

Press Release

A Good Harvest For Lam Soon Food Industrial Group & Agricultural Bureau Of HeiLongJiang Joint Project To Produce High Quality Wheat

- *Enhancing Lam Soon's competitiveness in the market place –*
- *Establishing supply chain model for China's agricultural economy upon entry to the WTO -*

Hong Kong, 8th August 2000 - Lam Soon Food Industrial Group announced that the Wheat Production Base jointly established by its subsidiary, the Shekou Lam Soon Flour Mills Company Limited, and the Agricultural Bureau of Heilongjiang, had successfully harvested the first 10,000 tons of high-quality wheat. This achievement affirms the Group's strategic initiative to produce high quality wheat in China in order to partially replace the import of production raw materials, further strengthen its supply chain, improve quality while lowering the production cost and most importantly to enhance Lam Soon's competitiveness in the flour market.

Shekou Lam Soon Flour Mills Company Limited is the largest foreign-owned flour processing enterprise in China. It uses the most advanced state-of-the-art technical equipment in the world and produces top quality specialized flour. With an annual production capacity of over 300 thousand tons, it accounts for more than 80% of the total flour export from the mainland to Hong Kong and 50% of the market share of flour in Hong Kong.

Mr. Jim C Tsao, Group Managing Director of Lam Soon said, "To live up to our corporate goal of producing high quality products, the Shekou Lam Soon Flour Mills has been importing top quality wheat from the United States, Australia and Canada as raw materials for production. However, as China's pace of modernizing the agricultural industry speeds up, the country is now capable and equipped to produce good quality wheat locally. To capitalise on this development, three years ago we started to conduct research with the Agricultural Production Research & Science Department in China on the feasibility of establishing contractual plantation bases to produce high-quality wheat which will gradually replace the import of production raw materials and enable wheat production and flour processing to be combined to increase operations efficiency."

Since then, Lam Soon has conducted a series of research experiments in different locations of China and finally signed cooperative agreements with the Agricultural Bureau of Heilongjiang and the Agricultural and Science Faculty in Shandong Province to establish high-quality wheat plantation bases to produce good quality wheat in large scale. This year, the two bases have reaped their first good harvest.

The Agricultural Bureau of Heilongjiang is currently China's largest grain production group and the biggest government-operated agricultural production organization with the longest history. It has strong agricultural production and research capabilities. The Bureau has made significant achievements in the past including the establishment of new production mechanism, introduction and development of new technology, as well as growing new products. The cooperation with Lam Soon this time is one of the successful examples.

"The harvest from these good-quality wheat production bases is a milestone for LamSoon in our efforts to establish a long-term and stable raw materials production base. Moreover, it realizes our wish to use China home-grown raw materials in to produce world-class, high-quality flour," Mr. Tsao added.

"By choosing the quality wheat from China while maintaining the same high quality standard as before, Lam Soon will be able to lower the production cost and become more competitive in the marketplace. This will ensure our leadership position in the South China market as well as enabling us to achieve high profit growth," Mr. Tsao said.

With China's pending entry to the WTO, the country's agricultural industry is facing severe challenges to open up the market to more and more foreign products. In order to adapt to the drastic market changes and increase the competitiveness of China's agricultural and food industries in the world, China must speed up the industrialization process.

Mr. Tsao concluded, "Upon China's entrance to the WTO, the market will be more deregulated and more foreign enterprises will be entering into China. In order to be competitive and successful in the world market, we must fully utilize the resources in China, combine it with international technology and management to produce world-class products. Striking a synergy between China's agricultural economy and foreign enterprises to complement resources and superiority will facilitate the entry of China's grain products into the world market. The joint establishment of the high-quality wheat production base between Shekou Lam Soon

Flour Mills Company Limited and the Agricultural Bureau of Heilongjiang is a successful model of this kind of joint venture.”

The Lam Soon (HK) Ltd. was listed on the Hong Kong Stock Exchange in 1972, and the Group’s subsidiary, Lam Soon Food Industries Ltd. was subsequently listed in 1991. The Group’s main business operations include flour, edible oil, canned products, detergent products and frozen food. It is also actively developing the vast potentials of the China market. The Lam Soon Group is financially strong with total assets over HK\$2,000 million.

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