BUSINESS OVERVIEW

The Group is principally engaged in the brewing, distribution and sale of beer in the PRC. Its predecessor was founded in 1900 and was the oldest brewery in China. According to China Light Industry Information Centre, the Group was one of the top five brewery groups/breweries in the PRC in 2001 in terms of production volume and its principal beer brand — “Harbin” (哈爾濱) (also commonly referred to as “HAPI”) is regarded as a leading regional brand in Northeast Region. In terms of production volume, the Directors estimate that the Group had a market share of approximately 75.8%, 43.4% and 19% in Harbin City, Heilongjiang Province and Northeast Region in 2001 respectively. Assuming that the Acquired Breweries had formed part of the Group since 1st January, 2001, the Group’s market share in Northeast Region in 2001 would have been approximately 22.4%.

The Group currently operates eight breweries — six in Heilongjiang Province and two in Jilin Province. In recent years, the Group has implemented a growth strategy to increase revenue, profitability and scalability in order to become a significant brewery group in the PRC. The Group has achieved its growth organically and through acquisitions in selected areas where there is a high potential that the Group could achieve a considerable market position. As part of this strategy, the Group has acquired a majority interest in the Acquired Breweries in June 2001 for a consideration of HK$230 million. As a result of the Acquisition, the aggregate production capacity of the Group has increased from approximately 5.3 million hl.p.a. (534,000 t.p.a.) to approximately 10.3 million hl.pa (1,044,000 t.p.a.).

The Group divides the PRC’s beer market into four segments — the low-end market, the mass market, the middle-income market and the premium market with the following retail price range (assuming packed in 640 ml bottles): (a) below RMB1.5 per bottle for the low-end market; (b) between RMB1.5 and RMB4 per bottle for the mass market; (c) between RMB3 and RMB10 per bottle for the middle-income market; and (d) above RMB8 per bottle for the premium market. The Group has the capability to produce a full spectrum of beer catering for all these market segments and is now concentrating on three major market segments, namely mass market, middle-income market and premium market. The Group has adopted a market-oriented approach by proactively adjusting its product mix from time to time to meet the changing consumer preference. Since the PRC beer market has been dominated by the mass market, the Group’s products for this market have accounted for a significant portion of its turnover. However, envisaging a growth in the middle-income market, the Group has already taken steps to enhance its position in this market. The Group has also been selling its premium products to the premium market to maintain its profile and product coverage.

Sales of the Group’s products are made through over 1,200 non-exclusive distributors, with those located in Northeast Region distributing the Group’s original products for the mass market, classic products for the middle-income market and premium products for the premium market, and those located outside Northeast Region (including two major overseas distributors) distributing the classic and premium products. The Group also distributes its classic and premium products through the direct sales teams located at its 12 sales and marketing offices across the PRC. For details of the Group’s products segmentation, please refer to the paragraph headed “Marketing” below.

To reduce operating costs, improve efficiency and enhance prompt information flow, the Group is undergoing a business process re-engineering on customer relationship, procurement, logistics and accounting with a view to strengthening the supply chain management with its customers in the future. As part of such process, the Group is implementing an ERP System. Please refer to the paragraph headed "Business process re-engineering and ERP System" below for more details.

With its production know-how and strict quality control measures, the Group prides itself with the standard of and consistency in the quality of its products and its competitive advantage over other market players. Except HB Jilin, all the other seven breweries of the Group have been awarded the ISO9002:94 certificate and the Group has obtained a number of national quality awards. Please refer to the paragraph headed "Brands — Awards" below for more details.

KEY STRENGTHS

The Directors believe that the Group's key strengths are as follows:

Strong brand equity as the oldest brewery in the PRC and a leading brand in Northeast Region

The Group's effective marketing strategy has enabled it to promote "Harbin" (哈爾濱) (also commonly referred to as "HAPI") as the brand of the oldest brewery in the PRC and from being one of the local brands in Harbin City to become a leading brand in Northeast Region. The Directors believe that this strong brand equity gives the Group an advantage in securing a leading market position in Northeast Region and providing it with a solid foundation for further promoting its products in other regions of the PRC.

Competent and experienced management team which is proactive to market changes

The senior management of the Group comprises local and overseas professionals with extensive expertise in the beer industry, strong management skills and investment knowledge. The Directors believe that the Group's existing management team is an optimal mix of management professionals and industry specialists and that the team's proactive approach to market changes adds an edge to the Group's competitiveness.

A scaleable operation with centrally co-ordinated, process-based management model

The Group has an aggregate production capacity of approximately 10.3 million hl.p.a. (1 million t.p.a.) in its eight breweries. The Group has developed a centrally co-ordinated, process-based management model to facilitate the integration of and better co-ordinate the various breweries and different functional units. Under the model, operation process and resources deployment are centrally co-ordinated. This model has been implemented for the efficient and effective management of the Group's existing breweries and it is intended that, as the Group expands to other regions of the PRC, such model will continue to be adopted and applied to the other breweries which the Group may acquire. The Directors believe that this model has facilitated its scaleable operation and enabled the existing breweries within the Group to operate synergistically.

A successful track record of integrating and improving the operating results of acquired breweries

The Group has expanded its market coverage by acquiring or establishing breweries which are of strategic importance to the Group. Through the implementation of the Group's centrally co-ordinated, process-based management model to the newly acquired/established breweries, the Group has been successful in improving their efficiency and operating results within a relatively short period of time. For more details, please refer to the sub-paragraph headed "Since 1995 — Business development" in the paragraph headed "History and development" below. The Directors believe that these have not only translated into a growth in the Group's profit from operating activities during the Track Record Period but also provided the Group with a solid foundation for further expansion to markets in other provinces of the PRC.

BUSINESS OBJECTIVE, STRATEGIES AND FUTURE PLANS

The Group's objective is to become a leading brewery group in the PRC. The Directors believe that, as China's beer industry is still consolidating, the beer market in the PRC will eventually become dominated by a few market leaders with a scaleable operation, an effective distribution network and nation-wide brand equity. The Directors believe that the Group is well positioned to capture the opportunities arising from the current market consolidation in the PRC.

To achieve its objective, the Group has adopted the following strategies:

Building a nation-wide brand with a regional-based approach

The Group has successfully promoted "Harbin" (哈爾濱) (also commonly referred to as "HAPI") brand from a local brand in Harbin City to a leading brand in Northeast Region, the population of which is known for its high level of beer consumption. With a view to building up its brand as a nation-wide brand with significant market share and brand awareness on a nation-wide basis, the Group will focus on strengthening the scaleable markets in Northeast Region and at the same time leverage on its own dominant market position generated in Northeast Region to develop markets in other regions of the PRC which are identified as having a significant market potential.

Making acquisitions in selected areas to further expand production scale and distribution network

In addition to organic growth, the Group has expanded its production capacity and distribution network either by acquiring or forming joint ventures with local breweries in selected areas. As a result of this organic and acquisitive growth, the production volume of the Group has been increasing from approximately 1.8 million hl (182,047 tonnes) in 1996 to a volume of approximately 6.9 million hl (700,000 tonnes) in 2001.

The Directors believe that the consolidation of China's beer industry in recent years has offered the Group numerous investment opportunities. The Group will continue to seek strategic investment opportunities to synergistically enlarge its production scale and expand its nation-wide distribution network. The Directors believe that successful integration is pivotal to realise the benefits of both acquisitions and partnerships and that the Group's successful track record in improving the profitability of the acquired breweries demonstrates the Group's ability to effectively integrate acquired businesses into its existing operations and to attract operators of other breweries to form partnerships with the Group.

Restructuring acquired breweries based on principles underlying the Group's centrally co-ordinated, process-based management model

The Group's centrally co-ordinated, process-based management model has three major characteristics, namely (1) the organisation structure of each brewery is organised similarly based on the flow of business process from point of sales to delivery and collection; (2) each business process of individual breweries within a region is co-ordinated centrally on the regional level by business process controllers; and (3) the decision-making process is co-ordinated centrally on the regional level by the regional controllers. The Directors believe that this model enables the Group to shorten communication gaps, optimise the use of resources and promptly respond to market. The Directors also believe that this model will save administrative costs and significantly reduce costs due to bureaucracy. As part of the model, an ERP System is being implemented in HB Company and such system will be extended to other breweries of the Group.

The Group has introduced the model to newly acquired breweries and intends to apply the same as it expands to other regions in the future. The application of the model will be based on the principles that (1) activities that do not add value to the organization will be eliminated; and (2) a flat organization structure that shortens the distance between the customers and management will be established.

Marketing in a centrally co-ordinated manner

The Group's marketing strategy is an integrated effort with central coordination at the regional level among various areas, including branding strategy, product mix management, pricing strategy and distribution. The Group will continue to adopt multi-media channels to promote its corporate image and the image of its products. The Group is also proactively adjusting its product mix and pricing to cater for anticipated changes in market demand and consumer preference. It will continue to focus on its product development and quality control capability to maintain the standard of its products and introduce new products from time to time to deepen market penetration.

HISTORY AND DEVELOPMENT

Background

Year	Event
1900	Ulubulevskij Brewery, the first brewery in China and the predecessor of HBF, was established by a Russian, Mr. Ulubulevskij.
1932	the brewery was renamed as "Harbin Brewery Factory" when it became jointly operated by its Chinese and Czech partners.
1936-1945	Dainippon Malt Wine Company, a Japanese company, established "Harbin Brewery Holding Company Limited" and built a new brewing plant (the "New Brewing Plant") at the site currently occupied by HB Company in Harbin City producing beer with the brandname "Harbin Beer" in Japanese.
1950	the PRC government nationalised the brewery operations and the New Brewing Plant was subsequently renamed as "Harbin Brewery Factory".
1956	the two breweries merged and started to operate under the name "Harbin Brewery Factory", i.e. HBF.
1995	after operating as a state-owned enterprise for approximately 45 years, HBF and HB Holdings formed HB Company, a sino-foreign equity joint venture.

Since 1995

Business development

In October 1995, after years of operation as a state-owned enterprise, HBF formed HB Company, a Sino-foreign equity joint venture, with HB Holdings and transferred part of its assets as contributed capital to HB Company. HB Company was owned as to 52% by HB Holdings and as to 48% by HBF. Since then, the brewing-related business originally operated by HBF has been carried on by HB Company, which became a principal subsidiary of the Company after the Corporate Reorganisation.

In September 1996, to further expand the production capacity and market coverage of the Group, the Group set up its first branch, HB Hailun Branch, in Hailun City. HB Hailun Branch was given favourable support by the local government of Hailun City including certain subsidies. The production volume of the Group in 1996 was approximately 1.8 million hl (182,047 tonnes).

In August 1997, HB Company and 上海天合生物技術有限公司 (Shanghai Tianhe Bio-technology Co.) ("Shanghai Tianhe"), an independent third party, established a joint venture, HB Tianhe. HB Tianhe has the capacity of processing the industrial waste produced in the beer production process. HB Tianhe is owned as to 52% by HB Company and as to 48% by Shanghai Tianhe. The production volume of the Group in 1997 was approximately 2.5 million hl (252,931 tonnes).

In November 1998, HB Company completed the first stage of the Songjiang Agreement and acquired a 45% equity interest in HB Songjiang from 亞洲啤酒（松江）有限公司 (Asia Brewery (Songjiang) Company Limited), an independent third party not connected with the chief executives, directors and substantial shareholders of the Company and its subsidiaries and their respective associates, for a consideration of RMB12,200,000. The consideration for Songjiang Agreement (both the first and the second stages (as discusses below)) was arrived at after arm's length negotiations between the parties thereto with reference to the net asset value of HB Songjiang of approximately RMB27.1 million as at 30th September, 1998 as appraised by an independent valuer. After the completion of the first stage of the Songjiang Agreement, the Group further strengthened its market position in Harbin City. The production volume of the Group in 1998 increased to approximately 3.1 million hl (315,388 tonnes). Prior to the Songjiang Agreement, 哈爾濱亞洲啤酒有限公司 (the predecessor of HB Songjiang) had ceased its production. After completion of the first stage of Songjiang Agreement, 哈爾濱亞洲啤酒有限公司 was renamed as HB Songjiang and resumed its operation. It has commenced making profit since 2000 with an annual production volume of approximately 587,000 hl (59,000 tonnes) in that year.

In August 1999, as part of its strategic expansion in Heilongjiang Province, HB Company established HB Hegang in Hegang City by utilising the plant and machinery of 鶴崗啤酒廠 (Hegang Brewery Factory). HB Hegang is owned as to 95% by HB Company and as to 5% by HBF. With the establishment of HB Hegang and, among other things, the continual enhancement in its production efficiency, the Group's production volume in 1999 increased to approximately 4 million hl (402,668 tonnes). Prior to the establishment of HB Hegang, 鶴崗啤酒廠 (the predecessor of HB Hegang) had an annual production volume of approximately 199,100 hl (20,155 tonnes) in 1998. Production volume had increased to approximately 326,000 hl (33,000 tonnes) in 2000 and its net profit attributable to shareholders had increased from approximately RMB0.6 million in 1999 to approximately RMB3.6 million in 2000.

In January 2000, the Group further expanded itself to become a regional brewery through the establishment of HB Jilin, a brewery at Yongji County, Jilin Province. HB Jilin is owned as to 70% by HB Company (through, among other things, cash contribution) and as to 30% by Jilin Guoren (through contribution of certain plant and machinery). Prior to the establishment of HB Jilin, 吉林省國人啤酒有限公司 (the predecessor of HB Jilin) had an annual production volume of approximately 44,600 hl (4,518 tonnes) in 1999. This has increased to approximately 194,200 hl (19,654 tonnes) in 2000 under operation by the Group. At the same time, its financial results improved from a net loss attributable to shareholders of approximately RMB3.8 million in 1999 to a net loss attributable to shareholders of approximately RMB1.1 million in 2001.

On 29th June, 2001, to further expand the Group's production capacity and consolidate its market position in Heilongjiang Province and Jilin Province, the Company acquired from GD Sub, as the vendor, its entire interest in King Victory which held a 55%, 60% and 55% interest in Mudanjiang JV and Jiamusi JV in Heilongjiang Province and Yinpu JV in Jilin Province respectively for an aggregate cash consideration of HK$230 million. The consideration was arrived at after arm's length negotiations between the parties thereto with reference to the total investment cost of GD Sub in King Victory. As a result of the Acquisition, the aggregate production capacity of the Group has increased from approximately 5.3 million hl.p.a. (534,000 t.p.a.) to approximately 10.3 million hl.p.a. (1,044,000 t.p.a.). For background information on the Acquired Breweries, please refer to the paragraph headed "Background information on the Acquired Breweries" below and appendix II to this prospectus.

On 20th August, 2001, the Group completed the second stage of the Songjiang Agreement and, through HBIL, acquired from 亞洲啤酒(中國)投資有限公司 (Asia Brewery (China) Investment Company Limited) a further 25% equity interest in HB Songjiang for a consideration of RMB6,800,000. As a result, the Group now holds an aggregate of 70% interest in the capital of HB Songjiang.

The production volume of the Group in 2000 was approximately 4.6 million hl (470,000 tonnes). The production volume of the Group has reached approximately 8 million hl (826,000 tonnes) for year 2001.

On 29th October, 2001, the Company entered into subscription agreements with Shanghai International Shanghai Growth Investment Limited ("Shanghai International") and SinoPac Capital Limited ("SinoPac") respectively. Pursuant to the subscription agreements, the Subscribers subscribed and the Company issued to the Subscribers the Convertible Notes in the principal amount of HK$14,000,000 and HK$7,800,000 respectively. The Directors confirm that the subscription agreements for the Convertible Notes are on normal commercial terms and were entered into after arm's length negotiation. Shanghai International is an investment company with its shares listed on the Stock Exchange. The ultimate holding company of SinoPac is SinoPac Holdings, a financial services company listed on the Taiwan Stock Exchange with market capitalisation as at the Latest Practicable Date of approximately US$1,648 million. SinoPac is principally engaged in investment and financing activities. The principal amounts of the Convertible Notes are to be repaid at a specified date falling 12 months from 30th October, 2001 (if not extended by the Subscribers according to the terms of the Convertible Notes) subject to the entitlements of the Subscribers under the Convertible Notes to convert the whole or part of the outstanding principal amount and the unpaid accrued interest into Shares at the Offer Price (subject to adjustment as detailed in the instrument constituting the Convertible Notes) during the period commencing immediately after the listing of the Shares on the Stock Exchange and ending on the fifth business day prior to the maturity date of the Convertible Notes. The Directors consider that the issuance of the Convertible Notes helps widen the capital base of the Group. Each of the Subscribers has agreed and undertaken to the Company not to dispose of the Shares to be issued upon the conversion of the Convertible Notes during the first six months from the date of listing of the Shares on the Stock Exchange. For details of the principal terms of the Convertible Notes, please refer to appendix V to this prospectus.

Change in share capital

Key changes in the shareholding structure of the Company and its subsidiaries before the Corporate Reorganisation are summarised below. For further details regarding the relevant transactions and the definitions of the Mitsui Group and the NCHK Group, please refer to the paragraph headed "Changes in the corporate structure of the Group" in appendix VI to this prospectus.

Establishment

In October 1995, HB Company was established as a sino-foreign equity joint venture to carry on the brewing-related business of HBF. HB Company was then owned as to 52% by HB Holdings, of which the ultimate beneficiary was the NCHK Group, and as to 48% by HBF, a PRC state-owned enterprise operated by the government of Harbin City.

Introduction of Mitsui Group

After a series of subscriptions and share transfers in 1996, HB Holdings, which then held a 52% equity interest in HB Company, became owned as to 75% by NCHK Group and as to 25% by the Mitsui Group. Accordingly, HB Company was owned, effectively, as to 48% by HBF, as to 39% by NCHK Group and as to 13% by the Mitsui Group as at the end of 1996. The Mitsui Group appointed one out of the seven directors to the then board of directors of HB Company ("HB Board"). Prior to the above subscriptions and share transfers, the Mitsui Group was an independent third party.

Introduction of CEDF and other investors

In 1999, as a result of various transactions, HB Company became owned, effectively, as to 48% by HBF, as to approximately 6.9% by Brewery Investors and as to approximately 45.1% by CEDF. After completion of the transactions, CEDF appointed two directors to the HB Board in August 1999 to replace the representatives from NCHK Group and one of whom was previously a director of HB Company, who temporarily left the HB Board in May 1999. During the period, the said director had continued to serve as a senior management of HB Company. In December 1999, CEDF further appointed a director to the HB Board to replace the representative from the Mitsui Group. Save as disclosed above, there has been no change in the composition of the HB Board. Brewery Investors has not participated in the management of the Group. According to the joint venture contract of HB Company dated 8th December, 1994, HBF was entitled to appoint three out of seven directors to the board of HB Company.

Transformed into a WFOE

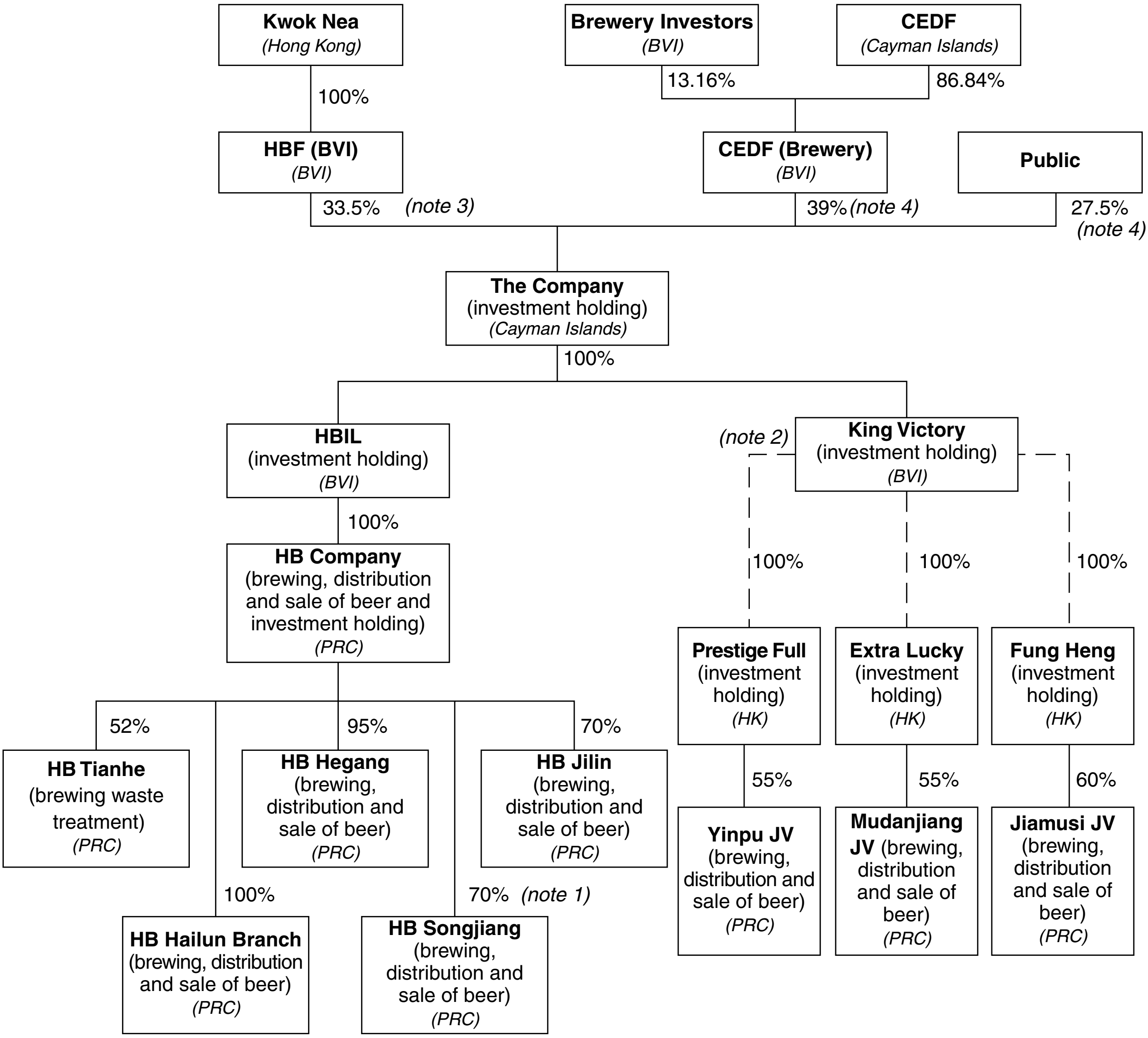
In October 2000, the 48% equity interest in HB Company previously held by HBF was transferred to HBF (BVI), a wholly-owned subsidiary of Kwok Nea, and HB Company was transformed into a WFOE.

Corporate Reorganisation

In preparation for the listing of the Shares on the Stock Exchange, the Group has undergone the Corporate Reorganisation and the Company became the holding company of the other members of the Group on 26th June, 2001. Please refer to the paragraph headed "Group structure" below for more details of the Group's shareholding structure.

GROUP STRUCTURE

The following diagram sets out a simplified shareholding and corporate structure of the companies comprising the Group immediately after the completion of the Share Offer and the Capitalisation Issue, assuming the Over-allotment Option and conversion rights attaching to the Convertible Notes have not been exercised:



Notes:

1. 70% interest in the capital of HB Songjiang is held as to 45% by HB Company and as to 25% by HBIL.

2. The dotted lines represent certain wholly owned subsidiaries of King Victory, including Guangdong Brewery Northern (Holdings) Limited, Golden Pacific Line Limited, Union Fortune Limited and Vanta International Investments Ltd.. For purposes of simplicity, these intermediate holding companies have not been depicted in the diagram above.

3. As Kwok Nea, the holding company of HBF (BVI), is ultimately owned by Harbin Municipal Government, it is required in pursuance of the Provisional Administrative Measures for State-owned Share Reduction promulgated by the State Council of the PRC on 12th June, 2001 to offer for sale the Shares equivalent to 10%

of the new Shares being issued by the Company pursuant to the Share Offer. Accordingly, the number of Shares held by HBF (BVI) immediately after completion of the Share Offer and the Capitalisation Issue and assuming the Over-allotment Option and conversion rights attached to the Convertible Notes have not been exercised, will be 294,800,000, representing approximately 33.5% of the issued share capital of the Company.

In the event that the Over-allotment Option is exercised in full, HBF (BVI) will offer for sale an additional 3,300,000 Shares and, assuming that there are no other changes in the shareholding of the Company, its shareholding in the Company will be lowered to approximately 31.9%. The Company will make necessary announcement if the Over-allotment Option is exercised.

4. If the Over-allotment Option is exercised in full and assuming that there are no other changes in the shareholding of the Company, the percentage shareholding of CEDF (Brewery) will be approximately 37.6% and approximately 30.5% of the issued Shares will be held by the public.

Kwok Nea, CEDF, HBF (BVI) and CEDF (Brewery) have jointly and severally undertaken to the Company and the Sponsors that they will not dispose of (or enter into any agreement to dispose of) any of their direct or indirect interests in the Company during the 12-month period commencing from the date on which dealings in the Shares on the Stock Exchange first commence.

PRODUCTION

The Group's beer production process involves three major stages, namely (i) sourcing of raw materials, (ii) brewing and (iii) packaging.

Sourcing of raw materials

Beer is made from barley malt, hops, grain adjuncts (such as rice) and water. The alcohol in beer results from the fermentation by yeast of an extract from barley malt. Total cost of these principal raw materials of the Group accounted for approximately 49.3%, 42.1% and 43.2% of the cost of production for the three years ended 31st December, 2001 respectively. The change in total cost of principal raw materials as a percentage to the Group's cost of production was primarily attributable to the change in product mix of the Group and the change in relative price of malt and rice. A breakdown of the cost of these raw materials of the Group and their percentage to the Group's cost of production for each of the three years ended 31st December, 2001 is set out below:

Cost of principal raw materials

	Year ended 31st December,					
	1999		**2000**		**2001**	
	(HK$'000)	*%*	*(HK$'000)*	*%*	*(HK$'000)*	*%*
Malt - (imported barley)	24,955	10.0	26,656	8.7	84,056	18.2
- (local barley)	53,241	21.3	64,443	21.0	48,700	10.5
Rice	40,624	16.2	32,063	10.5	56,581	12.2
Hops	2,602	1.0	2,895	0.9	5,388	1.2
Water	2,030	0.8	2,991	1.0	4,873	1.1
Total cost of principal raw materials	123,452	49.3	129,048	42.1	199,598	43.2
Cost of production	250,358	100.0	306,255	100.0	462,343	100.0

As the quality of raw materials is pivotal in determining the quality of the beer, it is the Group's purchasing policy that testing of the quality of samples must reach the Group's requirements prior to the confirmation of the order. Further testing of raw materials is performed before the delivery is accepted. The Group's relationships with each of its major suppliers range from four to six years and it has not experienced any difficulties in securing an adequate supply of the various raw materials needed for its production. Raw materials (with the exception of water) purchased from suppliers are delivered to the Group principally by means of trucks. Delivery of raw materials are also made by rail to three of the Group's breweries, being HB Company, Mudanjiang JV and Jiamusi JV which have railway lines extending into the brewery plants. All of the Group's payments for the three years ended 31st December, 2001 were denominated in RMB. Payments are made principally on cash-on-delivery or instalments basis. Normally, the Group has a credit term of between 30 and 90 days for its credit purchase.

Barley malt

Barley is regarded as the best brewing cereal because it has the highest starch content; it germinates well; and it has a consistent and rapid saccharifying effect. Barley malt is germinated grain produced from barley and prepared for brewing. The Group purchases its barley, both domestic and imported, from domestic suppliers. In selecting the types of barley to be purchased, the Group takes into account (1) the planned product mix; (2) the then prevailing market price of imported barley and domestic barley; and (3) the quality of malt. The Directors are of the view that the difference in prices of both imported and domestic barley has been decreasing. Average purchase price of imported barley decreased from approximately RMB2,436 per tonne in 1999 to approximately RMB2,295 per tonne in 2001, whereas average purchase price of local barley increased from approximately RMB1,990 per tonne in 1999 to approximately RMB2,064 per tonne in 2001. Given the converging purchase price and the increasing volume of classic and premium products, which require raw materials with higher quality, the Group increased its purchase of imported barley during the Track Record Period. The Group's suppliers mainly source their domestic barley from Heilongjiang Province and their imported barley from Australia.

To ensure uninterrupted production, it is the Group's policy to maintain a minimum storage level of malt to meet the requirements for 10 to 30 days of production.

For each of the three years ended 31st December, 2001, barley malt accounted for approximately 63.3%, 70.6% and 66.5% of the Group's total cost of principal raw materials respectively.

Rice

Rice is widely available in the PRC market. Rice is purchased primarily from suppliers in Henan Province and Hubei Province of the PRC. To ensure uninterrupted production, it is the Group's policy to maintain a minimum storage level of rice at about 15 days production requirements. Payment is made after receipt and satisfactory inspection of goods. For each of the three years ended 31st December, 2001, the cost of rice represented approximately 32.9%, 24.8% and 28.3% of the Group's total costs of principal raw materials respectively.

Hops

Hops are the unfertilised blossom of the female hop plant and are essential to the taste and the conditioning of hopped beer: the higher the hop content, the stronger the taste. Following harvesting, hops are processed as either cones, pellets or extracts. The Group normally purchases its hops from suppliers in Xinjiang Autonomous Region of the PRC, and pays after receipt and satisfactory inspection of goods. The Group's cost of hops for each of the three years ended 31st December, 2001 accounted for approximately 2.1%, 2.2% and 2.7% of the Group's total cost of principal raw materials respectively.

Water

In the malting and brewing industry, large amounts of water are used for different purposes such as soaking, brewing, cooling and washing. The brewing water composition is critical because it contributes to the taste of the different beer types. The water used in brewing by the Group is drawn from both underground wells and water supplied by the local water authorities. Certain of the Group's breweries, including HB Company and Yinpu JV, are permitted to use underground water drawn from wells located within the breweries. Payments are normally made on a monthly basis and the Group has not experienced any shortage of water supply in the brewing process during the Track Record Period.

The Group's cost of water for each of the three years ended 31st December, 2001 accounted for approximately 1.6%, 2.3% and 2.4% of the Group's total cost of principal raw materials respectively.

Brewing

The Group has a total of 12 brewhouses and full sets of facilities are installed in each of the Group's breweries to conduct grinding, agglutination, saccharification, filtering, wort boiling, whirl precipitation, cooling, yeast pitching, fermentation and filtering. The Group's machinery and equipment were purchased from various countries, including, among others, Germany, England, Belgium, Yugoslavia, Czechoslovakia, France, the United States, Italy and the PRC.

The Group's breweries are operated on a 24-hour basis. The Group formulates its production plan for the breweries centrally in accordance with the Group's sales plan. The Directors believe that a centrally co-ordinated production plan facilitates co-ordination among various breweries and functional units, thereby enhancing the overall production efficiency of the Group.

Packaging

The cost of packaging materials accounted for approximately 19.6%, 20.5% and 25.6% of the Group's total cost of sales for the three years ended 31st December, 2001 respectively.

The Group's products are sold in glass bottles, aluminium cans and kegs. All glass bottles, aluminium cans and kegs used by the Group are purchased from suppliers in the PRC. The Group has in aggregate 30 packaging lines (of which 22 lines are for bottling, 3 lines are for canning and 5 lines are for kegs) to conduct bottle-washing, bottling (canning), capping, sterilising, labelling, packing and stacking.

The Group's bottled beers are sold in 640ml, 500ml and 330ml. The canned beers are sold in 330ml and beers in kegs are sold in 10 litres, 20 litres and 30 litres. A majority of the Group's products are sold in 640ml bottles. The following table sets out details of the packaging of the Group's original, classic and premium products in glass bottles:

Product	Pack/Bottle size	Carrying case
Original	24x640ml (returnable)	Plastic crate (returnable)
Classic and premium	• 12x640ml	Carton box
	• 24x330ml (in four or six-pack)	Carton base with plastic wrapper
	• 24x330ml	Carton base with plastic wrapper
	• 12x500ml	Carton box
	• 24x330ml	Carton box

The Group has adopted a policy of collecting and re-using returned bottles and plastic crates for original products, and the distributors are required to pay a refundable deposit on the bottles and crates. For premium and classic products, they are sold with bottles and carton boxes.

Other packaging materials used by the Group include bottle caps, aluminium foils and labels. Aluminium foils are only used in the packaging of premium and classic products. Labels, including main labels, back labels and neck labels, are glued onto the glass bottles. Each type of the Group's product has labels of its own design, but in order to unify the image of the Group's products, all the designs bear the drawings of the Group's old factory and a horse carriage, as well as the words "Harbin Beer since 1900".

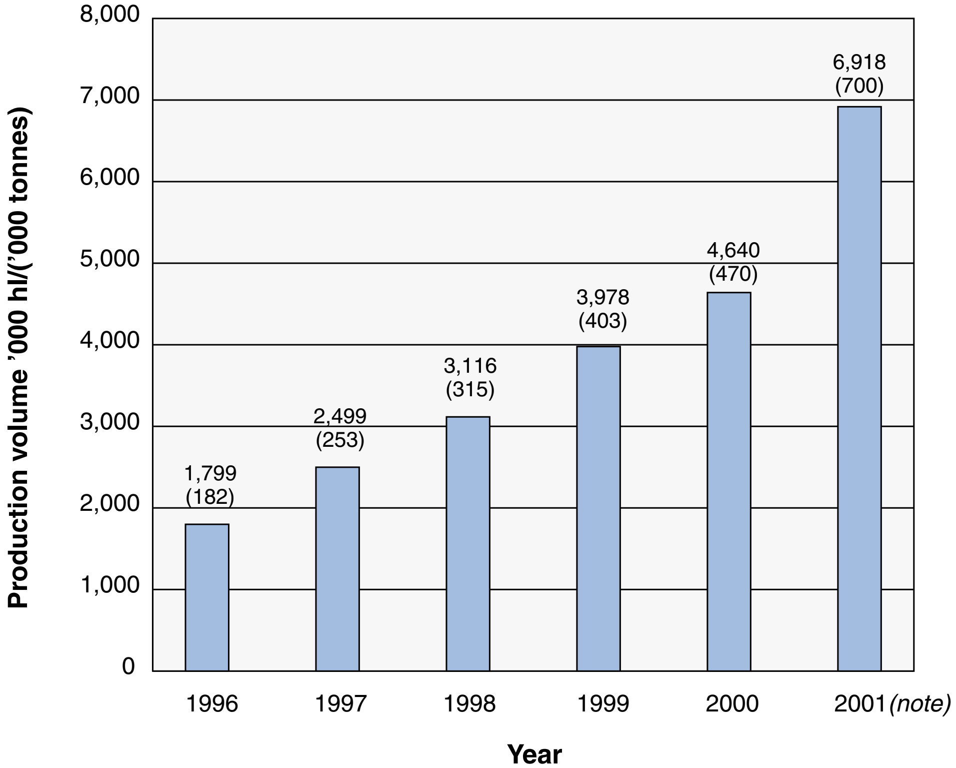
Relationship with suppliers

In so far as the Directors are aware, all the Group's suppliers are independent third parties not connected with the chief executive, directors and substantial shareholders of the Company and its subsidiaries or any of their respective associates. Although the Group has not entered into any long term supply contract with its major suppliers, it has not experienced any shortage of raw materials and packaging materials or any disruption in their supply during the three years ended 31st December, 2001. The Directors believe that the Group enjoys a higher degree of flexibility in selecting its suppliers from time to time by not entering into any long term supply contract. The Group has business relationships with its five largest suppliers in 2001 ranging from four years to six years.

For the three years ended 31st December, 2001, purchases from the five largest suppliers of the Group in aggregate accounted for approximately 27.4%, 21.6% and 12% respectively of the Group's total purchases, with purchases from the largest supplier accounted for approximately 9.1%, 7.2% and 3.4% respectively of the Group's total purchases. The decrease in the purchases from the largest supplier is the result of the Group's efforts to reduce reliance on a single supplier. None of the Directors, their associates or to the knowledge of the Directors, any shareholder of the Company who will own more than five per cent. of the issued share capital of the Company immediately upon completion of the Share Offer and the Capitalisation Issue, has any interest in any of the top five suppliers of the Group for the three years ended 31st December, 2001.

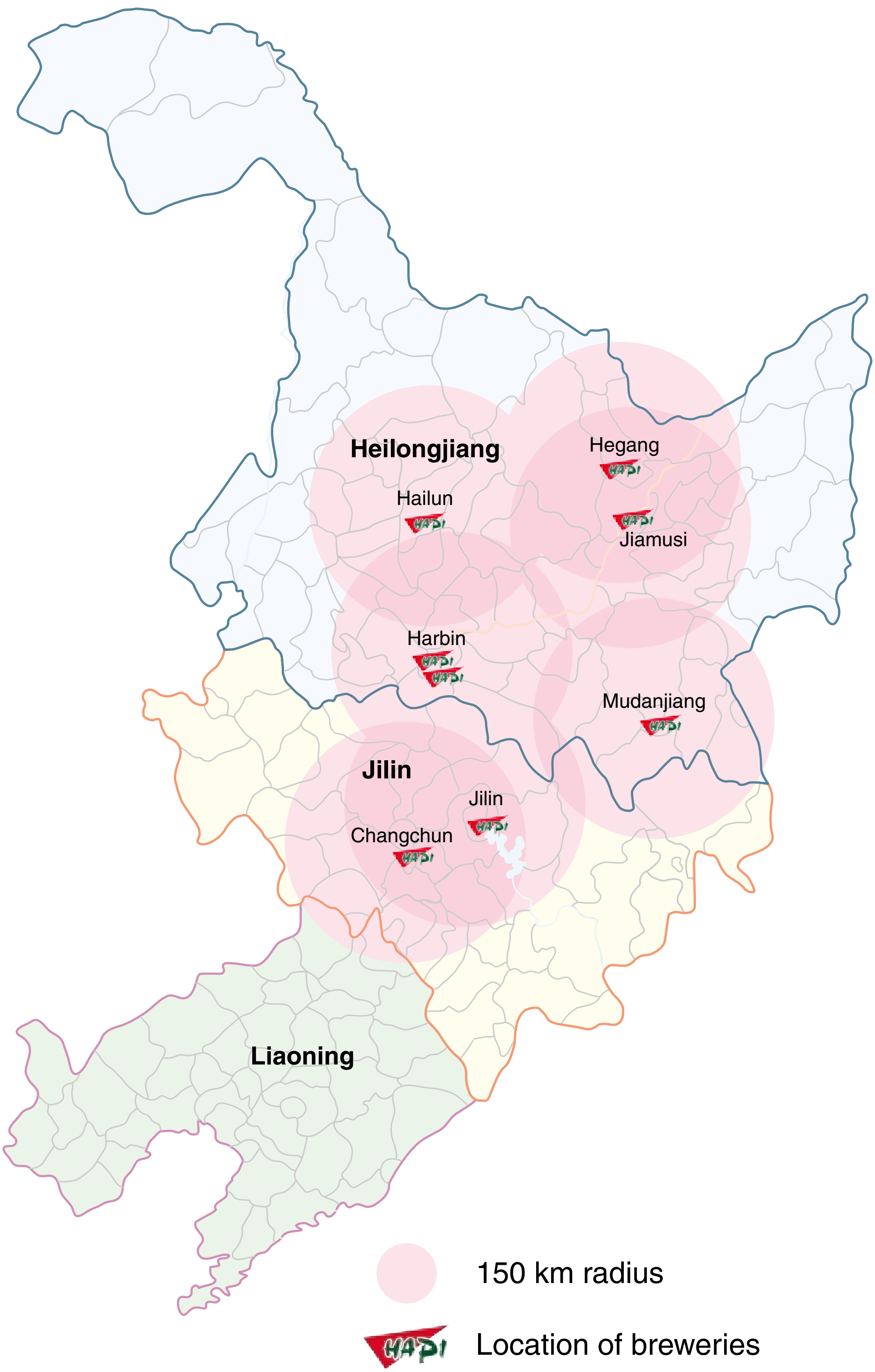
Production facilities

The Group has been following a strategy of acquiring and developing brewing operations since 1996 to strengthen its market share in Northeast Region. The table below sets out the production volume of the Group for each of the six years ended 31st December, 2001.



Note: The figure includes the production volume of the Acquired Breweries for the six months ended 31st December, 2001

The Group at present has eight breweries located in various cities in Heilongjiang Province and Jilin Province. The map below sets out the locations of the Group's breweries:



Each of the Group's breweries is intended to cover the markets in the nearby area within an optimal distance, after taking into account the delivery time and transportation costs. The aggregate production volume of these breweries amounted to 8,156,325 hl (825,539 tonnes) for year 2001 (see note 2 below):

Company	Attributable interest	Annual production volume in 2001 (A)		Designed production capacity as at 30th April, 2002 (B)		Estimated utilization rate (C) = (A)/(B)
		(hl)	*(tonnes)*	*(hl p.a.)*	*(t.p.a.)*	*(%)* *(note 3)*
HB Company	100%	3,036,657	307,354	3,102,320	314,000	97.9
HB Hailun Branch	100%	503,920	51,004	494,000	50,000	102.0
HB Songjiang *(Note 1)*	70%	1,109,198	112,267	988,000	100,000	112.3
HB Hegang	95%	428,555	43,376	395,200	40,000	108.4
HB Jilin	70%	347,707	35,193	296,400	30,000	117.3
Sub-total		5,426,037	549,194	5,275,920	534,000	102.8
Mudanjiang JV *(Note 2)*	55%	885,989	89,675	2,074,800	210,000	42.7
Jiamusi JV *(Note 2)*	60%	663,086	67,114	988,000	100,000	67.1
Yinpu JV *(Note 2)*	55%	1,181,213	119,556	1,976,000	200,000	60.0
Total		8,156,325	825,539	10,314,720	1,044,000	79.1

Notes:

1. In November 1998, HB Company completed the first stage of the Songjiang Agreement and acquired from Asia Brewery a 45% equity interest in HB Songjiang for a consideration of RMB12,200,000. In August 2001, pursuant to the Songjiang Agreement, the Group acquired a further 25% equity interest in HB Songjiang for a consideration of RMB6,800,000. The Group now holds a 70% interest in the capital of HB Songjiang.

2. The Group acquired a majority interest in the Acquired Breweries on 29th June, 2001 and the Acquired Breweries were not under the management of the Group prior to the Acquisition. Accordingly, the production volume of the Acquired Breweries prior to 29th June, 2001 did not form part of the Group's production volume in 2001. The production volume of the Acquired Breweries as shown above merely indicates the actual production volume of those breweries in 2001.

3. The designed capacity is based on a number of conservative assumptions, including the length of working hour per shift, number of shifts per day and the number of days of the production per annum. There may be cases that the actual production volume schedule may exceed that of the assumptions under the designed production capacity. In such event, the actual production volume per annum would be higher than that of the designed production capacity.

Quality control

The Group adheres to a strict system of quality control over its operations, from sourcing of raw materials and packaging materials, brewing, packaging, inventory storage and control, to sales and distribution. Seven out of eight breweries of the Group (except HB Jilin) have been awarded the ISO 9002:94 certificate and the Group's quality assurance system has been set up and operated according to the ISO 9002:94 authentication. As at 31st December, 2001, the Group has a total of 139 staff specialising in quality assurance throughout the production process and product delivery process. The system covers the following:

- **Sourcing of raw materials and packaging materials** — sourcing of raw materials and packaging materials is centrally-coordinated and suppliers are selected by reference to the Group's quality ranking system, under which a number of factors including the quality, stability and timeliness of delivery of such materials supplied by each supplier are evaluated.

- **Brewing** — from testing for bacteria to sampling products for taste and freshness during various stages of brewing, the entire brewing process is monitored by experienced technicians. The Group has its own laboratories to facilitate this process.

- **Packaging** — the process is automatic and monitored to ensure the condition and quality of the finished products. All bottles, including returned bottles, are inspected both upon receipt and after sterilisation.

- **Inventory storage and control** — quality control process in this area covers proper transportation and storage of raw materials, semi-finished products and finished products to minimize any loss to either quality or quantity of the products during storage and transportation.

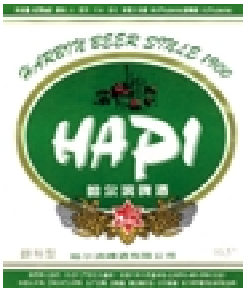
- **Sales and distribution** — the quality control process in this area ranges from the collection of comments from customers and market research to the safe and speedy delivery of products and proper handling of customer complaints.

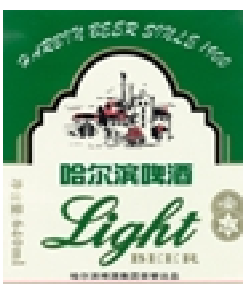
The Directors believe that more quality checks throughout various stages in the production process will decrease wastage and product defectiveness, which in turn will reduce cost of sales and increase profit margin. So far as the Directors are aware, the Group has not experienced any material complaint about any contamination or quality of its beer throughout the three years ended 31st December, 2001. In order to maintain and further improve product quality, the Group will continue to improve the facilities in its breweries and provide training to its staff members in the relevant departments.

BRANDS

Types of products

The Group produces both draught beer and processed beer. Its products are classified into three categories catering for different market segments: original products for the mass market, classic products for the middle-income market and premium products for the premium market. For the year ended 31st December, 2001, sales of original products, classic products and premium products accounted for approximately 80.6%, 10.5% and 8.9% of the Group's turnover respectively. The Group's top five products, which are processed beer, in terms of turnover, namely, Harbin 11˚ Qing Shuang Xing Beer, Harbin 10.5˚ Chun He Xing Beer, Harbin 11˚ Super Dry Beer, Harbin10.2˚ Super Fresh Beer and Harbin 11˚ Light Beer (Green 2000), together accounted for approximately 77.2% of its turnover for the year ended 31st December, 2001. The following table sets out information on these major products:

	Name	**Classification**	**Approximate percentage of the Group's turnover for the year ended 31st December, 2001**
	哈爾濱11°清爽型啤酒 Harbin 11˚ Qing Shuang Xing Beer	Original	38.5%
	哈爾濱10.5°醇和型啤酒 Harbin 10.5˚ Chun He Xing Beer	Original	27.9%

	Name	Classification	Approximate percentage of the Group's turnover for the year ended 31st December, 2001
	哈爾濱10.2°超鮮型啤酒 Harbin 10.2˚ Super Fresh Beer	Classic	5.8%
	哈爾濱11°超干型啤酒 Harbin 11˚ Super Dry Beer	Premium	3.4%
	哈爾濱11°干啤酒(綠色2000) Harbin 11˚ Dry Beer (Green 2000)	Premium	1.7%

The Group's processed beer has a shelf-life ranging from 120 days to 365 days after packaging. Its draught beer has a shelf-life of 7 days.

Product development

The Group's product development team is responsible for developing new products to cater for changes in consumers' preference. In developing new products, the team takes into account market feedback, market trends and anticipated changes in consumers' preference.

Intellectual property rights

The Group markets its products under the “Harbin” (哈爾濱) and/or “HAPI” trademarks, which are owned by the Group. Since completion of the Acquisition, the Group has also marketed the Acquired Breweries’ products under the “Yinpu” (銀瀑), “Jingbohu” (鏡泊湖), “Huahe” (花河), “Jiafeng” (佳鳳) and “Songhuajiang” (松花江). Details of these trademarks are referred to in the paragraph headed “Intellectual property” in appendix VI to this prospectus.

Awards

The Group endeavours to improve the quality, flavour and packaging of its products to meet consumer preferences and demands and to strengthen brand equity. Seven out of the eight breweries of the Group (except HB Jilin) have been awarded the ISO9002: 94 質量體系認證證書 (ISO9002: 94 Certificate of Conformity of Quality System Certification) by the 中國方圓標誌認證委員會 (China Certification Committee for Quality Mark Quality Certification Centre). During the three years ended 31st December, 2001, the Group has won a number of awards and honours from various organisations, including:

Year of award	Title of award/certificate	Awarding association
1998 - 1999	哈爾濱名牌產品證書 (Certificate of Famous Brand in Harbin)	哈爾濱市名牌產品評選委員會 (Harbin Committee for Evaluation and Selection of Famous Brand)
1999 - 2001	黑龍江省重點保護產品-11°及10.5°哈爾濱牌啤酒 (11° Harbin Beer and 10.5° Harbin Beer — Key Valued Products in the Heilongjiang Province)	黑龍江省技術監督局 (Technology Supervision Bureau of Heilongjiang Province)
1999	中國食品工業優秀企業 (Outstanding Enterprise of the Food Industry of China)	中國食品工業協會 (China National Food Industry Association)
2000	全國輕工系統先進集體證書 (Certificate of Advanced Enterprise in National Light Industry)	中華人民共和國人事部 (Ministry of Personnel of the PRC) 國家輕工業局 (State Administration of Light Industry)
2001	黑龍江省名牌－哈爾濱牌啤酒 (Famous Brand of Helongjiang Province)	黑龍江省名牌戰略引進委員會 (Helongjiang Province Famous Brand Strategic Promotion Committee)
	中國優質新品啤酒 —HAPI 啤酒10°小麥王啤酒 (China High Quality New Beer-HAPI 10° Wheat Beer)	中國啤酒工業協會 China Beer Industry Association
	中國優質新品啤酒 —HAPI牌10°金啤酒 (HAPI 10° Golden Harbin Beer)	中國啤酒工業協會 China Beer Industry Association