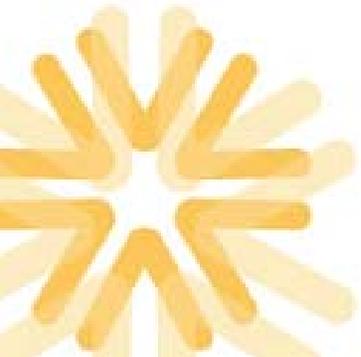


China Resources Enterprise, Limited

Expansion into the Mainland Meat Market

31 March 2003





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Ng Fung Hong's Mission and Strategy

Hong Kong mission:

- Through proactive and innovative marketing and branding strategy to increase the market share of core businesses (livestock, frozen food and general food items), cementing Ng Fung Hong's position as a leading distributor for China food products in Hong Kong

Mainland China mission:

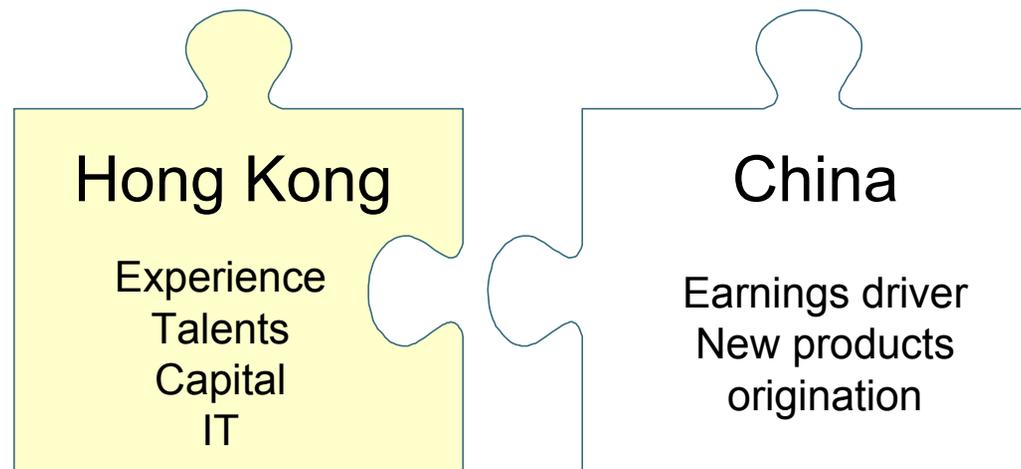
- Form strategic alliance with local or international peers to build up a vertically integrated meat products supply chain in Pearl River Delta, Yangtze River Delta and northern China region within four to five years, in the form of direct investment or acquisition



Ng Fung Hong's Mission and Strategy

- Strong and indispensable relationship between Hong Kong and mainland operations

Ng Fung Hong





Ng Fung Hong's Mission and Strategy

Mainland China strategy:

- Ng Fung Hong will replicate its success in Hong Kong's food processing market on the mainland with an objective to become a leading vertically integrated meat supplier in the mainland
- It will capture the opportunities in abattoir and meat processing business from the recent change in government policy promulgating hygienic meat processing
- Ng Fung Hong will establish a vertically integrated fresh meat and meat products supply chain from farming, slaughtering, cutting, processing, wholesaling to retailing
- Target areas for expansion will overlap with those of our retailing business - Pearl River Delta (Guangdong), Yangtze River Delta (Jiangsu, Zhejiang and Shanghai) and two major cities (Beijing and Tianjin) to maximize synergies



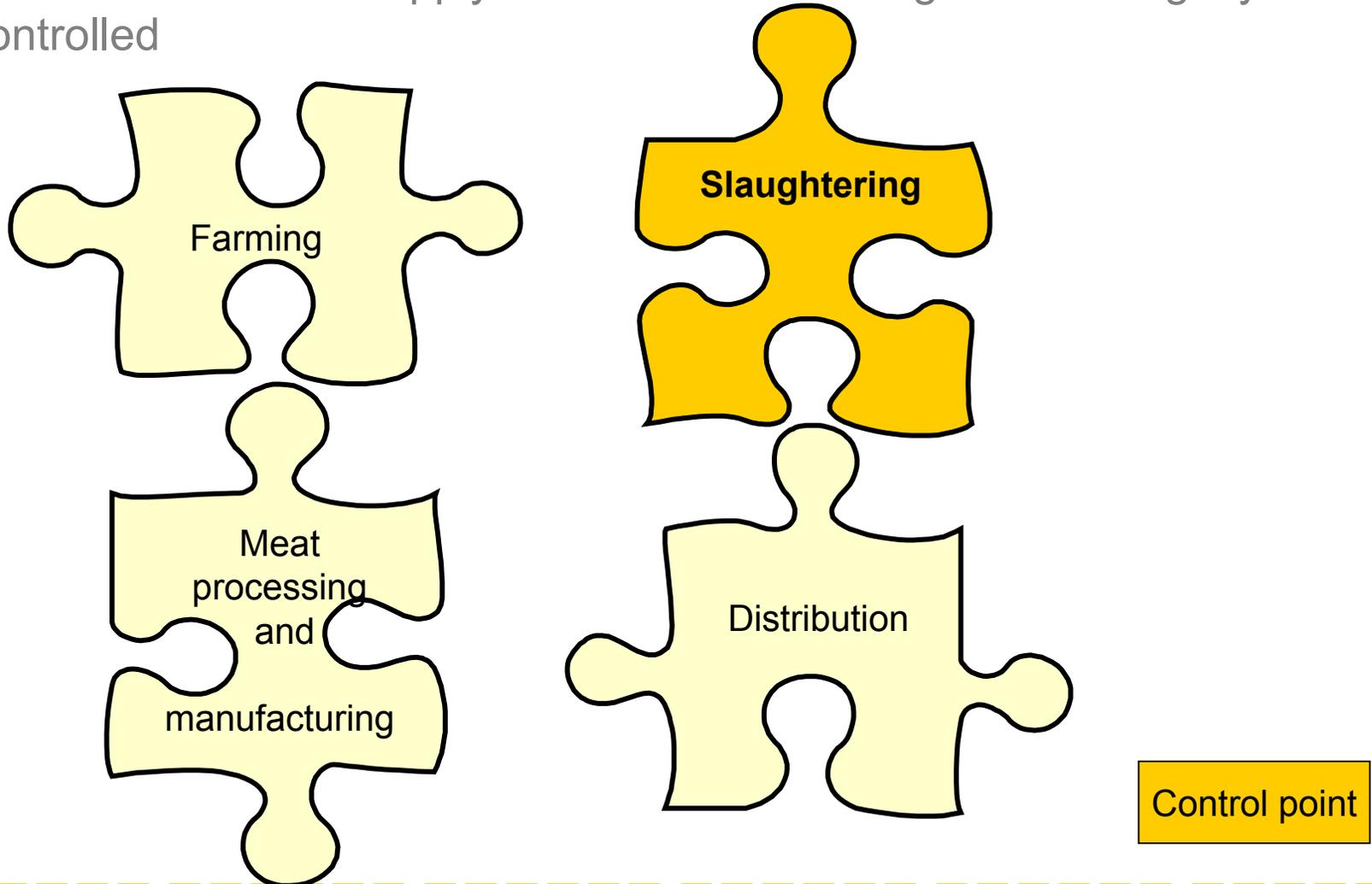
Ng Fung Hong's Mission and Strategy

- “Ng Fung” (五丰) brand will be further developed on the mainland as a recognition for high quality safe meat for a modern community
- As the most popular daily food, consumption for pork and processed pork products is growing steadily in China
- The size of the fresh pork market in China is expected to reach RMB178bn (wholesale price) by 2008 from RMB120bn in 2002
- Shanghai will be the first entry point for the abattoir and meat processing business in China
- Thereafter, Ng Fung Hong will enter other major cities successively, providing growth momentum
- Together with a foreign company, Ng Fung Hong is interested in tendering for a 70% stake in Shenzhen Food General Co which operates the city's biggest slaughterhouse



Ng Fung Hong's Mission and Strategy

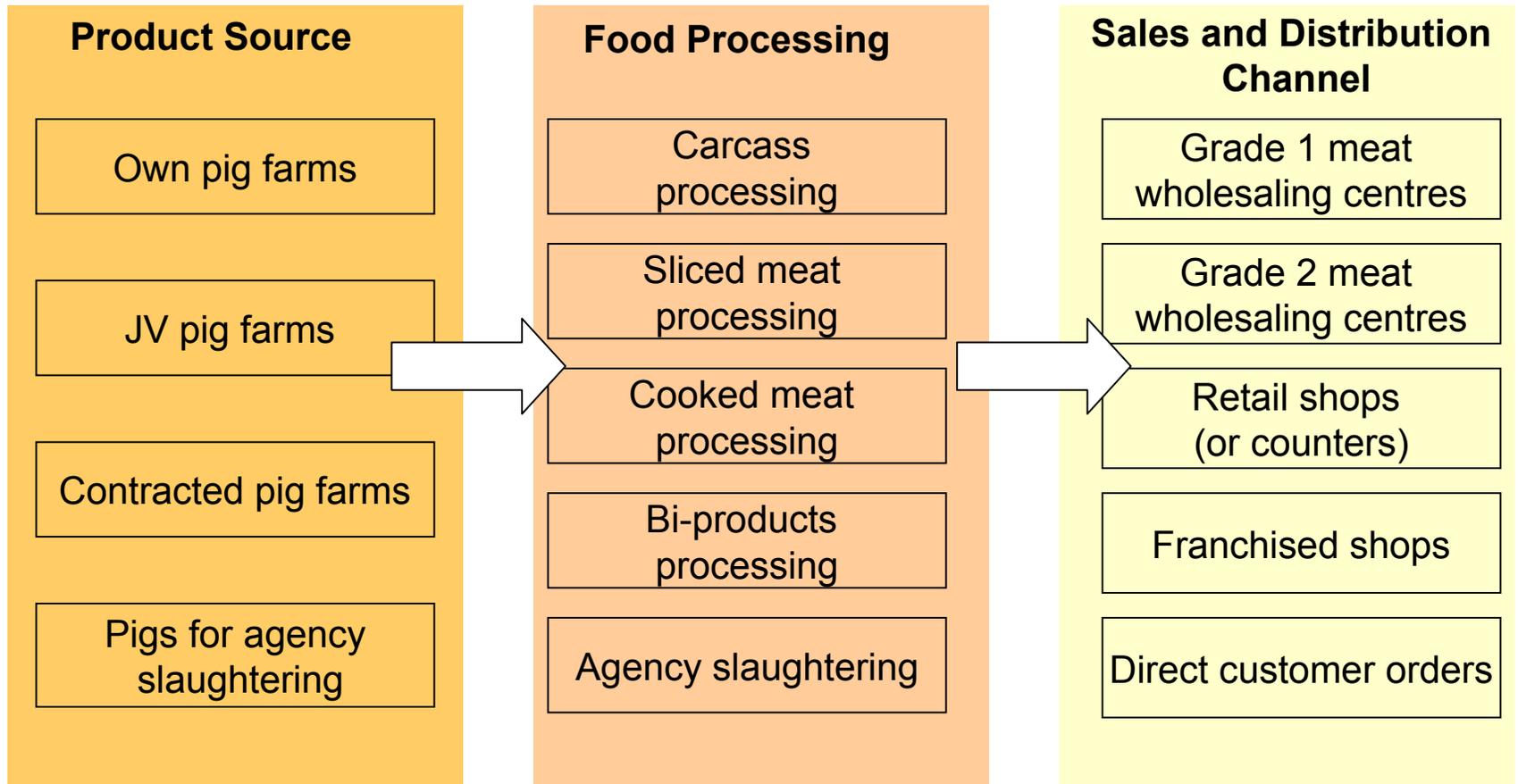
- The modules in the supply chain will be fitted together and tightly controlled





Ng Fung Hong's Mission and Strategy

- There are various integrated functions in each module – a vertical integrated meat products supply chain





Ng Fung Hong's Mission and Strategy

- Advantages of a vertically integrated meat products supply chain can be summarised as follows: -
 - Maximize synergies and lower operational costs
 - Allow quality tracking to validate the concept of “safe meat”
 - Enable brand building and nurture consumer loyalty
 - Widen operating margin and result in a higher investment return
 - Build core competence to ensure continual growth



Highlights of the Joint Venture

Project	:	Build a modern meat processing centre and carry out distribution activities
Shareholding	:	Ng Fung Hong - 51% Shanghai New Asia (Group) Co – 49%
Total investment	:	RMB360m
Registered capital	:	RMB190m
Bank borrowing	:	RMB170m
Joint venture period	:	50 years
Location	:	Shanghai Jiading Zhujiacao Industrial Park (上海市嘉定区朱家桥工业园区)
Site area	:	approximately 150,000 sm
Construction period	:	18 months
Production commencement	:	end-2004



Highlights of the Joint Venture

- To build a slaughtering line with an annual capacity of 3m pigs
- To construct a chilled meat cutting line with an annual capacity of 700,000 pigs
- To set up a meat processing line with an annual capacity of 12,000 tonnes of processed meat products
- To establish a modern sample pig farm with a rearing capacity of 40,000 pigs which will also provide pigs for breeding purpose to contracted pig farms
- To develop a logistic system capable of delivering 500 tonnes of fresh pork everyday
- To form a distribution network comprising one Grade 1 meat wholesaling centre, 14 Grade 2 meat wholesaling centres and 500 retail butcher shops (or counters)

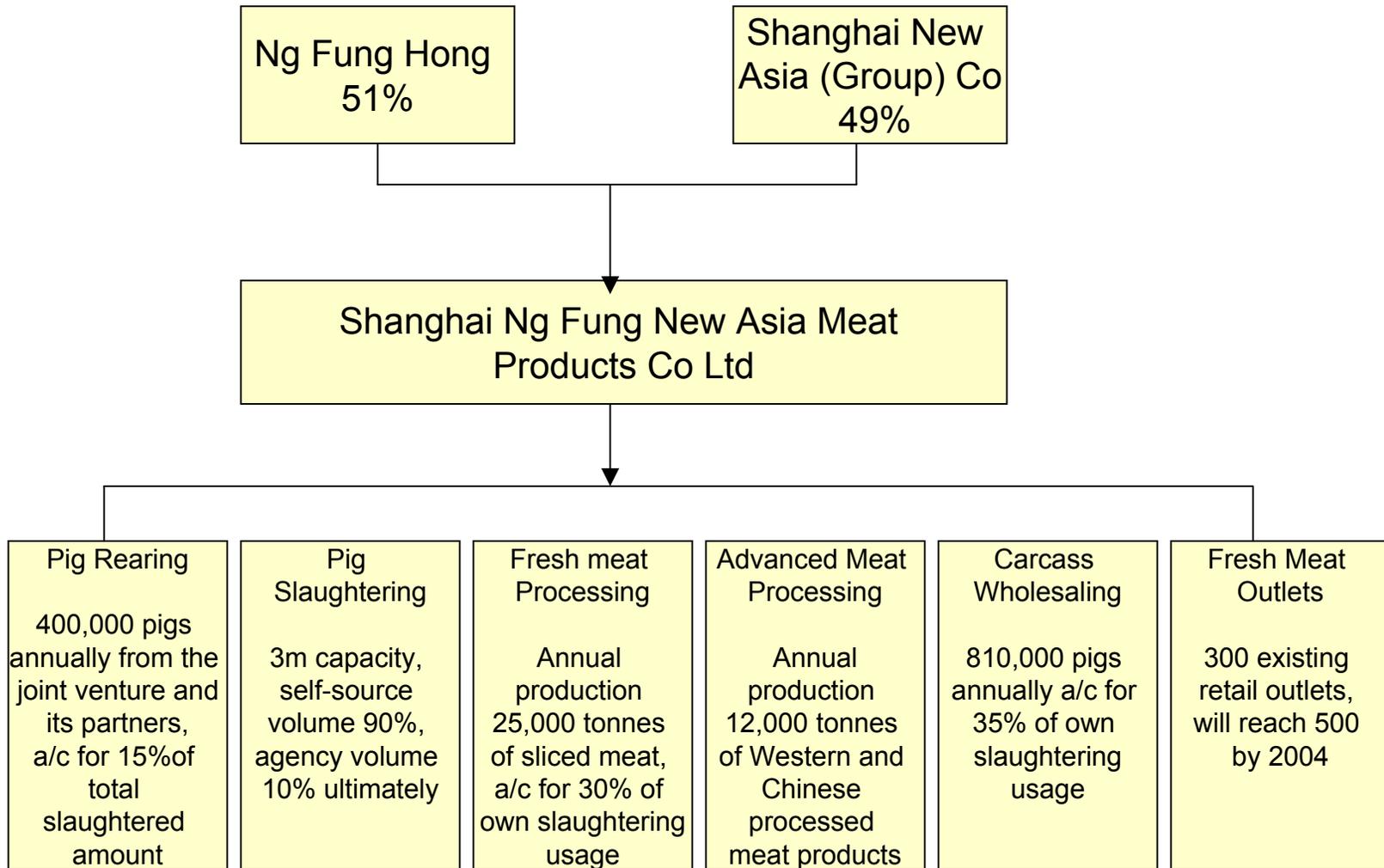


Highlights of the Joint Venture

- Related functions like processing of bi-products will also be involved
- The joint venture will have land use right for the 150,000 sm of land for fifty years
- Production lines will be equipped with the latest European technology and it will seek ISO9000 and HACCP certification
- Products will include carcass (白条肉) and sliced meat (分割肉), both chilled (冷却) and un-chilled (热鲜), as well as processed meat products (加工肉制品) (High Temperature Meat Products and Low Temperature Meat Products)
- Joint venture partners' existing retail distribution network will be injected into the joint venture to avoid competition
- Existing leading brands of the joint venture partners will continue to be marketed as “safe meat” but a single brand will be developed in the long term



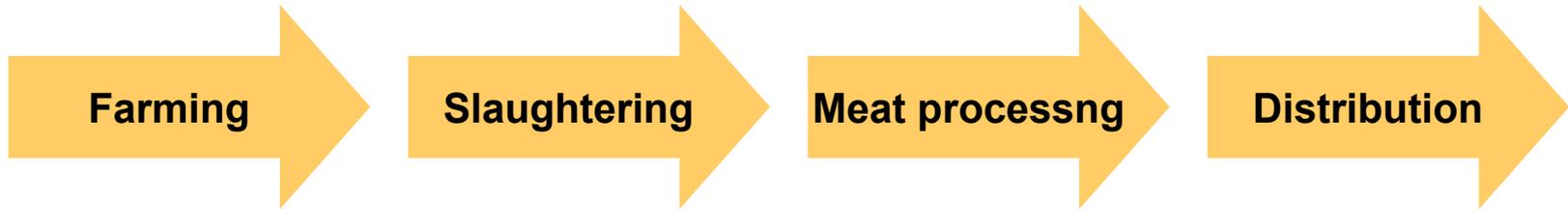
Highlights of the Joint Venture





Highlights of the Joint Venture

- The business model underlies Ng Fung Hong's mainland strategy



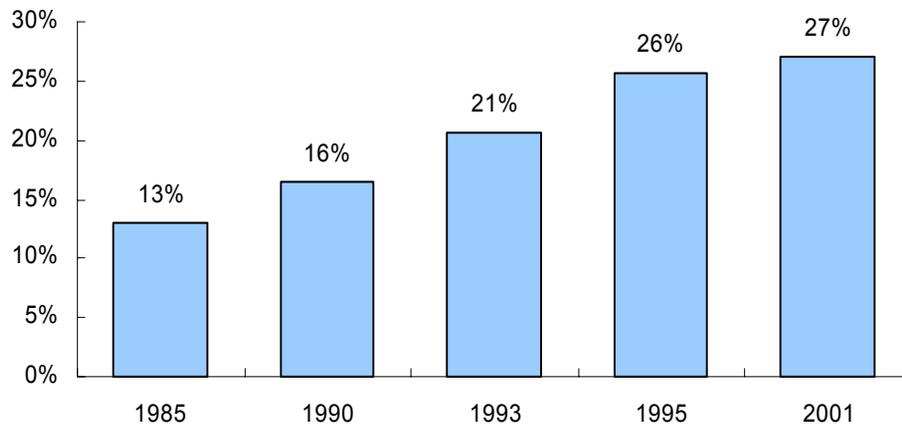
- Provide stable source of pigs with guaranteed quality
- Understand customer needs
- Promote brands and create customer loyalty
- Begin brand building
- Analyze sales data
- Shorten response time and optimize inventory level
- Standardize quality control



Meat Market Overview

- China produced 63.3m tonnes of meat in 2001, the highest in the world, accounting for 27% of the global production
- Its share in global meat market has been increasing continuously
- It is also the largest pork producing country

China's share of the global meat production market



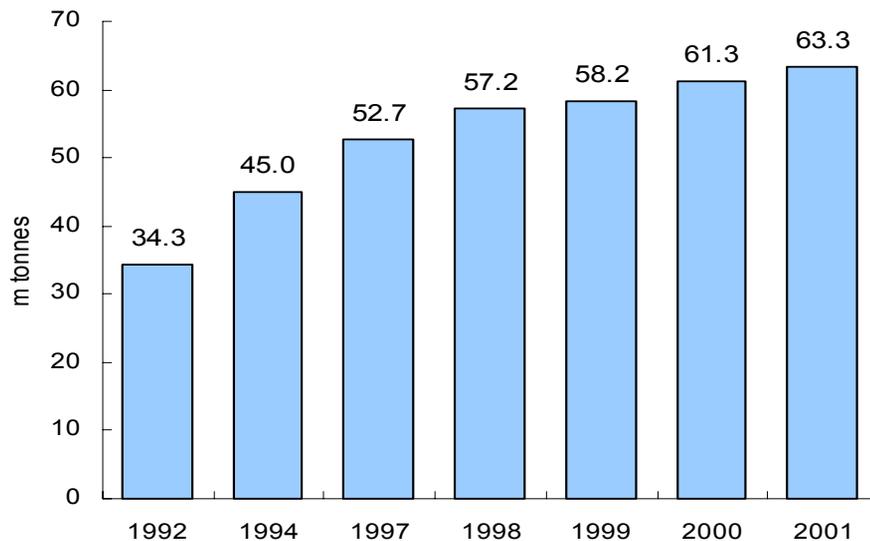
Source: 國際糧農組織, China Statistical Year Book



Meat Market Overview

- After an impressive growth in production between 1992 and 1999, the industry currently enjoys a steady growth rate of 3%-5% with minor changes in product mix

China meat production



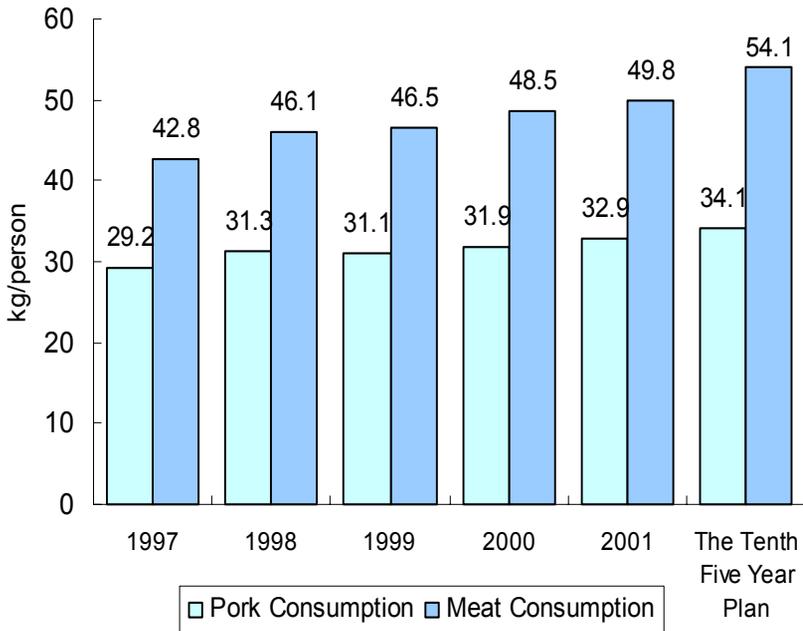
Source: China Statistical Year Book



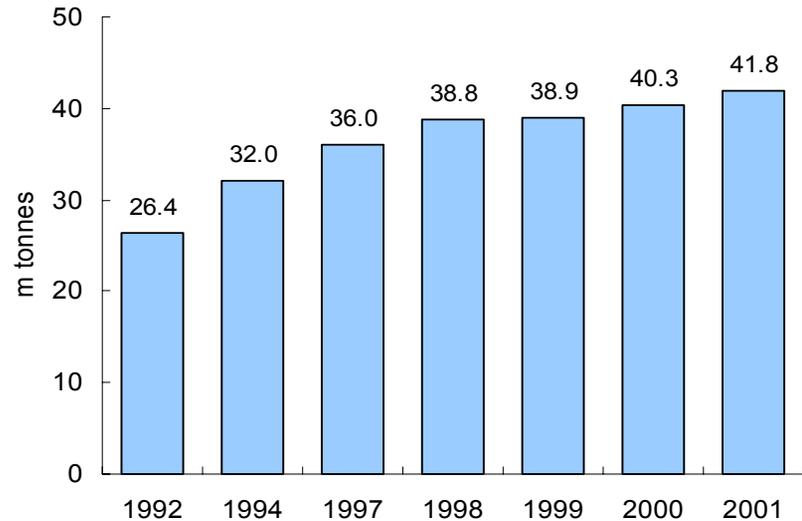
Meat Market Overview

- Pork accounts for about 66% of the total meat production in China and its trend is similar to that of meat

China meat and pork consumption per capita



China pork production



Source: China Statistical Year Book, Ng Fung Hong,

中國肉類協會

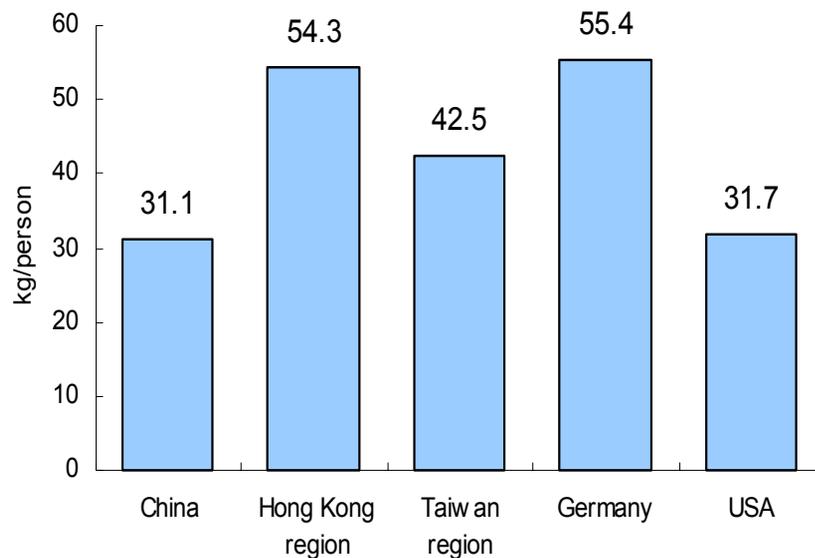
Source: China Statistical Year Book



Meat Market Overview

- Pork consumption per capita in China is low on an international scale
- Improving living standards in China will boost pork consumption and close the gap with more developed countries

International comparison of pork consumption per capita (1999)



Source: 國際糧農組織, China Statistical Year Book, Ng Fung Hong, 美國農業部信息資料



Meat Market Overview

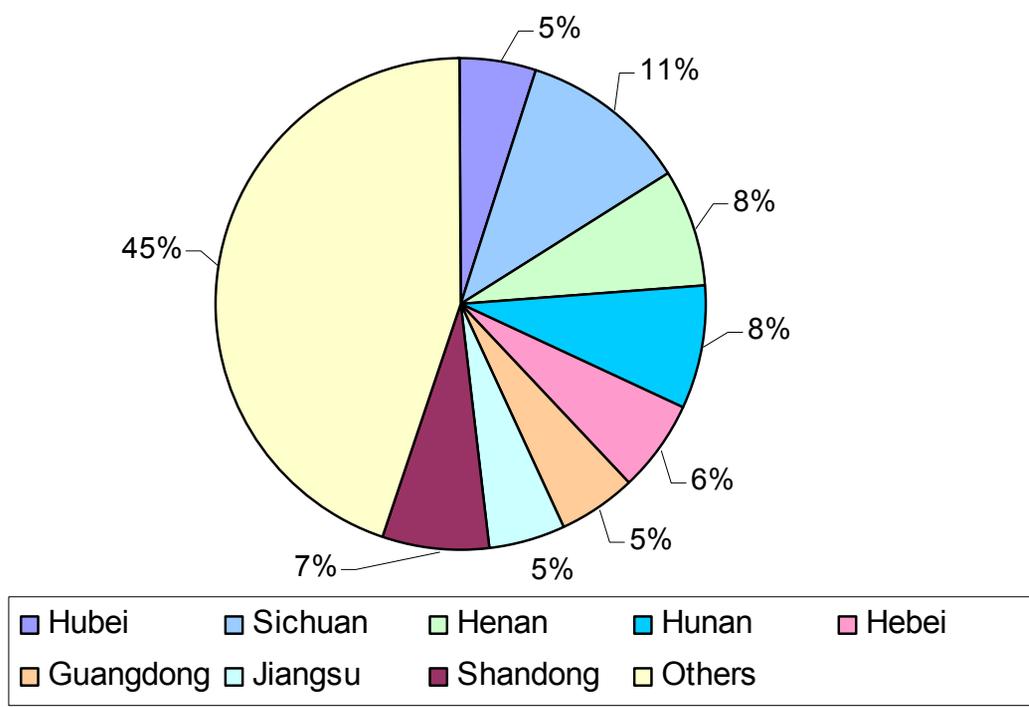
- Estimated size of the mainland fresh meat market is RMB210bn, or 18m tonnes
- Of which, fresh pork market accounts for RMB120bn, or 12m tonnes
- Approximately 85% of pigs in China are farmed on backyard type of family-run pig farms breeding less than 100 pigs a year
- Accordingly, quality of pork is low and there are opportunities for professionally-run large scale pig farms
- Technology of the meat processing industry is also low and production process is mostly unautomated



Meat Market Overview

- Sichuan, Henan and Hunan are the major provinces rearing pigs

China pig breeding volume breakdown in 2001 by region



Source: China Statistical YearBook



Meat Market Overview

- The Shanghai meat market has been growing in line with the China meat market
- Between 1998 and 2001, meat and pork consumption in Shanghai grew at 6.1% and 6.8% per annum respectively
- Pork accounted for 73% of total meat consumption in 2001, much higher than the national average of 66%
- 6.3m pigs were slaughtered at the 52 abattoirs in Shanghai in 2001, of which around half were supplied by local farms and the rest from neighboring provinces including Henan, Jiangsu, Anhui and Shangdong
- There are more than 20 meat wholesaling markets in Shanghai
- Retail distribution network comprises wet markets, butcher outlets, supermarkets and department stores



Meat Market Overview

- Industry consolidation creates opportunities

Through the state policy:

- The government is actively promulgating “safe meat”
- It plans to raise the proportion of slaughtering automation to over 70% and enforce authorized slaughtering and quarantine

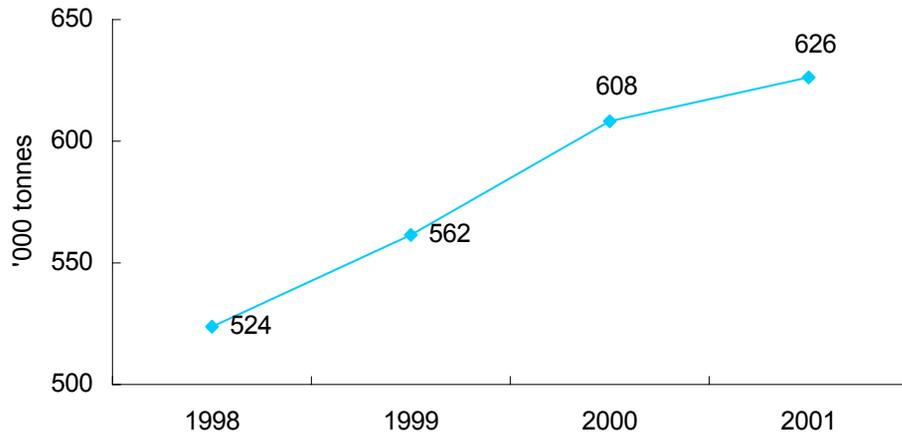
Through the policy of Shanghai municipal government:

- Shanghai will close virtually all 52 existing medium and small slaughtering houses by 2005
- Two major modern meat processing centres will be built to replace them



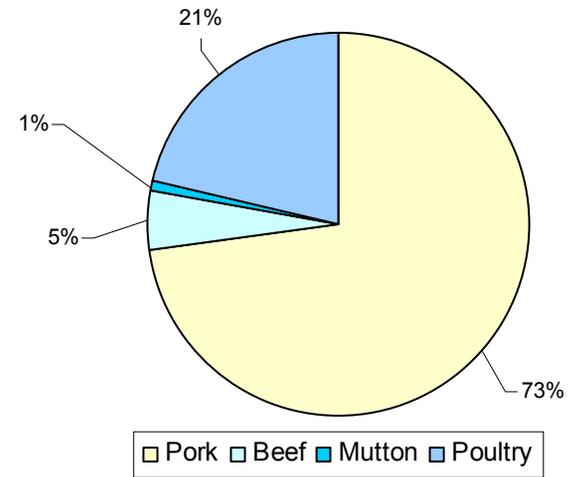
Meat Market Overview

Total meat sales in Shanghai



Source: Shanghai Statistical Year Book

Breakdown of meat sales in Shanghai 2001

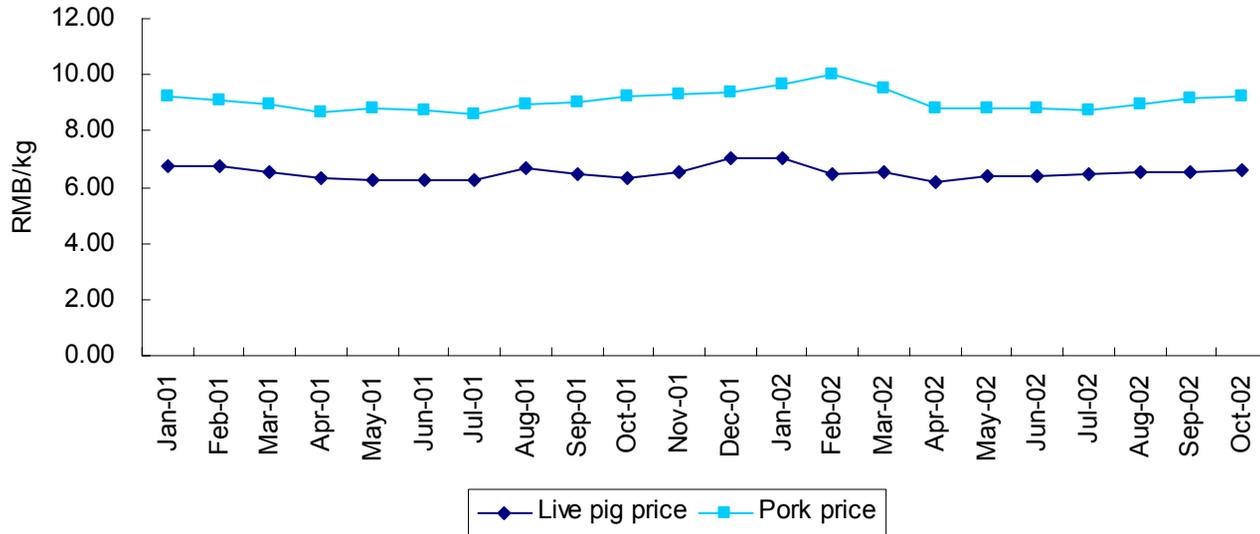


Source: Shanghai Statistical Year Book



Meat Market Overview

Relationship between pork and live pig prices



Source: Shanghai Meat Products Company Limited



The Partner

- Shanghai New Asia (Group) Co (Shanghai New Asia Group) is under the Commerce and Trade Committee of the municipal government (上海市商委) with two major subsidiaries: -
 - i) Shanghai New Asia (Group) Co, Ltd (Shanghai-listed with A, B shares) which owns and operates hotels and fast-food chain restaurants
 - ii) Shanghai Food (Group) Co, Ltd, the largest meat related business enterprise in Shanghai, whose core businesses include slaughtering, meat processing, wholesaling/retailing and low temperature logistics
- It has been designated by the municipal government for leading the “safe meat project” and will operate one of the two modern meat processing centres to conduct authorized slaughtering
- It has been supplying meat for the top three supermarket chains in Shanghai for many years



The Partner

- It owns and markets the “Shangshi” (上食) brand which is the market leader of the branded meat products in Shanghai with a 6.5% market share
- It runs the largest abattoir in the city with around 20% market share
- It has a distribution network comprising three meat wholesaling markets and about 250 retail butcher outlets

New Asia Group’s retail butcher outlets





Ng Fung Hong in Shanghai

- Ng Fung Hong owns one of the seven fresh meat brands, “Ng Fung” (五丰), in Shanghai
- It operates a chain of over 70 fresh meat retail outlets under the name “Ng Fung” (五丰)
- It also has controlling stakes in six pig farms in neighboring provinces as well as minority pig farm investments with combined rearing capacity of approximately 200,000 pigs, providing a stable source of high quality pork for the joint venture



Opportunities

Meat market:

- Pork consumption is growing steadily at 3%-5% in Shanghai and the market is highly fragmented, creating opportunities for consolidation

Regulatory change:

- The Shanghai municipal government has passed regulations to increase control on the slaughtering facilities and their hygienic environment
- Coupled with the promotion of our own branded products, competition from illegal slaughtering has been significantly reduced
- Practically all the existing 52 medium and small slaughtering houses will be closed by 2005



Opportunities

Strategic location:

- The city government plans to build two modern meat processing centres, one at the north and the other at the south
- This project will be built at the north-west of Shanghai along the route used by the majority of the pigs imported into the city minimizing transportation cost
- It will also be able to serve all the major wholesaling and retailing areas of the city efficiently



Opportunities

Branded meat products:

- Shanghai New Asia Group has around 20% market share in the slaughtering market of Shanghai and is also the largest branded meat distributor
- Its branded meat, “Shangshi”, has a market share of 6.5% and its closest competitor only has a 1.4% market share
- Ng Fung Hong also owns “Ng Fung” brand and the partnership will strengthen brand dominance



Opportunities

Distribution network :

- Shanghai New Asia Group and Ng Fung Hong have established an extensive retail distribution network in the city far ahead of competitors and the joint venture will further expand it

Modernization:

- Advanced technology and the vast experience of Ng Fung Hong and Shanghai New Asia Group in slaughtering house management, low temperature maintenance and distribution will enhance competitiveness and profitability of the project



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