Potential investors should carefully consider all of the information set out in this prospectus and, in particular, the following risks associated with the Group and investments in the Shares before making any decision in relation to the investment in the Offer Shares.

This prospectus contains certain forward-looking statements relating to the Group's plans, objectives, expectations and intentions, which involve risks and uncertainties. It is uncertain as to whether such forward-looking statements can be materialised eventually. Factors that could cause or contribute to such differences include those discussed below, as well as those discussed elsewhere in this prospectus.

RISKS RELATING TO THE GROUP

The Acquisition and the process of integrating the Acquired Breweries into the Group have placed high demands on the Group's operational resources

In June 2001, the Company completed the Acquisition (its largest acquisition to date) for an aggregate consideration of HK$230 million. The Acquisition was mainly financed by a syndicated loan totalling US$22 million (at an annual interest rate equivalent to London Interbank Offer Rate (LIBOR) plus 2.8%), with the remaining balance financed by shareholders' loans of approximately HK$58.4 million.

Following the Acquisition, the Group replaced certain key executives of each of the Acquired Breweries. Although changes to the key management personnel of the Acquired Breweries have not been significant, there may be further management changes in the future. Changes of key management personnel can be inherently disruptive and there can be no assurance that any disruption caused by these changes will not have a material adverse effect on the operations of the Acquired Breweries. In addition, the integration of the Acquired Breweries into the Group is likely to involve some or all of the following risks:

- the difficulty of assimilating the Acquired Breweries' operations and personnel;
- the potential disruption to the Group's ongoing business;
- the diversion of financial and management resources from existing operations to the Acquired Breweries;
- the potential impairment of relationships with the existing management and employees of the Acquired Breweries; and
- the potential failure to meet Directors' expectations in terms of financial performance and synergies of the Acquired Breweries.

For the year ended 31st December, 2001, the Acquired Breweries recorded a net loss from ordinary activities attributable to shareholders of approximately HK$6 million. Although the loss represented a substantial improvement from that of approximately HK$12.4 million incurred in the year ended 31st December, 2000, there can be no assurance that the Acquired Breweries will contribute profit to the Group in the future, or at all. Since the Acquisition was mainly financed by the US$22 million syndicated loan and HK$58.4 million shareholder's loan, the Group has incurred additional interest burden. In the event that the Acquired Breweries could not generate sufficient profit to cover the Group's finance costs, the Group's profitability may be negatively affected.

As no profit forecast has been included in this prospectus, prospective investors should exercise caution when investing in the Shares

As mentioned in the previous paragraph, integration of the Acquired Breweries involves a number of risks and uncertainties and, as such, the Directors and the Sponsors consider that it is not possible to forecast the operating results of the Acquired Breweries and their contribution to the Group for the year ending 31st December, 2002 to the level of accuracy and reliability required for inclusion in a prospectus. Accordingly, no profit forecast is included in this prospectus. Please also refer to the paragraph headed "Non-inclusion of profit forecast" in the section headed "Financial information" of this prospectus. For the four months ended 30th April, 2002, the Group's principal business remained the brewing, distribution and sale of beer in the PRC. Based on its management accounts for the four months ended 30th April, 2002, the Group sold a total of approximately 2,757,000 hl (approximately 279,000 tonnes) of beer and recorded an unaudited turnover of approximately HK$358.3 million (approximately RMB380 million), representing approximately 76.7% increase from the unaudited turnover of approximately HK$202.7 million (approximately RMB215 million) for the four months ended 30th April, 2001. The substantial increase in turnover was due to the integration of income generated from the Acquired Breweries. During the period, unaudited net profit was approximately HK$28.7 million, or a net profit margin of approximately 8%, which represents a slight drop from that of approximately 9.7% for the whole year ended 31st December, 2001. The Group's sale is normally subject to a seasonality factor of which the first quarter's sales is usually lower in a normal calendar year. During the four months ended 30th April, 2002, the Group maintained its expansion strategy toward other areas in Northeast Region. As at 30th April, 2002, the Group has a total order on hand but not yet delivered of approximately 448,000 tonnes. Prospective investors should be aware that there is no assurance that the Group's historical revenue or profitability can be maintained or relied upon in assessing the Group's future performance.

The Group may not be able to successfully implement its business plans and growth strategies

As the Group has already gained a significant market position in Northeast Region, the Directors expect that the Group's future growth will primarily come from other strategic locations in China. The Directors believe that the Group's success in the future will to a certain extent depend upon, among other things, its ability to implement its expansion plans. The successful implementation of such plans may be influenced by a number of factors, which may or may not be within the Group's control. Such factors include the availability of suitable investment and/or expansion opportunities, the availability of funding to finance the Group's expansion plans and whether the relevant investment can meet the Directors' expectation/forecasts. There can be no assurance that suitable investment opportunities and/or the necessary funding will be available in the future or that all the investments made by the Group will meet the Directors expectation/forecasts.

The Group's performance may be affected by its relationship with its distributors

The Group's products are primarily sold through a number of distributors. Although many of these distributors have been dealing with the Group since the beginning of the Track Record Period, there is no assurance that these distributors will continue to purchase beer from the Group in the future. In the event that a significant number of these distributors cease to acquire beer from the Group and that the Group is not able sell beer to alternative customers, the Group's operations and profitability may be adversely affected.

There may be disputes among partners of joint ventures operated by the Group, resulting in the operations and financial conditions of these businesses being affected

The businesses of some of the Company's principal operating subsidiaries are conducted through joint ventures with other partners. Co-operation among the joint venture partners of such companies on existing and future business decisions is crucial for the sound operation and financial success of such operations. Although the Company holds a controlling interest of all its operating subsidiaries, some of the decision making processes of these joint ventures such as an increase in registered capital are nevertheless subject to the consents of the joint venture partners and may not be controlled solely by the Company. Although the Group maintains good relationships with its joint venture partners, there is no guarantee that these relationships can be sustained in the future. Any future disputes among the partners over joint venture operation, obligations or otherwise, including renewal of the joint venture agreements and increase in capital of the joint ventures, may adversely affect the results of operations or financial conditions of these businesses and in turn adversely affect the Group's performance.

The Group's business may be adversely affected by any infringement of its trademarks

The Group primarily uses the "Harbin" (哈爾濱) (also commonly referred to as "HAPI") brand name and related trademarks in selling its beer. The Directors believe that the use of the "Harbin" (哈爾濱) brand name is key to establishing the Group's distinctive corporate and market identities. The passing off of products with famous brand names in the PRC remains a concern. Although the Directors are not aware of any material infringement of the Group's trademarks during the Track Record Period, and there are indications that the PRC government is tightening its control over intellectual property rights infringement, any significant or uncontrolled infringement could have a material adverse effect on the reputation of the "Harbin" (哈爾濱) brand name and the Group's business and operating results.

The Group has been financing its operations and expansion substantially through third party borrowings. This has resulted in the Group's net current liabilities position and may add risk on the Group's financial position

To effectively utilise its capital, the Group has been financing its operations and expansion substantially through third party borrowings. In particular, the Group has maintained a net current liabilities position through the three years ended 31st December, 2001. Although the Directors consider that net current liabilities position has not, and will not, materially and adversely affect the Group's operations and financial position, any adverse change in the

Group's business environment will result in such net current liabilities position negatively affecting the Group's operations. For instance, for the year ended 31st December, 2001, the Group's finance costs amounted to approximately HK$33.5 million, or approximately 4% of its turnover, as compared to an operating profit margin of approximately 18.2%. Based on the unaudited total interest-bearing debts of approximately HK$750 million as at 30th April, 2002, net of the estimated proceeds of approximately HK$150 million for debts reduction, an increase in 1% annual interest rate will result in an increase of the Group's finance cost by approximately HK$6 million per annum. Any future increase in finance cost may adversely affect the Group's profitability. In addition, the Group may incur higher interest expenses, and it may not be able to refinance its liabilities or raise additional debts to finance its operations at a cost comparable to what is available to it now or at all. Any such events may negatively affect the Group's debt servicing ability and may result in a material adverse impact on the Group's financial position.

In addition, after the Acquisition, which was mainly financed by a syndicated loan of US$22 million and shareholders' loans of approximately HK$58.4 million, the Group's gearing ratio increased substantially. As at 31st December, 2001, the Group's gearing ratio, taking account of the debts of the Acquired Breweries, reached approximately 226% (please refer to the paragraph headed "Key financial ratios — Gearing ratios" in the section headed "Financial information" of this prospectus for more details). The syndicated loan borrowed to finance the Acquisition as mentioned above will need to be repaid within the next three and a half years with the first instalment payable (approximately HK$24.5 million) at the end of June 2002. As disclosed in appendix I to this prospectus, a substantial portion of the Group's bank loans (approximately HK$634.5 million) is repayable within this year and 2003, this creates pressure on the Group's financial resources and may have an adverse impact on the Group's performance. Although the Directors intend to apply approximately HK$150 million of the proceeds from the Share Offer to reduce part of its debts and after which the Group's gearing ratio is expected to be reduced substantially to approximately 102%, the Group's gearing ratio will nevertheless remain high. A high gearing ratio may have a material and adverse impact on the Group's operations and financial position.

The Group's future growth and operating performance may be adversely affected if the Group is not able to comply with the covenants provided in the financing agreements

To obtain funding for the Acquisition, the Group entered into financing agreements in relation to a syndicated loan totalling US$22 million, which provide for covenants that may limit the Group's financial and operational flexibility. These covenants include an undertaking to maintain the interest of CEDF and Brewery Investors in the Company, and an undertaking of no substantial change in the management team of the Group, as well as undertakings in respect of financial performance of the Group. The Group has not breached any of these covenants as at the Latest Practicable Date. Although these covenants have no material adverse impact on the Group's operation, there is no assurance that such covenants will not hinder the Group's business development and growth in the future. In addition, any breach of these undertakings, if it is not remedied within the permitted period, will constitute an event of default and all amounts outstanding under the syndicated loan may become due and repayable immediately. In such circumstances, the financial position of the Group will be adversely affected.

The Group's profitability may be affected if turnover derived from sales of original products decline

Sales of original products accounted for approximately 82.8%, 81.5% and 80.6% of the Group's turnover for the three years ended 31st December, 2001 respectively. Although the proportion of sales of original products bear to the Group's total turnover has been reducing during the period, original products are nevertheless the Group's major products. While turnover derived from the sales of original products have been increasing during the Track Record Period, there is no guarantee that such trend will persist in the future. In the event that the volume and/or price of the Group's original products decrease and the Group is not able to increase turnover from sales of products of other classes, the Group's profitability may be adversely affected.

RISKS RELATING TO THE INDUSTRY

The Group's business performance may be affected by a change in consumers' preference and/or purchasing power

Demand for the Group's products relies on the end-consumers' acceptance of beer in general and the purchasing power of these end-consumers. There can be no assurance that the Group's end-consumers will continue to purchase the Group's beer in the future. If the taste of these end-consumers change in the future and prefer other beverages or beer of other producers, the Group's business and financial results may be adversely affected. In addition, although Northeast Region has experienced rapid economic development in recent years, there can be no assurance that such growth will continue at the same rate as in the past, or at all in the future. A sustained period of slower economic growth in the PRC or, more specifically, in Northeast Region may dampen the purchasing power of end-consumers in those regions and in turn have a material adverse effect on the sales and results of operations of the Group.

The Group's business and results of operations may be adversely affected by any disruptions in the supply of, or the price fluctuations for, its major raw materials

For the three years ended 31st December, 2001, total cost of principal raw materials accounted for approximately 49.3%, 42.1% and 43.2% respectively of the Group's total cost of production. For a breakdown on the Group's cost of major raw materials, please refer to the paragraph headed "Production" in the section headed "Particulars of the Group" of this prospectus. Although the Group has not experienced any significant price fluctuations for its major raw materials in the past, given that the Group has not entered into any long term supply contracts with its major suppliers, there is no assurance that such major raw materials will be supplied in an adequate quantity to meet the Group's need or will not be subject to significant price fluctuations in the future. The market prices of such raw materials may experience significant upward adjustment if, for instance, there is a material shortage in the raw materials due to, among other things, drastic change in weather, natural disasters such as droughts, floods and pests.

The Group's business may be adversely affected by intensified competition, particularly after China's entry into the WTO

The PRC beer market is characterised by a significant presence of local breweries whose sales are concentrated mainly in locations close to or around their production bases. The Directors are of the view that competition amongst breweries in the PRC is fairly intensive.

Intensive competition may result in a loss of customers to competitors, an increase in cost in retaining existing customers or soliciting new customers and/or a lower revenue due to price competition, which in turn may adversely affect the Group's results of operation. In addition, in the event that the Group's existing competitive advantages diminish, its current market position in Northeast Region may not be sustainable and the Group's profitability may be adversely affected.

After 15 years of negotiation, China became a member of the WTO on 11th November, 2001. China has agreed to a package of market-opening measures, including slashing import tariffs and quotas, and allowing foreign companies to develop their own wholesale and retail distribution networks. As a result of China joining the WTO, the Group will likely face increasing competition from foreign competitors. Any present or future increase in foreign competition of China's beer market may impinge upon the market share currently enjoyed by the Group's products and may have a material adverse effect on the Group's results of operation.

The Group's business and financial position may be adversely affected by any claims in respect of product liability

As a producer of beverage products, the Group may face claims in respect of product liability similar in nature to those faced by other food and beverage producers, such as potential contamination of ingredients or products by bacteria or other external agents that may be wrongfully or accidentally introduced into products or packaging or other potential liability resulting from the handling of the containers of the Group's beer. For the three years ended 31st December, 2001, legal claims made against and paid by the Group on occasions for bottle bursting amounted to approximately RMB180,000, RMB66,800 and RMB259,000 respectively (representing approximately 0.04%, 0.01% and 0.03% respectively of the Group's turnover in the corresponding periods). Although the Directors consider that such claims are immaterial to the Group's operations and market position, any product or package problem may nevertheless affect the Group's reputation as a high quality beer producer. This in turn may affect the Group's brand name and its business may be adversely affected. Having considered the level of premium which would be payable by the Group for, and the scope of the exclusion clauses of, the product liability insurances offered to the Group, the Directors consider that the effective level of protection of such product liability insurances are relatively low and, given that the amounts of product liability claims against the Group during the Track Record Period were not material, the Directors consider it not cost effective for the Group to purchase such insurances. However, product liability issues may lead to costly litigation and may involve potentially significant compensation being payable by the Group if the Group doesn't have appropriate insurance coverage and this may result in the Group's financial position being adversely affected.

The Group's profitability may be adversely affected by any change in environmental laws or regulations

As with all breweries in the PRC, the Group's breweries are subject to national and local environmental protection laws and regulations of the PRC. The Group has at all relevant times materially complied with all applicable environmental laws and regulations and has not received any notifications or warning nor has the Group been subject to any fines or penalties in relation to any breach of any such laws and regulations. For the three years ended 31st December, 2001, total environmental-related expenses incurred by the Group amounted to approximately HK$1.4 million, HK$1 million and HK$1.2 million respectively. To further upgrade its existing environmental protection facility, HB Company entered into a sewage treatment agreement in relation to a sewage treatment project. For more details, please refer to the paragraph headed "Environmental protection" in the section headed "Particulars of the Group" of this prospectus. Although the Group has been emphasising on complying with all relevant environmental protection rules and regulations, there is no assurance that changes in the laws or regulations, including environmental and revenue laws and regulations, may not result in the Group having to incur substantial capital expenditure to upgrade or supplement its existing environmental protection facilities or being subject to an increased rate of taxation or any fines or penalties.

RISKS RELATING TO THE PRC

The Group's business may be affected by the political and economic environment of the PRC

Substantially all of the Group's business, assets and operations are located in the PRC. A significant portion of the Group's sales for the three years ended 31st December, 2001 were made to the PRC domestic market and the Directors expect that this is likely to be the case in the immediately foreseeable future. As such, the Group's results of operations and financial position are and will be, to a large extent, affected by economic and political developments in the PRC.

The economy of China differs from the economies of most developed countries in many aspects, including structure, government involvement, level of development, capital reinvestment, control of currency conversion, rate of inflation and allocation of resources. The economy of China has been in a state of transition from a planned economy to a more market oriented economy. In recent years, the PRC government has implemented economic reform measures emphasising utilisation of market forces in the development of the economy of China and encouraging a higher level of management autonomy.

In addition, the PRC economy has experienced significant growth in the past, but such growth has been uneven both geographically and among different sectors of the economy. The PRC government has implemented various policies and measures from time to time to control inflation and otherwise regulate economic activities. Some of these measures, although intended to benefit the overall economy of China, might have an adverse effect on the Group. No assurance can be given that inflation will not increase in the future or that future measures to combat inflation and speculative activities or to deal with other economic problems will not be implemented in a manner that may adversely affect the operation and/or profitability of the Group over time.

The Group's business is exposed to currency conversion and exchange rate risks

The Company currently receives substantially all of its revenue and makes substantially all of its payments in RMB.

The existing foreign exchange regulations have significantly reduced foreign exchange controls for transactions under the current account, including trade and service related foreign exchange transactions and payment of dividends. Although the PRC government has stated publicly that it intends to make RMB freely convertible in the future, the Group cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of RMB to foreign currency.

Additionally, foreign exchange transactions under the capital account, including the foreign currency capital in any foreign investment enterprise in the PRC, the repayment of the principal amount of foreign currency loans and the payment pursuant to foreign currency guarantees, continue to be subject to significant foreign exchange controls and require the prior approval of the SAFE.

Since 1994, the conversion of RMB into HK dollars and US dollars has been based on the exchange rates published by the People's Bank of China from time to time. Although the official RMB to HK dollars exchange rate has been relatively stable since 1994, the Group cannot predict its future stability. Fluctuations in exchange rates may adversely affect the value, translated or converted into HK dollars or US dollars, of the Group's net assets, earnings and financial position. The Group has not experienced any material exchange gain or loss during the Track Record Period. As the Group is not able to hedge effectively against RMB devaluations, any future movements in RMB could have an adverse effect on the Group's operating environment.

Change in legal environment may affect the Group's operations

Since 1979, many laws and regulations governing economic matters in general have been promulgated in the PRC. In recent years, the PRC government has been developing a comprehensive system of commercial laws, and considerable progress has been made in introducing laws and regulations dealing with economic matters such as foreign investment, corporate organisation and governance, commerce, taxation and trade. However, since these laws and regulations are relatively new and there is only a limited volume of related published cases and judicial interpretations which are non-binding in nature, interpretation and enforcement of these regulations involves significant uncertainties. The Group cannot give any assurance that changes in such legislation or the interpretation thereof will not have an adverse effect upon the businesses and prospects of the Group.

The Group's activities in the PRC are by law subject, in certain cases, to administrative review and approval by various national and local agencies of the PRC government. In particular, a substantial part of the Group's current operations and the implementation of its future expansion programmes in the PRC are subject to PRC government approvals. There is no guarantee that the relevant agencies of the PRC government will or will continue to grant relevant approvals to the Group.

RISKS RELATING TO THE SHARES

An active market for the Shares may not develop or be sustained

Prior to the Share Offer, there has been no public market for any of the Shares. An active public market for the Shares may not develop or be sustained after the Share Offer. If an active market for the Shares does not develop after the Share Offer, the market price and liquidity of the Shares may be adversely affected. The Offer Price will be determined through negotiations between the Company (for itself and on behalf of the Vendor) and Cazenove (on behalf of the Underwriters), and may not be representative of the price that will prevail in the open market. A shareholder may not be able to resell his Shares at or above the Offer Price.

There are risks associated with statistics contained in this prospectus

Statistical and other information relating to the PRC, the beer industry and the Group's competitors contained in this prospectus have been compiled based on various unofficial sources, although these are generally believed to be reliable. Moreover, statistics derived from multiple sources may not be prepared on a comparable basis. Neither the Group nor the Sponsors have independently verified the accuracy of the information contained in such sources. The Group and the Sponsors make no representation as to the accuracy of such information, which may not be consistent with other information compiled within or outside the PRC. Accordingly, the industry information and statistics contained in this prospectus may not be accurate and should not be unduly relied upon.

There are risks associated with forward-looking statements

This prospectus contains certain statements that are "forward-looking" and uses forward-looking terminology such as "anticipate", "believe", "expect", "estimate", "may", "ought to", "should" or "will". Those statements include, among other things, the discussion of the Group's plans, objectives, strategies, expectations and intentions concerning matters such as the Group's future operations, profitability, liquidity and capital resources. Purchasers and subscribers of Shares are cautioned that reliance on any forward-looking statement involves risk and uncertainties and that, although the Directors believe the assumptions on which the forward-looking statements are based are reasonable, any or all of those assumptions could prove to be inaccurate and as a result, the forward-looking statements based on those assumptions also could be incorrect. The uncertainties in this regard include those identified in the risk factors discussed above as well as those discussed elsewhere in this prospectus. In light of these and other uncertainties, the inclusion of forward-looking statements in this prospectus should not be regarded as representations by the Company that its plans and objectives will be achieved.