



CHINA RESOURCES ENTERPRISE, LIMITED

(incorporated in Hong Kong under the Companies Ordinance)

CONNECTED TRANSACTION

ONGOING CONNECTED TRANSACTIONS AND DESPATCH OF CIRCULAR

The directors of China Resource Enterprise, Limited (the “Company” and, together with its subsidiaries, the “Group”) announce that a circular containing further details of the Company’s proposed acquisition of the textile distribution business from China Resource (Holdings) Company Limited (“China Resources Holdings” and, together with its subsidiaries, the “China Resources Holdings Group”), certain ongoing connected transactions of the Group arising as a result of completion of the acquisition and a notice convening an extraordinary general meeting to be held to approve the acquisition has been despatched to shareholders of the Company today. The circular also contains the advice of DBS Asia Capital Limited to the independent board committee and the recommendation of the independent board committee in connection with the acquisition.

On 26th November, 2001, the directors of the Company announced that the Company entered into an agreement pursuant to which the Company will acquire from China Resources Holdings its entire equity interest in China Resource Textiles (BVI) Company Limited (which will on completion thereof include China Resources Light Industries and Textiles (Holdings) Company Limited and its subsidiaries). The acquisition constitutes a connected transaction for the Company under the Listing Rules and requires independent shareholders’ approval in an extraordinary general meeting of the Company.

ONGOING CONNECTED TRANSACTIONS

It is expected that upon completion of the acquisition, certain transactions entered into by certain subsidiaries of China Resources Light Industries and Textiles (Holdings) Company Limited (together with its subsidiaries, the “Textile Group”) in their ordinary course of business will become connected transactions for the Company as well.

Details of these connected transactions (“Ongoing Connected Transaction”) are summarized below:

Subsisting Agreements

The Textile Group has entered into tenancy agreements with certain subsidiaries of China Resources Holdings for the leasing of office spaces and godown spaces in Hong Kong for its normal and ordinary course of business. These tenancy agreements were entered into by the Textile Group in 2000 and were fixed term tenancy agreements from twenty one months to four years. Details of these tenancy agreements can be summarised as follows:

1. *Room 1110 and Rooms 1101–09, both of 11th floor, China Resources Building, 26 Harbour Road, Wanchai, Hong Kong (two agreements)*

	First agreement	Second agreement
Date of the agreements	11th August, 2000	17th November, 2000
Parties	China Resources Property Management Company Limited, a wholly owned subsidiary of China Resources Holdings as landlord, and China Resources Light Industries and Textiles (Holdings) Company Limited, the current holding company of the Textile Group as tenant.	
Term of the agreements	1st September, 2000 to 31st August, 2002	1st December, 2000 to 31st August, 2002
	HK\$	HK\$
Monthly rental	279,661.00	63,074.00
Monthly management fee	29,438.00	5,734.00
Monthly charges	42,685.00	8,314.00
As the total annual amount payable by the Textile Group to the landlord pursuant to these two agreements will not exceed the limit specified in Rule 14.25(1) of the Listing Rules, details of transactions conducted pursuant to these two agreements will be included in the next published annual reports of the Company.		

2. *8th–10th floor, Excelsior Building, 68–72 Sha Tsui Road, Tsuen Wan, Hong Kong*

Date of agreement	1st January, 2000
Parties	Chung Fu Hong Limited, a wholly owned subsidiary of China Resources Holdings as landlord, and Rich Resources Hong Kong Limited, a wholly owned subsidiary of the Textile Group as tenant
Term of the agreement	1st January, 2000 to 31st December, 2004
Monthly rental	HK\$55,000 until 31st December, 2002; rental payments after 31st December, 2002 at market rental rate

3. *17th floor, Hou Feng Industrial Building, 1–5 Wing Kin Road, Kwai Chung, Hong Kong*

Date of agreement	1st January, 2000
Parties	Fealty Investments Company Limited, a subsidiary of China Resources Holdings as landlord, and Rich Resources Hong Kong Limited as tenant
Term of the agreement	1st January, 2000 to 31st December, 2004
Monthly rental	HK\$10,000 until 31st December, 2002; rental payments after 31st December, 2002 at market rental rate

4. *20th–22nd floor and car parking spaces nos. 7, 10, 11, 14 and 26, Hou Feng Industrial Building, 1–5 Wing Kin Road, Kwai Chung, Hong Kong*

Date of agreement	1st January, 2000
Parties	Fealty Company Limited, a wholly owned subsidiary of China Resources Holdings as landlord, and Rich Resources Hong Kong Limited as tenant
Term of the agreement	1st January, 2000 to 31st December, 2004
Monthly rental	HK\$30,000 until 31st December, 2002; rental payments after 31st December, 2002 at market rental rate

Permit of use of residential units as staff quarters

A subsidiary of the China Resources Holdings Group has also permitted the Textile Group to use various residential units as the Textile Group’s staff quarters. Fees are determined based on the area and duration of the residential units used by the Textile Group and are paid monthly by the Textile Group. Arrangement regarding the use of residential units can be changed on short-term notice by the Textile Group.

For each of the two financial years ended 31st December, 2000, the annual aggregate fees paid to the China Resources Holdings Group regarding the use of residential units amounted to approximately HK\$2.7 million each financial year, representing approximately 0.03% of the Group’s net tangible asset value as at the end of each financial year.

Other Ongoing Connected Transactions

From time to time, the Textile Group sold to certain members of the China Resources Holdings Group merchandises in its ordinary course of trading (“Other Ongoing Connected Transactions”). Purchase agreements were entered into between the parties on a case by case basis, pursuant to which the Textile Group agreed to source the merchandises at an agreed price. The merchandises include textile raw materials, machineries and shoes. The amount payable for the merchandises is determined based on arm’s length negotiations between the parties thereto, having regard to the cost of merchandises sourced by the Textile Group. The aggregate value of the merchandises paid by the China Resources Holdings Group to the Textile Group amounted to approximately HK\$11.0 million and approximately HK\$101.3 million for each of the two financial years ended 31st December, 2000, representing approximately 0.1% and approximately 0.6% of the turnover of the Group for the respective year; and approximately 0.1% and approximately 1.0% of the audited net tangible asset value of the Group as at the end of the respective year.

Waiver

Under the Listing Rules, the tenancy agreements entered into by Rich Resources Hong Kong Limited as described in items 2, 3 and 4 in the sub-section headed “Subsisting Agreements” above, the permit of use of residential units as staff quarters and Other Ongoing Connected Transactions would normally require full disclosure and/or prior independent shareholders’ approval. As the directors (including the independent non-executive directors) of the Company consider that the terms of these Ongoing Connected Transactions were and will be determined on arm’s length basis in the ordinary and usual course of business of the Textile Group on normal commercial terms which are fair and reasonable so far as shareholders of the Company 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 will make an application to the Stock Exchange to seek an exemption from the relevant connected transaction requirements of the Listing Rules for these Ongoing Connected Transactions subject to the following conditions:

- (a) the Ongoing 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 of the Company 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 amount of rental, charges and/or fees paid by the Textile Group for each of the tenancy agreements entered into by Rich Resources Hong Kong Limited as described above and for the use of residential units as staff quarters in any financial year will not exceed HK\$10 million; and
 - (vi) the aggregate value of Other Ongoing Connected Transactions in any financial year will not exceed 3% of the net tangible asset value of the Group in any particular financial year;
- (b) details of the Ongoing Connected Transactions as required by Rule 14.25(1)(A) to (D) of the Listing Rules with a statement of opinion of the independent non-executive Directors and auditors of the Company shall be disclosed in the Company’s annual report for that year;
- (c) the independent non-executive Directors of the Company shall review annually the Ongoing Connected Transactions and confirm in the Company’s annual report that they were conducted in the manner as stated in paragraph (a) above;
- (d) the auditors of the Company shall review annually the Ongoing Connected Transactions and confirm in a letter to the Directors (a copy of which shall be provided to the Stock Exchange) stating that:
- (i) such transactions have been approved by the board of directors of the Company;
 - (ii) such transactions have been entered into in accordance with the pricing policy of the Group as stated in its financial statements;
 - (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 limits as set out in (a)(v) and (a)(vi) above have not been exceeded.

Where, for whatever reason, the auditors of the Company decline to accept the engagement or are unable to provide the letter, the directors of the Company shall contact the Stock Exchange as soon as practicable.

DESPATCH OF CIRCULAR

Details of the Ongoing Connected Transactions and the application for waiver, together with other information of the proposed acquisition, advice of DBS Asia Capital Limited, recommendation of the independent board committee regarding the acquisition and a notice convening an extraordinary general meeting to be held to approve the acquisition are included in a circular and has been despatched to shareholders of the Company today.

By order of the board of
CHINA RESOURCES ENTERPRISE, LIMITED
Lee Yip Wah
Company Secretary

Hong Kong, 17th December, 2001