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CHINA RESOURCES ENTERPRISE, LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

DESPATCH OF CIRCULAR TO SHAREHOLDERS AND CONNECTED TRANSACTIONS

The circular (the "Circular") dated 30th September, 1999 containing, inter alia, details of the Agreements, the respective advice from the independent board committee of the Company and the independent financial adviser to the independent board committee has been despatched to the Shareholders.

As mentioned in the announcement dated 9th September, 1999 of the Company (the "Announcement"), the FCI Group entered into and will enter into certain transactions with CRH and its subsidiaries (together the "CRH Group") in the usual and ordinary course of business of the FCI Group on normal commercial terms, involving tenancy and licensing of properties from the CRH Group and purchase of merchandises from the CRH Group. As CRH is the controlling shareholder of the Company holding approximately 52.8% equity interest, upon Completion, FCI will become a wholly owned subsidiary of the Group, the transactions will constitute connected transactions of the Company. The aggregate amount of these transactions is expected to fall below 3% of the net tangible asset value of the Group, hence, they are only subject to disclosure requirements under the Listing Rules.

As the Continuing Connected Transactions (as defined below) will occur on a regular basis, the Directors consider strict compliance with the requirement under the Listing Rules relating to connected transaction is impracticable. The Company has applied to the Stock Exchange for a waiver from strict compliance with relevant disclosure requirements in respect of the Continuing Connected Transactions under the Listing Rules. The Stock Exchange has agreed to grant a conditional waiver to the Company subject to conditions mentioned below.

Reference is made to the Announcement. Term used herein bears the same meaning as defined in the Announcement unless the context requires otherwise.

DESPATCH OF CIRCULAR

The Circular containing, inter alia, details of the Agreements, the respective advice from the independent board committee of the Company and the independent financial adviser to the independent board committee, has been despatched to the Shareholders.

CONNECTED TRANSACTIONS

As stated in the Announcement, the FCI Group and the CRH Group has entered and will enter into certain transactions in the usual and ordinary course of the business of the FCI Group on a regular basis. Upon Completion, these transactions will constitute connected transactions for the Company under the Listing Rules. Particulars of these transactions are summarised as follows:

Tenancy and Licence Agreements

At present, the FCI Group leases from members of the CRH Group various office and retail spaces in Hong Kong for an aggregate floor area of approximately 118,281 sq.ft., which are in connection with the normal and ordinary course of retail business operation of the FCI Group. Furthermore, the FCI Group also licenses from members of the CRH Group various residential units as staff quarters of an aggregate floor area of approximately 5,411 sq.ft.. Particulars of the leased and licensed properties are summarised as follows:

Properties	Floor area (sq.ft.)	Monthly rental (HK\$)
Portion of 1st Floor and 2nd Floor of Low Block, and Portion of 2nd Floor of High Block, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong	34,246	860,302
Shop at the hall, Causeway Centre, 28 Harbour Road, Wanchai, Hong Kong	1,999	29,000
Portion of Ground Floor and the whole of 1st to 7th Floors, Chiao Shang Building, 92-94 Queen's Road Central, Central, Hong Kong	54,777	824,317

Rooms 701-710 on 7th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong	16,332	421,004
Rooms 1801-1806 on 18th Floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong	10,927	294,301
14 residential quarters in Hong Kong	5,411	70,354

For each of the years ended 31st December, 1997 and 1998, the annual aggregate rental and charges in relation to rates, management fees and other outgoings paid by the FCI Group amounted to approximately HK\$23.7 million and approximately HK\$34.8 million respectively, representing approximately 0.4% and approximately 0.6% respectively of the audited turnover of the Group for the respective year, and approximately 0.3% and approximately 0.4% of the audited net asset value of the Group at the year end of the respective year. The terms of the tenancy and licence agreements entered into by the FCI Group and the CRH Group have been confirmed by C.Y. Leung & Co. Limited, an independent professional valuer, to be fair and reasonable so far as the Independent Shareholders are concerned. For the six months ended 30th June, 1999, the aggregate rental and charges paid by the FCI Group to the CRH Group amounted to approximately HK\$19.5 million, representing approximately 0.3% of the unaudited turnover of the Group for the same period. The Directors, including the independent Directors, consider the tenancy and licence agreements to be on normal commercial terms, in the ordinary and usual course of business of the Group upon Completion and fair and reasonable so far as Shareholders are concerned.

Continuing Connected Transactions

The FCI Group purchases from certain members of the CRH Group merchandises, which are sourced from independent third parties (the "Continuing Connected Transactions"). The merchandises include a variety of goods such as towels, bedding accessories and knitwear. The amount payable for the merchandises is determined based on arm's length negotiations between the parties thereto. The aggregate value of the merchandises paid by the FCI Group to the CRH Group amounted to approximately HK\$21.2 million and approximately HK\$52.8 million for each of the year ended 31st December, 1997 and 1998, representing approximately 0.4% and approximately 1.0% of the turnover of the Group for the respective year; and approximately 0.2% and approximately 0.6% of the audited net asset value of the Group at the year end of the respective year.

Waiver

Under the Listing Rules, the Continuing Connected Transactions would normally require full disclosure and/or prior Independent Shareholders' approval. However, the Directors, including the independent Directors, consider that as the terms of the Continuing

Connected Transactions were and will be determined on arm's length basis in the ordinary and usual course of business of the Group upon Completion on normal commercial terms which are fair and reasonable so far as the Shareholders are concerned and on a regular basis, it would be impractical for the Company to strictly comply with the connected transactions requirements as set out in the Listing Rules for each occurrence of these transactions. Accordingly, the Company has submitted an application to the Stock Exchange to seek an exemption from the relevant connected transaction requirements of the Listing Rules for the Continuing Connected Transactions. The Stock Exchange has agreed to grant a conditional waiver relating to the Continuing Connected Transactions subject to the following conditions:

(a) the Continuing Connected Transactions will be carried out:

- (i) in the usual and ordinary course of business of the Group;
- (ii) on normal commercial terms;
- (iii) on a fair and reasonable basis so far as the Independent Shareholders are concerned;
- (iv) in accordance with the terms of the agreements governing the transactions or where there is no agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties;

(v) the aggregate value of the Continuing Connected Transactions in any financial year will not exceed 1.5% of the total turnover of the Group in any particular financial year; and

(vi) the aggregate value of the Continuing Connected Transactions in the relevant year have not exceeded the limits of higher of (a) HK\$10 million and (b) 3% of the book value of the net tangible assets of the Company as disclosed in the latest published accounts for that financial year adjusted to take account of subsequent transactions in the manner described in Rule 14.04(6) of the Listing Rules;

(b) details of the Continuing Connected Transactions shall be disclosed in the Company's annual report for that year as required by Rule 14.25(1)(A) to (D) of the Listing Rules;

(c) the independent non-executive Directors shall review annually the Continuing Connected Transactions and confirm in the Company's annual report that:

(i) such transactions have been entered into by the Group in its ordinary and usual course of business;

(ii) such transactions have been entered into on normal commercial terms;

(iii) such transactions are fair and reasonable so far as the Independent Shareholders are concerned;

(iv) such transactions have been carried out in accordance with the terms of the agreements governing such transactions or where there is no agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties; and

(v) the lower of the limits as set out in (a)(v) and (vi) above has not been exceeded;

(d) the auditors of the Company shall review annually the Continuing Connected Transactions and confirm in a letter to the Directors stating that:

- (i) such transactions have been approved by the Board;
- (ii) such transactions have been entered into in accordance with the pricing policy of the Group;
- (iii) such transactions have been entered into in accordance with the terms of the agreements governing such transactions or where there is no agreement, on terms no less favourable than terms available to (or from, as appropriate) independent third parties; and
- (iv) the lower of the limits as set out in (a)(v) and (vi) above has not been exceeded.

(e) CRH shall provide to the Stock Exchange with an undertaking that for so long as the Shares are listed on the Stock Exchange, it will provide the Company's auditors with full access to its relevant records for the purpose of the auditors' review of the Continuing Connected Transactions.

In the event the Continuing Connected Transactions exceed the limits set out in (a) (v) and (vi) above, the Company will comply with all the relevant requirements under the Listing Rules relating to connected transaction.

By order of the Board of

China Resources Enterprise, Limited

Lee Yip Wah, Peter

Company Secretary

30th September, 1999, Hong Kong