The information provided in this section is derived from various public and private publications including, but not limited to, the China Statistical Yearbooks, information from the Food and Agricultural Organization of the United Nations, the Global Beer Report by Canadean and information from China Light Industry Information Centre. The information has not been prepared or independently verified by the Company, the Vendor, the Sponsors, the Underwriters, their respective directors and advisers or any other persons involved in the Share Offer. No representation is made as to the accuracy of such information, which may not be consistent with other information compiled within or outside the PRC.

BEER — AN INTRODUCTION

Beer is one of the oldest known alcoholic beverages. It is produced by the fermentation of a mixture of heated malt (usually barley), cereal adjunct (such as rice or corn) and water. The liquid, known as wort, is then boiled with hops and cooled to form beer. Although the brewing process is similar, color, flavour, aroma and alcoholic content of beer may vary depending on the nature and weights of ingredients and the timing and procedures of the processes involved.

Beer can be classified by virtue of its colour, extent of sterilisation, ways of packaging, processes of fermentation and production methodologies. One of the most common classifications is by process of fermentation, namely top fermentation and bottom fermentation:

- Top fermentation — yeast is placed on the top of the wort at a temperature of 15˚C to 20˚C. The product, called ale, has a strong aroma and a bitter taste.

- Bottom fermentation — yeast is placed at the bottom of the wort at a temperature of 5˚C to 10˚C. The product, called lager, has a soft aroma.

Bottom fermentation is a more popular fermentation method and most of the China's breweries are now using such method for fermentation.

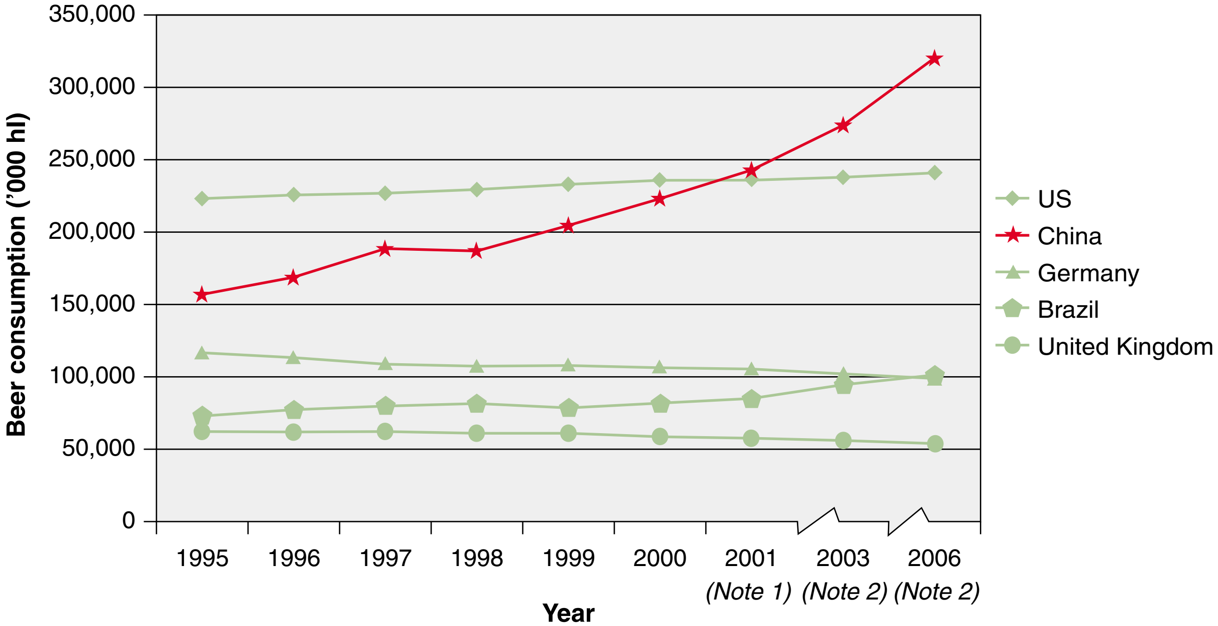
GLOBAL BEER INDUSTRY OVERVIEW

Trend of global market

According to Canadean, worldwide beer consumption increased from approximately 1,229.4 million hl (124.4 million tonnes) in 1995 to approximately 1,364.0 million hl (138.1 million tonnes) in 2000 and is projected to reach approximately 1,564.2 million hl (158.3 million tonnes) by 2006. The international beer market has been dominated principally by the United States, China, Germany, Brazil and the United Kingdom in terms of beer consumption volume. According to Canadean, in 2000, beer consumed by these top five countries in aggregate amounted to approximately 705.6 million hl (71.4 million tonnes), accounting for about 51.7% of total world consumption in that year. The PRC has been one of the major beer markets worldwide for years and was one of the three countries with annual consumption of over 100 million hl (approximately 10.1 million tonnes) for 2000.

The beer consumption of the PRC in 2000 accounted for approximately 16.4% and 61.5% of the aggregate beer consumption of the world and the Asia Pacific region respectively.

The following chart sets forth the actual and forecast annual beer consumption of the top five beer consuming countries in the world based on the Global Beer Report for the actual period from year 1995 to year 2000 and the forecasted period from year 2001 to year 2006:

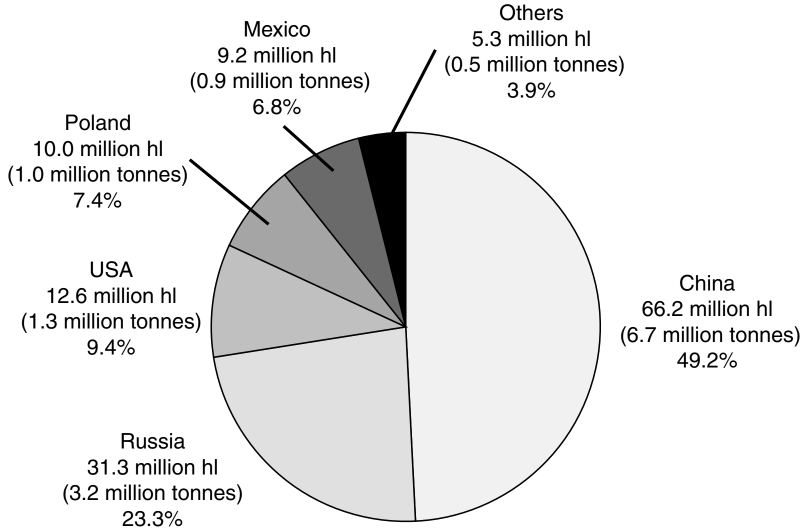


Notes:

1. Figures in year 2001 represent provisional estimates made by Canadean.
2. Figures in year 2003 and 2006 represent forecasts made by Canadean.

Source: The Global Beer Report (2001), Canadean

As illustrated in the above chart, since 1995, the PRC has been the world's second largest beer consuming country after the U.S. and its annual beer consumption had grown from approximately 157.0 million hl (15.9 million tonnes) in 1995 to approximately 223.1 million hl (22.6 million tonnes) in 2000. Despite a high consumption volume, the annual growth rate of beer consumption in the PRC remained strong during the period from 1995 to 2000 as compared with the other top five beer consuming countries. During that period, the CAGR for China's annual beer consumption was approximately 7.3%, being the highest among the top five beer consuming countries in 2000. Indeed, in terms of absolute volume growth, China is the highest in the world from 1995 to 2000. During that period, total beer consumption in China had grown by an aggregate of approximately 66.2 million hl (6.7 million tonnes), accounting for approximately 49.2% of the growth worldwide. This was followed by Russia of approximately 31.3 million hl (3.2 million tonnes). The following chart illustrates the world's top five growth beer markets in terms of volume from 1995 to 2000:



World total growth = 134.6 million hl (13.6 million tonnes)

Despite a strong growth in the past few years, per capita consumption in the PRC remains low as compared with other top beer consuming countries. In 2000, per capita annual beer consumption in China was approximately 18 litres, which is the lowest among the top five beer consuming countries in 2000. Canadean estimated that by 2001 the PRC's annual beer consumption will reach approximately 242.9 million hl (24.6 million tonnes) representing approximately 17.3% of the world consumption and the PRC will overtake the U.S. to become the largest beer consuming country. The following table shows the average growth rate of the top five beer consuming countries worldwide for the period from 1995 to 2000, their respective annual consumption volume in 2000 and 2006 (forecast) and per capita consumption of beer in 2000 and 2006 (forecast):

Country	**Actual CAGR (1995 to 2000)**	**Actual annual consumption in 2000**		**Forecast annual consumption in 2006**		**Per capita consumption in 2000**	**Forecast per capita consumption in 2006**
		(million hl)	*(million tonnes)*	*(million hl)*	*(million tonnes)*	*(litres)*	*(litres)*
China	7.3%	223.1	22.6	320.4	32.4	18	24
Brazil	2.3%	81.8	8.3	101.3	10.3	48	56
U.S.	1.1%	235.8	23.9	240.9	24.4	85	83
United Kingdom	-1.2%	58.6	5.9	53.9	5.5	100	91
Germany	-1.8%	106.3	10.8	98.9	10.0	129	120

Source: The Global Beer Report (2001), Canadean

PRC BEER MARKET OVERVIEW

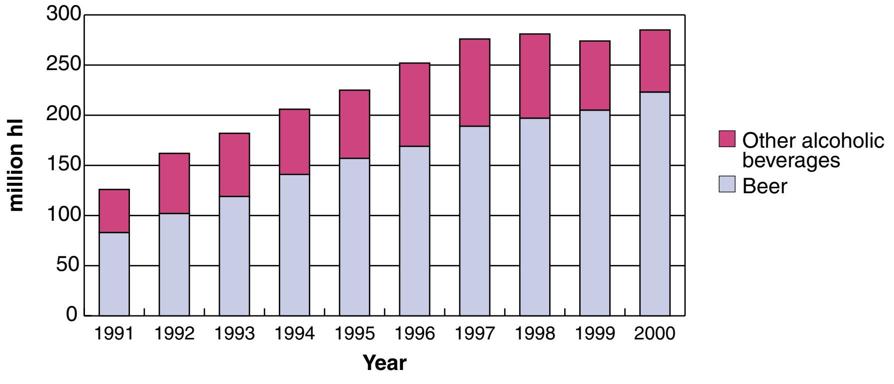
A majority of the beer produced in the PRC is lager and is consumed as one of the major table alcoholic beverages. The level of beer consumption differs from region to region, depending on the population's disposable income, economic growth, demographic trend and drinking preference. In general, the beer market is affected by the general state of the economy, the purchasing power and the consumption mode of the population.

General economy and purchasing power

The PRC has the world's largest population. With the continuous growth of the PRC's economy, the average income for the PRC population has been increasing rapidly. According to the *China Statistical Yearbook 2001*, between 1994 and 2000, China's per capita GDP grew from approximately RMB3,923 to approximately RMB7,078, representing a CAGR of approximately 10.3%. Higher average income has enhanced the general purchasing power of the PRC people, resulting in a higher general consumption of alcoholic beverages. The per capita disposable income of rural and urban households increased from approximately RMB1,221 and RMB3,496.2 respectively in 1994 to approximately RMB2,253.4 and RMB6,280 respectively in 2000, or a CAGR of approximately 10.8% and 10.3% respectively. Correspondingly, total beer consumption in the PRC increased from approximately 141 million hl (14.3 million tonnes) in 1994 to approximately 223.1 million hl (22.6 million tonnes) in 2000, representing a CAGR of approximately 7.9%.

Consumption mode

In recent years, the demand for beer has been increasing and the PRC government has been encouraging consumption of beer and other beverages instead of traditional Chinese hard liquor (Baijiu). Between 1991 and 2000, the volume of beer consumption in the PRC as a percentage of total alcoholic beverages consumption increased from approximately 66.1% to approximately 78.3%. This demonstrates the growing importance of beer in the China alcoholic beverages market. The following bar chart compares the total annual consumption of beer with that of other alcoholic beverages in the PRC between 1991 and 2000:



Source: The Beer Service Annual Report - 2001 Cycle China, Canadean

Market development

The beer market in the PRC is highly fragmented. This is evidenced by the fact that there has been a large number of players in the market and an intensively competitive environment with no single dominant market player. According to China Light Industry Information Centre, in 2000, the top ten brewery groups/breweries in the PRC contributed to approximately 30.3% of China's total beer production of approximately 220.3 million hl (22.3 million tonnes) with the largest brewery group's production accounting for approximately 8.3% of China's total beer production. The fragmentation in the market is a result of, among other things, the lack of an efficient transportation infrastructure and insufficient resources for local breweries to launch a nation-wide marketing programme.

According to China Light Industry Information Centre, the Group was one of the top five brewery groups/breweries in the PRC in year 2000 in terms of production volume. Other major players in the PRC beer market include Tsingtao, Beijing Yanjing, China Resources and Zhujiang Brewery.

As at 31st December, 1999, China's aggregate production capacity was approximately 258.7 million hl p.a. (26.2 million t.p.a.), as compared with the actual production of approximately 207.4 million hl (21 million tonnes) in that year. Such excess capacity gave rise to intense competition among breweries and resulted in the industry entering into a consolidation stage. Based on information published by the China Light Industry Information Centre, the number of breweries in the PRC reduced from approximately 800 in 1995 to an estimated 550 in 2000, of which over 90% are breweries with annual production of less than 1 million hl (approximately 100,000 tonnes). Many of these local breweries could not achieve the necessary economies of scale or could not develop sufficient market share to achieve the critical mass of a profitable operation for a number of years. In 2000, the number of loss-making breweries was about 210, representing approximately 38.1% of the total number of breweries in the PRC at the end of that year. The Directors expect that the consolidation of the beer market in the PRC will continue after a series of acquisitions of breweries, whether foreign-owned or domestic-owned, by the leading local brewery groups. In particular, the Directors anticipate that leading regional brewery groups will continue to acquire small to medium-sized breweries in their own regions in order to enhance market presence in that region and that cross-regional merger activities among established breweries will continue as some breweries seek to establish a national market presence. The Directors believe that a competitive beer market in the PRC will favour large brewery groups/breweries with scaleable production capacity to achieve economies of scale and inefficient brewery groups/breweries with low productivity will gradually be forced out of the market or acquired by larger brewery groups/breweries. The CAGR in annual production for the top ten brewery groups/breweries in the PRC for the period from 1998 to 2000 was approximately 17.8%, as compared with a CAGR of approximately 6% for all brewery groups/breweries in the PRC during the same period.

The Directors believe that the consolidation of the PRC beer market will highlight the following developments:

- major local brewery groups, whether national or regional, are expected to continue to extend their geographical presence in the PRC to gain market share, thereby accelerating the formation of a few dominant market leaders;
- differentiation in products will continue with a rapid development of the middle-income class product market; and
- both product quality and packaging will be enhanced with a gradual shift towards the middle-income and premium market products.

Beer market in Northeast Region

Northeast Region comprises three provinces, namely Heilongjiang Province, Jilin Province and Liaoning Province. According to the *China Statistical Yearbook 2001*, the total population of these three provinces was approximately 106.6 million at the end of 2000 and the GDP of such provinces in aggregate amounted to approximately RMB974.3 billion in 2000, or approximately RMB9,144.3 per capita as compared with approximately RMB7,078 per capita for China in that year.

Northeast Region is one of the major areas of beer brewing in PRC. According to *The China Statistical Yearbook 2001*, beer production per capita in Northeast Region in year 2000 was approximately 35.2 litres, about double the average for China as a whole in that year. In 2000, aggregate production of the three provinces amounted to approximately 37.1 million hl (3.8 million tonnes), representing approximately 16.8% of the total production in China that year. In terms of per capita production volume, Heilongjiang Province was the second largest area in the PRC in 2000 with a production volume of approximately 38.3 litres per capita year, followed by Liaoning Province and Jilin Province with approximately 34.9 litres and 29.9 litres per capita year respectively. The Directors believe that a higher production volume in Northeast Region was primarily attributable to the difference in consumers' drinking habits and less seasonal fluctuations as compared to the rest of China.