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
2014 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 2014 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 2014.

FINANCIAL HIGHLIGHTS

Three months ended 31 March	**2014 (Unaudited)** ***HK$ million***	2013 (Unaudited) *HK$ million*
Turnover	**41,812**	36,153
Profit attributable to shareholders of the Company	**356**	512
Basic earnings per share[1]	**HK$0.15**	HK$0.21

	At 31 March 2014 (Unaudited) ***HK$ million***	At 31 December 2013 (Audited) *HK$ million*
Equity attributable to shareholders of the Company	**44,139**	44,073
Non-controlling interests	**15,463**	15,538
Total equity	**59,602**	59,611
Consolidated net borrowings	**1,932**	1,167
Gearing ratio[2]	**3.2%**	2.0%
Net assets per share (book value):	**HK$18.36**	HK$18.34

Notes:

1. Diluted earnings per share for the three months ended 31 March 2014 and 2013 are HK$0.15 and HK$0.21, respectively.
2. Gearing ratio represents the ratio of consolidated net borrowings to total equity.

ANALYSIS OF TURNOVER AND PROFIT

Three months ended 31 March	**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)**	
	2014	2013	**2014**	2013	**2014**	2013
	(Unaudited)	(Unaudited)	**(Unaudited)**	(Unaudited)	**(Unaudited)**	(Unaudited)
	HK$ million	*HK$ million*	***HK$ million***	*HK$ million*	***HK$ million***	*HK$ million*
Retail	**28,081**	25,923	**471**	525	**464**	525
Beer	**7,876**	6,548	**6**	(23)	**6**	(23)
Food	**3,942**	2,433	**(50)**	57	**(50)**	57
Beverage	**2,259**	1,453	**10**	8	**10**	8
	42,158	36,357	**437**	567	**430**	567
Elimination of inter-segment transactions	**(346)**	(204)	**-**	-	**-**	-
Net corporate interest and expenses	**-**	-	**(81)**	(55)	**(81)**	(55)
Total	**41,812**	36,153	**356**	512	**349**	512

Note:

1. 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:

   a. Net valuation surplus on investment properties of approximately HK$7 million has been excluded from the 2014 results of Retail division.

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 2013 except for the adoption of certain new and 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 2014.

The adoption of these new and revised standards, amendments and interpretations has had no material effects on the results and 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 and revised standards 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 standards and amendments will have no material impact on the Group's results of operations and financial positions.

MANAGEMENT DISCUSSION AND ANALYSIS

REVIEW OF OPERATIONS

The Group's unaudited consolidated turnover and the unaudited consolidated profit attributable to the Company's shareholders for the first quarter of 2014 amounted to approximately HK$41,812 million and HK$356 million, respectively, representing an increase of 15.7% and a decrease of 30.5% over the same period last year. Excluding asset revaluation, the Group's unaudited underlying consolidated profit attributable to the Company's shareholders for the first quarter of 2014 decreased by 31.8% .

Retail

The Group's retail division reported turnover and attributable profit of HK$28,081 million and HK$471 million for the first quarter of 2014, representing an increase of 8.3% and a decrease of 10.3% year-on-year, respectively.

The Group's retail division mainly consists of "華潤萬家 CR Vanguard" supermarkets, "中藝 Chinese Arts & Crafts" stores, "華潤堂 CRCare" stores, "采活 VIVO" health and beauty stores and "太平洋咖啡 Pacific Coffee" shops. As at the end of March 2014, the Group operated over 4,600 stores in China, of which approximately 83% were self-operated while the rest were franchised.

During the period under review, the China's retail market recorded slower growth due to continuous pressure from the slow-down in domestic macro-economic growth. The central government strictly enforced the frugality which affected the sales of certain high-value commodities; plus, with the rapid growth of e-commerce, some consumers engaged in online shopping during the Chinese New Year. As such, the Group's retail division recorded a decrease in same store sales of 0.4% year-on-year.

The increases in minimum wage levels and the normal salary increment have continued to drive increases in staff expenses, which in turn exerted pressure on the profitability of the retail division. As such, the Group implemented various initiatives to control operating costs in a comprehensive manner for cost absorption over time. These initiatives include improving the

Group's labor structure and hiring system, establishing an energy management system to optimize energy savings at its retail stores, as well as enhancing bargaining power over leases by leveraging synergies arising from its multi-format business.

To reinforce the national influence of the Group's retail business, as well as to further enhance its market share, the division continued to extend its network into new regions and to review its product mix and operational strategy. During the period under review, the Group debuted its hypermarkets in third-to-fourth tier cities such as Liaoyang in Liaoning Province and Gaozhou in Guangdong Province. "采活 VIVO" health and beauty stores and "太平洋咖啡 Pacific Coffee" shops sustained their scale of store openings in first-to-second tier cities. These initiatives have further elevated the influence of the Group's retail business.

Furthermore, in October 2013, the Group and Tesco PLC ("Tesco") signed an agreement to form a Joint Venture to consolidate their retail businesses in China. The agreement will be completed in due course. Pursuant to the agreement, Tesco will inject the 134 stores and 19 shopping malls it currently operates in mainland China into the Joint Venture. Tesco will inject these assets and allocate an aggregate cash sum of HK$4,325 million to subscribe for new shares of the Joint Venture so that the Group and Tesco will hold interests in the Joint Venture amounting to 80% and 20%, respectively. The Joint Venture will be the exclusive platform on which Group and Tesco will engage in the business of multi-category retailing through hypermarkets, supermarkets, convenience stores, the cash and carry business and liquor stores (as well as the online/internet equivalent of any of the foregoing businesses) in Greater China. The Joint Venture aims to become the leading multi-format retailer in Greater China, and targets faster growth and enhanced profitability. It is also a compelling combination of local expertise and international best practices. The Joint Venture is set to improve retail services for consumers in China while securing significant cost and operational synergies from the combination of the two operations.

Looking ahead, the retail division will continue to adopt hypermarkets as its main retail format and to expand its multi-format store network in regions where the Group has already established a presence. By enhancing resource allocation, operational balance and efficiency, the division aims to become the market leader in the retail industry. To further consolidate its leading position in major regional markets in China and capture a greater market share, the division will continue to speed up its expansion into third-to-fourth tier cities, as well as into counties, towns and villages. Meanwhile, the division will push forward the integration of its supply chain to pave the way for future development while implementing various lean management measures in a comprehensive manner so as to stimulate organic growth. The division will accelerate the construction of direct trading bases with farmers, and will step up its efforts to establish food safety model shops, environmental protection and energy saving model shops, fresh produce model shops, fresh produce self-operated pilot shops, fresh produce processing centers, etc. To improve store image and customer experience, the Group has matched the characteristics of different commercial districts with diversity of product mix so as to strengthen business diversification.

Beer

For the first quarter of 2014, the Group's beer division reported turnover of HK$7,876 million, representing an increase of 20.3% over the corresponding period of last year; the division reported attributable profit of HK$6 million for the first quarter of 2014, as compared to an attributable loss of HK$23 million in the same period of last year.

The Group's beer sales volume increased by 12% year-on-year to approximately 2,575,000 kiloliters for the first quarter of 2014, of which the sales volume of the Group's national "雪花

Snow” brand increased by 8% to approximately 2,271,000 kiloliters, accounting for approximately 90% of the Group’s total beer sales volume. During the first quarter, the growth momentum in beer sales volume was mainly attributable to the Group’s continuous efforts to enhance its production capacity and effective brand promotions, as well as the strengthening of its distribution network and the establishment of new points of sale. During the period under review, higher-than-usual temperatures nationwide accelerated the growth of overall capacity in the beer market, which along with rapid growth in the sales volume of premium beers, had in turn boosted the division’s sales volume.

During the period under review, in response to the intensifying market competition, the division ramped up investment in some of its promotions and marketing activities in a moderate manner. As such, the significant growth in sales boosted the division’s operating profit. At the same time, by leveraging its economies of scale and centralized procurement, the Group’s beer division further enhanced its production efficiency so as to relieve cost pressures. Meanwhile, the division continued to enhance its product mix in the hopes of lifting the average selling prices of its products and to consolidate overall profitability.

As at the end of March 2014, the Group operated more than 95 breweries in China with aggregate annual production capacity of over 19,000,000 kiloliters.

Looking ahead, the Group’s beer division will continue to carry out marketing campaigns for its “雪花 Snow” brand in order to strengthen the brand’s reputation and customer loyalty. The division will reinforce the promotion of its premium beers to optimize its product mix. At the same time, the division will continue to seek and evaluate investment opportunities in a prudent manner while pursuing organic growth in order to expand its market share and to consolidate its leading market position.

Food

The Group’s food division reported turnover of HK$3,942 million for the first quarter of 2014, representing an increase of 62.0%; the division reported an attributable loss of HK$50 million for the first quarter of 2014, as compared to an attributable profit of HK$57 million in the same period of last year. The division was under transition to foster rice distribution and other new businesses which incurred high marketing expenses, which in turn, has affected the overall profitability.

In respect of the division’s operation in Hong Kong, the live pigs market remained sluggish due to abundant supply in the market and persistent low selling prices of live pigs; also, costs of raw materials such as feeds remained at high levels, which in turn put pressure on the profitability of the livestock rearing operation. Facing the downturn in the live pigs market, the division will enhance the quality and sources of live pig procurement and strengthen its competitiveness and increase its profitability by way of improving quality management, the operations of its newly added Hong Kong breeding base in Southern China and Huaiyang boar breeding farm in Henan.

As for the meat operation, through the vigorous expansion of the division’s meat wholesale business and carved meat business and the increase in the number of specialized meat retail stores in various cities, the division achieved significant growth in turnover; in addition, domestic live pig prices in China declined, which in turn led to lower procurement costs and an improvement in overall profitability.

As for the division's assorted foodstuff operation, sales of condiments targeting ordinary restaurants and family consumption remained strong. Promotional activities were enhanced, which resulted in increased market share and consolidation of the leading position in the market.

The rice distribution business achieved rapid development through acquisitions, and the division endeavoured to consolidate the reputation of "五豐 Ng Fung" branded rice products nationwide by leveraging the sales platform and brand reputation of the Group's retail division. In addition, the domestic fresh produce business attracted different consumer groups with a rich offering of fresh produce and a diversified product mix, which in turn enhanced the competitiveness of the products and the stability of its distribution channels.

Looking ahead, the Group's food division will continue to focus on the China market and will enhance its operational efficiency to accommodate its development strategy through the continuous expansion of scale. Through the promotion and marketing of the "五豐 Ng Fung" brand, expansion into new markets and mergers and acquisitions, the Group will further enhance the division's profitability.

Beverage

The Group's beverage division reported turnover and attributable profit of HK$2,259 million and HK$10 million for the first quarter of 2014, representing increases of 55.5% and 25.0% year-on-year, respectively.

Thanks to the remarkable growth in the sales volume of "怡寶 C'estbon" purified water, the active promotion of beverage products, better refined sales districts as well as strengthening of market competiveness, the division's total sales volume increased by 44% year-on-year to approximately 1,402,000 kiloliters in the first quarter of 2014. During the period under review, the division further enhanced the market-leading position of its purified water business in Southern China, the purified water business deepened its market penetration and reinforced its competitive edge by focusing on its core markets in Guangdong, Hunan, and Sichuan provinces and expanding its sales network in their adjacent regions. At the same time, the purified water business propelled the expansion of the "怡寶 C'estbon" brand across the country through television and internet advertisements, as well as offline marketing and promotional activities such as sponsorship of the "World Water Day" event and the "Let's go home" microfilm, which contributed to sales growth for the division.

Faced with the market competition in the industry as well as the early investment stage of the beverage products, the division actively strengthened its marketing and promotional efforts for beverage products during the period under review and focused on certain key cities to boost synergistic investment in sales channels with that of the packaged water. It also engaged in a moderate degree of brand localization in order to broaden its customer base. This enhanced product recognition and awareness, which maintained continuous sales growth of the division's beverage products.

Looking ahead, faced with diversified marketing strategies in the beverage industry and the continuous innovation of beverage products, the competition in the market is intensifying. The division will further enhance its operational efficiency and reinforce its efforts in research and development and in promotional activities in order to meet customer demand. The division will also optimize its marketing strategy to enhance its brand image so as to increase its market share.

FINANCIAL REVIEW

Pledge of Assets

As at 31 March 2014, assets with a carrying value of HK$380 million (31 December 2013: HK$514 million) were pledged for bank borrowings and notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 March 2014.

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 2014 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
Chairman

Hong Kong, 26 May 2014

As at the date of this announcement, the Executive Directors of the Company are Mr. Chen Lang (Chairman), Mr. Hong Jie (Chief Executive Officer), Mr. Liu Hongji (Vice Chairman) and Mr. Lai Ni Hium, Frank (Chief Financial Officer). The Non-executive Directors are Mr. Du Wenmin, Mr. Wei Bin, Mr. Yan Biao, Mr. Huang Daoguo and Dr. Chen Ying. The Independent Non-executive Directors are Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.