

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



華潤創業有限公司

China Resources Enterprise, Limited

(Incorporated in Hong Kong with limited liability)

(Stock Code: 291)

CONNECTED TRANSACTION

Acquisition of interest in Suguo Supermarket Co., Ltd.

The directors of China Resources Enterprise, Limited announced that China Resources Supermarket, a wholly owned subsidiary of the Company, entered into an acquisition agreement with Jiangsu Foodstuff on 31st May, 2004 for the acquisition of a 24.25 % equity interest in Suguo, a 49.25% subsidiary of the Group for a consideration of RMB310,000,000 (equivalent to approximately HK\$292.5 million). Following the Acquisition, Suguo will be 73.5% owned by China Resources Supermarket with the remaining 11.5% being owned by Zheng Xin Gang and 15% being owned by Jiangsu Foodstuff.

As Jiangsu Foodstuff is a substantial shareholder of Suguo, the Jiangsu Foodstuff Acquisition constitutes a connected transaction of the Company under the Listing Rules. For the purposes of the Listing Rules governing connected transactions, as each of the relevant percentage ratio is less than 2.5%, the Jiangsu Foodstuff Acquisition is therefore only subject to the reporting and announcement requirements in accordance with rules 14A.45 and 14A.47 and is exempt from the independent shareholders' approval requirement under the Listing Rules.

THE JIANGSU FOODSTUFF AGREEMENT DATED 31ST MAY, 2004

Purchaser:	China Resources Supermarket
Vendor:	Jiangsu Foodstuff, a stated owned enterprise established in the PRC, and together with its subsidiaries engaged in the trading and distribution of food products in the Jiangsu Province of the PRC
Asset to be acquired:	the 24.25% equity interest in Suguo
Consideration:	RMB310,000,000 (equivalent to approximately HK\$292.5 million). The consideration has been arrived at after arm's length negotiations between the vendor and the purchaser who has also taken into account, among others, trading multiples of comparable companies and transactions in the retail chain industry in Hong Kong and China, and the business prospects of Suguo.

Based on the audited consolidated net profit of Suguo for the year ended 31st December, 2003 of approximately RMB46.8 million (equivalent to approximately HK\$44.1 million), the consideration for the Jiangsu Foodstuff Acquisition represents a historic price earnings multiple of about 27.3 times. In December 2003, Suguo completed the Capital Increase required for its business development purposes. Excluding the portion of Capital Increase attributable to the 24.25% interest to be acquired under the Jiangsu Foodstuff Acquisition of RMB49.4 million (equivalent to approximately HK\$46.6 million), the adjusted consideration for the Jiangsu Foodstuff Acquisition of approximately RMB260.6 million (equivalent to approximately HK\$245.9 million) represents a historic price multiple of about 23.0 times the attributable net profit for the year ended 31st December, 2003.

The attributable consolidated net asset value as at 31st December, 2003 for the 24.25% interest in Suguo was approximately RMB97.2 million (equivalent to approximately HK\$91.7 million). The consideration represents a premium of approximately RMB212.8 million (equivalent to approximately HK\$200.8 million) to the attributable consolidated net assets of the 24.25% interest in Suguo, representing a premium of approximately 218.9%.

Based on Suguo's registered capital of RMB253.8 million (equivalent to approximately HK\$239.4 million), the 24.25% interests to be disposed by Jiangsu Foodstuff pursuant to the Jiangsu Foodstuff Agreement represents RMB61.6 million (equivalent to approximately HK\$58.1 million).

Based on the business prospects of Suguo, the trading multiples of comparable companies and transactions in the retail chain industry in Hong Kong and China and other factors, the directors of the Company (including the independent non-executive directors) considered that the Jiangsu Foodstuff Agreement was being entered into in the ordinary course of business and on normal commercial terms which are fair and reasonable and in the interest of shareholders of the Company as a whole (including independent shareholders).

Payment arrangement: The consideration for the Jiangsu Foodstuff Acquisition shall be satisfied in cash (funded through internal resources of the Company) in the following manner:

- RMB155 million (equivalent to some HK\$146.25 million) shall be payable within 10 working days of the issue of the approval certificate by the Approval Authority; and
- the balance of the consideration of RMB155 million (equivalent to some HK\$146.25 million) shall be payable within 10 working days upon completion of the business registration changes to be filed with the State Administration of Industry and Commerce.

Condition:	The Jiangsu Foodstuff Agreement is conditional upon the approvals issued by the Approval Authority in respect of the Jiangsu Foodstuff Acquisition.
Long-stop date:	The Jiangsu Foodstuff Agreement provides that if the relevant approvals are not obtained on or before 30th May, 2005, either party may by notice in writing terminate (without penalty) the Jiangsu Foodstuff Agreement.

INFORMATION ABOUT SUGUO

Based on the 2003 Ranking of 30 Largest PRC Retail Chain Enterprises (2003年最大30家連鎖企業) compiled by the Ministry of Commerce of the PRC and other industry information, the directors of the Company believe that Suguo is currently the largest supermarket chain operator in Jiangsu province, China. It was established in July 1996 and operated 65 superstores, 58 supermarkets and 191 convenience stores in Jiangsu Province as at 31st December, 2003. Jiangsu Foodstuff is one of the founders of Suguo. The directors believe that Suguo will continue to increase its presence in Jiangsu province and will also expand into the neighbouring provinces by opening new stores.

The Company first acquired its 39.25% interest in Suguo back in November, 2002 and subsequently increased its interest to 49.25% in September, 2003. Each of these two transactions does not constitute a notifiable or connected transaction of the Company at the time when such transaction was entered into. Since October, 2003, the accounts of Suguo have been consolidated into the accounts of the Company as the Company obtained control of the board of directors of Suguo. After the Jiangsu Foodstuff Acquisition, the interest of the Company in Suguo will be increased to 73.5% and the interest held by Jiangsu Foodstuff will be reduced to 15%. The interest held by Zheng Xin Gang will remain as 11.5% (without voting rights). The composition of board of directors of Suguo after the Jiangsu Foodstuff Acquisition has not yet been finalised.

The audited consolidated turnover, net profits before and after taxation and extraordinary items in respect of the two financial years ended 31st December, 2003 of Suguo are as follows:

	Year ended 31st December, (RMB'000)	
	Audited 2003	2002
Turnover	3,263,620.6 (equivalent to approximately HK\$3,078.9 million)	2,608,566.4 (equivalent to approximately HK\$2,460.9 million)
Consolidated net profit before taxation and extraordinary items	73,894.9 (equivalent to approximately HK\$69.7 million)	61,149.3 (equivalent to approximately HK\$57.7 million)
Consolidated net profit after taxation and extraordinary items	46,773.3 (equivalent to approximately HK\$44.1 million)	40,853.6 (equivalent to approximately HK\$38.5 million)

The audited consolidated net asset of Suguo was approximately RMB400.7 million (equivalent to approximately HK\$378.0 million) as at 31st December, 2003.

Based on the unaudited management accounts of Suguo, consolidated turnover of Suguo for the three months ended 31st March, 2004 was approximately RMB1,173.3 million (equivalent to approximately HK\$1,106.9 million), representing a 36.6% increase from RMB858.7 million (equivalent to approximately HK\$810.1 million) for the three months ended 31st March, 2003. As at 31st December, 2003, Suguo had capital commitment in the amount of RMB100 million (approximately HK\$94.3 million) in respect of construction of a logistics centre for its operations.

REASONS FOR THE ACQUISITION

At present, the Group's supermarket business in the PRC is managed principally via two subsidiary companies, China Resources Vanguard and Suguo. The directors of the Company regard the Group is among the largest supermarket operators in China with leading market share in Guangdong province and Jiangsu province.

The business of China Resources Vanguard has been concentrated in the southern part of China whilst that of Suguo is in the eastern part of China. In particular, the Group (other than Suguo) also has supermarket operations in Suzhou of the Jiangsu province which had a consolidated turnover of approximately RMB555.6 million (equivalent to approximately HK\$524.2 million for the year ended 31st December, 2003). As a result of the Acquisitions, the Group can further increase its ability to strengthen its position with its suppliers and the Group's supply chain in Jiangsu province can become more efficient and the distribution network can be expanded and better

utilized, therefore, the directors of the Company believe that synergies will be created leading to higher profitability ultimately. Suguo will also be in a better financial position to expand into neighboring provinces.

Following completion of the Acquisitions, the aggregate investment cost of the Group for its 73.5% interest in Suguo was approximately RMB681.4 million (equivalent to approximately HK\$642.8 million). Excluding the portion of the Capital Increase attributable to the 73.5% interest of approximately RMB149.6 million (equivalent to approximately HK\$141.1 million), the adjusted aggregate investment cost of the Group of approximately RMB531.8 million (equivalent to some HK\$501.7 million) represents a historic price multiple of about 15.5 times the attributable net profit for the year ended 31st December, 2003. The directors of the Company regard the Group's investment in Suguo as a key investment for the Group's supermarket business.

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 Group has a well-diversified portfolio of businesses in both Hong Kong and the Chinese Mainland, including retail, beverage, food processing and distribution, textile, petroleum and chemical distribution, property and other investments.

GENERAL

As Jiangsu Foodstuff is a substantial shareholder of Suguo, the Jiangsu Foodstuff Acquisition constitutes a connected transaction of the Company under the Listing Rules. Based on the consideration for the Jiangsu Foodstuff Acquisition of RMB310,000,000 (equivalent to approximately HK\$292.5 million) and the market capitalisation of the Company of approximately HK\$19,898.5 million calculated on the basis of the average closing price of HK\$9.46 per share in the Company for the five trading days up to and including 31st May, 2004, each of the relevant percentage ratio is less than 2.5%. Accordingly, the Jiangsu Foodstuff Acquisition is only subject to the reporting and announcement requirements in accordance with rules 14A.45 and 14A.47 and is exempt from the independent shareholders' approval requirement under the Listing Rules.

DEFINITIONS

“Approval Authority”	中華人民共和國商務部 (Ministry of Commerce of the People's Republic of China)
“Capital Increase”	An increase in the registered capital of Suguo in December 2003 of RMB203,820,000 (equivalent to some HK\$192.3 million), fully paid up by all shareholders of Suguo in proportion to their respective shareholding interests
“China Resources Supermarket”	China Resources Supermarket (BVI) Company Limited, a company incorporated in the British Virgins Island and a wholly owned subsidiary of the Group

“China Resources Vanguard”	華潤萬家有限公司 (China Resources Vanguard Co., Ltd), a company incorporated in the PRC and a 65% owned subsidiary with the remaining 35% owned by CRNC
“Company”	China Resources Enterprise, Limited, a company incorporated in Hong Kong and listed on The Stock Exchange of Hong Kong Limited
“CRNC”	中國華潤總公司 (China Resources National Corporation), a state-owned enterprise established in the PRC, the ultimate holding company of the Company
“Group”	Company and its subsidiaries
“Jiangsu Foodstuff”	江蘇省果品食雜總公司 (Jiangsu Foodstuff Co., Ltd.), a state-owned enterprise established in the PRC, which holds 39.25% of the registered capital of Suguo
“Jiangsu Foodstuff Acquisition”	The acquisition of 24.25% equity interest in Suguo as provided under the Jiangsu Foodstuff Agreement
“Jiangsu Foodstuff Agreement”	An acquisition agreement between China Resources Supermarket and Jiangsu Foodstuff dated 31st May, 2004 in relation to the acquisition of 24.25% equity interest in Suguo as referred to in this announcement
“PRC”	People’s Republic of China
“Suguo”	蘇果超市有限公司 (Suguo Supermarket Co., Ltd.), a company incorporated in People’s Republic of China and a 49.25% subsidiary of the Group
“Suguo Group”	Suguo and its subsidiaries
“Zheng Xin Gang”	北京正新港科技發展有限公司 (Beijing Zheng Xin Gang Technology Development Co., Ltd), a company incorporated in the PRC and an indirect wholly owned subsidiary of CRNC

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

Hong Kong, 1st June, 2004

As at the date of this announcement, the executive directors of the Company are Mr. Ning Gaoning (Chairman), Mr. Song Lin (Deputy Chairman and Managing Director), Mr. Chen Shulin (Deputy Managing Director), Mr. Qiao Shibo (Deputy Managing Director), Mr. Yan Biao (Deputy Managing Director), Mr. Keung Chi Wang, Ralph (Deputy Managing Director), Mr. Lau Pak Shing, Mr. Wang Qun, Mr. Zhong Yi and Mr. Kwong Man Him. The non-executive directors are Mr. Jiang Wei and Mr. Xie Shengxi. The independent non-executive directors are Dr. Chan Po Fun, Peter, Mr. Houang Tai Ninh and Dr. Li Ka Cheung, Eric.

Please also refer to the published version of this announcement in the (South China Morning Post)