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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 2015 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 2015 first quarter was not audited and was prepared in accordance with accounting principles generally accepted in Hong Kong.

The directors of the Company (the "Directors") are pleased to present the following unaudited financial and operational information for the first quarter ended 31 March 2015.

FINANCIAL HIGHLIGHTS

Three months ended 31 March	2015 (Unaudited) *HK$ million*	2014 (Unaudited) *HK$ million*
Turnover	**48,616**	41,812
Profit attributable to shareholders of the Company	**363**	356
Basic earnings per share[1]	**HK$0.15**	HK$0.15

	At 31 March 2015 (Unaudited) *HK$ million*	At 31 December 2014 (Audited) *HK$ million*
Equity attributable to shareholders of the Company	**48,965**	48,747
Non-controlling interests	**19,230**	20,876
Total equity	**68,195**	69,623
Consolidated net borrowings	**7,056**	8,063
Gearing ratio[2]	**10.3%**	11.6%
Net assets per share (book value):	**HK$20.23**	HK$20.14

Notes:

1. Diluted earnings per share for the three months ended 31 March 2015 and 2014 are HK$0.15 and HK$0.15, 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)***	
	2015 (Unaudited) ***HK$ million***	2014 (Unaudited) *HK$ million*	**2015 (Unaudited)** ***HK$ million***	2014 (Unaudited) *HK$ million*	**2015 (Unaudited)** ***HK$ million***	2014 (Unaudited) *HK$ million*
Retail	**34,060**	28,081	**338**	471	**335**	464
Beer	**8,509**	7,876	**51**	6	**51**	6
Food	**4,096**	3,942	**(38)**	(50)	**(38)**	(50)
Beverage	**2,400**	2,259	**66**	10	**66**	10
	49,065	42,158	**417**	437	**414**	430
Elimination of inter-segment transactions	**(449)**	(346)	**–**	–	**–**	–
Net corporate interest and expenses	**–**	–	**(54)**	(81)	**(54)**	(81)
Total	**48,616**	41,812	**363**	356	**360**	349

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:

    • Net valuation surplus on investment properties of approximately HK$3 million (2014: HK$7 million) has been excluded from the results of the 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 2014 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 2015. "Group" means the Company and its subsidiaries.

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 applied the new and revised standards and amendments that have been issued by the HKICPA but are not yet effective. The Directors anticipate that the application of these standards and amendments will have no material impact on the Group's results of operations and financial positions.

EVENT SUBSEQUENT TO PERIOD END

On 13 April 2015, the Company received a binding proposal from China Resources (Holdings) Company Limited ("CRH") enclosing a form of the sale and purchase agreement, pursuant to which CRH conditionally offers to purchase all the non-beer business segments of the Company (including but not limited to all the assets and rights relating to all the non-beer businesses held by the Company) for a total consideration of HK$28,000,000,000. Merrill Lynch (Asia Pacific) Limited and Morgan Stanley Asia Limited, on behalf of the CRH (Enterprise) Limited (the "Offeror", a wholly owned subsidiary of CRH) will make a pre-conditional voluntary cash partial offer to the shareholders of the Company (other than the Offeror and parties acting in concert with it) to acquire up to 242,136,536 Shares (representing approximately 10% of the issued share capital of the Company) at HK$12.70 per share and any subsequent revision or extension of such offer (the "Partial Offer"). The Partial Offer will be made subject to the completion of the Disposal, the implementation of the Capital Reduction, the payment of the Special Dividend (such terms shall have the meaning as defined below) and consent obtained from the Executive of the Securities and Futures Commission (the "Executive") in respect of the Partial Offer.

On 4 May 2015, the Company and CRH entered into the sale and purchase agreement (the "Sale and Purchase Agreement"), pursuant to which, subject to the conditions precedent set out therein, the Company agreed to sell and CRH agreed to purchase all of the non-beer businesses of the Company (including but not limited to all the assets and rights relating to all the non-beer businesses held by the Group) for a total consideration of HK$28,000,000,000 payable in cash as to HK$13,582,036,690 and the balance by way of a promissory note* (the "Disposal").

* *The promissory note for the principal amount of HK$14,417,963,310, with no callable feature is to be issued by CRH upon Completion (as defined below) as a part of the consideration for the Disposal, and will bear interest at the higher of (i) 0.94% per annum and (ii) the best three month bank deposit rate which the Company may obtain from banks which have existing business relationships with the Company under the prevailing market conditions about the time of Completion as notified in writing to CRH two business days before Completion for the period from the date of Completion to the date when the principal amount, together with the accrued interest, of the promissory note is to be fully paid to set off against the Special Dividend (as defined below).*

The assets under the Disposal (the "Disposal Assets") are as follows:

(i) the direct (or, where applicable, indirect) interest in the entire issued share capital of the following subsidiaries of the Company (the "Target Companies"):

(1) Ondereel Ltd, a company incorporated under the laws of BVI and a direct wholly-owned subsidiary of the Company, it is principally engaged in investment holding of retail focused subsidiaries;

(2) Best-Growth Resources Limited, a company incorporated under the laws of BVI and a direct wholly-owned subsidiary of the Company, it is principally engaged in investment holding of food focused subsidiaries;

(3) Havensbrook Investments Limited, a company incorporated under the laws of BVI and a direct wholly-owned subsidiary of the Company, it is principally engaged in investment holding of beverage focused subsidiaries;

(4) China Resources Enet Solutions Limited, a company incorporated under the laws of Cayman Islands and a direct wholly-owned subsidiary of the Company, it is principally engaged in investment holding;

(5) CRE Finance (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a direct wholly-owned subsidiary of the Company, it is principally engaged in the provision of financial services to group companies;

(6) CRE (Nominees) Limited, a company incorporated under the laws of Hong Kong and a direct wholly-owned subsidiary of the Company, it is principally engaged in the provision of nominee services; and

(7) CRE Trading (Hong Kong) Limited, a company incorporated under the laws of Hong Kong and a direct wholly-owned subsidiary of the Company, it is principally engaged in investment holding.

(ii) (1) all the rights under the non-beer contracts; (2) such assets and rights relating to the non-beer businesses held by the Company and Purple Finance Limited (which is a wholly-owned subsidiary of the Company) (for the avoidance of doubt and subject to (3) below excluding fixed assets, prepayments, other receivables (other than receivables of management income in connection with a housing estate and the Parking Lots[#]), utility deposits, club memberships, tax recoverable of the Company at the date of Completion); and (3) the Parking Lots (together with any utility deposits and prepayments less expenses in association therewith);

[#] *Parking Lots refer to certain parking spaces in CRE Centre in Lai Chi Kok, Kowloon and certain parking spaces in Riley House in Kwai Chung, New Territories held by the Company.*

(iii) the cash and cash equivalents held by the Company attributable to its non-beer businesses; and

(iv) the shareholders loans owed by the Target Companies and its subsidiaries (including any holding companies thereof) to the Company which are outstanding and not repaid as at Completion.

At completion of the Disposal (the "Completion"), CRH will assume all obligations and liabilities of the Company and its subsidiaries unrelated to the beer business (including but not limited to tax liabilities, tax related penalties and surcharges arising out of or in connection with the transactions contemplated under the Sale and Purchase Agreement). The Company will release all financial guarantees relating to the non-beer businesses on or prior to Completion. All costs and expenses directly incurred by the Company in connection with, amongst others, the implementation of the Sale and Purchase Agreement will be fully reimbursed by CRH.

The Company is required under the Sale and Purchase Agreement to use its commercially reasonable endeavours to implement the capital reduction as soon as practicable after signing of the Sale and Purchase Agreement so that the capital of the Company will be reduced by a minimum of HK$10 billion, which will be credited to the distributable reserves of the Company (the "Capital Reduction"). If the Capital Reduction cannot be effected by the Completion, the Company undertakes to complete the Capital Reduction as soon as practicable after Completion. The Company is also required under the Sale and Purchase Agreement to, following the implementation of the Capital Reduction, convene a meeting of the Board to consider the approval of the declaration and payment of a special dividend of HK$11.50 per Share ("Special Dividend") (or an aggregate amount of approximately HK$27,846 million assuming no further changes to the share capital of the Company from the date of this announcement to the date when the Special Dividend is paid), subject to Directors' fiduciary duties.

On 15 June 2015 (after trading hours), the Company received from CRH a revised binding proposal (together with a draft of the supplemental agreement (the "Supplemental Agreement") to the Sale and Purchase Agreement) (the "Revised Binding Proposal"). The Board has approved such revised binding proposal and the Company has entered into the Supplemental Agreement. For details of the Revised Binding Proposal and the Supplemental Agreement, please refer to the announcement to be jointly published by the Company and CRH as soon as practicable.

FINANCIAL INFORMATION OF THE DISPOSAL ASSETS

The unaudited financial information of the Disposal Assets for the three months ended 31 March 2015 and 31 March 2014 are set out below:

	For the three months ended 31 March	
	2015	2014
	HK$ million	*HK$ million*
Turnover	**40,155**	33,971
Net profit before taxation	**809**	783
Net profit after taxation	**452**	439
Profit attributable to shareholders of the Company	**319**	355

The unaudited financial information of the Disposal Assets as at 31 March 2015 and 31 December 2014 are set out below:

	31 March 2015	31 December 2014
	HK$ million	*HK$ million*
Total assets		
Investment properties *(Note)*	**21,088**	21,105
Goodwill	**12,372**	12,410
Cash and bank balances	**14,991**	14,582
Other assets	**75,096**	75,718
	123,547	123,815
Total liabilities		
Short term loans and long term loans	**18,275**	20,043
Other liabilities	**60,480**	61,106
	78,755	81,149
Net tangible assets	**32,192**	30,022
Non-controlling interests	**7,610**	7,439
Net assets attributable to shareholders of the Company	**37,182**	35,227

Note:

	Carrying value as at 31 March 2015	**Carrying Value attributable to the Group (excluding non-controlling interests) as at 31 March 2015(*)**	Carrying value as at 31 December 2014	Carrying Value attributable to the Group (excluding non-controlling interests) as at 31 December 2014(*)
	HK$ million	***HK$ million***	*HK$ million*	*HK$ million*
Investment properties located in Hong Kong	**14,097**	**13,978**	14,097	13,978
Investment properties located in Mainland China	**6,991**	**5,577**	7,008	5,591
Grand total	**21,088**	**19,555**	21,105	19,569

* The carrying values attributable to the Group were calculated from the carrying values of the properties multiplied by the Company's effective shareholding in the holding entity of such properties

In view of the above-mentioned Sale and Purchase Agreement which would potentially result in a loss on disposal at Completion and the further deterioration of performance in the Group's retail segment as explained in the Management Discussion and Analysis section below, the Group would critically assess the valuation of the Group's assets (including goodwill) in the near term and foresee that significant provision for the loss on disposal/impairment of the Disposal Assets may be potentially required.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Operations

For the first quarter ended 31 March 2015, the Group's unaudited consolidated turnover and consolidated profit attributable to the Company's shareholders amounted to approximately HK$48,616 million and HK$363 million, respectively, representing increases of 16.3% and 2.0% over the same period last year. Excluding asset revaluation, the Group's underlying consolidated profit attributable to the Company's shareholders for the first quarter ended 31 March 2015 increased by 3.2%.

Beer

The Group's beer division reported turnover and attributable profit to shareholders of HK$8,509 million and HK$51 million in the first quarter of 2015, representing increases of 8.0% and 750.0% year-on-year, respectively. As compared to last year, the EBITDA in the first quarter of 2015 improved by 28.7% to HK$865 million.

In the first quarter of 2015, the division's beer sales volume increased by 3% to 26,490,000 hectoliters, of which the operation's national "雪花 Snow" brand accounted for approximately 90% of the operation's total beer sales volume. During the period ended 31 March 2015, although a decline in overall beer market capacity was recorded as a result of the slowdown in the domestic macro-economy, the sales volumes of the operation for the first quarter of 2015 maintained growth momentum because of the enhanced production capacity, the investments in marketing promotions, as well as the expansion and improvement of sales and distribution channels and the establishment of new points of sale. In addition, the rapid increase in the sales of premium beer has also boosted growth in the division's overall sales volume. The sales volume of mid-end and high-end products increased by approximately 30% and the overall average selling price in the first quarter of 2015 increased by 5.6% as compared to the same period last year.

During the review period, driven by an increase in sales, the division also recorded an increase in operating profit, which is partially attributable to more promotions and marketing activities being organized. The business also leveraged its centralized procurement and economies of scale to enhance its production efficiency to counteract cost pressures.

As at the end of March in 2015, the business operated more than 95 breweries in China across 25 provinces, with an aggregate annual production capacity of over 200,000,000 hectoliters.

Moving forward, the Group's beer division will continue the marketing campaigns for the "雪花 Snow" brand to strengthen the brand's reputation and customer loyalty. To optimize its product mix, the division will step up the promotion of its premium beers. The division will also 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.

Retail

The Group's retail division reported turnover and attributable profit to shareholders of HK$34,060 million and HK$338 million in the first quarter of 2015, representing an increase of 21.3% year-on-year and a decrease of 28.2% year-on-year, respectively. Excluding after-tax revaluation surplus and the disposal of non-core assets, the division's attributable profit to Shareholders for the first quarter of 2015 decreased by 27.8%. The Group's joint venture (the "Joint Venture") with Tesco PLC ("Tesco") was established on 28 May 2014. The turnover and attributable loss to Shareholders by the Tesco's China operation in the first quarter of 2015 was HK$5,219 million and HK$79 million, 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 2015, the Group operated over 4,800 stores in China, of which approximately 85% were self-operated while the rest were franchised.

During the review period, China's retail market recorded slower growth due to extended pressure from the slowdown in domestic macro-economic growth. The central government enforced frugality strictly, which affected sales of high-end products, gifts and stored-value cards. The sustained growth of e-commerce sales has also continued to draw customers away from physical stores during the Chinese New Year period. Furthermore, the rising number of outbound tourists resulted in an overall slower growth in domestic consumption compared to last year. As such, the Group's retail division recorded a decrease in same store sales of 3.3% year-on-year.

During the review period, rising salaries and rental costs have continued to drive increases in operational expenses. As such, the Group's retail business controls operating costs in a prudent manner and continues the downsizing of its less efficient stores.

Looking ahead, in view of the accelerated development of the e-commerce market which has negatively impacted traditional retailers more than expected, the anticipated entry of new and significant industry players into the China market, the continuation of China's anti-extravagance policy on China's retail market and the shift in the macro-economy, China's traditional retail businesses are expected to undergo profound change and consolidations. The growth of China's traditional retail businesses is expected to continue slowing down and at a faster pace. The short to mid-term performance of the Group's retail segment will be affected, and is looking at further adjustments ahead. The Joint Venture with Tesco is currently in the running-in period, where more time is needed to improve the Joint Venture's operational efficiency in terms of organizational structure, brand, supply chain and performance.

Food

The Group's food division reported turnover of HK$4,096 million in the first quarter of 2015, which represents an increase of 3.9% over the same period last year. Attributable loss to shareholders was HK$38 million for the first quarter of 2015, which represents a decrease of 24.0% over the same period last year. The overall performance of food division is still affected by its business transition.

The rice business achieved rapid expansion through mergers and acquisitions. By acquiring three rice processing plants during the period under review, the business began to establish a national presence. However, the high initial investment and marketing expenses for nationwide expansion of the rice business continued to affect the profitability of the division.

As for the division's operations in Hong Kong, due to oversupply in the live pigs market in the first quarter of 2015, the selling price of live pigs remained at a low level and has since shown no signs of rebounding. These factors exerted pressure on the rearing operation, even though the cost of major raw materials such as feeds remained stable. It is expected that the sluggish live pigs market will carry on for a period of time, which will continue to put pressure on the profitability of the operations in Hong Kong.

The Group's meat operation continued to be engaged in the sale and purchase of live pigs, recording a year-on-year increase in meat sales. The division also enhanced the management of its specialized meat retail stores in cities to improve the gross profit margin in points of sale for its business.

Looking ahead, the Group's food business will seek opportunities to partner with industry leaders, but this is expected to take some time. The division will also continue to focus on the domestic market, improve the operational efficiency of its current businesses and actively engage in its progressive development strategy.

Beverage

The Group's beverage division reported turnover and attributable profit to shareholders of HK$2,400 million and HK$66 million in the first quarter of 2015, representing increases of 6.2% and 560.0% year-on-year, respectively.

The division's total sales volume increased by 9.3% year-on-year to approximately 15,320,000 hectoliters in the first quarter of 2015, which was mainly attributable to the remarkable growth in the sales volume of "怡寶 C'estbon" purified water and further refinement of its sales districts, which strengthened the division's market competitiveness. During the review period, the division further strengthened its leading position in southern China. By focusing on its core markets in Guangdong, Hunan and Sichuan provinces and expanding its sales network in adjacent regions, the division was able to reinforce its competitive edge. Meanwhile, advertisements in movies, on television and the internet, as well as offline promotional campaigns such as sponsorship of "World Water Day" and "China Water Week", and the development of Chinese New Year promotional activities for all categories supported the national expansion of the "怡寶 C'estbon" brand and contributed to the continuous sales growth of the purified water business.

In view of the growing market competition in the industry, the division strengthened its marketing and promotional efforts in a moderate manner during the review period. By refining the packaging design and the ingredients of certain products, the division focused on key cities and certain products to enhance its recognition and awareness.

Over 90% of the division's sales volume and turnover were contributed by "怡寶 C'estbon" purified water. Looking ahead, the division will ramp up its investment on promotional activities as well as research and development. The division will also optimize its marketing strategy to enhance its brand image so as to boost its market share.

FINANCIAL REVIEW

Pledge of Assets

As at 31 March 2015, assets with a carrying value of HK$3,961 million were pledged for bank borrowings and notes payable.

Contingent Liabilities

The Group did not have any material contingent liabilities as at 31 March 2015.

RULE 10 OF THE CODE ON TAKEOVERS AND MERGERS (THE "CODE")

Pursuant to Rule 10 of the Code, (i) the unaudited profit attributable to shareholders of the Company for the three months ended 31 March 2015 in the section "Financial Highlights", and (ii) the net profit before taxation, the net profit after taxation and the profit attributable to shareholders of the Company for the three months ended 31 March 2015 in the section "Financial Information of the Disposal Assets" (the "Profit Estimates") constitute a profit forecast and should be reported on by the Company's financial advisers and reporting accountants (the "Profit Forecast Reports") under Rule 10.4 of the Code.

PricewaterhouseCoopers, the Company's reporting accountant, has reported, as required by Rule 10 of the Code, that, so far as the accounting policies and calculations are concerned, the Profit Estimates has been properly compiled on a basis consistent, in all material respects, with the accounting policies adopted by the Group, as set out in the audited annual consolidated financial statements of the Group for the year ended 31 December 2014. PricewaterhouseCoopers have conducted their work in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the HKICPA. The Profit Estimates have been prepared based on the unaudited consolidated management accounts of the Group and the unaudited management accounts of the Disposal Assets for the three months ended 31 March 2015 respectively. UBS AG, the financial adviser to the Company, has discussed with the Directors the bases of preparation of the Profit Estimates and is satisfied that the Profit Estimates, for which the Directors are solely responsible, have been made by the Directors with due care and consideration. The Profit Forecast Reports have been lodged with the Executive.

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 2015 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, 17 June 2015

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. Chen Ying and Mr. Wang Yan. The Independent Non-executive Directors are Mr. Houang Tai Ninh, Dr. Li Ka Cheung, Eric, Dr. Cheng Mo Chi, Moses, Mr. Bernard Charnwut Chan and Mr. Siu Kwing Chue, Gordon.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this announcement and confirm, having made all reasonable inquiries, that to the best of their knowledge, opinions expressed in this announcement have been arrived at after due and careful consideration and there are no other facts not contained in this announcement the omission of which would make any statement in this announcement misleading.