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If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If you have sold or transferred all your shares in China Resources Enterprise, Limited, you should at once hand this circular and the accompanying form of proxy to the purchaser or the transferee, or to the bank, stockbroker or other agent through whom the sale or the transfer was effected for transmission to the purchaser or the transferee.

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This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for the shares in the Company.



華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

CONNECTED AND DISCLOSEABLE TRANSACTION ACQUISITION OF INTERESTS IN THE CHINA RESOURCES VANGUARD BUSINESS AND SUGUO

Independent financial adviser to
Independent Board Committee and the Independent Shareholders of
China Resources Enterprise, Limited



PLATINUM
Securities

A letter from the Independent Board Committee containing its recommendations in respect of the Acquisition is set out on page 20 of this circular.

A letter from Platinum Securities Company Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its recommendations in respect of the Acquisition to the Independent Board Committee and the Independent Shareholders, is set out on pages 21 to 38 of this circular.

A notice convening an extraordinary general meeting of the Company to be held at 2:00 p.m. on 10th January, 2005 at 39th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong, is set out on pages 55 to 56 of this circular. A form of proxy for use at the extraordinary general meeting is enclosed. Whether or not you are able to attend and vote at the extraordinary general meeting, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's registrars, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the extraordinary general meeting or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting in person at the extraordinary general meeting or any adjourned meeting should you so wish.

24th December, 2004

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DEFINITIONS

In this circular, the following expressions shall have the following meanings unless the context indicates otherwise:

“Acquisition”	The acquisition of the 100% equity interest in each of Aiming Investments, Wealth Choice Investments, and Surefaith Investments as provided under the Acquisition Agreement
“Acquisition Agreement”	An acquisition agreement dated 3rd December, 2004 in relation to the Acquisition
“Aiming Investments”	Aiming Investments Limited, a company incorporated in the British Virgin Islands, and a wholly owned subsidiary of China Resources Holdings
“Approval Authority”	All relevant government authorities in the PRC, including 中華人民共和國商務部 (Ministry of Commerce of the People’s Republic of China) or its authorised delegate(s), whose approvals are required to approve the PRC Agreements
“Associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Board”	the board of directors of the Company
“BVI Companies”	Aiming Investments, Wealth Choice Investments and Surefaith Investments
“Capital Increase”	the increase in the registered capital of China Resources Wan Jia of RMB180,000,000 (equivalent to approximately HK\$169.2 million) effected in November 2004, which have been fully paid up by all shareholders of China Resources Wan Jia in proportion to their respective shareholding interests; and conversion of interest free shareholders’ loans of RMB280,000,000 (equivalent to approximately HK\$263.2 million) in China Resources Vanguard into registered capital of China Resources Vanguard effected in November 2004, thereby resulting in fully paid up capital of HK\$226,200,000 in China Resources Wan Jia and fully paid up capital of RMB712,500,000 (equivalent to approximately HK\$670.0 million) in China Resources Vanguard
“China Resources Company”	華潤股份有限公司 (China Resources Co., Limited), a joint stock limited company incorporated in the PRC, the controlling shareholder of China Resources Holdings, and the investment holding company of the China Resources Company Group
“China Resources Company Group”	China Resources Company and its subsidiaries, other than the Group

DEFINITIONS

“China Resources Holdings”	China Resources (Holdings) Company Limited, the controlling shareholder of the Company interested in about 55.0% of the Company’s issued share capital as at the Latest Practicable Date, a company incorporated in Hong Kong with limited liability, and the investment holding company of the China Resources Holdings Group
“China Resources Holdings Group”	China Resources Holdings and its subsidiaries
“China Resources Vanguard”	華潤萬家有限公司 (China Resources Vanguard Co., Ltd.), a company incorporated in the PRC and a 65% owned subsidiary of the Group with the remaining 35% owned by China Resources Company
“China Resources Vanguard Business”	China Resources Vanguard Group and China Resources Wan Jia Group
“China Resources Vanguard Group”	China Resources Vanguard and its subsidiaries
“China Resources Wan Jia”	深圳華潤萬佳超級市場有限公司 (Shenzhen China Resources Wan Jia Supermarket Co., Ltd.), a company incorporated in the PRC and a 65% owned subsidiary of the Group with the remaining 35% owned by China Resources Company
“China Resources Wan Jia Group”	China Resources Wan Jia and its subsidiary
“Circular”	Circular of the Company dated 24th December, 2004
“Company”	China Resources Enterprise, Limited, a company incorporated in Hong Kong and listed on the Stock Exchange
“Completion”	completion of the Acquisition, which shall take place within ten business days following fulfilment of all of the Conditions
“Conditions”	The conditions precedent for the completion of the Acquisition Agreement
“Consideration Shares”	The 57,971,905 new Shares to be issued to China Resources Holdings in relation to the Acquisition
“Directors”	The directors of the Company
“EGM”	an extraordinary general meeting of the Company to be held at 2:00 p.m. on Monday, 10th January, 2005 at 39th floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong and any adjournment thereof
“Group”	The Company and its subsidiaries

DEFINITIONS

“HK GAAP Adjustments”	Under the PRC GAAP but after taking into account adjustments in accordance with accounting principles generally acceptable in Hong Kong as at the Latest Practicable Date
“Hong Kong” of “HK”	The Hong Kong Special Administrative Region of the PRC
“Independent Board Committee”	an independent committee of the Board, comprising the independent non-executive directors of the Company, namely Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh and Dr. Li Ka Cheung, Eric
“Independent Shareholders”	the shareholders of the Company, other than China Resources Holdings and its Associates
“Jiangsu Foodstuffs”	江蘇省果品食雜總公司 (Jiangsu Foodstuffs Co., Ltd.), a collectively-owned enterprise established in the PRC, which holds 15% of the registered capital of Suguo
“Latest Practicable Date”	17th December, 2004, being the latest practicable date for ascertaining certain information for inclusion in the Circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Platinum”	Platinum Securities Company Limited, a licensed corporation under the SFO and the independent financial adviser to the Independent Board Committee and the Independent Shareholders
“PRC”	People’s Republic of China
“PRC Agreements”	The conditional acquisition agreements entered into on 3rd December, 2004 by the BVI Companies with the relevant member of the China Resources Company Group in relation to the Targeted Interests
“PRC GAAP”	“Accounting Standards for Enterprises” and “Accounting Systems for Enterprise” of the PRC
“SFO”	The Securities and Futures Ordinance, Chapter 571 of the Laws of Hong Kong
“Share(s)”	Share(s) of HK\$1.00 each in the capital of the Company
“Shareholder(s)”	Holder(s) of the Shares
“Share Option(s)”	A right to subscribe for Share(s) pursuant to (i) a share option scheme of the Company previously adopted by the Company which was terminated on 31st January, 2002; and/or (ii) an existing share option scheme adopted by the Company on 31st January, 2002 and subsequently amended by way of ordinary resolution passed by shareholders of the Company on 20th August, 2004
“Stock Exchange”	The Stock Exchange of Hong Kong Limited

DEFINITIONS

“Suguo”	蘇果超市有限公司 (Suguo Supermarket Co., Ltd.), a company incorporated in People’s Republic of China and a 73.5% subsidiary of the Group, whilst another 11.5% is owned by the China Resources Company Group and the remaining 15% is owned by Jiangsu Foodstuffs
“Suguo Group”	Suguo and its subsidiaries
“Surefaith Investments”	Surefaith Investments Limited, a company incorporated in the British Virgin Islands, and a wholly owned subsidiary of China Resources Holdings
“Targeted Interests”	With respect to the China Resources Vanguard Business, the 35% equity interest currently owned by China Resources Company, together with a related shareholders’ loan of RMB35,000,000 (equivalent to approximately HK\$32.9 million), and with respect to Suguo, the 11.5% equity interest currently owned by the China Resources Company Group
“Wealth Choice Investments”	Wealth Choice Investments Limited, a company incorporated in the British Virgin Islands, and a wholly owned subsidiary of China Resources Holdings
“HK\$”	Hong Kong dollar(s), the lawful currency of Hong Kong
“RMB”	Renminbi, the lawful currency of the PRC

For the purposes of illustration only and unless otherwise stated, amounts denominated in Renminbi have been translated into Hong Kong dollars at the following exchange rate:

$$HK\$1.00 = RMB1.0638$$

Such translations should not be construed as a representation that the amounts in question have been, could have been or could be converted at any particular rate or at all.



華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

Executive directors

Ning Gaoning (*Chairman*)

Song Lin (*Deputy Chairman and Managing Director*)

Chen Shulin (*Deputy Managing Director*)

Qiao Shibo (*Deputy Managing Director*)

Yan Biao (*Deputy Managing Director*)

Keung Chi Wang, Ralph (*Deputy Managing Director*)

Lau Pak Shing

Wang Qun

Zhong Yi

Kwong Man Him

Registered office and Head Office:

39th Floor

China Resources Building

26 Harbour Road

Wanchai

Hong Kong

Non-executive directors

Jiang Wei

Xie Shengxi

Independent non-executive directors

Chan Po Fun, Peter

Houang Tai Ninh

Li Ka Cheung, Eric

24th December, 2004

To the Shareholders

Dear Sir or Madam,

INTRODUCTION

On 3rd December, 2004, the Board announced that the Company has, on the same date, entered into a conditional agreement for the acquisition from China Resources Holdings of its 100% equity interest in the BVI Companies for a total consideration of HK\$660,300,000 which will be satisfied by the issue of 57,971,905 new Shares to China Resources Holdings. The BVI Companies have entered into separate conditional acquisition agreements on 3rd December, 2004 with the relevant member of the China Resources Company Group, whereby they will, on completion of such agreements, become the legal and beneficial owners of: (i) the 35% equity interest in the China Resources Vanguard Business, (ii) a related shareholders' loan of RMB35,000,000 (equivalent to approximately HK\$32.9 million); and (iii) the 11.5% equity interest in Suguo. Following the Acquisition, the China Resources Vanguard Business will be wholly owned by the Group and Suguo will be 85% owned by the Group with the remaining 15% being owned by Jiangsu Foodstuffs, an independent third party (save otherwise being a substantial shareholder of Suguo by virtue of its 15% interest in Suguo).

LETTER FROM THE BOARD

THE ACQUISITION AGREEMENT

Vendor:	China Resources Holdings
Purchaser:	The Company
Warrantor:	China Resources Company
Asset to be acquired:	100% equity interest in each of the BVI Companies and, indirectly, the Targeted Interests
Consideration:	HK\$660,300,000

The consideration has been arrived at after arm's length negotiations between the vendor and the purchaser who have also taken into account, among others, trading multiples of comparable companies and transactions in the retail chain industry in Hong Kong and China, and the business prospects of the China Resources Vanguard Business and the Suguo Group. The consideration also represents the aggregate investment costs of the interests of China Resources Company Group in the China Resources Vanguard Business and Suguo of approximately RMB702.0 million (equivalent to approximately HK\$660.0 million) to be acquired by the Group indirectly through the Acquisition Agreement.

With reference to the unaudited combined net asset of the China Resources Vanguard Business, prepared under the PRC GAAP, as at 30th September, 2004 of approximately RMB407.9 million (equivalent to approximately HK\$383.4 million) and including the Capital Increase and the remaining interest free shareholders' loans of China Resources Vanguard of RMB100,000,000 (equivalent to approximately HK\$94.0 million), the adjusted unaudited combined net asset was approximately RMB967.9 million (equivalent to approximately HK\$910.0 million). The unaudited consolidated net asset of Suguo as at 30th September, 2004 was approximately RMB445.9 million (equivalent to approximately HK\$419.1 million). Based on the aggregate combined adjusted net asset of the China Resources Vanguard Business and the Suguo Group as at 30th September, 2004 as attributable to the Targeted Interests of approximately RMB387.4 million (equivalent to approximately HK\$364.2 million), the consideration represents a premium of approximately HK\$296.1 million, representing a premium of approximately 81.3%.

With reference to the unaudited combined net asset of the China Resources Vanguard Business as at 30th September, 2004, prepared under the HK GAAP Adjustments, and including the Capital Increase and the remaining interest free shareholders' loans of China Resources Vanguard of RMB100,000,000 (equivalent to approximately HK\$94.0 million), the adjusted unaudited combined net asset was approximately HK\$975.7 million. The unaudited consolidated net asset of Suguo as at 30th September, 2004, prepared under the HK GAAP Adjustments, was approximately HK\$408.9 million. Based on the aggregate combined adjusted net asset of the China Resources Vanguard Business and the Suguo Group as at 30th September, 2004 as attributable to the Targeted Interests of approximately HK\$388.5 million, the consideration represents a premium of approximately HK\$271.8 million, representing a premium of approximately 70.0%.

LETTER FROM THE BOARD

With reference to the unaudited combined turnover of the China Resources Vanguard Business and the audited consolidated turnover of Suguo, prepared under the PRC GAAP, for the year ended 31st December, 2003 of approximately RMB3,835.0 million (equivalent to approximately HK\$3,604.9 million) and approximately RMB3,258.3 million (equivalent to approximately HK\$3,062.8 million) respectively, the aggregate combined turnover of the China Resources Vanguard Business and the Suguo Group for the year ended 31st December, 2003 as attributable to the Targeted Interests of approximately RMB1,716.9 million (equivalent to approximately HK\$1,613.9 million), the consideration represents a price/turnover multiple of approximately 0.41.

Based on the business prospects of China Resources Vanguard Business, the trading multiples of comparable companies in the retail chain industry in Hong Kong and the PRC, operational and financial synergies following further integration and co-operation of the supermarket business of the Group after the Acquisition, the Directors consider that the Acquisition Agreement was entered into in ordinary and usual course of business of the Company and on normal commercial terms, the terms of the Acquisition are fair and reasonable and the Acquisition is in the interest of the shareholders of the Company as a whole.

Payment arrangements: The consideration for the Acquisition shall be satisfied by the allotment and issue of the Consideration Shares.

Under the Acquisition Agreement, the Consideration Shares shall be allotted at an issue price of HK\$11.39 per Share, being the average closing price of the Shares as at the date of the Acquisition Agreement and the four trading days immediately preceding the date of the Acquisition Agreement. The issue price of the Consideration Shares represents a premium of 0.6% to the average closing price of the Shares as quoted on the Stock Exchange for the five trading days prior to the date of the Acquisition Agreement. The issue price of the Consideration Shares represents a discount of approximately 1.0% to the closing price of the Shares as at the Latest Practicable Date. The Consideration Shares represent, respectively, approximately 2.7% of the issued share capital of the Company as at Latest Practicable Date and of the enlarged issued share capital of the Company immediately following the issue of the Consideration Shares.

Based on the closing price of the Shares on the Stock Exchange as at the Latest Practicable Date of HK\$11.5, the Consideration Shares would have a total market value of approximately HK\$666.7 million.

With reference to the unaudited net assets per Share of the Company as at 30th September, 2004 of approximately HK\$6.73, the issue price of the Consideration Shares of HK\$11.39 represents a premium of approximately 69.2%.

LETTER FROM THE BOARD

The Consideration Shares will, upon issue, rank *pari passu* in all respects with all the existing Shares then in issue. With reference to the issued share capital of the Company as at the Latest Practicable Date, the attributable interest of China Resources Holdings and its Associates in the Company will, upon the issue of the Consideration Shares, increase from approximately 55.0% to approximately 56.2%.

An application will be made to the Stock Exchange for the listing of and permission to deal in the Consideration Shares.

Conditions: Completion of the Acquisition Agreement is conditional upon the following:

- (1) passing of a resolution by the Independent Shareholders at an extraordinary general meeting of the Company approving the Acquisition Agreement;
- (2) the PRC Agreements having been approved by the Approval Authority and duly completed and the BVI Companies having performed all its obligations under the PRC Agreements; and
- (3) the Stock Exchange granting, or agreeing to grant, the listing of, and permission to deal in, the Consideration Shares.

Long-stop date: The Acquisition Agreement provides that should the satisfaction of all Conditions not occur on or before 30th June, 2005, the Acquisition Agreement shall terminate.

INFORMATION ON THE CHINA RESOURCES VANGUARD BUSINESS

China Resources Vanguard Business is comprised of China Resources Vanguard Group and China Resources Wan Jia Group which are under the same management of China Resources Vanguard as the Group currently has 65% equity interest in each of China Resources Vanguard and China Resources Wan Jia. China Resources Vanguard Business is principally engaged in the operation of retail stores in the Guangdong province.

Based on the 2003 Ranking of 30 Largest PRC Retail Chain Enterprises (2003年最大30家連鎖企業) compiled by the Ministry of Commerce of the PRC and other industry information, the Directors believe that the China Resources Vanguard Business is currently the largest supermarket chain operator in the Guangdong province, China. China Resources Vanguard Business has established a chain of 18 hypermarket stores, 22 superstores and 72 standard supermarket stores in, but not limited to, Shenzhen, Zhongshan, Zhuhai and Guangzhou, etc. as at 30th September, 2004.

The Group was originally interested in China Resources Wan Jia Group as to 50% with the remaining 50% interest being held by an independent third party who is not a connected person (as defined in the Listing Rules) of the Company and is independent of and not connected with the Company and/or its connected persons (as defined in the Listing Rules), such 50% interest was subsequently increased to 65% in July, 2002 through acquisition, at the same time as the China Resources Company Group acquired the remaining 35%, from the same independent third party. The Company first acquired its 65% interest in China Resources Vanguard in July 2002 from the China Resources Company Group.

LETTER FROM THE BOARD

The unaudited combined turnover, net profits/(loss) before taxation and extraordinary items and net profits/(loss) attributable to shareholders of the China Resources Vanguard Business in respect of the two financial years ended 31st December, 2003 (based on audited accounts of the individual companies) and the unaudited combined turnover, net profits before taxation and extraordinary items and net profits/(loss) attributable to shareholders of the China Resources Vanguard Business in respect of the nine months ended 30th September, 2003 and 30th September, 2004 are as follows. Such unaudited results of China Resources Vanguard Business have been prepared under the PRC GAAP:

Financial results of the China Resources Vanguard Business under the PRC GAAP

	From 1st January, 2003 to 31st December, 2003		From 1st January, 2002 to 31st December, 2002		From 1st January, 2004 to 30th September, 2004		From 1st January, 2003 to 30th September, 2003	
	Unaudited RMB million	Unaudited HK\$ million (equivalent)	Unaudited RMB million	Unaudited HK\$ million (equivalent)	Unaudited RMB million	Unaudited HK\$ million (equivalent)	Unaudited RMB million	Unaudited HK\$ million (equivalent)
Turnover	<u>3,835.0</u>	<u>3,604.9</u>	<u>3,064.5</u>	<u>2,880.6</u>	<u>3,018.1</u>	<u>2,837.0</u>	<u>2,863.3</u>	<u>2,619.5</u>
Consolidated net profit/(loss) before taxation and extraordinary items	<u>(257.0)</u>	<u>(241.6)</u>	<u>28.1</u>	<u>26.4</u>	<u>(107.6)</u>	<u>(101.1)</u>	<u>(201.4)</u>	<u>(189.3)</u>
Profit/(loss) attributable to shareholders	<u>(256.5)</u>	<u>(241.1)</u>	<u>20.6</u>	<u>19.4</u>	<u>(106.5)</u>	<u>(100.1)</u>	<u>(201.1)</u>	<u>(189.0)</u>

Note: The above unaudited financial results of the China Resources Vanguard Business have been prepared under the PRC GAAP.

As the results of the China Resources Vanguard Business have been consolidated into the accounts of the Group after adjustments in accordance with accounting principles generally accepted in Hong Kong, the results of the China Resources Vanguard Business for the year ended 31st December, 2003 and for the nine months ended 30th September, 2003 and 30th September, 2004 prepared under the HK GAAP Adjustments are as follows:

Financial results of the China Resources Vanguard Business under the HK GAAP Adjustments

	From 1st January, 2003 to 31st December, 2003 Unaudited HK\$ million	From 1st January, 2004 to 30th September, 2004 Unaudited HK\$ million	From 1st January, 2003 to 30th September, 2003 Unaudited HK\$ million
Turnover	<u>3,625.2</u>	<u>2,859.1</u>	<u>2,705.5</u>
Consolidated net profit/ (loss) before taxation and extraordinary items	<u>(209.0)</u>	<u>(83.8)</u>	<u>(177.8)</u>
Profit/(loss) attributable to shareholders	<u>(156.5)</u>	<u>(61.5)</u>	<u>(132.1)</u>

Note: The above financial results of the China Resources Vanguard Business have been prepared under the HK GAAP Adjustments.

LETTER FROM THE BOARD

The following table sets out the adjustments made under the HK GAAP Adjustments:

Adjustments of financial results of the China Resources Vanguard Business under the HK GAAP Adjustments

		From 1st January, 2003 to 31st December, 2003 Unaudited HK\$'M	From 1st January, 2004 to 30th September, 2004 Unaudited HK\$'M	From 1st January, 2003 to 30th September, 2003 Unaudited HK\$'M
	<i>Note</i>			
Profit/(loss) attributable to shareholders prepared under the PRC GAAP		(241.1)	(100.1)	(189.0)
Adjustments:				
Recognition of rent-free incentives	(1)	(12.6)	14.3	(15.1)
Adjustments for under accruals and provisions	(2)			
— Under accrual of wages and salary expenses for the year of 2002		7.0	—	7.0
— Under accrual of stock provision prior to the year 2003		20.3	—	12.2
— Under accrual of trade payables prior to the year 2003		17.9	—	7.5
Depreciation of fixed assets	(3)	—	3.0	—
Recognition of deferred taxation assets	(4)	<u>52.0</u>	<u>21.3</u>	<u>45.3</u>
Profit/(loss) attributable to shareholders under the HK GAAP Adjustments		<u>(156.5)</u>	<u>(61.5)</u>	<u>(132.1)</u>

(1) Recognition of rent-free incentive

Under the PRC GAAP, rent free incentives are accounted for on cash basis. Under the accounting principles generally accepted in Hong Kong, rent free incentives are recognised on a straight-line basis over the relevant lease term.

(2) Adjustments for under accruals and provisions

Certain accruals and provisions which should have been made in periods prior to the year 2003 were reflected in the PRC accounts for the year of 2003.

LETTER FROM THE BOARD

(3) Depreciation of fixed assets

Buildings are depreciated over a period of 25 years under the PRC GAAP. Under the accounting principles generally accepted in Hong Kong, buildings are depreciated over the remaining estimated useful life.

(4) Recognition of deferred tax assets

Under the PRC GAAP, no deferred tax assets/liabilities are recognised. Under the accounting principles generally accepted in Hong Kong, deferred taxation assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary difference can be utilised.

The unaudited combined net asset of the China Resources Vanguard Business, prepared under the PRC GAAP, as at 31st December, 2003 (based on audited accounts of the individual companies) was approximately RMB509.9 million (equivalent to approximately HK\$479.3 million). Under the HK GAAP Adjustments, the unaudited combined net asset of the China Resources Vanguard Business as at 31st December, 2003 was approximately HK\$510.8 million.

Interest free shareholders' loans of RMB380,000,000 (equivalent to approximately HK\$357.2 million) in China Resources Vanguard were contributed by the Company and China Resources Company in proportion to their respective shareholding in China Resources Vanguard over a period of time since February, 2003 and of which RMB280,000,000 (equivalent to approximately HK\$263.2 million) were converted into registered capital of China Resources Vanguard in November 2004. Following such conversion of shareholders' loan, China Resources Vanguard currently still has remaining interest free shareholders' loans of RMB100,000,000 (equivalent to approximately HK\$94.0 million), which is owed to the Company in the amount of HK\$61,100,000 (equivalent to approximately RMB65.0 million) and to China Resources Company in the amount of RMB35,000,000 (equivalent to approximately HK\$32.9 million). The registered capital of China Resources Wan Jia was increased in November, 2004 by RMB180,000,000 (equivalent to approximately HK\$169.2 million) to approximately HK\$226.2 million (equivalent to approximately RMB212.6 million), through capital contribution by the Company and China Resources Company in proportion to their respective shareholding in China Resources Wan Jia in November, 2004, to provide part of the funding required for the acquisition from an independent third party who is not a connected person (as defined in the Listing Rules) of the Company and is independent of and not connected with the Company and/or its connected persons (as defined in the Listing Rules) in October, 2004 of a piece of property occupied by the China Resources Vanguard Business as a hypermarket store. Taking into account and including the Capital Increase and the remaining interest free shareholders' loans of China Resources Vanguard of RMB100,000,000 (equivalent to approximately HK\$94.0 million), the adjusted unaudited combined net asset of the China Resources Vanguard Business, prepared under the PRC GAAP, as at 30th September, 2004 was approximately RMB967.9 million (equivalent to approximately HK\$910.0 million). Under the HK GAAP Adjustments, the adjusted unaudited combined net asset of the China Resources Vanguard Business as at 30th September, 2004 was approximately HK\$975.7 million.

Notwithstanding the net loss attributable to shareholders of the China Resources Vanguard Business for the year ended 31st December, 2003 and for the nine months ended 30th September, 2004, the net cash inflow from operating activities of the China Resources Vanguard Business improved from a net cash outflow of approximately RMB23.8 million (equivalent to approximately HK\$22.4 million) for the year ended 31st December, 2003 to a net cash inflow of approximately RMB206.4 million (equivalent to approximately HK\$194.1 million) for the nine months ended 30th September, 2004.

LETTER FROM THE BOARD

INFORMATION ON SUGUO

Based on the 2003 Ranking of 30 Largest PRC Retail Chain Enterprises (2003年最大30家連鎖企業) compiled by the Ministry of Commerce of the PRC and other industry information, the Directors believe that Suguo is currently the largest supermarket chain operator in Jiangsu province, China. It was established in July 1996 and was operating 79 superstores, 989 supermarket stores and 225 convenience stores mostly in Nanjing, Jiangsu as at 30th September, 2004.

The Company first acquired its 39.25% interest in Suguo back in November 2002 and subsequently increased its interest to 49.25% in October, 2003 and then further increased its interest to 73.5% in September, 2004.

The audited consolidated turnover, net profits before taxation and extraordinary items and profit attributable to shareholders of Suguo in respect of the two financial years ended 31st December, 2003 and the unaudited consolidated turnover, net profits before taxation and extraordinary items and profit attributable to shareholders of Suguo in respect of the nine months ended 30th September, 2004 and 30th September, 2003 are as follows. Such audited and unaudited results of Suguo have been prepared under the PRC GAAP:

Financial results of the Suguo Group under the PRC GAAP

	From 1st January, 2003 to 31st December, 2003		From 1st January, 2002 to 31st December, 2002		From 1st January, 2004 to 30th September, 2004		From 1st January, 2003 to 30th September, 2003	
	Audited	Audited	Audited	Audited	Unaudited	Unaudited	Unaudited	Unaudited
	HK\$ million		HK\$ million		HK\$ million		HK\$ million	
	RMB million	(equivalent)	RMB million	(equivalent)	RMB million	(equivalent)	RMB million	(equivalent)
Turnover	<u>3,258.3</u>	<u>3,062.8</u>	<u>2,604.5</u>	<u>2,448.2</u>	<u>3,194.5</u>	<u>3,002.8</u>	<u>2,383.8</u>	<u>2,240.8</u>
Consolidated net profit before taxation and extraordinary items	<u>73.9</u>	<u>69.5</u>	<u>61.1</u>	<u>57.4</u>	<u>70.3</u>	<u>66.1</u>	<u>42.2</u>	<u>39.7</u>
Profit attributable to shareholders	<u>46.8</u>	<u>44.0</u>	<u>40.9</u>	<u>38.4</u>	<u>45.2</u>	<u>42.5</u>	<u>26.7</u>	<u>25.1</u>

Note: The above financial results of the Suguo Group have been prepared under the PRC GAAP.

LETTER FROM THE BOARD

The results of Suguo have been consolidated into the accounts of the Group after adjustments in accordance with accounting principles generally accepted in Hong Kong since Suguo became a subsidiary of the Group in October 2003. The results of Suguo for the year ended 31st December, 2003 and for the nine months ended 30th September, 2003 and 30th September, 2004 under the HK GAAP Adjustments are as follows:

**Financial results of the Suguo Group
under the HK GAAP Adjustments**

	From 1st January, 2003 to 31st December, 2003 Unaudited HK\$ million	From 1st January, 2004 to 30th September, 2004 Unaudited HK\$ million	From 1st January, 2003 to 30th September, 2003 Unaudited HK\$ million
Turnover	<u>3,105.9</u>	<u>3,121.8</u>	<u>2,240.8</u>
Consolidated net profit before taxation and extraordinary items	<u>63.0</u>	<u>82.0</u>	<u>39.7</u>
Profit attributable to shareholders	<u>38.3</u>	<u>58.4</u>	<u>25.1</u>

Note: The above financial results of Suguo Group have been prepared under the HK GAAP Adjustments.

LETTER FROM THE BOARD

The following table sets out the adjustments made under the HK GAAP Adjustments:

Adjustments for financial results of the Suguo Group made under the HK GAAP Adjustments

	From 1st January, 2003 to 31st December, 2003 Unaudited HK\$'M	From 1st January, 2004 to 30th September, 2004 Unaudited HK\$'M	From 1st January, 2003 to 30th September, 2003 Unaudited HK\$'M
<i>Note</i>			
Profit attributable to shareholders prepared under the PRC GAAP	44.0	42.5	25.1
Adjustments:			
Under provision of operating expenses in respect of prior periods reflected in the year of 2003	20.1	26.1	20.1
Under provision of operating expenses in current period	(26.1)	(10.2)	(20.4)
Prior period income recognised in the year of 2003	(0.4)	—	(0.4)
Over provision of income tax written back	0.7	—	0.7
Profit attributable to shareholders under the HK GAAP Adjustments	<u>38.3</u>	<u>58.4</u>	<u>25.1</u>

The audited consolidated net asset of Suguo, prepared under the PRC GAAP, as at 31st December, 2003 was approximately RMB400.7 million (equivalent to approximately HK\$376.7 million). Under the HK GAAP Adjustments, the unaudited consolidated net asset of Suguo as at 31st December, 2003 was approximately HK\$350.6 million.

The unaudited consolidated net asset of Suguo, prepared under the PRC GAAP, as at 30th September, 2004 was approximately RMB445.9 million (equivalent to approximately HK\$419.1 million). Under the HK GAAP Adjustments, the unaudited consolidated net asset of Suguo as at 30th September, 2004 was approximately HK\$408.9 million.

FINANCIAL EFFECT OF THE ACQUISITION ON THE COMPANY

As the results of the China Resources Vanguard Business and the Suguo Group have been consolidated into the results of the Group, after the Acquisition, the minority interests for the China Resources Vanguard Business and the Suguo Group will be reduced accordingly. The China Resources Vanguard Business was loss making in 2003 whereas the Suguo Group was profit making in 2003. However, with a reduction in the net loss attributable to shareholders of the China

LETTER FROM THE BOARD

Resources Vanguard Business for the nine months ended 30th September, 2004 to approximately HK\$61.5 million and an increase in the net profit attributable to shareholders of the Suguo Group for the nine months ended 30th September, 2004 to approximately HK\$58.4 million under the HK GAAP Adjustments, the aggregate net loss attributable to the Targeted Interests was approximately HK\$14.8 million, which was not material in comparison to the consolidated earnings of the Company for the same period of approximately HK\$1,139.0 million.

Based on the aggregate combined adjusted net asset of the China Resources Vanguard Business and the Suguo Group, prepared under the HK GAAP Adjustments, as at 30th September, 2004 as attributable to the Targeted Interests of approximately HK\$388.5 million, the consideration for the Acquisition represents a premium of approximately HK\$271.8 million. Commencing 1st January, 2005, goodwill of the Group will not be amortised over a period of time under the accounting principles generally accepted in Hong Kong. Accordingly, no goodwill amortisation will be charged to the consolidated profit and loss account of the Company for the year ending 31st December, 2005. The carrying amount of goodwill will be subject to assessment for impairment annually.

After the issue of the Consideration Shares, the share capital and the share premium of the Company will be increased by approximately HK\$660.3 million resulting in the increase in the consolidated total assets of the Company accordingly.

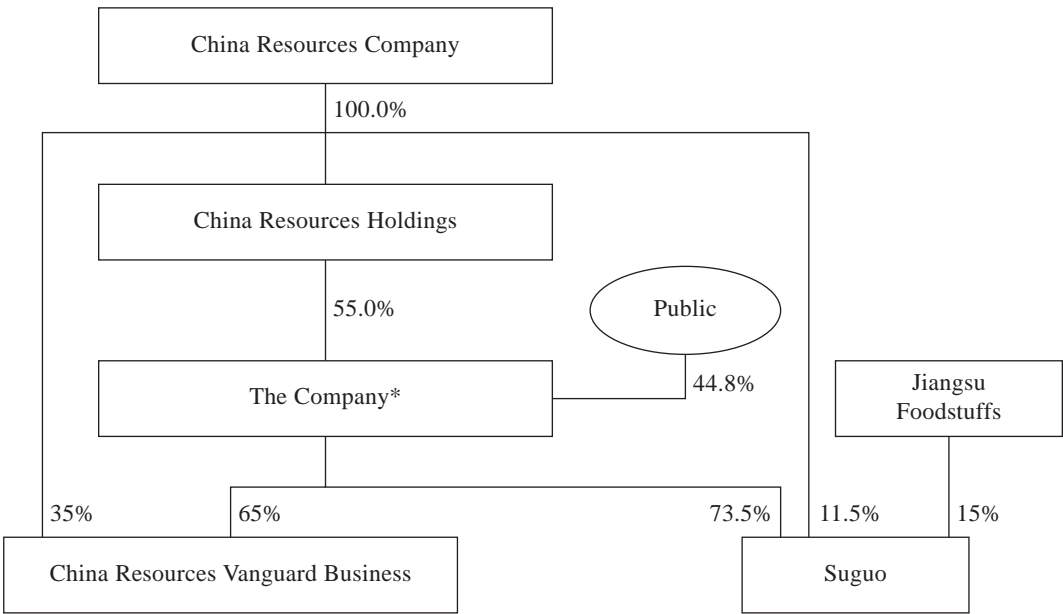
REASONS FOR THE ACQUISITION

At present, the Group's supermarket business in the PRC is managed principally via two subsidiary companies, China Resources Vanguard and Suguo. The Directors regard the Group as among the largest supermarket operators in China with leading market share in Guangdong province and Jiangsu province. The business of the China Resources Vanguard Business has been concentrated in the southern part of China whilst that of the Suguo Group in the eastern part of China.

LETTER FROM THE BOARD

Although the China Resources Vanguard Business incurred a loss in the year ended 31st December, 2003 and the nine months ended 30th September, 2004, there was considerable year-on-year improvement in profitability for the first nine months of this year through an increase in rebate revenue from suppliers, on-going cost control measures and closure of inefficient stores. With the relaxation of the PRC laws allowing non PRC entities to hold a 100% interest in retail chain stores in the PRC with effect from 11th December, 2004, the Directors believe that it is now a good opportunity for the Company to acquire the remaining interests in the China Resources Vanguard Business and the Suguo Group from China Resources Company Group and to streamline the shareholding structure of its supermarket operations. The Group’s interest in the China Resources Vanguard Business and the Suguo Group before and after the Acquisition are summarized as follows:

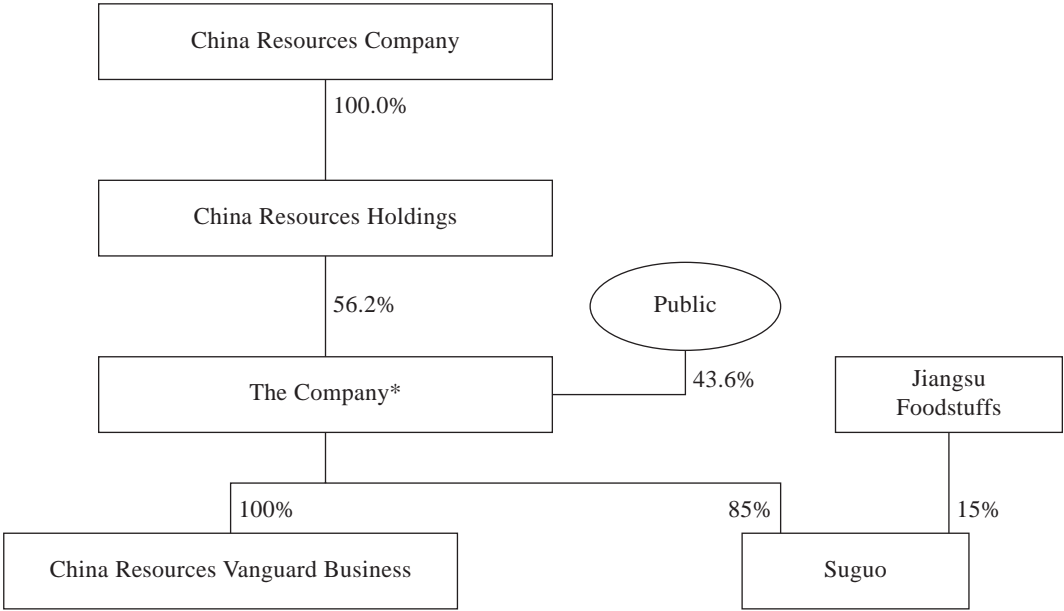
The Group’s interest in the China Resources Vanguard Business and Suguo before the Acquisition



Note: including direct or indirect interest
* remaining interest held by Directors and their Associates

LETTER FROM THE BOARD

The Group’s interest in the China Resources Vanguard Business and Suguo after the Acquisition



Note: including direct or indirect interest
* remaining interest held by Directors and their Associates

With the Acquisition, the Group can further centralize the management functions of China Resources Vanguard Business and Suguo, so as to reduce administrative expenses, promote management by store format and strengthen position with suppliers. The Acquisition will also accelerate the integration between China Resources Vanguard Business and the Suguo Group so that the Group’s supply chain in the Guangdong province and Jiangsu province can become more efficient and the distribution network can be further expanded and better utilized. Accordingly, the Directors believe that synergies will be created leading to higher profitability ultimately.

INFORMATION ON THE COMPANY

The Company is a listed company on the Stock Exchange, with business emphasis on the distribution business in Hong Kong and the Chinese Mainland. The Group has a well-diversified portfolio of businesses in both Hong Kong and the Chinese Mainland, including retail, beverage, food processing and distribution, textile, petroleum and chemical distribution, property and other investments.

GENERAL

As China Resources Holdings is the controlling shareholder interested in approximately 55.0% in the issued share capital of the Company as at the Latest Practicable Date and China Resources Company is the controlling shareholder of China Resources Holdings, the Acquisition constitutes a connected transaction of the Company under the Listing Rules and requires Independent Shareholders’ approval at an extraordinary general meeting of the Company. China Resources Holdings and its Associates shall abstain from voting at such extraordinary general meeting.

LETTER FROM THE BOARD

The 73.5% interest in Suguo was acquired by the Group over a period of two years, firstly a 39.25% interest from Jiangsu Foodstuffs in November 2002, another 10% interest from an independent third party in October 2003, and completion of acquisition of another 24.25% interest from Jiangsu Foodstuffs in September 2004. The acquisition of the 24.25% interest in Suguo was a connected transaction of the Company as announced by the Company on 1st June, 2004 at the time when the agreement for the same was signed. Where the Acquisition is to be aggregated with the connected transaction of the acquisition of the 24.25% interest in Suguo (as part of the series of connected transactions within a 12 month period), the Acquisition will also constitute a discloseable transaction of the Company.

EXTRAORDINARY GENERAL MEETING

Notice of the EGM is set out on pages 55 to 56 of the Circular. A form of proxy for use at the EGM is enclosed with the Circular. Whether or not you are able to attend and vote at the EGM, you are requested to complete the enclosed proxy form in accordance with the instructions printed thereon and return it to the Company's registrars, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for the holding of the EGM or any adjourned meeting thereof. Completion and return of the proxy form will not preclude you from subsequently attending and voting in person at the EGM or any adjourned meeting should you so wish.

At any general meeting of the Company, resolutions put to the vote of the meeting shall be decided on a show of hands unless a poll is taken as may from time to time be required under the Listing Rules and/or any other applicable laws and regulations or unless a poll is (before or on the declaration of the result of the show of hands) demanded by (a) the chairman; or (b) not less than five Shareholders present in person or by proxy and having the right to vote at the meeting; or (c) a Shareholder or Shareholders present in person or by proxy representing not less than one-tenth of the total voting rights of all the Shareholders having the right to vote at the meeting; or (d) a Shareholder or Shareholders present in person or by proxy holding Shares conferring a right to vote at the meeting being Shares on which an aggregate sum has been paid up equal to not less than one-tenth of the total sum paid up on all the Shares conferring that right.

According to Rule 13.39(4) of the Listing Rules, any vote taken at the EGM shall be taken by poll. The Company shall announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.

RECOMMENDATION

The Board considers that the Acquisition Agreement was entered into in the ordinary and usual course of business of the Company and on normal commercial terms and the terms of the Acquisition are fair and reasonable and believes that the resolution to be proposed at the EGM is in the interests of the Company and the Shareholders as a whole and recommends the Independent Shareholders to vote in favour of the resolution as set out in the notice of the EGM.

In addition, your attention is drawn to the letter from the Independent Board Committee as set out on page 20 of the Circular which contains the recommendations of the Independent Board Committee to the Independent Shareholders, based on the advice from Platinum in respect of the Acquisition set out on pages 21 to 38 of the Circular which contains the recommendations of Platinum to the Independent Board Committee and the Independent Shareholders and the principal factors and reasons taken into consideration.

LETTER FROM THE BOARD

ADDITIONAL INFORMATION

Your attention is drawn to the further information contained in the appendix to the Circular and the notice of the EGM.

Your faithfully,
By Order of the Board
China Resources Enterprise, Limited
Ning Gaoning
Chairman



華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

24th December, 2004

To the Independent Shareholders

Dear Sir or Madam,

**ACQUISITION OF INTERESTS IN
THE CHINA RESOURCES VANGUARD BUSINESS AND SUGUO**

We refer to the circular (the “Circular”) dated 24th December, 2004 issued by China Resources Enterprise, Limited (the “Company”) to the shareholders, of which this letter forms part. Unless the context otherwise requires, terms defined in the Circular shall have the same meanings when used in this letter.

The Independent Board Committee has been appointed to make recommendation to the Independent Shareholders in respect of the Acquisition. In addition, Platinum has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the same.

Your attention is drawn to the letter from the Board set out on pages 5 to 19 of the Circular, which sets out information relating to, and the reasons for the Acquisition.

As your independent Directors, we have discussed with the management of the Company the reasons for the Acquisition and the basis upon which its terms have been determined. We have also considered the principal factors taken into account by Platinum in arriving at its opinion regarding the Acquisition as set out in its letter on pages 21 to 38 of the Circular. We concur with the views of Platinum that the Acquisition is in the interests of the Company and the Independent Shareholders as a whole, and the Acquisition Agreement was entered into in the ordinary and usual course of business of the Company and on normal commercial terms and the terms thereof are fair and reasonable. Therefore, we recommend the Independent Shareholders to vote in favour of the relevant ordinary resolution to be proposed at the EGM to approve the Acquisition as set out on pages 55 and 56 of the Circular.

As at the Latest Practicable Date, Dr. Chan Po Fun, Peter was beneficially interested in 506,000 Shares and outstanding Share Options covering 200,000 underlying Shares, representing an aggregate of approximately 0.03% of the issued share capital of the Company, and Dr. Chan Po Fun, Peter has indicated that he will vote in favour of the aforesaid resolution. Houang Tai Ninh and Li Ka Cheung, Eric were each beneficially interested in outstanding Share Options covering 200,000 underlying Shares, respectively representing approximately 0.01% of the issued share capital of the Company.

Yours faithfully,

Chan Po Fun, Peter

Houang Tai Ninh
Independent board committee

Li Ka Cheung, Eric

LETTER FROM PLATINUM

The following is the text of the letter of advice from the independent financial adviser to the Independent Board Committee and the Independent Shareholders for the purpose of incorporation into this circular.



PLATINUM Securities Company Limited

22/F Standard Chartered Bank Building

4 Des Voeux Road Central

Hong Kong

Telephone

(852) 2841 7000

Facsimile

(852) 2522 2700

24 December 2004

To the Independent Board Committee and the Independent Shareholders

Dear Sirs,

**CONNECTED AND DISCLOSEABLE TRANSACTION
ACQUISITION OF INTERESTS
IN
THE CHINA RESOURCES VANGUARD BUSINESS AND SUGUO**

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Acquisition, details of which are set out in the letter from the Board as set out in the Circular, of which this letter forms part. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

In our capacity as the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion as to whether the Acquisition is entered into in the ordinary and usual course of business of the Company, on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

In formulating our opinion, we have relied on the information and facts supplied to us by the Company. We have reviewed, among other things: (i) the Acquisition Agreement; (ii) the interim report of the Company as at 30 June 2004; (iii) the financial and operational review for 2004 third quarter of the Company; and (iv) the annual reports and accounts of the Company for the years ended 31 December 2002 and 2003. We have also discussed with the management of the Company their plans and prospects of the China Resources Vanguard Business and Suguo.

We have assumed that all information, facts, opinions and representations contained in the Circular are true, complete and accurate in all material respects and we have relied on the same. The Directors have confirmed that no material facts have been omitted from the information supplied to us. The Directors have confirmed that they take full responsibility for the contents of the Circular.

LETTER FROM PLATINUM

We have no reason to suspect that such information is inaccurate or that any material facts have been omitted or withheld from the information supplied or opinions expressed in the Circular. In line with normal practice, we have not, however, conducted a verification process of the information supplied to us, nor have we conducted any independent in-depth investigation into the business and affairs of the Group. We consider that we have reviewed sufficient information to enable us to reach an informed view and to provide a reasonable basis for our opinion regarding the Acquisition.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our opinion in relation to the Acquisition and giving our independent financial advice to the Independent Board Committee and the Independent Shareholders, we have considered the following principal factors:

A. Reasons for and benefits of the Acquisition:

1. *Background of the Acquisition*

On 3 December 2004, the Board announced that the Company has, on the same date, entered into a conditional agreement for the acquisition from China Resources Holdings of its 100% equity interest in the BVI Companies for a total consideration of HK\$660,300,000 which will be satisfied by the issue of 57,971,905 new Shares to China Resources Holdings. The BVI Companies have entered into separate conditional acquisition agreements on 3 December 2004 with the relevant member of the China Resources Company Group, whereby they will, on completion of such agreements, become the legal and beneficial owners of: (i) the 35% equity interest in the China Resources Vanguard Business; (ii) a related shareholders' loan of RMB35,000,000 (equivalent to approximately HK\$32.9 million); and (iii) the 11.5% equity interest in Suguo. Following the Acquisition, the China Resources Vanguard Business will be wholly owned by the Group and Suguo will be 85% owned by the Group with the remaining 15% being owned by Jiangsu Foodstuffs, an independent third party (save otherwise being a substantial shareholder of Suguo by virtue of its 15% interest in Suguo).

As China Resources Holdings is the controlling shareholder interested in approximately 55.0% in the issued share capital of the Company as at the Latest Practicable Date and China Resources Company is the controlling shareholder of China Resources Holdings, the Acquisition constitutes a connected transaction of the Company under the Listing Rules and requires the Independent Shareholders' approval at the EGM.

The existing 65.0% interest in China Resources Vanguard was acquired by the Company in July 2002 from the China Resources Company Group and constituted a connected transaction of the Company under the Listing Rules.

The existing 73.5% interest in Suguo was acquired by the Group over a period of two years, firstly a 39.25% interest from Jiangsu Foodstuffs in November 2002, another 10% interest from an independent third party in October 2003, and completion of acquisition of another 24.25% interest from Jiangsu Foodstuffs (the "Previous Acquisition") in September 2004. The agreement for the Previous Acquisition entered into on 1 June 2004, constituted a connected transaction of the Company under the Listing Rules. Where the Acquisition is to be aggregated with the Previous Acquisition (as part of

the series of connected transactions within a 12-month period under the Listing Rules), the Acquisition will also constitute a discloseable transaction of the Company under the Listing Rules.

2. *Business of the Company*

The Company is a listed company on the Stock Exchange with business emphasis on the distribution business in Hong Kong and the Chinese Mainland (which represents the PRC, excluding Hong Kong, Macau and Taiwan). As at the Latest Practicable Date, China Resources Holdings is the controlling shareholder of the Company, interested in approximately 55.0% in its issued share capital. The Company has a well-diversified portfolio of businesses in both Hong Kong and the Chinese Mainland, including retail, beverage, food processing and distribution, textile, petroleum and chemical distribution, property and other investments.

As stated in the 2004 interim report of the Company, as at 30 June 2004, the Group operated approximately 1,700 stores in Hong Kong and the Chinese Mainland, which included approximately over 80 traditional supermarkets in Hong Kong and 18 hypermarkets, 330 traditional supermarkets, 210 convenient stores, 100 superstores and over 900 franchised stores in the Chinese Mainland. In the Chinese Mainland, its stores are mainly located in Shenzhen, Guangzhou, Nanjing, Suzhou, Hangzhou, Tianjin and Beijing.

3. *Description of the China Resources Vanguard Business*

China Resources Vanguard Business is comprised of China Resources Vanguard Group and China Resources Wan Jia Group, which are under the same management of China Resources Vanguard. The Company currently has 65% equity interest in each of China Resources Vanguard and China Resources Wan Jia. China Resources Vanguard Business is principally engaged in the operation of retail stores in the Guangdong province, the PRC. Based on the 2003 Ranking of 30 Largest PRC Retail Chain Enterprises (2003年最大30家連鎖企業) compiled by the Ministry of Commerce of the PRC, China Resources Vanguard was ranked the 9th largest retail chain enterprise in the PRC by turnover. As stated in the letter from the Board as set out in the Circular, as at 30 September 2004, China Resources Vanguard Business has established a chain of 18 hypermarket stores, 22 superstores and 72 standard supermarket stores in, but not limited to, Shenzhen, Zhongshan, Zhuhai and Guangzhou. As none of the retail chain enterprises which were ranked higher than China Resources Vanguard had operations predominantly in the Guangdong province, the PRC, we concur with the view of the Directors that the China Resources Vanguard Business is currently the largest supermarket chain operator in the Guangdong province, the PRC.

4. *Description of Suguo*

Suguo was established in July 1996. The Company currently has 73.5% equity interest in Suguo. Suguo is principally engaged in the operation of retail stores in the Jiangsu province, the PRC. Based on the 2003 Ranking of 30 Largest PRC Retail Chain Enterprises (2003年最大30家連鎖企業) compiled by the Ministry of Commerce of the PRC, Suguo was ranked the 10th largest retail chain enterprise in the PRC by turnover. As stated in the letter from the Board as set out in the Circular, as at 30 September 2004, Suguo was operating 79 superstores, 989 supermarket stores and 225 convenience stores

mostly in Nanjing, in the Jiangsu province, the PRC. As none of the retail chain enterprises which were ranked higher than Suguo had operations predominantly in the Jiangsu province, the PRC, we concur with the view of the Directors that Suguo is currently the largest supermarket chain operator in the Jiangsu province, the PRC.

5. *Overview of the Guangdong and Jiangsu provinces in the PRC*

According to the National Bureau of Statistics of China, the gross domestic product (“GDP”) of the Chinese Mainland recorded a year-on-year growth rate of approximately 9.1% in 2003 and according to the China Monthly Economic Indicators, approximately 9.8%, 9.6% and 9.1%, respectively, for the first three quarters of 2004. Based on the 2003 China Statistical Year Book, the Guangdong and Jiangsu provinces contributed approximately 11.6% and 10.6%, respectively, of the total GDP of the Chinese Mainland for 2003.

According to the 2003 China Statistical Year Book, out of a total of 31 regions in the Chinese Mainland, the Guangdong province with a population of approximately 79.5 million and the Jiangsu province with a population of approximately 74.1 million are, respectively, the 4th and 5th most populous regions in the Chinese Mainland in 2003.

According to the China Monthly Economic Indicators for November 2004, the Guangdong and Jiangsu provinces are also ranked 4th and 7th, respectively, in terms of per capita disposable income of urban households by region, accounting for approximately 4.9% and 3.7%, respectively, of the total per capita disposable income of urban households for Chinese Mainland for the first nine months ended 30 September 2004. Furthermore, the Guangdong and Jiangsu provinces accounted for approximately 11.8% and 7.7%, respectively, of the total retail sales of consumer goods in the Chinese Mainland for the first nine months ended 30 September 2004 and were ranked 1st and 3rd, respectively, among all the regions within the Chinese Mainland.

In light of the above statistics, with respect to the population, per capita disposable income and percentage of nationwide retail sales, we consider that both the Guangdong and Jiangsu provinces are significant retail markets in the Chinese Mainland.

6. *Overview of the retail and supermarket industry in the PRC*

The opening up of the PRC economy and its accession to the World Trade Organization (“WTO”) has accelerated the robust economic growth of the PRC, recording a GDP growth of approximately 9.1% in 2003 despite the effect of severe acute respiratory syndrome (“SARS”) in the early part of 2003.

According to the National Bureau of Statistics of China, retail sales of consumer goods in the Chinese Mainland quadrupled over a span of 10 years to 2003. Despite the impact of SARS in the early part of 2003, the total value of retail sales in the Chinese Mainland amounted to approximately RMB4,584 billion in 2003, representing an increase of approximately 9.1% over 2002. Retail sales of consumer goods in the Chinese Mainland are expected to improve in 2004, with the total value of retail sales in the Chinese Mainland recording an approximate 13.1% year-on-year growth for the year-to-date to October 2004.

Based on the findings of the Ministry of Commerce of the PRC, for the first half of 2004, the total sales and total number of retail outlets of the 30 largest retail chain enterprises in the PRC were approximately RMB170.51 billion and 11,025 respectively, representing an increase of approximately 38.0% and 31.1% from the corresponding period in 2003. The 30 largest retail chain enterprises in the PRC accounted for approximately 6.8% of the total retail sales in the Chinese Mainland for the first half of 2004, representing an increase of approximately 1.8 percentage points for the corresponding period in 2003.

In the past, under PRC laws, except with special permits, foreign ownership in retail chains in the Chinese Mainland were restricted to 50%. As a result of the accession of the PRC to the WTO, the PRC laws were relaxed with respect to the restriction on foreign ownership in retail chains in the Chinese Mainland. With effect from 11 December 2004, foreign entities have been allowed to hold a 100% interest in retail chain stores in the Chinese Mainland.

7. *The Group's long-term strategy*

It is the view of the Directors that the Group is among the largest supermarket operators in the PRC with leading market share in the Guangdong province and Jiangsu province. The supermarket business operations of the Group (being part of the retail division) accounted for approximately 15.2% and 22.7%, respectively, of its total turnover for the years ended 31 December 2002 and 2003 while the whole retail division of the Group accounted for approximately 22.6% and 28.4%, respectively, of its total turnover for the years ended 31 December 2002 and 2003.

As stated in the 2003 annual report of the Company, it is the intention of the Directors to capitalize on the booming retail consumer market in the Chinese Mainland and maximize the synergies among its businesses with the commitment to a retail-led distribution model. Measures implemented in 2003 to put this into effect by the Directors included the Group's food, beverage and textile operations forming part of the supply chain with its supermarket business and the introduction of its own-branded beer "Snow", the national brand of its brewery business, for sale in its supermarkets. As a whole, the total retail oriented distribution business operations of the Group accounted for approximately 61.0% and 62.8% respectively of its total turnover for the years ended 31 December 2002 and 2003.

The Directors are of the view that the supermarket industry would remain competitive in Hong Kong and in the Chinese Mainland. The Directors anticipate supermarket businesses will continue to undergo consolidation with market players aiming to improve their gross profit margins through synergies and economies of scale created by acquisition and expansion of market share. The Group's supermarket operations recorded a loss of approximately HK\$106.5 million for the year ended 31 December 2003 compared to a profit of approximately HK\$65.7 million for the year ended 31 December 2002. Strategies implemented in the second half of 2003 by the new management team for the supermarket operation of the Group included embarking on a cost saving program to reduce salaries and rentals, launching a new supplier rebate system to encourage volume discount, enhancing the efficiency of its supply chain as well as re-branding its entire business. It is our understanding from the Directors that, benefiting from an economic upswing and effective management measures to enhance operational efficiency of the supermarket operation, the Group's retail operations have shown improvement since the

second half of the 2003. Despite a loss suffered by the supermarket business of the Group of approximately HK\$66.1 million for the first half of 2003, the net loss was reduced by approximately 38.9% to approximately HK\$40.4 million for the second half of 2003. The supermarket operation turned around in the first nine months ended 30 September 2004 with a profit of approximately HK\$45.6 million, compared with a loss of approximately HK\$86.8 million in the corresponding period of 2003.

The Group was originally interested in China Resources Wan Jia Group as to 50% with the remaining 50% interest being held by an independent third party who was not a connected person (as defined in the Listing Rules) of the Company and was independent of and not connected with the Company and/or its connected persons (as defined in the Listing Rules), which was subsequently increased to 65% in July 2002 through acquisition, at the same time as the China Resources Company Group acquired the remaining 35%, from the same independent third party. The Company first acquired its 65% interest in China Resources Vanguard in July 2002 from the China Resources Company Group. The Company first acquired its 39.25% interest in Suguo in November 2002 and subsequently increased its interest to 49.25% in October 2003. This was further increased to 73.5% in September 2004.

With the relaxation with respect to the restriction on foreign ownership in retail chains in the Chinese Mainland as highlighted above, it currently presents a window of opportunity for foreign companies to have a first mover advantage to own 100% equity in retail chains in the Chinese Mainland. As stated in the letter from the Board set out in the Circular, the Directors believe that it is now a good opportunity for the Company to acquire the remaining interests in the China Resources Vanguard Business and the Suguo Group from the China Resources Company Group and to streamline the shareholding structure of its supermarket operations. Based on the 2003 Ranking of 30 Largest PRC Retail Chain Enterprises (2003年最大30家連鎖企業) compiled by the Ministry of Commerce of the PRC, China Resources Vanguard Business and Suguo combined together would rank the 2nd largest retail chain enterprise in the Chinese Mainland by turnover. In light of this, we are of the opinion that the Acquisition is in line with the long-term strategy for the retail business operations of the Group.

8. *Potential synergies from the consolidation of the China Resources Vanguard Business and Suguo*

It is the opinion of the Directors that, as a result of the Acquisition, the Group can further centralize the management functions, reduce administrative expenses, promote management by store format and strengthen its position with its suppliers. The Directors are also of the view that the Acquisition will accelerate the integration of the operations of the Group in southern China and eastern China between China Resources Vanguard Business and the Suguo Group so that the Group's supply chain in the Guangdong province and Jiangsu province can become more efficient and the distribution network can be further expanded and better utilized. Accordingly, synergies will be created leading to improvements in profit margin.

In light of the above, in particular:

- (i) the relative importance of the Guangdong and Jiangsu provinces in the PRC;
- (ii) the growth potential of the retail and supermarket industry in the PRC;

- (iii) the relative standing of the China Resources Vanguard and Suguo as major retail chain enterprises in the PRC;
- (iv) the significance of the retail business operations of the Group in the PRC;
- (v) the long term strategy of the Group for its retail business operations;
- (vi) the continued acquisition and consolidation of shareholding interests in retail and supermarket businesses since 2002;
- (vii) the window of opportunity presented by relaxation in the PRC laws for foreign entities to own 100% equity in retail chains in the Chinese Mainland; and
- (viii) the potential synergies from the consolidation and integration of the retail and supermarket operations of the Group,

we concur with the Directors' view that the Acquisition Agreement is entered into in the usual and ordinary course of business of the Group and the Acquisition is in the interests of the Company and the Shareholders as a whole.

B. Basis of the consideration of the Acquisition

1. *The consideration for the Acquisition*

The consideration for the Acquisition is HK\$660,300,000, which will be satisfied by the issue and allotment of the Consideration Shares to China Resources Holdings. As stated in the letter from the Board, the consideration for the Acquisition has been arrived at after arm's length negotiations between the vendor and the purchaser of the Acquisition who have taken into account, among others, trading multiples of comparable companies and transactions in the retail chain industry in Hong Kong and China, and the business prospects of the China Resources Vanguard Business and the Suguo Group.

In assessing the fairness and reasonableness of the consideration for the Acquisition, we have considered the following:

i. Trading multiples of the Comparable Companies

We have reviewed companies in Hong Kong and the Chinese Mainland in the retail chain industry which are comparable to the China Resources Vanguard Business and the Suguo Group (the "Comparable Companies"). Although the Comparable Companies are in similar lines of business to the China Resources Vanguard Business and the Suguo Group, they may be different in geographical coverage, operating conditions, and development strategy from those of the China Resources Vanguard Business and the Suguo Group. In selecting the Comparable Companies, we have mainly focused on public companies that are listed on the respective stock exchanges in Hong Kong and in the Chinese Mainland, with a substantial proportion of their business operations in the supermarket, and department store and convenience store businesses in Hong Kong and/or the Chinese Mainland, representing between approximately 86.1% and 100% of the respective total turnover of the Comparable Companies.

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In our comparison, we have considered adopting the following evaluation parameters: price to earnings ratio (“PER”); price to turnover ratio (“PSR”); and price to net asset value ratio (“P/NAV”). Table 1 below shows these trading multiples of the Comparable Companies as at 3 December 2004. In Table 1 below, we have grouped the Comparable Companies into two main categories, namely: (i) supermarket operators; and (ii) operators of department stores and convenience stores.

Table 1: Trading multiples of the Comparable Companies

Comparable Companies	Place of listing of the shares	PER ⁽¹⁾	PSR ⁽²⁾	P/NAV ⁽³⁾
(i) Supermarket operators:				
Wumart Stores Inc.	Hong Kong	37.26	2.55	3.63
Lianhua Supermarket Holdings Company Limited	Hong Kong	32.91	0.69	4.76
Hualian Supermarket Company Limited	Shanghai	22.86	0.50	2.02
Chia Tai Enterprises International Limited	Hong Kong	19.72	3.69	1.93
Average		28.19	1.86	3.08
(ii) Operators of department stores and convenience stores:				
Convenience Retail Asia Limited	Hong Kong	30.00	1.19	4.42
Shanghai Friendship Group Incorporated Company ⁽⁴⁾	Shanghai	27.69	0.22	1.79
Dashang Group Company, Limited	Shanghai	32.00	0.52	1.88
Average		29.90	0.64	2.70
ALL				
Average		28.92	1.34	2.92
Maximum		37.26	3.69	4.76
Minimum		19.72	0.22	1.79

Notes:

- (1) Based on respective audited net profits of the Comparable Companies as at 31 December 2003
- (2) Based on respective audited turnover of the Comparable Companies as at 31 December 2003
- (3) Based on respective unaudited net asset values of the Comparable Companies as at 30 June 2004
- (4) The valuation parameters for Shanghai Friendship Group Incorporated Company are based on its A and B shares and their attributable portions of the respective parameters only

Source: Bloomberg, respective annual reports and interim reports of the Comparable Companies

(a) PER:

As shown in Table 1 above, the average PER for the Comparable Companies under the “supermarket operators” category is approximately 28.19 times and under the “operators of department stores and convenience stores” category is approximately 29.90 times. Collectively, the average PER for the Comparable Companies is approximately 28.92 times.

We note that the China Resources Vanguard Business and the Suguo Group recorded a combined net loss attributable to shareholders for the year ended 31 December 2003 and for the nine months ended 30 September 2004. Nevertheless, we draw to the attention of the Shareholders that Suguo by itself recorded a net profit attributable to shareholders under the HK GAAP Adjustments of approximately HK\$38.3 million for the year ended 31 December 2003 and approximately HK\$58.4 million for the nine months ended 30 September 2004. In addition, the net loss attributable to shareholders recorded by China Resources Vanguard Business under the HK GAAP Adjustments was approximately HK\$61.5 million for the nine months ended 30 September 2004 as compared to a net loss of approximately HK\$156.5 million for the year ended 31 December 2003.

(b) PSR:

As shown in Table 1 above, the average PSR for the Comparable Companies under the “supermarket operators” category is approximately 1.86 times and under the “operators of department stores and convenience stores” category is approximately 0.64 times. Collectively, the average PSR for the Comparable Companies is approximately 1.34 times. With reference to the aggregate unaudited combined turnover of the China Resources Vanguard Business and the Suguo Group for the year ended 31 December 2003 as attributable to the Targeted Interests of approximately RMB1,716.9 million (equivalent to approximately HK\$1,613.9 million), the consideration for the Acquisition represents a PSR of approximately 0.41 times. As such it is lower than the average PSR for both categories and also on a collective basis shown in Table 1 above. Furthermore, it also falls within the lower end of the range of the PSR of the Comparable Companies between approximately 0.22 times to approximately 3.69 times.

In light of this, we are of the opinion that the consideration for the Acquisition, based on a comparison with the Comparable Companies on a PSR basis, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(c) P/NAV:

As shown in Table 1 above, the average P/NAV for the Comparable Companies under the “supermarket operators” category is approximately 3.08 times and under the “operators of department stores and convenience stores” category is approximately 2.70 times. Collectively, the average P/NAV for the Comparable Companies is approximately 2.92 times. Based on the aggregate combined adjusted net asset of the China Resources Vanguard Business and the

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Suguo Group as at 30 September 2004 as attributable to the Targeted Interests, under the HK GAAP Adjustments of approximately HK\$388.6 million, this equates to a P/NAV of approximately 1.70 times. As such it is lower than the P/NAV for both categories and also on a collective basis shown in Table 1 above. Furthermore, it also falls below the minimum P/NAV of the Comparable Companies being approximately 1.79 times.

In light of this, we are of the opinion that the consideration for the Acquisition, based on a comparison with the Comparable Companies on a P/NAV basis, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

ii. *Recent corporate transactions in the retail chain industry in Hong Kong and the Chinese Mainland*

Based on our review of recent corporate transactions in the retail chain industry in Hong Kong and the PRC (the “Recent Transactions”), we noted the following the Recent Transactions which were announced during the period from 1 January 2003 to 3 December 2004, the key evaluation parameters of which are summarized in Table 2 below. The Recent Transactions selected are based on the nature, location, similarity in business operations and the availability of financial information to the public. The Recent Transactions provide a current indicative market range and averages for the key evaluation parameters for the purpose of comparing the terms of the Acquisition. For the purpose of selecting the Recent Transactions, for comparison with the Acquisition, we have identified the recent corporate transactions involving in retail chain businesses in Hong Kong and/or the Chinese Mainland.

Table 2: Recent Transactions

Date of transaction	Companies	Nature of transaction ⁽¹⁾	PER ⁽²⁾	PSR ⁽²⁾	P/NAV ⁽³⁾
Jan 2003	Convenience Retail Asia Limited	Share placement	22.10	0.96	3.81
Jun 2003	Lianhua Supermarket Holdings Limited	Initial public offering	18.92	0.42	2.05
Nov 2003	Wumart Stores Inc.	Initial public offering	64.30	1.60	2.27
Apr 2004	Wumart Stores Inc.	Acquisition of 25.03% of Beijing Chao Shifa Co. Ltd	18.25	0.13	1.65
May 2004	Wumart Stores Inc.	Share placement	61.45	2.79	4.14
May 2004	China Resources Enterprise Limited	Acquisition of 24.25% interests in Suguo	27.35	0.39	3.19
Jul 2004	Tesco PLC	Formation of 50:50 joint venture for the acquisition of Hymall Commercial Retail Group	50.91	0.85	Undisclosed
Sep 2004	SCMP Group Limited	Sale of “Daily Stop” convenience store retail business in Hong Kong to the Dairy Farm Company, Limited	N/A	0.28	11.80

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Date of transaction	Companies	Nature of transaction ⁽¹⁾	PER ⁽²⁾	PSR ⁽²⁾	P/NAV ⁽³⁾
Oct 2004	Lianhua Supermarket Holdings Limited	Share placement	35.62	0.63	3.53
Average			37.36	0.89	4.05
Maximum			64.30	2.79	11.80
Minimum			18.25	0.13	1.65

Notes:

- (1) Market capitalisation of the companies for transactions of an initial public offering or share placement nature are based on the post-money valuation.
- (2) Net profit and turnover are based on the latest published audited figures as at the date of each transaction.
- (3) Net asset value as of the period of the initial public offering, share placement or the respective latest published figures as at the date of transaction, where applicable.

Source: Bloomberg and the respective announcements, circulars and prospectuses of the companies

(a) PER:

As shown in Table 2 above, the average PER as represented by the Recent Transactions is approximately 37.36 times. As the China Resources Vanguard and the Suguo Group on a combined basis are loss making, we note that the Acquisition may not be reasonable based on a comparison only on the indicative PER of the Recent Transactions.

(b) PSR:

As shown in Table 2 above, the average PSR as represented by the Recent Transactions is approximately 0.89 times. The consideration of the Acquisition represents a PSR of 0.41 times. As such it is lower than the average PSR for the Recent Transactions.

In light of this, we are of the opinion that the consideration of the Acquisition, based on a comparison with the Recent Transactions on a PSR basis is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

(c) P/NAV:

As shown in Table 2 above, the average P/NAV as represented by the Recent Transactions is approximately 4.05 times. The consideration of the Acquisition equates to a P/NAV of approximately 1.70 times. As such it is lower than the average P/NAV as represented by the Recent Transactions. Furthermore, it also falls within the lower end of the range of the P/NAV of the Recent Transactions between approximately 1.65 times to approximately 11.80 times.

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In light of this, we are of the opinion that the consideration of the Acquisition, based on a comparison with the Recent Transactions on a P/NAV basis, is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

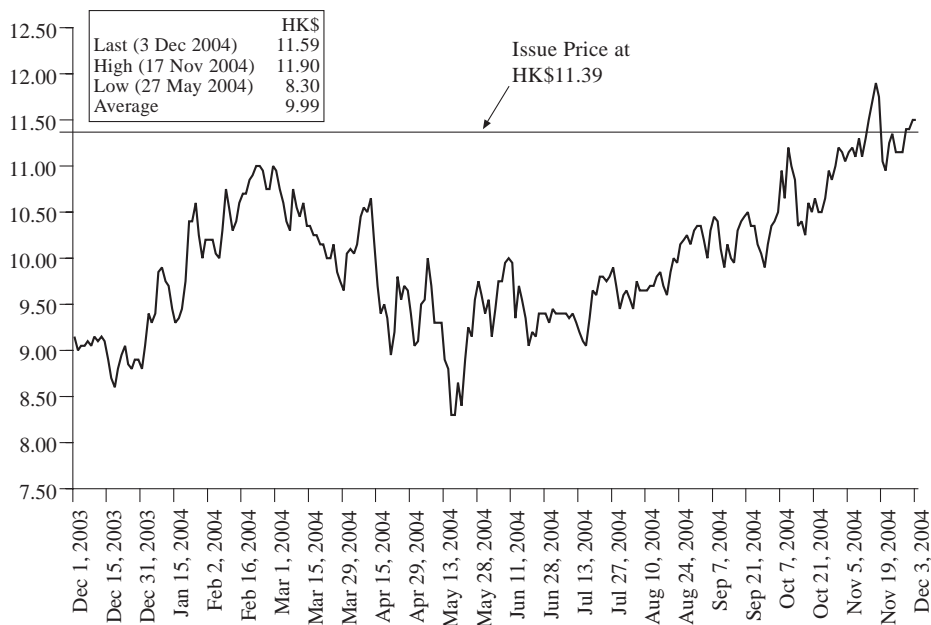
2. Consideration Shares

The consideration for the Acquisition shall be satisfied by the issue and allotment of the Consideration Shares. Under the Acquisition Agreement, the Consideration Shares shall be allotted at an issue price of HK\$11.39 per Share (the “Issue Price”). The Issue Price was determined based on the average daily closing price of the Shares as at the date of the Acquisition Agreement and the four trading days immediately preceding the date of the Acquisition Agreement.

i. Comparison to historical daily closing price of the Shares

We have reviewed the share price performance of the Company for the one-year period from 4 December 2003 up to and including 3 December 2004 (the “Review Period”). The daily closing price of the Shares for the Review Period is illustrated in Chart 1 below:

Chart 1: Daily closing price of the Shares during the Review Period



Source: Bloomberg

As illustrated in Chart 1 above, the daily closing price of the Shares during the Review Period ranged from HK\$8.30 to HK\$11.90, with an average daily closing price of the Shares for the Review Period of HK\$9.99. The share price movement of the Shares has generally been on an upward trend since mid-May 2004. Except for selected days in the recent period since mid-November 2004, the Issue Price is at a premium to the daily closing price of the Shares during the Review Period.

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The premium and/or discount of the Issue Price to the average daily closing price of the Shares for different periods for comparison during the Review Period are set out in Table 3 below:

Table 3: Premium/(Discount) of the Issue Price to the average daily closing price of the Shares for different periods of comparison

Date/Period	Average daily closing price per Share during the period	Premium/(Discount) of the Issue Price to the average daily closing price per Share during the period
As at 3 December 2004	11.50	(0.96%)
5 days up to and including 3 December 2004	11.39	0.00%
10 days up to and including 3 December 2004	11.28	0.98%
1 month up to and including 3 December 2004	11.31	0.74%
3 months up to and including 3 December 2004	10.77	5.81%
6 months up to and including 3 December 2004	10.20	11.67%
1 year up to and including 3 December 2004	9.99	13.98%
As at the Latest Practicable Date	11.50	(0.96%)

Source: Bloomberg

Table 3 above shows that the Issue Price represents a small discount of approximately 0.96% to closing price of the Shares of HK\$11.50 immediately before the date of the announcement on 3 December 2004. The Issue Price was determined based on the average daily closing price of the Shares as at the date of the Acquisition Agreement and the four trading days immediately preceding the date of the Acquisition Agreement.

Taking into account the basis of the Issue Price being fixed at no premium or discount to the five-day average closing price of the Shares up to and including 3 December 2004, the Issue Price, as shown in Table 3 above, represents a premium of approximately 0.98%, 0.74%, 5.81%, 11.67% and 13.98% over the average daily closing prices of the Shares for the periods over the ten-day, one-month, three-month, six-month and one-year period up to and including 3 December 2004 respectively.

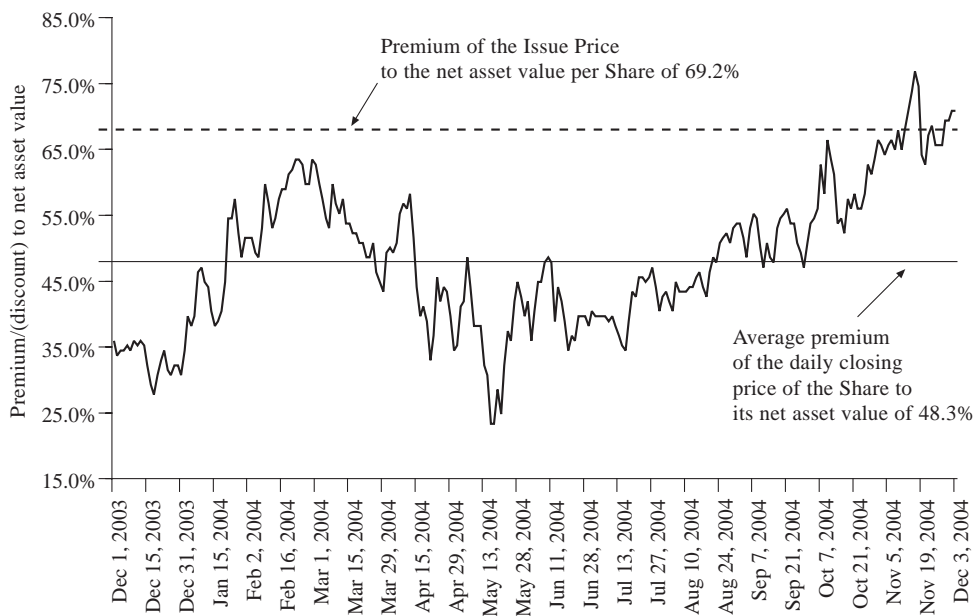
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As shown in Chart 1 and Table 3 above, the Issue Price of HK\$11.39 represents the top-end of the trading range in which the Shares has traded during the Review Period. Accordingly, we are of the view that the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

ii. *Comparison to historical premium to net asset value of the Company*

We have also reviewed the Share price premium/(discount) to its net asset value for the Review Period. Chart 2 below shows the premium/(discount) of the daily closing price of the Shares to its net asset value during the Review Period, based on the Company's unaudited net asset value per Share as at 30 September 2004 of approximately HK\$6.73 as stated in the letter from the Board.

Chart 2: Premium/(discount) to net asset value per Share during the Review Period



Source: Bloomberg

The Issue Price represents a premium of approximately 69.2% over the net asset value per Share, which is higher than the average premium of the daily closing price of the Shares to its net asset value during the Review Period of approximately 48.3% as shown in Chart 2 above. Furthermore, as shown in Chart 2 above, the premium of the Issue Price to the net asset value per Share is generally higher than the premium of the daily closing price of the Shares to its net asset value during the Review Period.

In light of this, we are of the opinion that the Issue Price is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

C. Other material terms of the Acquisition

Completion of the Acquisition Agreement is conditional on:

- i. passing of a resolution by the Independent Shareholders at an extraordinary general meeting of the Company approving the Acquisition Agreement;
- ii. the PRC Agreements having been approved by the Approval Authority and duly completed and the BVI Companies having performed all its obligations under the PRC Agreements; and
- iii. the Stock Exchange granting, or agreeing to grant, the listing of, and permission to deal in, the Consideration Shares.

The Acquisition Agreement provides that should the satisfaction of all Conditions not occur on or before 30 June 2005, the Acquisition Agreement shall terminate.

D. Financial impact of the Acquisition

1. *Effect on net asset value*

Based on the unaudited net asset value of the Company of approximately HK\$14,190 million as at 30 September 2004 as announced in the financial and operational review for 2004 third quarter of the Company, upon completion of the Acquisition, the unaudited net asset value of the Company will be increased by approximately HK\$646 million, representing an increase of approximately 4.5%.

Based on the unaudited net asset value per Share of the Company as at 30 September 2004 of approximately HK\$6.73, and based on 2,119,698,215 Shares in issue at the Latest Practicable Date and 57,971,905 new Shares to be issued pursuant to the Acquisition, on completion of the Acquisition, the unaudited net asset value per Share as at 30 September 2004 will be enhanced approximately HK\$0.08, representing an increase of approximately 1.2%.

In light of the positive effect of the Acquisition on the net asset value and net asset value per Share, we are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

2. *Effect on earnings*

As the results of the China Resources Vanguard Business and the Suguo Group have been consolidated into the results of the Group, after the Acquisition, the minority interests for the China Resources Vanguard Business and the Suguo Group will be reduced accordingly. According to the 2003 annual report and accounts of the Company, for the year ended 31 December 2003, the profit attributable to the Shareholders of the Company amounted to approximately HK\$1,455.2 million. As stated in the letter from the Board, for the nine months ended 30 September 2004, the unaudited profit attributable to Shareholders of the Company amounted to approximately HK\$1,139.0 million.

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For the year ended 31 December 2003, the unaudited net loss attributable to shareholders for the China Resources Vanguard Business was approximately HK\$156.5 million and the unaudited net profit attributable to shareholders for Suguo was approximately HK\$38.3 million. This corresponds to a combined net loss attributable to the Targeted Interests of approximately HK\$50.4 million or approximately 3.5% of the net profit attributable to the Shareholders for the year ended 31 December 2003.

For the nine months ended 30 September 2004, the unaudited net loss attributable to the shareholders for the China Resources Vanguard Business was approximately HK\$61.5 million and the unaudited net profit attributable to shareholders for the Suguo Group was approximately HK\$58.4 million. This corresponds to a combined net loss attributable to the Targeted Interests of approximately HK\$14.8 million or approximately 1.3% of the Company's net profit attributable to the Shareholders for the nine months ended 30 September 2004.

We concur with the view of the Directors that the effect on net profit as a result of the Acquisition is not material in comparison to the consolidated net profit of the Company for the corresponding periods.

Commencing 1 January 2005, goodwill of the Group will not be amortized over a period of time under the accounting principles generally accepted in Hong Kong. Accordingly no amortization will be charged to the consolidated profit and loss account of the Company for the year ended 31 December 2005. The carrying amount of goodwill will be subject to assessment for impairment annually, which at this moment cannot be reasonably determined.

In light of the positive effect of the Acquisition on the net asset value of the Company and given the improvement of the business results of the China Resources Vanguard Business and the Suguo Group for the nine months ended 30 September 2004 (compared to the corresponding period of 2003) shown in this section above, we are of the opinion that the marginal effect on earnings is acceptable.

3. *Effect on dividends*

The amount of normal cash dividend, excluding the special distribution in specie of shares of China Resources Cement Holdings Limited, for the year ended 31 December 2003 was approximately HK\$503 million. In view of the Acquisition having an insignificant effect to the Company's net profit attributable to Shareholders for the year ended 31 December 2003, assuming the dividend payout ratio for 2003 remains unchanged, the effect of the Acquisition will also be not material to dividends of the Company. Based on our discussions with the Company, it is our understanding that the Company adopts a general dividend payout policy, subject to review, ranging from approximately 30% to 35% for each year. We have reviewed the dividend payout ratios of the Company for the three years ended 31 December 2003 which showed an increasing trend. The dividend payout ratio for each of the years ended 31 December 2001, 2002 and 2003 are approximately 30.6%, 32.6% and 34.5% respectively. Based on the increasing trend of the dividend payout ratios of the Company, and the effect of the Acquisition, we are of the opinion that the effect on the normal cash dividend as a result of the Acquisition is not material.

4. *Effect on working capital and gearing*

As the consideration for the Acquisition will be settled entirely by the issue of the Consideration Shares, no cash outlay is required for the Acquisition. Based on this, the Acquisition will not bring any material adverse effect on the working capital of the Company.

Due to the increase in issued share capital from the Acquisition as a result of the issue of the Consideration Shares, the gearing ratio of the Company would have decreased from approximately 13.9% as at 30 September 2004 to approximately 13.5%. Calculation of the gearing ratio is based on net external borrowings of the Company to its shareholders' funds and minority interests.

In light of the marginal improvement in the gearing level of the Group and no material adverse effect on the working capital of the Company, we are of the opinion that the Acquisition is in the interests of the Company and the Shareholders as a whole.

5. *Dilution of shareholding*

In satisfying the consideration of the Acquisition, 57,971,905 new Shares will be issued to China Resources Holdings. Based on the shareholding distribution of the Company as at the Latest Practicable Date, the dilution impact of the Acquisition and issue of the Consideration Shares is illustrated in Table 6 below:

**Table 6: Shareholding of the Company before
and on completion of the Acquisition**

Shareholding in the Company	Before the Acquisition and issue of the Consideration Shares		On the completion of the Acquisition and issue of the Consideration Shares	
	Number of Shares	Percentage of shareholding	Number of Shares	Percentage of shareholding
China Resources Holdings and its Associates	1,165,821,822	55.0%	1,223,793,727	56.2%
Independent Shareholders	<u>953,876,393</u>	<u>45.0%</u>	<u>953,876,393</u>	<u>43.8%</u>
Total	<u><u>2,119,698,215</u></u>	<u><u>100.0%</u></u>	<u><u>2,177,670,120</u></u>	<u><u>100.0%</u></u>

The completion of the Acquisition and the issue of the Consideration Shares would result in a dilution to the shareholding of the Independent Shareholders of approximately 1.2% from approximately 45.0% to approximately 43.8%. We are of the view that the dilution effect due to the Acquisition is not material and is acceptable to the Independent Shareholders.

In view of the marginal negative effects on earnings, dividends and shareholding dilution being not material, the Acquisition has positive effects on the Company's net asset value and gearing level, and given the improvement of the business results of the China Resources Vanguard Business

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and the Suguo Group for the nine months ended 30 September 2004 (compared to the corresponding period of 2003), we are of the opinion that the Acquisition is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

RECOMMENDATION

Having considered the principal factors referred to above, we are of the view that the Acquisition is in the ordinary and usual course of business of the Company and the Acquisition is on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, we advise the Independent Board Committee to recommend to the Independent Shareholders to vote in favor of the Acquisition at the EGM. We also recommend the Independent Shareholders to vote in favor of the Acquisition at the EGM.

Yours faithfully,
For and on behalf of
Platinum Securities Company Limited
Liu Chee Ming **Alvin Lai**
Managing Director *Director*

RESPONSIBILITY STATEMENT

The Circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in the Circular have been arrived at after due and careful consideration and there are no other facts not contained in the Circular, the omission of which would make any statement in the Circular misleading.

DISCLOSURE OF INTERESTS

Directors

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations, within the meaning of Part XV of the SFO, which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the Directors and chief executive of the Company are taken or deemed to have under such provisions of the SFO, or which are required to be entered in the register required to be kept pursuant to section 352 of the SFO or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules, were as follows:

(a) *Interests in issued ordinary shares and underlying shares of the Company*

Name of Directors	Long position/ Short position	Number of Shares	Number of underlying Shares ¹	Aggregate percentage of interest ² (%)
Ning Gaoning	Long position	1,630,000	4,500,000	0.29
Song Lin	Long position	200,000 ³	200,000 ³	0.23
	Long position	—	4,500,000	
Chen Shulin	Long position	—	6,012,000	0.28
Qiao Shibo	Long position	—	3,800,000	0.18
Yan Biao	Long position	900,000	4,000,000	0.23
Keung Chi Wang, Ralph	Long position	—	2,966,000	0.14
Lau Pak Shing	Long position	—	2,500,000	0.12
Wang Qun	Long position	40,000	800,000	0.04
Zhong Yi	Long position	420,000	1,100,000	0.07
Kwong Man Him	Long position	—	2,994,000	0.14
Jiang Wei	Long position	—	600,000	0.03
Xie Shengxi	Long position	—	380,000	0.02
Dr. Chan Po Fun, Peter	Long position	336,000	200,000	0.03
	Long position	170,000 ⁴		
Houang Tai Ninh	Long position	—	200,000	0.01
Dr. Li Ka Cheung, Eric	Long position	—	200,000	0.01

- 1. This refers to underlying Shares covered by Share Options granted, such options being unlisted physically settled equity derivatives, particulars of which as required to be disclosed under Rule 17.07(1) of the Listing Rules are set out in Note 6 below.
- 2. This represents the percentage of the aggregate long positions in Shares and underlying Shares to the total issued share capital of the Company as at the Latest Practicable Date.
- 3. Mr. Song Lin was deemed to be interested in the 200,000 Shares and 200,000 underlying Shares through interests of his spouse.
- 4. Such interest is held by a company of which Dr. Chan Po Fun, Peter is interested in 88.25% of its issued share capital.
- 5. Save as otherwise specified under Note 3 and 4, interests disclosed hereunder are being held by each Director in his capacity as beneficial owner.
- 6. Particulars of Share Options referred to in Note 1 above:

Name of Director	Date of grant	Exercise Price per Share HK\$	Number of underlying Shares covered by Share Options outstanding as at 1/1/2004	Number of underlying Shares covered by Share Options granted during the period	Number of underlying Shares covered by Share Options outstanding as at the Latest Practicable Date
Ning Gaoning	20/06/2000	7.190	3,300,000	—	3,300,000
	07/02/2002	7.170	1,200,000	—	1,200,000
Song Lin	20/06/2000	7.190	200,000*	—	200,000*
	07/02/2002	7.170	2,000,000	—	2,000,000
	14/01/2004	9.720	—	2,500,000	2,500,000
Chen Shulin	21/11/2000	7.080	1,186,000	—	1,186,000
	07/02/2002	7.170	1,326,000	—	1,326,000
	14/01/2004	9.720	—	2,000,000	2,000,000
	02/06/2004	9.550	—	1,500,000	1,500,000
Qiao Shibo	07/02/2002	7.170	1,800,000	—	1,800,000
	14/01/2004	9.720	—	2,000,000	2,000,000
Yan Biao	20/06/2000	7.190	3,000,000	—	3,000,000
	07/02/2002	7.170	1,000,000	—	1,000,000
Keung Chi	20/06/2000	7.190	1,400,000	—	1,400,000
Wang, Ralph	07/02/2002	7.170	500,000	—	500,000
	14/01/2004	9.720	—	216,000	216,000
	02/06/2004	9.550	—	850,000	850,000
Lau Pak Shing	20/06/2000	7.190	1,000,000	—	1,000,000
	07/02/2002	7.170	500,000 [△]	—	—
	14/01/2004	9.720	—	500,000	500,000
	02/06/2004	9.550	—	1,000,000	1,000,000
Wang Qun	20/06/2000	7.190	400,000	—	400,000
	07/02/2002	7.170	400,000	—	400,000
Zhong Yi	20/06/2000	7.190	1,500,000 [△]	—	—
	02/06/2004	9.550	—	300,000	300,000
	22/07/2004	9.800	—	800,000	800,000
Kwong Man Him	07/02/2002	7.170	2,000,000	—	2,000,000
	14/01/2004	9.720	—	222,000	222,000
	02/06/2004	9.550	—	772,000	772,000
Jiang Wei	08/03/2002 ⁺	7.500	600,000	—	600,000
Xie Shengxi	08/03/2002 ⁺	7.500	380,000	—	380,000
Dr. Chan Po Fun, Peter	02/06/2004	9.550	—	200,000	200,000
Houang Tai Ninh	02/06/2004	9.550	—	200,000	200,000
Dr. Li Ka Cheung, Eric	02/06/2004	9.550	—	200,000	200,000

* These Share Options were granted to the spouse of Mr. Song Lin.

+ These Share Options are being vested in 4 equal tranches on date of grant, 1st January, 2003, 1st January, 2004 and 1st January, 2005.

△ These Share Options have been fully exercised during the period between 1st January, 2004 and the Latest Practicable Date.

Save as otherwise provided, all Share Options referred to above are exercisable for a period of 10 years from the date of grant.

(b) *Interest in issued ordinary shares and underlying shares of associated corporations*

- (i) Interests in issued ordinary shares and underlying shares of an associated corporation, China Resources Land Limited (“CR Land”):

Name of Directors	Long position/ Short position	Number of shares	Number of underlying shares ¹	Aggregate percentage of interest ² (%)
Ning Gaoning	Long position	—	5,000,000	0.33
Yan Biao	Long position	—	4,700,000	0.31
Keung Chi Wang, Ralph	Long position	—	3,300,000	0.22
Zhong Yi	Long position	—	2,000,000	0.13
Jiang Wei	Long position	—	720,000	0.05
Xie Shengxi	Long position	—	460,000	0.03

1. This refers to the number of underlying shares of CR Land covered by share options granted, such options being unlisted physically settled equity derivatives, particulars of which as required to be disclosed under Rule 17.07(1) of the Listing Rules are set out in Note 4 below.
2. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Land to the total issued share capital of CR Land as at the Latest Practicable Date.
3. All interests disclosed above are being held by each Director in his capacity as beneficial owner.
4. Particulars of share options referred to in Note 1 above:

Name of Directors	Date of grant	Exercise Price per share HK\$	Number of underlying shares covered by share options outstanding as at 1/1/2004	Number of underlying shares covered by share options outstanding as at the Latest Practicable Date
Ning Gaoning	27/06/1997*	4.592	2,500,000	2,500,000
	20/07/2000*	0.990	2,500,000	2,500,000
Yan Biao	27/06/1997*	4.592	2,300,000	2,300,000
	20/07/2000*	0.990	2,400,000	2,400,000
Keung Chi Wang, Ralph	27/06/1997*	4.592	2,000,000	2,000,000
	20/07/2000*	0.990	1,300,000	1,300,000
Zhong Yi	20/07/2000*	0.990	2,000,000	2,000,000
Jiang Wei	04/03/2002	1.590	720,000	720,000
Xie Shengxi	04/03/2002 ⁺	1.590	460,000	460,000

* Such share options are exercisable from date of grant up to and including 27th May, 2007.

+ Such share options are being vested in 4 equal tranches on the date of grant, 1st January, 2003, 1st January, 2004 and 1st January, 2005.

Save as otherwise provided, all share options are exercisable within a period of 10 years from the date of grant.

- (ii) Interests in issued ordinary shares and underlying shares of an associated corporation, China Resources Logic Limited (“CR Logic”):

Name of Directors	Long position/ Short position	Number of shares	Number of underlying shares ¹	Aggregate percentage of interest ² (%)
Ning Gaoning	Long position	—	3,000,000	0.11
Song Lin	Long position	3,600,000	8,900,000	0.47
Yan Biao	Long position	—	6,000,000	0.23
Jiang Wei	Long position	—	720,000	0.03
Xie Shengxi	Long position	—	450,000	0.02

1. This refers to the number of underlying shares of CR Logic covered by share options granted, such options being unlisted physically settled equity derivatives, particulars of which as required to be disclosed under Rule 17.07(1) of the Listing Rules are set out in Note 4 below.
2. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Logic to the total issued share capital of CR Logic as at the Latest Practicable Date.
3. All interests disclosed above are being held by each Director in his capacity as beneficial owner.
4. Particulars of share options referred to in Note 1 above:

Name of Directors	Date of grant	Exercise price per share HK\$	Number of underlying shares covered by share options outstanding as at 1/1/2004	Number of underlying shares covered by share options outstanding as at the Latest Practicable Date
Ning Gaoning	02/10/2002	0.570	2,000,000	2,000,000
	09/04/2003	0.479	1,000,000	1,000,000
Song Lin	21/09/2000	0.590	6,900,000	6,900,000
	13/01/2004	0.906	2,000,000	2,000,000
Yan Biao	04/12/2001	0.790	6,000,000	6,000,000
Jiang Wei	09/04/2002*	0.820	720,000	720,000
Xie Shengxi	09/04/2002 ⁺	0.820	450,000	450,000

* All such share options are being vested in four equal tranches on date of grant, 1st January, 2003, 1st January, 2004 and 1st January, 2005, and expire on 8 April, 2012.

+ All such share options are being vested in four tranches on the date of grant, 1st January, 2003, 1st January, 2004 and 1st January, 2005, and expire on 8 April, 2012.

Save as otherwise provided, all such share options are exercisable within period of 10 years from the date of grant.

- (iii) Interests in issued ordinary shares and underlying shares of an associated corporation, China Resources Cement Holdings Limited (“CR Cement”):

Name of Directors	Long position/ Short position	Number of shares	Number of underlying shares ¹	Aggregate percentage of interest ² (%)
Ning Gaoning	Long position	163,000	—	0.04
Qiao Shibo	Long position	—	3,800,000	1.05
Yan Biao	Long position	90,000	—	0.02
Keung Chi Wang, Ralph	Long position	—	800,000	0.22
Wang Qun	Long position	4,000	—	0.01
Kwong Man Him	Long position	—	300,000	0.08
Dr. Chan Po Fun, Peter	Long position	50,600 ³	—	0.01

1. This refers to the number of underlying shares of CR Cement covered by share options granted, such options being unlisted physically settled equity derivatives. All such options (except for options covering 800,000 underlying shares which are held by Mr. Qiao Shibo) were granted on 5th December, 2003 at the exercise price of HK\$2.325 per share, and are being vested in 5 equal tranches of 20% each on each anniversary of the date of grant and expire on 4th December, 2013. The options covering 800,000 underlying shares which are held by Mr. Qiao Shibo were granted on 16th December, 2004 at the exercise price of HK\$1.66 per share and are being vested in 4 equal tranches of 25% each on each anniversary of the date of grant and expire on 15th December, 2014.
2. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Cement to the total issued share capital of CR Cement as at the Latest Practicable Date.
3. Out of these 50,600 shares, 17,000 shares are held by a company of which Dr. Chan Po Fun, Peter is interested in 88.25% of its issued share capital.
4. Save as otherwise specified in Note 3, all other interests disclosed above are being held by each Director in his capacity as beneficial owner.

- (iv) Interests in issued ordinary shares and underlying shares of an associated corporation, China Resources Power Holdings Company Limited (“CR Power”):

Name of Directors	Long position/ Short position	Number of shares	Number of underlying shares ¹	Aggregate percentage of interest ² (%)
Ning Gaoning	Long position	—	1,000,000	0.03
Song Lin	Long position	—	2,000,000	0.05
Chen Shulin	Long position	—	600,000	0.02
Qiao Shibo	Long position	—	600,000	0.02
		—	30,000 ³	
Yan Biao	Long position	—	600,000	0.02
Lau Pak Shing	Long position	—	500,000	0.01
Wang Qun	Long position	—	500,000	0.01
Jiang Wei	Long position	—	1,000,000	0.03
Xie Shengxi	Long position	—	400,000	0.01

1. This refers to the number of underlying shares of CR Power covered by share options granted, such options being unlisted physically settled equity derivatives. All such share options were granted on 12th November, 2003 at the exercise price of HK\$2.8 per share. All such share options are being vested in 5 tranches of 20% each on each anniversary of the date of grant. All such share options expire on 5th October, 2013.
2. This represents the percentage of the aggregate long positions in shares and underlying shares of CR Power to the total issued share capital of CR Power as at the Latest Practicable Date.
3. Mr. Qiao Shibo was deemed to be interested in the 30,000 underlying shares through interests of his spouse.
4. Save as otherwise specified in Note 3, interests disclosed hereunder are being held by each Director in his capacity as beneficial owner.

Of the Directors, Mr Ning Gaoning and Mr Song Lin are also directors of China Resources Holdings, CRNC (as defined below) and China Resources Company; Mr Chen Shulin and Mr Qiao Shibo are also directors of China Resources Holdings and CRNC; and Mr Wang Qun, Mr Jiang Wei and Mr Xie Shengxi are also directors of China Resources Holdings; China Resources Holdings, CRNC and China Resources Company being companies having interests or short positions in the Shares and underlying Shares of the Company as further disclosed below.

Save as disclosed above, as at the Latest Practicable Date, no other Director is a director or employee of a company which has an interest or short position in the Shares and/or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which are required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO) or which are required to be entered in the register required to be kept, pursuant to section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies contained in the Listing Rules.

SHAREHOLDERS WITH NOTIFIABLE INTERESTS AND SUBSTANTIAL SHAREHOLDERS

The Company

As at the Latest Practicable Date, other than the interests and short positions as disclosed above, so far as is known to the Directors, the following persons have interests or short positions in the Shares and underlying Shares as fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO or as recorded in the register required to be kept by the Company:

Name of interested party	Number of shares in which the interested party is deemed to have interests ⁴	Percentage of shareholding (%)
China Resources National Corporation (“CRNC”)	1,165,821,822	54.99
China Resources Co., Limited ¹	1,165,821,822	54.99
CRC Bluesky Limited ¹	1,165,821,822	54.99
China Resources (Holdings) Company Limited (“CRH”) ¹	1,165,821,822	54.99
Commonwealth Bank of Australia ²	169,218,516	7.98
J.P. Morgan Chase & Co. ³	138,178,973	6.52

1.

CRH is a 100% subsidiary of CRC Bluesky Limited, which is in turn owned as to 100% by China Resources Co., Limited, which is in turn held as to 99.98% by CRNC.
2.

According to the information disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, these Shares were held by corporations controlled directly or indirectly as to 100% by Commonwealth Bank of Australia.
3.

According to the information disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, these Shares were held by J.P. Morgan Chase & Co. and corporations controlled by it (note 5) in the respective following capacity:

Capacity	No. of Shares
Beneficial owner	4,894,660
Investment manager	72,464,000
Lending pool	60,820,313

4.

Save as otherwise disclosed above, all interests disclosed are long positions.
5.

According to the information disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, other than the following corporations which were held by J.P. Morgan Chase & Co. in the manner described below, all these corporations were controlled directly or indirectly as to 100% by J.P. Morgan Chase & Co.:

Name of corporation	Percentage interest (direct or indirect) held by J.P. Morgan Chase & Co.
Robert Fleming Asset Management Ltd.	95.96%
Robert Fleming Holdings Ltd.	96%
JF Asset Management Limited	99.99%
J.P. Morgan Securities Ltd.	90%
J.P. Morgan Capital Holdings Limited	72.72%

Other members of the Group

As at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors, the following persons were, directly or indirectly, interested in ten per cent. or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group:

Members of Group	Name of substantial shareholder(s)	Percentage of shareholding (%)
Senica International Limited	(1) Cheung Kong Investment Company Limited	22.5
	(2) Crownmax Limited	22.5
China International Fisheries Corp 中國國際漁業公司 (trade name)	中水遠洋漁業有限責任公司 (CNFC International Fisheries Corp.)	49
C & G Fisheries Company Limited	Legon Fishing Company Limited	49
Chinese Wine Trading Company Limited 中國酒業貿易有限公司	Au Young Yik Fung 歐陽亦芃	10
Chung Kong Luen Livestock Company Limited 中港聯合生豬有限公司	(1) China Live Pigs Trading Limited 中國生豬貿易有限公司	15.59
	(2) Hong Kong Live Pigs Trading Limited 香港生豬貿易有限公司	15.59
	(3) Jointforce Trading Company Limited 聯能貿易有限公司	17.82
Fordex International Limited 和泰國際有限公司	Tai Kong Nam International Limited 大江南國際有限公司	49
五豐食品(深圳)有限公司 (Ng Fung Foods (Shenzhen) Co., Ltd.)	深圳市投資控股有限公司 (Shenzhen Investment Holding Co., Ltd.)	30
深圳市鹽海肉類綜合加工有限公司 (Shenzhen Yan Hai Meat Multi-Processing Co., Ltd.)	深圳市鹽田區果菜食品有限公司 (Shenzhen Yan Tian Vegetable & Foodstuffs Co., Ltd.)	47
深圳市鴻發家禽批發市場有限公司 (Shenzhen Hong Fa Poultry Wholesale Market Co., Ltd.)	深圳市樟盛發實業有限公司 (Shenzhen Zi Sheng Fa Industrial Co., Ltd.)	49

Members of Group	Name of substantial shareholder(s)	Percentage of shareholding (%)
杭州五豐嘉興冷食有限公司 (Hangzhou NF Jiaxing Refrigerated Food Co., Ltd.)	杭州冷氣製品廠 (Hangzhou Refrigerated Food Factory)	40
杭州五豐冷食有限公司 (Hangzhou NF Refrigerated Food Co., Ltd.)	杭州冷氣製品廠 (Hangzhou Refrigerated Food Factory)	40
湖州五豐冷食有限公司 (Huzhou NF Refrigerated Food Co., Ltd.)	杭州冷氣製品廠 (Hangzhou Refrigerated Food Factory)	40
江西五豐腊味食品有限公司 (Jiangxi Ng Fung Preserved Food Co., Ltd.)	江西省糧油食品進出口公司 (Jiangxi Cereals, Oils & Foodstuff Import & Export Corp.)	49
江西五豐食品有限公司 (Jiangxi Ng Fung Foodstuffs Co., Ltd.)	會昌縣精製米食公司 (Hui Chang Country Refined Rice Products Company)	42
江西五豐牧業有限公司 (Jiangxi Wufeng Stock-Raising Co., Ltd.)	江西省糧油食品進出口公司 (Jiangxi Cereals, Oils & Foodstuffs Import & Export Corp.)	49
Kowloon Live Cattle Trading Limited 九龍生牛貿易有限公司	(1) Ip Moon Tong 葉滿堂	20
	(2) Keensky Company Limited 建天有限公司	20
Lian You Enterprise Company, Limited 聯友企業有限公司	四川新天地糧油食品進出口有限責任公司 (Sichuan NSL Cereals, Oils & Foodstuffs I/E Co., Ltd.)	49
Man Luen Hong Motor Company Limited 香港文聯運輸有限公司	中糧深圳糧油食品進出口公司 (Ceroilfood Shenzhen Cereals, Oils & Foodstuff Import & Export Company)	20
Ng Fung Slaughterhouse (Hong Kong) Company Limited 五豐屠房(香港)有限公司	Richgold Enterprises Limited 富高企業有限公司	30
上海五豐畜禽食品有限公司 (Shanghai Ng Fung Livestock Poultry & Foodstuff Co., Ltd.)	上海市食品進出口公司 (Shanghai Foodstuffs Import & Export Corp.)	49

Members of Group	Name of substantial shareholder(s)	Percentage of shareholding (%)
江西五豐畜牧科技有限公司 (Jiangxi Wu Feng Science & Technology of Livestock Raising Co., Ltd.)	江西省糧油食品進出口公司 (Jiangxi Cereals, Oils & Foodstuffs Import & Export Corp.)	49
上海五豐上食畜牧有限公司 (Shanghai Ng Fung Shangshi Livestock Co., Ltd.)	上海新亞(集團)有限公司 (Shanghai New Asia (Group) Co., Ltd.)	49
上海五豐上食食品有限公司 (Shanghai Ng Fung Shangshi Food Co., Ltd.)	上海新亞(集團)有限公司 (Shanghai New Asia (Group) Co., Ltd.)	49
華潤萬家有限公司 (China Resources Vanguard Co., Ltd.)	華潤股份有限公司 (China Resources Co., Limited)	35
深圳華潤萬佳超級市場有限公司 (Shenzhen China Resources Wan Jia Supermarket Co., Ltd.)	華潤股份有限公司 (China Resources Co., Limited)	35
深圳市萬佳超級市場有限公司 (Shenzhen Wan Jia Supermarket Co., Ltd.)	華潤股份有限公司 (China Resources Co., Limited)	35
廣東華潤超級市場有限公司 (Guangdong China Resources Supermarket Co., Ltd.)	中山市城鄉消費合作社 (Zhong Shan Shi Cheng Xiang Xiao Fei He Zuo She)	15
蘇果超市有限公司 (Suguo Supermarket Co., Ltd)	(1) 江蘇省果品食雜總公司 (Jiangsu Foodstuffs Co., Ltd.)	15
	(2) 北京正新港科技發展有限公司 (Beijing Zheng Xin Gang Technology Development Co., Ltd.)	11.5
蘇果超市(全椒)有限公司 (Suguo Supermarket (Quanjiao) Co., Ltd)	全椒縣濟全商業有限公司 (Quanjiao Xian Ji Quan Commercial Co., Ltd.)	10
蘇果超市(滁州)有限公司 (Suguo Supermarket (Chuzhou) Co., Ltd)	滁州市商貿超市有限責任公司 (Chuzhou Shi Shang Mao Supermarket Co., Ltd.)	12
咸陽華潤紡織有限公司 (Xianyang China Resources Textiles Co., Ltd.)	陝西天王興業集團有限公司 (Shanxi Tian Wan Xing Ye Holding Co., Ltd.)	20

Members of Group	Name of substantial shareholder(s)	Percentage of shareholding (%)
山東華潤厚木尼龍有限公司 (Shandong CRC Atsugi Nylon Co., Ltd.)	日本厚木株式會社 Atsugi Co., Ltd.	40
河北正定華潤紡織有限公司 (Hebei Zhengding China Resources Textiles Co., Ltd.)	正定縣工業經濟開發中心 (Zheng Ding Xian Industrial Economic Development Centre)	10
濟南華豐紡織有限公司 (Jinan Hua Feng Textile Co., Ltd.)	(1) 山東海川集團控股公司 (Shandong Hai Chuan Holding Company)	20
	(2) 濟南仁豐紡織有限公司 (Jinan Renfeng Textile Co., Ltd.)	16
Upmarket Enterprises Limited	Splendid Approach Group Limited	45
Tactical Solutions Incorporated	Esprit China Distribution Limited	49
南京華潤東方投資管理有限責任公司 (Nanjing China Resources Dong Fong Investment Management Co., Ltd.)	南京東方商城有限責任公司 (Nanjing Dong Fong Shang Cheng Co., Ltd.)	10
南京東方商城商業投資管理有限公司 (Nanjing Dong Fong Shang Cheng Commercial Investment Management Co., Ltd.)	南京東方商城有限責任公司 (Nanjing Dong Fong Shang Cheng Co., Ltd.)	33.3
南京安乃安時裝有限公司 (Nanjing An Nai An Shi Zhuang Co., Ltd.)	服可利行銷企劃有限公司 (Fu Ke Li Xing Xiao Ji Hua Co., Ltd.)	49
China Resources Snow Breweries Limited (華潤雪花啤酒有限公司)	SABMiller Asia Limited 南非釀酒集團(亞洲)有限公司	49
華潤雪花啤酒(鞍山)有限公司 (China Resources Snow Breweries (Anshan) Co., Ltd.)	鞍山啤酒廠 (Anshan Brewery Factory)	10
華潤雪花啤酒(長春)有限公司 (China Resources Snowflake Brewery (Changchun) Co., Ltd.)	長春威士龍啤酒有限公司 (Chang Chun Wei Shi Long Brewery Co., Ltd.)	15
華潤雪花啤酒(哈爾濱)有限公司 China Resources Snow Breweries (Harbin) Co., Ltd.)	黑龍江新三星集團股份有限公司 (Heilongjiang Xin San Xing Holding Stock Co., Ltd.)	30

Members of Group	Name of substantial shareholder(s)	Percentage of shareholding (%)
華潤雪花啤酒(遼陽)有限公司 (China Resources Snow Breweries (Liaoyang) Co., Ltd.)	遼陽美月啤酒股份有限公司 (Liaoyang Meiyue Brewery Stock Co., Ltd.)	40
華潤雪花啤酒(沈陽)有限公司 (China Resources Snow Breweries (Shenyang) Co., Ltd.)	瀋陽市釀酒廠 (Shenyang Shi Niang Jiu Factory)	10
華潤雪花啤酒(武漢)有限公司 (China Resources Snowflake Brewery (Wuhan) Co., Ltd.)	武漢東西湖啤酒集團股份有限公司 (Wuhan Dong Xi Hu Breweries Holding Stock Co., Ltd.)	10
華潤藍劍(成都)啤酒有限責任公司 (China Resources Blue Sword (Chengdu) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(達州)啤酒有限公司 (China Resources Blue Sword (Dazhou) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(廣安)啤酒有限責任公司 (China Resources Blue Sword (Guang An) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(樂山)啤酒有限責任公司 (China Resources Blue Sword (Le Shan) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(綿陽)啤酒有限責任公司 (China Resources Blue Sword (Mianyang) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(綿竹)啤酒有限責任公司 (China Resources Blue Sword (Mianzhu) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(南充)啤酒有限公司 (China Resources Blue Sword (Nanchong) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(邛崃)啤酒有限責任公司 (China Resources Blue Sword (Qionglai) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(什邡)啤酒有限責任公司 (China Resources Blue Sword (Shifang) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38

Members of Group	Name of substantial shareholder(s)	Percentage of shareholding (%)
四川華潤藍劍啤酒有限責任公司 (China Resources (Si Chuan) Blue Sword Breweries Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(自貢)啤酒有限責任公司 (China Resources Blue Sword (Zigong) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(內江)啤酒有限責任公司 (China Resources Blue Sword (Neijiang) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
華潤藍劍(遂寧)啤酒有限責任公司 (China Resources Blue Sword (Sui Ning) Brewery Co., Ltd.)	四川藍劍(集團)有限責任公司 (Si Chuan Lan Jian (Holding) Co., Ltd.)	38
瀋陽華潤創業釀酒有限公司 (Shenyang Huarunchuangye Beer Co., Ltd.)	瀋陽望花啤酒廠 (Shenyang Wang Hua Brewery Factory)	20
華潤雪花啤酒(盤錦)有限公司 (China Resources Snowflake Brewery (Panjin) Company Limited)	盤錦遼河啤酒有限公司 (Pan Jin Liao He Brewery Co., Ltd.)	30
浙江錢江啤酒股份有限公司 (Zhejiang Qianjiang Breweries Stock Co., Ltd.)	孔飛躍 (Kong Feiyue)	27
華潤龍津(舒城)啤酒有限公司 (China Resources Lonking (Shu Cheng) Brewery Co., Ltd.)	安徽龍津集團有限公司 (Anhui Lonking Holding Co., Ltd.)	10
華潤龍津(六安)啤酒有限公司 (China Resources Lonking (Liu An) Brewery Co., Ltd.)	安徽龍津集團有限公司 (Anhui Lonking Holding Co., Ltd.)	10
華潤雪花啤酒(常州)有限公司 (China Resources Snow Breweries (Chang Zhou) Co., Ltd.)	李浩臻 (Li Haozhen)	20
常州市開運商貿有限公司 (Chang Zhou Kai Yun Trading Co., Ltd.)	常州釀酒總廠工會 (Chang Zhou Niang Jiu Zong Chang Gong Hui)	10
常熟華潤石油化工有限公司 (Changshu China Resources Petroleum & Chemicals Co., Ltd.)	常熟市沿江經濟開發集團 (Changshu Yanjiang Economic Development Group)	10
東莞華潤石油化工有限公司 (Dongguan China Resources Petroleum & Chemicals Co., Ltd.)	廣東省東莞市石油公司 (Guangdong Dongguan Petroleum Co.)	49

Members of Group	Name of substantial shareholder(s)	Percentage of shareholding (%)
南京華潤燃氣有限公司 (China Resources (Nanjing) Gas Co., Ltd.)	(1) 南京市城市建設投資控股 (集團)有限責任公司 (Nanjing Urban Construction Investment Holding (Group) Co., Ltd.)	25
	(2) 南京中北(集團)股份有限公司 (Nanjing Zhongbei (Group) Holding Co., Ltd.)	14
	(3) 南京市公共交通總公司 (Nanjing Public Transportation Co.)	10
珠海經濟特區機動車器材供應有限公司 (Zhuhai Economic Special Zone Automobile Materials Supply Co., Ltd.)	廣東省拱北汽車運輸有限責任公司 (Guangdong Gongbei Motorcar Transportation Co., Ltd.)	20
中山市華虹石化有限公司 (Zhongshan Hua Hong Petrochems Co., Ltd.)	中山市長虹石油貿易有限公司 (Zhongshan Chang Hong Petroleum Trading Co., Ltd.)	30
博興華潤油脂化學有限公司 (China Resources (Boxing) Oleochemicals Co., Ltd.)	福旦投資有限公司 (Sunstate Investments Limited)	15
山東華潤油脂化學有限公司 (China Resources (Shandong) Oleochemicals Co., Ltd.)	福旦投資有限公司 (Sunstate Investments Limited)	15
China Resources Petrochems (Macau) Company Limited 華潤石化(澳門)有限公司	Kwong Tai Hong Petroleum Co. Ltd. 光大行石油有限公司	30
蘇州華潤燃氣有限公司 (Suzhou China-resources Gas Co., Ltd.)	蘇州虎丘區國有(集體)資產經營公司 (Suzhou Hu Qiu Zone Guo You (Cooperative) Asset Management Co.)	30

Save as disclosed above, as at the Latest Practicable Date, so far as is known to, or can be ascertained after reasonable enquiry by, the Directors or chief executive of the Company, no other person has interests and/or short positions in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, nor is there any person who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group.

SERVICE CONTRACTS

No director has an unexpired service contract which is not terminable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory obligations.

EXPERTS AND CONSENTS

The following are the qualifications of the experts who have provided their advice, reports and valuations as the case may be, which are contained in the Circular:

Name	Qualifications
Platinum Securities Company Limited	a corporation deemed licensed to carry out type 1 (dealing in securities), type 4 (advising on securities), type 6 (advising on corporate finance) and type 9 (asset management) regulated activities under the SFO

Platinum has given and have not withdrawn their written consent to the issue of this circular with the inclusion of their letter and the references to their name in the form and context in which appears.

As at the Latest Practicable Date, except for 920,000 shares of China Resources Logic Limited and 2,000 shares of China Resources Power Holdings Company Limited held by Platinum Broking Company Limited, a subsidiary of Platinum, the stock broking arm of the Platinum group of companies “Platinum Group”) for and on behalf of clients not connected to the Platinum Group, Platinum was not interested beneficially or otherwise in any shares in the Company or any of its subsidiaries or associated corporations and did not have any right, whether legally enforceable or not, or option to subscribe for or to nominate persons to subscribe for any shares in the Company or any of its subsidiaries or associated corporations nor did it have any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.

MISCELLANEOUS

- As at the Latest Practicable Date, the authorized and issued and fully paid share capital of the Company were approximately HK\$3,000.0 million and HK\$2,119.7 million respectively.
- There is no contract or arrangement entered into by any member of the Group in which any Director is materially interested and which is significant in relation to the business of the Group.
- None of the Directors has, or has had, any direct or indirect interest in any assets which have been acquired, disposed of or leased to, or which are proposed to be acquired, disposed of or leased to, the Company or any of its subsidiaries since 31st December, 2003, the date to which the latest published audited financial statements of the Group were made up.
- The Directors are not aware of any litigation or claims of material importance pending or threatened against any member of the Group.

- The Directors are not aware of any material change in the financial positions or trading prospects of the Group since 31st December, 2003, the date to which the latest audited financial statements of the Group were made up.
- The secretary of the Company is Lee Yip Wah, Peter, who is a practising solicitor.
- The qualified accountant of the Company appointed pursuant to Rule 3.24 of the Listing Rules is Keung Chi Wang, Ralph, who is a fellow member of the Association of Chartered Certified Accountant and an associate of the Hong Kong Institute of Certified Public Accountants.
- The share registrars of the Company are Standard Registrars Limited, Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong.
- The English texts of the Circular and the accompanying form of proxy shall prevail over their respective Chinese texts.

DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during business hours at the registered office of the Company from the date of the Circular up to and including the date of the EGM:

- the Acquisition Agreement;
- the PRC Agreements;
- the letter of advice from Platinum dated 24th December, 2004, the text of which is set out on pages 21 to 38 of the Circular; and
- the letter of consent referred to in paragraph headed “Experts and consents” of this appendix.



華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

NOTICE OF EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting of China Resources Enterprise, Limited (the “Company”) will be held at 2:00 p.m. on Monday, 10th January, 2005 at 39th floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong for the purpose of considering and, if thought fit, passing the following resolution, with or without amendments as ordinary resolution of the Company:

ORDINARY RESOLUTION

“**THAT** a conditional acquisition agreement dated 3rd December, 2004 (“Acquisition Agreement”) made between (i) China Resources (Holdings) Company Limited (“CRH”) as vendor, (ii) China Resources Co., Limited as warrantor, and (iii) the Company as purchaser (a copy of which marked “A” is produced to the meeting and signed by the Chairman for the purpose of identification) relating to the acquisition by the Company of the entire issued share capital of each of Aiming Investments Limited, Wealth Choice Investments Limited and Surefaith Investments Limited from CRH at a consideration of HK\$660,300,000 to be satisfied by the issue and allotment of 57,971,905 new shares in the Company and the transactions contemplated therein be and are hereby approved and the directors of the Company (or any one of them) be and are hereby authorized on behalf of the Company to sign seal execute perfect and deliver all such documents and to implement and take all steps and do any other and all acts and things as they may in their discretion consider to be desirable and/or necessary in the interests of the Company for the purpose of, or in connection with, the implementation and/or enforcement of the provisions of the Acquisition Agreement, including without limitation, subject to completion of the Acquisition Agreement taking place pursuant to the terms thereof, the issue and allotment of 57,971,905 shares of HK\$1.00 each in the Company to CRH.”

By order of the Board
China Resources Enterprise, Limited
Lee Yip Wah, Peter
Company Secretary

Hong Kong, 24th December, 2004

Registered office:

39th Floor, China Resources Building,
26 Harbour Road,
Wanchai,
Hong Kong

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

Notes:

1. Every member entitled to attend and vote at the extraordinary general meeting is entitled to appoint one or more proxies to attend and vote instead of him. A proxy need not be a member of the Company.
2. In order to be valid, a form of proxy together with any power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be deposited to the Company's registrars, Standard Registrars Limited, at Ground Floor, Bank of East Asia Harbour View Centre, 56 Gloucester Road, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the extraordinary general meeting.
3. According to Rule 13.39(4) of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules"), any vote taken at the extraordinary general meeting shall be taken by poll. The Company shall announce the results of the poll in the manner prescribed under Rule 13.39(5) of the Listing Rules.
4. A circular of the Company dated 24th December, 2004 in relation to the Acquisition can be viewed and downloaded from the website of The Stock Exchange of Hong Kong Limited at www.hkex.com.hk.
5. The executive directors of the Company are Mr. Ning Gaoning (Chairman), Mr. Song Lin (Deputy Chairman and Managing Director), Mr. Chen Shulin (Deputy Managing Director), Mr. Qiao Shibo (Deputy Managing Director), Mr. Yan Biao (Deputy Managing Director), Mr. Keung Chi Wang, Ralph (Deputy Managing Director), Mr. Lau Pak Shing, Mr. Wang Qun, Mr. Zhong Yi and Mr. Kwong Man Him. The non-executive directors are Mr. Jiang Wei and Mr. Xie Shengxi. The independent non-executive directors are Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh and Dr. Li Ka Cheung, Eric.