flagship purified water brand “怡寶 C'estbon”, the division recorded total sales volume of approximately 522,000 kiloliters in the first quarter of 2011, representing an increase of 40% year-on-year.

During the quarter under review, the division rapidly expanded its market coverage in Jiangxi, Yunnan and Henan. In the more established markets such as Guangdong, Sichuan, Hunan and Jiangsu, the division achieved sustained growth in sales volume through the continued enhancement in distribution channel management.

To tackle rising raw material costs, the division made appropriate adjustments to its sales strategy in Sichuan and Guangdong to encourage distributors to stock up more products, which led to notable growth in sales volume. During the quarter under review, the division's mineral water business, “加林山 Jialinshan”, in Zhuhai modified and consolidated its distribution channel to optimize the profit distribution in its value chain. It also enhanced its service quality and operational efficiency, and thus improved its weak sales performance during the initial consolidation phase. Meanwhile, an upgraded version of the Group's fruit-flavored nutritional drink, “零帕 0 PA”, is expected to be launched in the middle of 2011.

There is huge growth potential in China's fast-developing beverage market, and it is beneficial for the division's sustainable growth. In January 2011, the Group and Kirin Holdings Company, Limited (“Kirin”) announced the formation of a joint venture 60%-owned by the Group. The two companies would each inject their respective existing non-alcoholic beverage operations in China into the joint venture. The joint venture will benefit from their complimentary strengths, including the Group's extensive distribution capabilities and strong presence in China, as well as Kirin's extensive product portfolio, operational and technical expertise, and excellent product development capabilities. The Group is confident that this joint venture will further facilitate the division to become a powerful contender in the non-alcoholic beverage market in China to the ultimate benefit of consumers.

FINANCIAL REVIEW

Pledge of Assets

As at 31 March 2011, assets with a carrying value of HK\$289 million (31 December 2010: HK\$234 million) were pledged for bank borrowings and notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 March 2011.

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 2011 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

Chief Executive Officer and Executive Director

Hong Kong, 19 May 2011

As at the date of this announcement, the Executive Directors of the Company are Mr. Qiao Shibo (Chairman), Mr. Chen Lang (Chief Executive Officer) and Mr. Lai Ni Hium, Frank (Chief Financial Officer). The Non-executive Directors are Mr. Yan Biao, Mr. Wei Bin, Mr. Du Wenmin, Mr. Shi Shanbo and Dr. Zhang Haipeng. 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.