



CHINA RESOURCES ENTERPRISE, LIMITED

(incorporated in Hong Kong with limited liability)

Connected transaction

Acquisition of textile distribution business and issue of new shares

The directors of China Resources Enterprise announce that on 26th November, 2001, the Company has entered into a sale and purchase agreement in relation to the acquisition by the Company of China Resources Holdings’ entire effective interest in textile distribution businesses for an aggregate consideration of not more than HK\$944.0 million as adjusted, subject to adjustments. The consideration payable by China Resources Enterprise will be satisfied by (i) the issue of 56,300,000 new shares by the Company to China Resources Holdings and (ii) a lump sum cash payment of about HK\$472.8 million funded by the Group’s internal resources.

As China Resources Holdings is the controlling shareholder of the Company interested in about 54.5% of the Company’s issued share capital, the acquisition constitutes a connected transaction for the Company under the Listing Rules and requires independent shareholders’ approval at an extraordinary general meeting of the Company. An independent board committee of the Company has been formed to give recommendation to the independent shareholders in respect of the acquisition. An independent financial adviser will also be appointed to advise the independent board committee.

A circular containing, among other things, details of the acquisition, advice of the independent financial adviser, recommendation of the independent board committee and notice convening an extraordinary general meeting to approve the acquisition will be sent to shareholders of the Company as soon as practicable.

The agreement dated 26th November, 2001

Vendor : China Resources Holdings
Purchaser : China Resources Enterprise, Limited

Assets to be acquired:

— the entire issued share capital of China Resources Textiles (BVI) Company Limited, which will be established as a wholly owned subsidiary of the Vendor and shall hold the Textile Group before Completion

Consideration : HK\$944,000,000

Where the Net Profits for the year ending 31st December, 2001 shall be less than HK\$160 million, the Consideration shall be reduced by an amount equivalent to 5.9 times of the shortfall.

The consideration has been arrived at after arm’s length negotiations between the vendor and the purchaser. It is determined with reference to the pro forma combined net profits of the Textile Group for the year ended 31st December, 2000 of about HK\$181.7 million. Based on such historical net profits, the consideration payable for the acquisition of the Textile Group represents a historic price earnings multiple of about 5.2 times.

The directors of the Company consider that the terms of the Agreement are fair and reasonable as far as shareholders of the Company are concerned.

The consideration for the acquisition shall be satisfied in the following manner:

- the issue of 56,300,000 new shares by the Company to China Resources Holdings at an issue price of HK\$8.37 per share on Completion; and
- cash payment of about HK\$472.8 million which will be funded by the Group’s internal resources, of which HK\$100 million will be paid to the Vendor upon Completion. The remaining balance of the cash consideration will be payable within 14 business days of the publication of China Resources Textiles (BVI) Company Limited’s audited pro forma combined accounts for the year ending 31st December, 2001.

The issue price of the new shares was determined with reference to the recent closing prices of the Company’s shares as quoted on the Stock Exchange and:

- represents a discount of about 0.36% to the closing price of the Company’s shares of HK\$8.40 per share on 26th November, 2001, the date of the Agreement, or;
- is the same as the average closing price of the Company’s shares for the five trading days prior to and including the date of the Agreement, being HK\$8.37 per share.
- represents a premium of about 3.0% over the closing of the Company’s shares for the ten trading days prior to and including the date of the Agreement, being HK\$8.13 per share.

Assuming no further issue of new shares by the Company prior to completion of the Agreement, China Resources Holdings and its associates will hold about 55.7% of the Company’s issued share capital immediately after completion of the Agreement.

Profit guarantee : The Agreement provides that China Resources Holdings will guarantee the Net Profits for each of the two financial years ending 31st December, 2003 to be no less HK\$160 million. China Resources Holdings shall reimburse China Resources Enterprise for each shortfall in Net Profits on a dollar for dollar basis. China Resources Enterprise is not required to pay any additional consideration to China Resources Holdings if the Net Profits in either financial year exceeds the guaranteed figure.

China Resources Enterprise will disclose in its annual reports whether China Resources Holdings has fulfilled its obligations under the guarantee. If there is any shortfall to the guaranteed Net Profits which results in any payment to be made by China Resources Holdings as mentioned above, China Resources Enterprise will make an announcement to disclose the details as soon as practicable.

Any payment by China Resources Holdings under the profit guarantee shall be made within 14 business days after the publication of the relevant audited pro forma combined accounts of China Resources Textiles (BVI) Company Limited.

Undertaking : As part of the terms of the Agreement, China Resources Holdings as Vendor has given undertakings to the Company with regard to China Resources Holdings’ existing or future investment opportunities in the textile business in China (including Hong Kong).

At present, China Resources National Corp., the holding company of China Resources Holdings, is a majority shareholder of Sichuan Jinhua Co., Ltd. which is a company incorporated in China with its shares listed on the Shenzhen Stock Exchange. Sichuan Jinhua Co., Ltd. is engaged in the business of spinning, weaving, garment making and printing and dyeing of textile products.

The shares held by China Resources National Corp. are state-owned shares which, under the applicable laws in China, cannot be acquired by or transferred to China Resources Enterprise. China Resources National Corp. and China Resources Holdings has undertaken that it will grant a right of first refusal to China Resources Enterprise for the acquisition of its entire interests in Sichuan Jinhua Co., Ltd. as soon as the laws in China permit such acquisition by China Resources Enterprise.

In addition, should any future investment opportunity regarding textile business (unrelated to trading of silk products) be available to China Resources National Corp. or China Resources Holdings, it will be first offered to China Resources Enterprise for consideration.

Such undertakings shall cease to be effective when China Resources National Corp. and China Resources Holdings jointly and severally hold in aggregate less than 30% of the issued shares of China Resources Enterprise or China Resources Enterprise cease to be the controlling shareholder of China Resources Textiles (BVI) Company Limited.

Conditions : Completion of the Agreement is conditional upon, among other things, the occurring of the following:

- the passing of a resolution at an extraordinary general meeting of the Company approving the Agreement by the independent shareholders, being those shareholders of the Company other than China Resources Holdings and its associates, as defined in the Listing Rules; and
- the Stock Exchange granting the listing of and permission to deal in the new shares to be issued to China Resources Holdings under the Agreement.

Completion : Completion of the Agreement shall take place within 21 business days after the fulfillment of all conditions of the Agreement, which is expected to be not later than 31st January, 2002.

INFORMATION ON THE TEXTILE GROUP

The Textile Group is principally engaged in the distribution of textile products including cotton, polyester fiber, grey cloth and printed fabrics. To support its trading operation, the Textile Group is also engaged in the spinning and weaving operation and manufacture (on OEM basis) of garments.

The Textile Group was established in the late 1950s and until the 1980’s was the general agent of all China’s export of textile products to Hong Kong. At present, the Textile Group distributes a wide range of textile yarn and fabrics to overseas traders and textile products manufacturers, principally in Korea, Taiwan and other South East Asian countries.

Since 1989, the Textile Group has acquired equity interests in several spinning and weaving factories in the Shandong Province. Apart from making positive contribution to the operating profit of the Group, these spinning and weaving operations enable the Textile Group to enjoy better terms of textile raw material sourcing. It also enables the Group to supply a wider range of fabric products to its customers in both China and overseas.

In 1999, following a reorganization of assets of China Resources Holdings, the garment making division became part of the Textile Group. The Textile Group through its garment factories in Hong Kong, Shenzhen and Shanghai manufactures garment on OEM basis for several American and European fashion brand names and retailers.

The pro forma combined net tangible assets of the Textile Group as at 31st December, 2000 amounted to approximately HK\$1,116 million. The following table summarises the operating performance of the Textile Group based on the pro forma combined profit and loss statements of the companies comprising the Textile Group.

	Year ended 31st December,	
	1999	2000
	HK\$ million	HK\$ million
Turnover	2,150.3	2,635.9
Profit before taxation	69.0	214.4
Profit attributable to shareholders	51.2	181.7

REASONS FOR THE ACQUISITION

With China’s access to the World Trade Organisation, volume of its trade with the rest of the world will grow. The directors of the Company believe that the textile industry in China will benefit from the gradual removal of trade barriers between member countries of the World Trade Organisation. The Textile Group is one of the largest players in China’s export of textile yarn and fabrics to overseas, including Hong Kong and has established an extensive network in China for sourcing and trading of textile products. It can also cooperate with overseas suppliers to market and distribute overseas textile products in China.

The garment OEM business of the Textile Group is also expected to generate synergy with the Company’s garment retailing business in China. With the support of the garment manufacturing capability of the Textile Group, the Company will be able to produce a greater proportion of the products required for its retail operation and enhance its operational efficiency and profitability.

Following the completion of the acquisition, it is expected that the earnings of the Company will be increased and a larger portion of which will be coming from the Chinese mainland operation. The directors of the Company consider that the acquisition is in the best interest of the Company.

INFORMATION ABOUT THE COMPANY

The Company is a listed company on the Hong Kong Stock Exchange, with business emphasis on the distribution business in Hong Kong and the Chinese Mainland. The Company and its subsidiaries are principally engaged in property investment, distribution of food and beverages, petroleum and chemicals, as well as operating one of the largest retail chains in both Hong Kong and the Chinese Mainland.

GENERAL

The vendor, China Resources Holdings, is the controlling shareholder of the Company holding about 54.5% issued share capital of the Company. The Agreement constitutes a connected transaction of the Company under the Listing Rules and accordingly requires the approval of the independent shareholders of the Company at a shareholders’ meeting.

An independent board committee comprising independent non-executive directors of the Company has been formed to give recommendation to the independent shareholders of the Company in respect of the Agreement. An independent financial adviser will be appointed to advise the independent board committee in respect of the same. A circular containing further details of the Agreement, the letter of advice from the independent financial adviser and the recommendation of the independent board committee to the independent shareholders, will be dispatched to shareholders of the Company as soon as practicable.

DEFINITIONS

“Agreement”	A conditional sale and purchase agreement dated 26th November, 2001 made between China Resources Holdings as vendor and the Company as purchaser in relation to the acquisition by the Company of the entire equity interest in China Resources Textiles (BVI) Company Limited.
“China Resources Enterprise” or “Company”	China Resources Enterprise, Limited, a company incorporated in Hong Kong with limited liability and whose shares are listed on the Stock Exchange.
“Completion”	means completion of the Agreement
“Net Profits”	means (as the case may be) the audited pro forma combined net profits after tax and minority interests attributable to the shareholders of China Resources Textiles (BVI) Company Limited (as reorganised) and reflected in audited pro forma combined profit and loss account of the said company for the two financial years ending 31st December, 2002 or the audited consolidated net profits after tax and minority interests attributed to the shareholders of the said company for the financial year ending 31st December, 2003.
“Textile Group”	China Resources Light Industries and Textile (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and certain of its subsidiaries, which operate the textile distribution business of China Resources Holdings, or their respective predecessors.
“China Resources Holdings”	China Resources (Holdings) Company Limited, a company incorporated in Hong Kong with limited liability and the controlling shareholder of the Company.

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

Hong Kong, 26th November, 2001