



CHINA RESOURCES
ENTERPRISE, LIMITED

(incorporated in Hong Kong under the Companies Ordinance)

五豐行有限公司

NG FUNG HONG LIMITED

(incorporated in Hong Kong under the Companies Ordinance)

CONNECTED TRANSACTIONS

The directors of NFH and CRE announce that NFH has entered into two exclusive agreements each dated 3 November 2000 to dispose of its 26% equity interest in each of Grape Wine and Drink Products to Minquan for an aggregate consideration of RMB16.5 million (approximately HK\$15.4 million). Grape Wine is principally engaged in the production of wine in the PRC whilst Drink Products is engaged in the production of drink products in the PRC.

Both Grape Wine and Drink Products are currently owned as to 51% by NFH. Upon Completion, NFH’s interest in each of Grape Wine and Drink Products will be reduced to 25%. Grape Wine and Drink Products will, accordingly, cease to be subsidiaries and become associated companies of NFH.

As Minquan is a substantial shareholder of both Grape Wine and Drink Products, holding the remaining 49% interest in each of Grape Wine and Drink Products, the Disposal constitutes connected transactions for NFH for the purpose of the Listing Rules. As NFH is a subsidiary of CRE, the Disposal also constitutes connected transactions of CRE under the Listing Rules. However, as the consideration and value of the Disposal fall within the de minimus rule as stipulated in Rule 14.25(1) of the Listing Rules, shareholders’ approval from any of NFH and CRE for the Disposal is not required. Details of the Disposal will be included in the next published annual reports and accounts of NFH and CRE.

THE AGREEMENTS DATED 3 NOVEMBER 2000

Vendor : NFH, a 53.5% owned subsidiary of CRE

Purchaser : Minquan, holding 49% equity interest in each of Grape Wine and Drink Products before Completion

Save for its interests in both Grape Wine and Drink Products, Minquan and its ultimate beneficial owner are independent of NFH, CRE or any of the directors, chief executive, substantial shareholders of NFH and CRE or any of their respective subsidiaries or their respective associates.

Assets to be disposed

- 26% equity interest in the registered capital of RMB80.0 million of Grape Wine; and
- 26% equity interest in the registered capital of approximately RMB46.5 million of Drink Products.

Both Grape Wine and Drink Products are currently owned as to 51% by NFH. Upon Completion, NFH’s interest in each of Grape Wine and Drink Products will be reduced to 25%. Grape Wine and Drink Products will, accordingly, cease to be subsidiaries and become associated companies of NFH.

Consideration

The Consideration was arrived at after arm’s length negotiations among the parties thereto and on normal commercial terms. The Consideration has been determined with reference to NFH’s attributable interest in the unaudited net asset value of Grape Wine and Drink Products as at 30 June 2000 based on the unaudited accounts prepared in accordance with the PRC accounting standards and adjusted in accordance with the generally accepted accounting principles in Hong Kong respectively.

The Consideration consists of (i) approximately RMB10.4 million (approximately HK\$9.7 million) for the disposal of 26% equity interest in Grape Wine, representing a discount of approximately 2.7% to NFH’s attributable interest in the unaudited net asset value of Grape Wine as at 30 June 2000 and (ii) approximately RMB6.1 million (approximately HK\$5.7 million) for the disposal of 26% equity interest in Drink Products, representing a discount of approximately 1.8% to NFH’s attributable interest in the unaudited net asset value of Drink Products as at 30 June 2000. As the Consideration is very close to the net asset value of Grape Wine and Drink Products, the Disposal would not have significant impact on the profit and loss accounts of NFH and CRE respectively. The Directors (including the independent non-executive Directors) consider that the Consideration is fair and reasonable.

Payment terms

The Consideration will be payable as follows :

- RMB4.0 million (approximately HK\$3.7 million) in cash within 3 days after the signing of the Agreements;
- RMB2.5 million (approximately HK\$2.3 million) within 10 days after the signing of the Agreements. Such amount is to be satisfied by bartering for high quality wine whose price will be determined with reference to the prevailing market price as agreed by NFH on the settlement day; and
- RMB10.0 million (approximately HK\$9.4 million) in three annual instalments from 1 January 2001 to 31 December 2003. Such amount is to be satisfied by cash or bartering for high quality wine whose price will be determined with reference to the prevailing market price as agreed by NFH on the settlement day.

Condition

Completion of the disposals of 26% equity interest in each of Grape Wine and Drink Products is conditional upon obtaining all necessary approvals from the relevant PRC authorities within 60 days after the signing of the relevant agreements respectively. The completion of the Agreements is not inter-conditional. There is no long stop date for the Agreements.

INFORMATION ON GRAPE WINE

Grape Wine is a company established in the PRC on 30 July 1997 and is principally engaged in production of wine in the PRC. Since its establishment, Grape Wine has been owned as to 51% by NFH and 49% by Minquan respectively.

Based on Grape Wine’s audited accounts prepared in accordance with the PRC accounting standards and adjusted in accordance with the generally accepted accounting principles in Hong Kong, the unaudited net losses before and after taxation of Grape Wine for the two years ended 31 December 1998 and 1999 were approximately RMB2.7 million (approximately HK\$2.5 million) and approximately RMB22.9 million (approximately HK\$21.4 million) respectively. For the six months ended 30 June 2000, the unaudited net loss before and after taxation of Grape Wine, prepared in accordance with the generally accepted accounting principles in Hong Kong, was approximately RMB13.2 million (approximately HK\$ 12.3 million).

The unaudited net asset value of Grape Wine amounted to RMB41.1 million (approximately HK\$38.4 million) as at 30 June 2000 based on Grape Wine’s unaudited accounts prepared in accordance with the PRC accounting standards and adjusted in accordance with the generally accepted accounting principles in Hong Kong.

INFORMATION ON DRINK PRODUCTS

Drink Products is a company established in the PRC on 5 August 1997 and is owned as to 51% by NFH and 49% by Minquan respectively. Drink Products’s principal activity is the production of drink products in the PRC. Since its establishment, Drink Products has not started its production. Based on Drink Products’s audited accounts prepared in accordance with the PRC accounting standards and adjusted in accordance with the generally accepted accounting principles in Hong Kong, the unaudited net losses before and after taxation of Drink Products for the two years ended 31 December 1998 and 1999 were approximately RMB1.7 million (approximately HK\$1.6 million) and approximately RMB9.7 million (approximately HK\$9.1 million) respectively. For the six months ended 30 June 2000, the unaudited net loss before and after

taxation of Drink Products, prepared in accordance with the generally accepted accounting principles in Hong Kong, was approximately RMB11.2 million (approximately HK\$10.5 million).

The unaudited net asset value of Drink Products amounted to RMB23.9 million (approximately HK\$22.3 million) as at 30 June 2000 based on Drink Products’s unaudited accounts prepared in accordance with the PRC accounting standards and adjusted in accordance with the generally accepted accounting principles in Hong Kong.

REASONS FOR THE DISPOSAL

NFH Group is principally engaged in the distribution of fresh, live and frozen foodstuffs, production and trading of processed food and beverages, abattoir operation, foodstuffs transportation, marine fishing and processing of aquatic products and supermarket operation.

NFH Group has adopted a strategy of expanding its food distribution operation in the Chinese Mainland. It is noted that the Directors have announced on 24 October 2000 to dispose of NFH’s 13.9% equity interest in Ng Fung Fortune Food Company Limited in order to realise parts of its investments in non-distribution businesses and to focus on the development and expansion of its food distribution operation. The Directors consider that the Disposal is conducive to the Group’s business expansion strategy.

Given the terms of the Agreements were negotiated on “willing seller and willing buyer” basis, the Disposal will only allow the Group to realise parts of its investment. However, following Completion, NFH Group will continue to seek other opportunities to realise all of its remaining interests in Grape Wine and Drink Products.

USE OF PROCEEDS

The Directors intend to utilise the proceeds of approximately HK\$ 15.4 million from the Disposal as working capital of NFH Group. NFH Group has no specific use of the proceeds at this stage.

GENERAL

As Minquan is a substantial shareholder of both Grape Wine and Drink Products, holding the remaining 49% interest in each of Grape Wine and Drink Products, the Disposal constitutes connected transactions for NFH for the purpose of the Listing Rules. As NFH is a subsidiary of CRE, the Disposal also constitutes connected transactions of CRE under the Listing Rules. However, as the consideration and value of the Disposal fall within the de minimus rule as stipulated in Rule 14.25(1) of the Listing Rules, shareholders’ approval from any of NFH and CRE for the Disposal is not required. Details of the Disposal will be included in the next published annual reports and accounts of NFH and CRE.

DEFINITIONS

“Agreements”	the two exclusive agreements each dated 3 November 2000 and entered into by NFH and Minquan
“associate(s)”	the meanings ascribed to it by the Listing Rules
“Completion”	Completion of the Disposal pursuant to the terms of the Agreements
“Consideration”	the aggregate consideration for the Disposal of RMB16.5 million (approximately HK\$15.4 million)
“CRE”	China Resources Enterprise, Limited, a company incorporated in Hong Kong with limited liability, the shares of which are listed in the Stock Exchange
“Directors”	the directors of NFH and CRE
“Disposal”	the disposal of 26% equity interest in each of Grape Wine and Drink Products by NFH to Minquan pursuant to the Agreements
“Drink Products”	民權五豐飲品有限公司, Minquan Ng Fung Drink Products Company Limited, a company established in the PRC, is owned as to 51% by NFH and 49% by Minquan respectively before Completion
“Grape Wine”	民權五豐葡萄酒有限公司, Minquan Ng Fung Grape Wine Company Limited, a company established in the PRC, is owned as to 51% by NFH and 49% by Minquan respectively before Completion
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Minquan”	河南省民權葡萄酒廠, a company established in the PRC, holding 49% equity interest in each of Grape Wine and Drink Products before the Completion
“NFH”	Ng Fung Hong Limited, a subsidiary of CRE, is incorporated in Hong Kong with limited liability and the shares of which are listed in the Stock Exchange
“NFH Group”	NFH and its subsidiaries
“PRC”	the People’s Republic of China
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“HK\$”	Hong Kong dollars
“RMB”	Renminbi

Exchange rate used in this announcement is HK\$1=RMB1.07.

By Order of the Board China Resources Enterprise, Limited Lee Yip Wah, Peter <i>Company Secretary</i>	By Order of the Board Ng Fung Hong Limited Terence Hon <i>Company Secretary</i>
Hong Kong, 3 November 2000	