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CHINA RESOURCES ENTERPRISE, LIMITED

(Incorporated in Hong Kong under the Companies Ordinance)

DISCLOSEABLE AND CONNECTED TRANSACTION

Acquisition Agreement

The Directors are pleased to announce that on 8th September, 1999, the Company entered into the Acquisition Agreement with CRH in relation to the acquisition by the Company of CRH's entire interest in FCI, a wholly owned subsidiary of CRH, for a consideration of approximately HK\$2,087.3 million. The sole asset of FCI is its entire interest in CRR whose principal businesses are engaged in the operation of department stores and property investments in Hong Kong.

Debt Purchase Agreement

Concurrently, CREF, a wholly owned subsidiary of the Company, also entered into the Debt Purchase Agreement in relation to the acquisition by CREF of CRH's entire interests, rights and titles in the Debt for a consideration of approximately HK\$632.7 million.

As CRH is the controlling shareholder of the Company holding approximately 52.8% equity interest, the Acquisition constitutes a connected transaction to the Company. CRH and its Associates will abstain from voting in the EGM for approving the Acquisition.

A circular containing, inter alia, further details of the Agreements, the advice from the independent board committee of the Company and the independent financial adviser will be despatched to the Shareholders as soon as practicable.

THE AGREEMENTS DATED 8TH SEPTEMBER, 1999

Acquisition Agreement

Vendor: FCI, a wholly owned subsidiary of CRH, the controlling shareholder of the Company, holding approximately 52.8% interest

Purchaser: the Company

Debt Purchase Agreement

Vendor: CRH

Purchaser: CREF, a wholly owned subsidiary of the Company

Assets to be acquired

-- 2 shares of US\$1.00 each in FCI, representing the entire equity interest of FCI. The sole asset of FCI is its interest in the entire issued ordinary share capital of CRR.

-- All the rights, benefits, titles and interests of CRH in the Debt.

Consideration

The Consideration of HK\$2,720 million has been arrived at after arm's length negotiations between the parties thereto based on the Directors' estimate of the value of the properties, the value of the retail business and the principal sum of the Debt.

The Consideration represents a discount of approximately 26.9% to the unaudited pro forma net tangible asset value of the FCI Group ("Adjusted NAV") as at 30th June, 1999 of approximately HK\$3,722 million after (i) adjustment for the property valuation surplus and (ii) adding back the principal sum of the Debt. The Directors consider that the Consideration is fair and reasonable as far as the Independent Shareholders are concerned.

The Consideration will be payable in the following manner:

-- as to HK\$680.61 million in cash and the issue and allotment of the Consideration Shares upon Completion; and

-- as to HK\$680 million in cash on or before 31st March, 2000.

The cash portion for the Consideration will be funded by proceeds raised on 6th July, 1999 through the placement of the Company's Shares to professional and institutional investors.

Details of the placement were disclosed in an announcement made by the Company dated the same day.

The issue price of HK\$12.03 per Consideration Share represents a discount of approximately 1.8% to the closing price of HK\$12.25 per Share as quoted on the Stock Exchange at the date of signing of the Agreements. The issue price represents a discount of respectively approximately 2.6% and 3.3% to the average of the closing prices of the Shares for the last five and ten trading days preceding and up to the date of the Agreements.

Conditions

The Acquisition Agreement is conditional upon, inter alia, the following:

- The passing of resolution(s) by the Independent Shareholders at the EGM to approve the Acquisition Agreement; and
- The Stock Exchange granting or agreeing to grant listing of and the permission to deal in the Consideration Shares.

The Debt Purchase Agreement is conditional upon the following:

- The passing of resolution(s) by the Independent Shareholders at the EGM to approve the Acquisition Agreement: and
- The simultaneous completion of the Acquisition Agreement.

CRH and its associates will abstain from voting on the ordinary resolution(s) to be proposed in the EGM to approve the Agreements.

Completion

Completion of the Agreements shall take place within 14 business days after the date when the conditions set out in the respective agreements have been fulfilled and, in any event, not later than 30th November, 1999.

INFORMATION ON THE FCI GROUP

The FCI Group has two principal operating subsidiaries namely, CRCDS and CAC. CRCDS and CAC was established in 1939 and 1959 respectively and each has been managed by CRH group for over 20 years. CRCDS is engaged in the operation of department stores

under the name of " 華潤百貨" whilst CAC is engaged in the operation of specialty retail stores under the name of " 中藝" in Hong Kong.

At present, CRCDS and CAC together operate 11 department stores in Hong Kong, of which the premises of six stores are owned by the FCI Group, and the remaining stores being leased from CRH or independent third parties.

Unaudited pro forma combined turnover, net profit before and after taxation of the FCI Group amounted to approximately HK\$1,585 million, HK\$147 million and HK\$133 million respectively for the year ended 31st December, 1997; and approximately HK\$1,315 million, HK\$46 million and HK\$34 million respectively for the year ended 31st December, 1998. The fall in revenue and earnings was mainly due to a sluggish retail sector which was affected by the Asian financial crisis.

Based on the estimated value of the properties owned by the FCI Group, the Adjusted NAV of the FCI Group as at 30th June, 1999 would have amounted to approximately HK\$3,722 million.

REASONS FOR THE ACQUISITION

The Company is the principal listed subsidiary of CRH. The principal activities of the Company currently include property development and investment, food and beverage, infrastructure and other investments. The Company's long-term strategy has always been to expand its existing core business areas and develop a retail and distribution operation in Hong Kong and the PRC. The Directors consider that the Acquisition is in line with the Company's business strategy. The Directors believe that the Acquisition will increase its recurrent income base and strengthen the Company's balance sheet. In addition, the Acquisition marks a significant advancement for the Company towards developing a retail and distribution business.

Investment property

The Directors notice that the FCI Group owns sizeable commercial spaces of an aggregate gross floor area of approximately 500,000 square feet, most of which are self-occupied. All of these premises are located in high-density commercial districts including Causeway Bay, Mongkok, Tsimshatsui and Tsuen Wan where sizeable retail spaces are limited. The Directors consider that if these commercial premises are leased out instead of self-occupied, the prevailing annual rental yield will range from 7% to 10% by reference to similar commercial premises. The Company is assessing relocation possibilities of the existing retail business.

The Directors consider that apart from the upside potential in the retail business of the FCI Group, the Acquisition also provides the Group with sizable commercial space reserves which offer the flexibility of leasing out these premises for higher recurring rental income or, if the circumstances are favourable, to redevelop these premises into new commercial properties and/or shopping arcades. A business plan will be prepared to assess the redevelopment potential of the existing properties. This would serve to maximize the redevelopment potential of the existing premises for a higher recurrent income to the Group in the long run when opportunities arise.

Retail and distribution business

The Directors also consider that the Acquisition provides an opportunity for the Company to diversify its business into the retail sector at an inexpensive cost. Furthermore, to better equip for the recovery of the economy and the retail industry, the Company has recently set up and assigned personnel to a retail management team to manage the Company's retail business. The Company has simultaneously recruited professional management, as well as engaging reputable external business consultants, to devise a business plan to revamp the FCI Group including the corporate image, brand name rejuvenation, market segmentation and business focus so as to reposition itself in the competitive local retail industry.

With the set up of a professional retail management team and the growing signs for the recovery of the local economy and the retail industry, the Directors believe that the business environment and conditions of the FCI Group should continue to improve in future. Together with the potential recurrent rental income for the FCI Group and the property redevelopment opportunities, the Directors consider the Acquisition is in the best interests of the Company.

CONTINUING CONNECTED TRANSACTIONS

Subsisting tenancy agreements

At present, the FCI Group leases from certain subsidiaries of CRH certain office and retail space in Hong Kong in connection with the normal retail business operation of the FCI Group. Furthermore, the FCI Group also leases from subsidiaries of CRH various residential units as quarters for staff of the FCI Group.

Recurrent connected transactions

Certain subsidiaries of CRH also act as merchandisers to the FCI Group in sourcing and supplying products to the FCI Group. In return, the FCI Group will pay to these subsidiaries

of CRH a certain percentage of commission calculated based on the sum of each purchase. The Directors understand that the rate of commission varies for each type of purchase.

The Directors are in the course of ascertaining and verifying the actual consideration payable under each type of connected transaction mentioned herein. Based on preliminary information, the Directors believe that the aggregate annual consideration payable by the FCI Group under these connected transactions to CRH would not exceed 3% of the net asset value of the Group. Further details of these connected transactions together with the actual consideration will be disclosed in the circular to be issued by the Company incidental to the Acquisition.

Under the Listing Rules, each of the above-connected transactions would normally require full disclosure and/or prior Independent Shareholder's approval. However, as such connected transactions were and will be entered in the normal course of business of the FCI Group and, some of which are also occurred on a regular basis, the Directors consider that it would be impractical for the Company to strictly comply with the connected transactions requirements as set out in the Listing Rules for each transaction. Accordingly, the Company will submit an application to the Stock Exchange to seek an exemption from the relevant connected transaction requirements of the Listing Rules for the above-connected transactions, subject to approval of the Independent Shareholders at the EGM.

GENERAL

CRH is the controlling shareholder of the Company holding approximately 52.8% interest. Accordingly, the Acquisition constitutes a connected transaction to the Company. CRH and its Associates will abstain from voting in the EGM to approve the Acquisition.

An independent board committee comprising independent non-executive directors of the Company has been appointed, subject to the confirmation of the Stock Exchange, to advise the Independent Shareholders in respect of the Acquisition. Vickers Ballas Capital Limited has been appointed as financial adviser to advise the independent board committee in respect of the same. A circular containing, inter alia, further details of the Acquisition, the advice from the independent board committee of the Company and the independent financial adviser to the independent board committee, will be despatched to the Shareholders as soon as practicable.

At the request of the Company, the trading of its Shares on the Stock Exchange were suspended as from 10:00 a.m. on 9th September, 1999. Application has been made by the Company to the Stock Exchange to resume trading of its Shares from 10:00 a.m. on 10th September, 1999.

DEFINITIONS

"Acquisition"	the acquisition by the Company of the entire interest in FCI and the Debt pursuant to the Acquisition Agreement and the Debt Purchase Agreement
"Acquisition Agreement"	a conditional agreement date 8th September, 1999 made between CRH and the Company in relation to the acquisition of the entire interest in FCI
"Agreements"	the Acquisition Agreement and the Debt Purchase Agreement
"Associates"	as defined under the Listing Rules
"CAC"	Chinese Arts & Crafts (H.K.) Limited, a company incorporated in Hong Kong with limited liability on 23rd January, 1959 and is currently a wholly owned subsidiary of CRR
"Consideration"	the aggregate consideration for the Acquisition and the Debt purchase to be paid by the Group
"Consideration Shares"	113,000,000 new Shares to be issued and allotted to CRH at an issue price of HK\$12.03 per Share pursuant to the Acquisition
"Completion"	Completion of the Acquisition Agreement and Debt Purchase Agreement
"Company"	China Resources Enterprise, Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Stock Exchange
"CRCDS"	CRC Department Store Limited, a company incorporated in Hong Kong with limited liability on 8th February, 1939 and is currently a wholly owned subsidiary of CRR
"CREF"	CRE Finance (Hong Kong) Limited, a wholly owned subsidiary of the Company
"CRH"	China Resources (Holdings) Company Limited, the controlling shareholder on the Company
"CRR"	China Resources Retail (Group) Company Limited, a company incorporated in Hong Kong with limited liability and is currently 100% controlled by FCI
"Debt"	the principal sum of HK\$632,670,000 repayable on 29th November, 1999 by the FCI Group to CRH together with interest accrued from Completion

"Debt Purchase Agreement"	a conditional agreement date 8th September, 1999 made between CRH and CREF in relation to the purchase of the Debt
"Directors"	directors of the Company
"EGM"	extraordinary general meeting of the Company for the approval of, inter alia, the Agreements
"FCI"	Fresh Concepts International Limited, a company incorporated in British Virgin Islands with limited liability on 18th August, 1999 and is a wholly owned subsidiary of CRH
"FCI Group"	FCI and its subsidiaries
"Group"	the Company and its subsidiaries
"Hong Kong"	Hong Kong Special Administrative Region
"Independent Shareholders"	Shareholders apart from CRH and its Associates
"Listing Rules"	Rules Governing the Listing of Securities on the Stock Exchange
"PRC"	The People's Republic of China, excluding the Special Administrative Region of Hong Kong
"Share"	share of HK\$1.00 each in the share capital of the Company
"Shareholders"	Shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subsidiaries"	as defined under the Companies Ordinance

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

9th September, 1999, Hong Kong