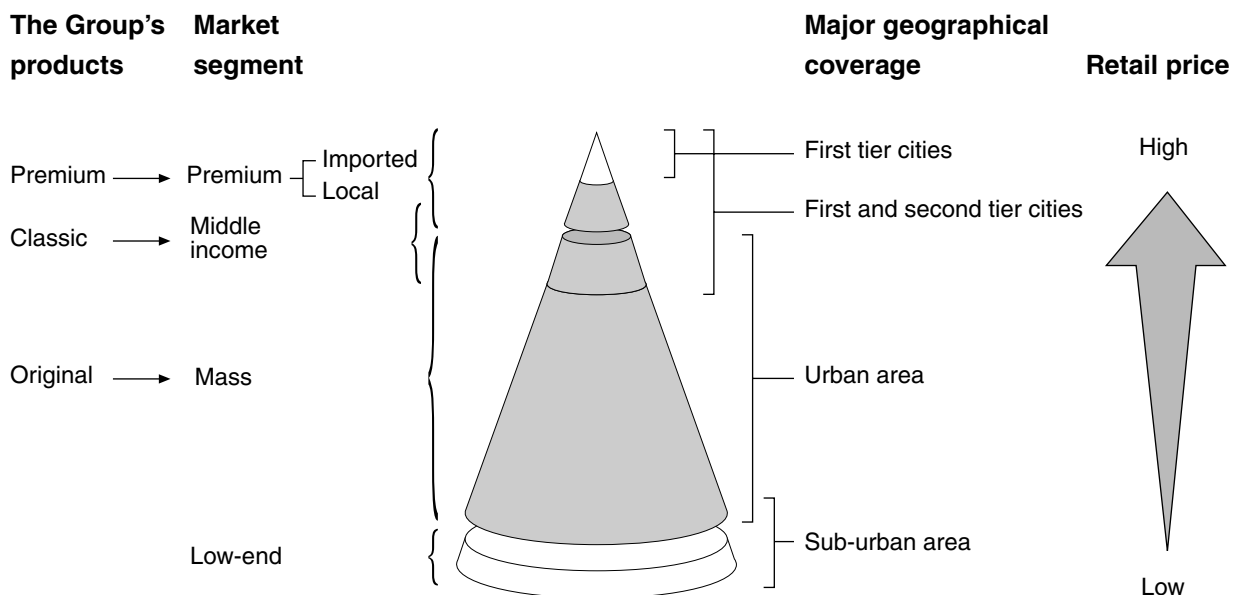


MARKETING

Market segment

The Directors are of the view that the PRC beer market is traditionally divided into three major segments, namely the premium market, the mass market and the low-end market. The Directors believe that, in between the premium and mass markets, there is now an emerging middle-income market. The following diagram illustrates the Group's segmentation of the PRC beer market:



Notes:

1. Volume of the cone represents approximate relative market size.
2. Shaded area represents the Group's product coverage.

Set out below are the key features of the four segments of the PRC beer market as perceived by the Directors:

Premium market

- retail price for 640ml equivalent bottled beer is over RMB8 per bottle;
- has a nation-wide market coverage;
- represents a relatively small proportion of the entire market;
- market players include both leading brewery groups/breweries in China and international breweries; and
- characterised by competition factors other than pricing.

PARTICULARS OF THE GROUP

Middle-income market

- retail price for 640ml equivalent bottled beer ranges from RMB3 to RMB10 per bottle;
- has a market coverage ranging from nation-wide to regional depending on gap between the pricing of products in the premium and mass markets;
- represents a relatively small proportion of the entire market;
- market players mainly include leading brewery groups/breweries in China; and
- characterised mainly by competition factors other than pricing.

Mass market

- retail price for 640ml equivalent bottled beer ranges from RMB1.5 to RMB4 per bottle;
- has a regional to local market coverage;
- represents the largest market segment in China's beer market;
- market players include both leading brewing groups/breweries and local breweries in China; and
- competition is primarily based on pricing and the availability of complimentary products as well as influenced by strong local protectionism.

Low-end market

- retail price for 640ml equivalent bottled beer is below RMB1.5;
- has a local market coverage;
- represents a relatively small proportion of the entire market;
- market players mainly include small-size local breweries; and
- competition influenced by strong local protectionism.

For the three years ended 31st December, 2001, the sales of original products to the mass market represented approximately 82.8%, 81.5% and 80.6% of the Group's turnover respectively. Given the Group's significant market position in the mass market in Northeast Region, the Directors expect that sales to the mass market will continue to constitute a major revenue source to the Group.

Whilst the premium products' contribution to the Group's turnover is relatively small, the Directors believe that sales to the premium market are essential to maintain the Group's profile and product coverage.

Envisaging an increasing demand from the middle-income market, the Group is gradually adjusting the focus of its product mix from the mass market to the middle-income market. The Directors expect that market forces will drive sales in this emerging market.

Marketing strategy

The Group's marketing objective is to build up its brand as a nation-wide brand in the PRC beer market.

Through adopting an integrated marketing strategy with co-ordination at the Group level among various areas, including brand building strategy, product mix management, pricing policy and distribution network, the Group has been progressively expanding the boundary of its product coverage and deepening its market penetration in Northeast Region. The Group plans to use the awareness and acceptance of its premium products in other areas of the PRC to enlarge its market share in the national marketplace through applying its proven regional market development strategy in Northeast Region to areas with substantial market potential. Through this regional market development strategy, the Directors target to eventually develop a leading presence in each strategic location in the PRC where there is a good market potential.

Brand building strategy

The Directors believe that a single-megabrand strategy enables the Group to utilise its marketing resources more efficiently. A substantial portion of the Group's products sold in the three years ended 31st December, 2001 were under the brand "Harbin" (哈爾濱) (also commonly referred to as "HAPI"). The Group's marketing programmes emphasize the promotion of "Harbin" (哈爾濱) as the brand of "the oldest brewery in China" with good quality products and uses television and print advertising, billboards and promotional campaigns to promote brand awareness and acceptance. These marketing programmes help enhance "Harbin" (哈爾濱) as a leading brand in the beer market in Northeast Region.

In developing its brand in a new market, the Group's strategy is to establish a strategic presence in the premium market or middle-income market and to promote the general awareness and acceptance of its products.

Since the Acquisition, the Group has also sold beer under the local brands of the Acquired Breweries, including "Jingbohu" (鏡泊湖), "Huahe" (花河), "Songhuajiang" (松花江), "Jiafeng" (佳鳳) and "Yinpu" (銀瀑). Except for "Yinpu" (銀瀑) brand which includes both premium and original products, all other brands are primarily original products. The Group will make use of any unused capacity of the Acquired Breweries to produce beer under the name "Harbin" (哈爾濱) (also commonly referred to as "HAPI"). It will also evaluate the cost structure, market share and profitability of the products sold under the brands of the Acquired Breweries to determine whether these brands will be retained.

For the three years ended 31st December, 2001, the cost of advertising and promotion accounted for approximately 6.8%, 8.5% and 8.5% respectively of the turnover of the Group.

Product mix management

The Group proactively adjusts its product mix and introduces new products from time to time in response to anticipated major changes in consumer preferences.

For instance, from 1999 to 2001, the Group introduced a series of new products targeted at the middle-income market, including 哈爾濱10.2°超鮮型啤酒 (Harbin 10.2° Super Fresh Beer), 哈爾濱7.7°超爽型啤酒 (Harbin 7.7° Chao Shuang Beer), 哈爾濱11°小麥啤酒 (Harbin 11° Wheat Beer), 哈爾濱10°小麥王啤酒 (Harbin 10° Wheat Beer) and 哈爾濱11°純鮮啤酒 (Harbin 11° Chun Xian Beer). Sales to the middle-income market increased from approximately 7.5% in 1999 to approximately 10.5% of the total turnover of the Group in 2001 and the Directors expect this trend to continue. The Group also offers a comprehensive range of premium products to maintain a strategic presence in this market segment for future development. Please refer to the section headed “Financial information” of this prospectus for further details on changes in the Group’s product mix during the three years ended 31st December, 2001.

Pricing policy

The Group adopts a pricing strategy for each of its markets which is determined at the Group level and takes into account the following major factors:

- (a) the strategic objective in a particular market;
- (b) the products’ market position in a particular market;
- (c) competitiveness of a particular market; and
- (d) consumers’ purchasing power and preferences in a particular market.

The Group sets its discount to distributors with a view to attaining a balance of optimal market share and profitability.

SALES

Sales and distribution network

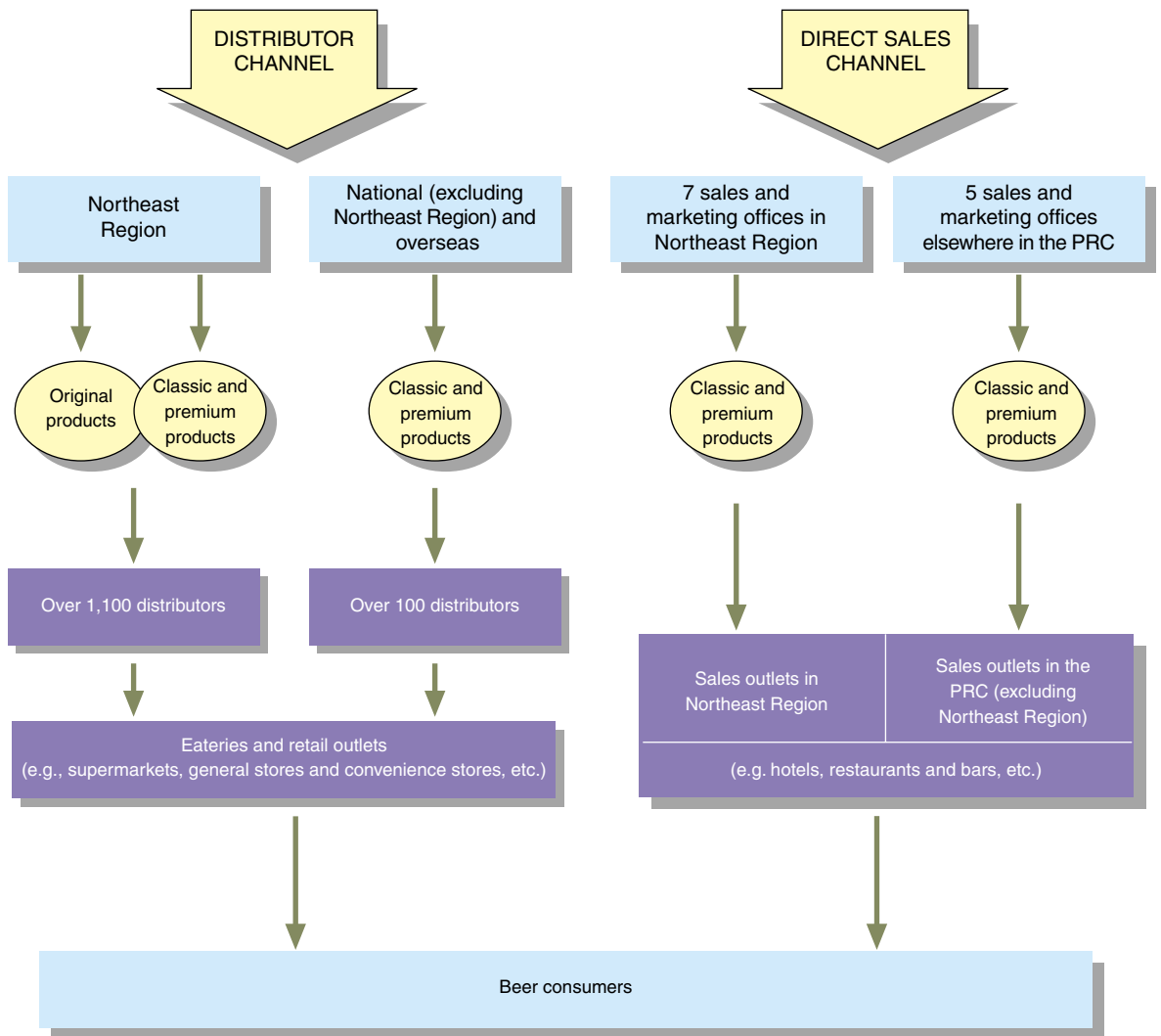
The Group’s annual sales plan for a particular calendar year is usually made before the end of the preceding year to facilitate the planning and scheduling process of other departments. The annual sales plan is reviewed and adjusted monthly in accordance with customers’ actual demand. The Directors believe that this planning process has been beneficial not only to the Group’s sales planning but also its production scheduling and inventory control.

The Group sells its product to 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 overseas distributors) distributing the

PARTICULARS OF THE GROUP

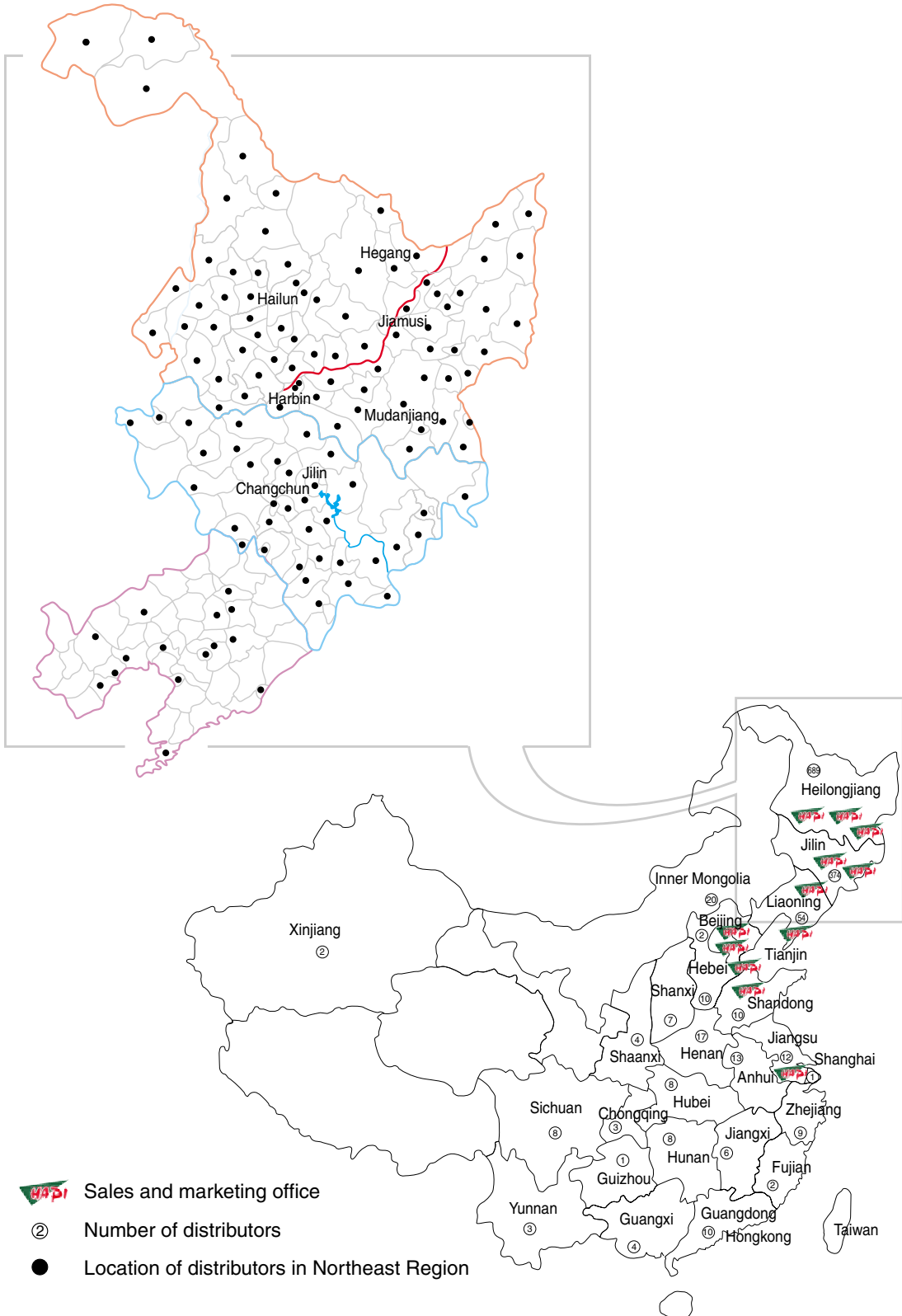
classic and premium products. The Group also distributes its classic and premium products through its direct sales teams located at its sales and marketing offices across the PRC. For original products, as it is not cost effective to establish its own direct sales team, products are primarily sold to distributors. For classic and premium products, the Group will sell goods to distributors who are able to meet the Group's selection criteria. In the event that there are no such distributors, the Group will use its own sales team or establish its own marketing office in selling the products. The Directors believe that the Group's extensive distribution network maximises product exposure and minimises dependence on any single distributor.

Seven of the Group's twelve sales and marketing offices are located in Northeast Region. These offices serve to provide sales support services to existing local distributors as well as to solicit new customers and develop new markets. The Directors believe that the establishment of these offices has further strengthened the Group's distribution capability. The following chart illustrates the Group's sales and distribution network:



PARTICULARS OF THE GROUP

The locations of the Group's distributors and sales and marketing offices are shown in the map set out below:



PARTICULARS OF THE GROUP

For details of the Group's turnover by geographical breakdown during the Track Record Period, please refer to the paragraph headed "Trading records" in the section headed "Financial information" of this prospectus.

The Group's direct sales teams are located at its 12 sales and marketing offices. The Group chooses distributors who are willing to commit their own resources to promote and sell the Group's products and it enters into annual sales contracts with its major local distributors in or around September and October every year. The Group maintains a close relationship with its distributors to keep abreast of the latest market developments. In so far as the Directors are aware, all the Group's distributors are independent third parties not connected with the chief executives, directors or substantial shareholders of the Company and its subsidiary or any of their respective associates.

The Group has established breweries in various cities in Northeast Region. It usually requires its distributors to collect products from the Group's breweries. Otherwise, the Group will out-source the delivery of its products. Depending on the terms of contract, the transportation costs may be borne by the Group or the distributors.

The Group also sells its premium products through its distributors to Hong Kong and other overseas markets, including the Russian Federation, Switzerland, the United Kingdom, South Korea, the United States and France. The Directors believe that the Group's products provide an alternative Chinese beer to overseas customers.

Payments by domestic customers are made in RMB whereas sales made to overseas markets (except for the Russian Federation) are settled in US\$. All local sales made through the distributors are paid on cash-on-delivery or payment-on-collection basis. Sales made by the Group's direct sales teams are generally subject to credit terms of 30 to 90 days. For the three years ended 31st December, 2001, approximately 17.1%, 18.4% and 23.8% respectively of the Group's turnover was made on credit sales. The Group has placed significant emphasis in controlling the cash and credit sales. For cash sales, the Group usually requires its customers to pay directly to the Group, instead of collecting the amount through sales representatives. For credit sales, the Group grants credit sales limit to each of the sales representatives in accordance to their historical sales performance. The Group regularly reviews the actual and pre-approved credit limit for each sales representative. For the three years ended 31st December, 2001, the Group's general and specific provision for bad and doubtful debts in aggregate amounted to approximately HK\$822,000, HK\$2,242,000 and HK\$24,000 respectively, representing approximately 0.181%, 0.386% and 0.003% respectively of the Group's turnover. The Group has adopted a policy of making general provision for balance of the accounts receivable with age over one year in the PRC.

Relationship with the Group's five largest customers

The Group's five largest customers in 2001 have had business relationships with the Group for a period of between two and five years. For the three years ended 31st December, 2001, sales to the Group's five largest customers together accounted for approximately 7.4%, 7% and 4.4% of the Group's turnover respectively, with sales to the largest customer accounted for approximately 1.6%, 1.9% and 1.1% respectively of the Group's turnover.

None of the Directors, their associates or shareholders, which to the knowledge of the Directors, 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 customers of the Group for the three years ended 31st December, 2001.

COMPETITION

The Directors believe that there are various facets of competition in the China beer market, in particular, competition from other alcoholic beverages, competition in different segments of the beer market and competition from international breweries.

Competition from other alcoholic beverages

Since consumer preference changes from time to time, the Directors believe that competition from other alcoholic beverages, such as traditional Chinese hard liquor (Baijiu), wine and spirits, should not be ignored. Nonetheless, given the growing importance of beer in the China alcoholic beverages market, the Directors are of the view that at present the competition for other alcoholic beverages in this area does not pose a material threat to the Group.

Competition in different segments of the beer market

Due to market consolidation and excess capacity, the brewing industry in China is very competitive. The Directors are of the view that the basis of competition in different market segments varies from each other:

Premium market — competition is primarily based on packaging, branding and marketing efforts. Competitors include other leading brewery groups/breweries in China as well as international breweries.

Middle-income market — competition is primarily based on product quality and product differentiation. Competitors include leading brewery groups/breweries in China.

Mass market — apart from the influence of local protectionism, competition is primarily based on pricing and the availability of complimentary products. Competitors include other leading brewery groups/breweries and local breweries in China.

PARTICULARS OF THE GROUP

The Directors expect that in this competitive environment, breweries with low productivity, poor distribution networks and poor brand recognition will eventually be forced out of the market and, as a result of consolidation, the production capacity of individual brewery groups/breweries would increase. The Directors therefore expect that the brewing industry in China will ultimately be dominated by a few market leaders that have significant production capacity, established distribution networks and strong brand equity.

Competition from international breweries

A number of foreign-controlled joint ventures have been formed between international brewery groups/breweries and local partners since early 1990s. Despite the influx of international breweries into the PRC beer market, the Group has been experiencing considerable growth in both profitability and sale volume in recent years. The Directors believe that the Group's scaleable operation, effective distribution network and strong brand equity place itself in a strong and favourable position in competing with other leading Chinese brewery groups/breweries as well as international breweries.

BUSINESS PROCESS RE-ENGINEERING AND ERP SYSTEM

As the Group continues to expand by way of organic growth and acquisition, the Directors believe that co-ordination among the Group's breweries and functional units becomes increasingly important to the Group's profitability. 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.

The installation of the ERP System in HB Company has been completed in January 2002 and it is currently under trial run. It is the intention of the Directors to extend the ERP System to other breweries of the Group.

ENVIRONMENTAL PROTECTION

In common with all other breweries in the PRC, the Group is subject to both national and local environmental protection laws and regulations of the PRC. Over the years, the Group has employed various environmental protection measures. During the three years ended 31st December, 2001, the Group has not received any notification or warning nor has the Group been subject to any fines or penalties in relation to any breach of any such laws and regulations which have materially and adversely affected its operation.

The Group has facilities to treat industrial waste including filtering devices to process wasted yeast and barley. To further upgrade its existing environment protection facility, HB Company entered into an agreement with HBF on 12th September, 2000 in relation to a sewage treatment project for HB Company's production facilities. Subject to the approval by the relevant PRC governmental authorities, the total investment by HBF in this project amounts to approximately RMB26,000,000. After completion of the construction of the sewage treatment facilities (which is expected to be by the end of July 2002), such facilities will be leased to HB Company to process the sewage produced by HB Company's production facilities. There is no fixed term of the lease and, save as disclosed herein, the Group has no other obligations under the agreement.

PARTICULARS OF THE GROUP

BACKGROUND INFORMATION ON THE ACQUIRED BREWERIES

To further expand the Group's production capacity and consolidate the market position in Heilongjiang Province and Jilin Province, the Company acquired indirect interest in the Mudanjiang JV, Jiamusi JV and Yinpu JV on 29th June, 2001 for an aggregate cash consideration of HK\$230 million. As a result of the Acquisition, the aggregate 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.). The accountants' report on the Acquired Breweries is set out in appendix II to this prospectus, which is presented for information purposes only.

The following is the background information on the Acquired Breweries:

	Mudanjiang JV	Jiamusi JV	Yinpu JV
Ultimate shareholding structure	Group (55%) Mudanjiang Brewery Factory (45%)	Group (60%) Jiamusi Brewery Factory (40%)	Group (55%) Shenzhen Guangdong Industrial Investment Company Limited (35%) Yinpu Brewery Factory, Jilin Province (10%)
Date of establishment of the joint ventures	December 1995	March 1996	March 1997
Location	Heilongjiang Province	Heilongjiang Province	Jilin Province
Brands	Jingbohu (鏡泊湖) Huahe (花河)	Jiafeng (佳鳳) Songhuajiang (松花江)	Yinpu (銀瀑)
Principal beer products	Original	Original	Premium and original
Annual production volume in 2001	885,989 hl (89,675 tonnes)	663,086 hl (67,114 tonnes)	1,181,213 hl (119,556 tonnes)
Designed production capacity as at 30th April, 2002	2,074,800 hl (210,000 t.p.a.)	988,000 hl (100,000 t.p.a.)	1,976,000 hl (200,000 t.p.a.)
Number of employee as at 31st December, 2001	682	755	1,014

PARTICULARS OF THE GROUP

During the six months ended 31st December, 2001, the Acquired Breweries recorded a turnover of approximately HK\$164.5 million. Its gross profit was approximately HK\$47.7 million, representing a gross profit margin of approximately 29.0%, as compared to the unaudited gross profit margin of approximately 20.2% for the six months ended 30th June, 2001. The audited consolidated profit and loss account of the Group for the year ended 31st December, 2001 included the unaudited net profit from ordinary activities attributable to shareholders of the Acquired Breweries for the six months ended 31st December, 2001 amounting to approximately HK\$899,000, as compared to the unaudited loss of the Acquired Breweries of approximately HK\$6,934,000 for the six months ended 30th June, 2001. The Directors attribute the improvement in gross profit margin and net loss position to a higher operating efficiency after the Group took control over the Acquired Breweries on 29th June, 2001. Inventory turnover days and accounts receivable turnover days for the year ended 31st December, 2001 was approximately 163 days and 14 days respectively, as compared with 160 days and 14 days respectively for the year ended 31st December, 2000. The accountants' report on the Acquired Breweries is set out in appendix II to this prospectus, which is presented for information purposes only.

The Directors plan to continue to improve the operating efficiency of the Acquired Breweries through, among other things, the implementation of its centrally co-ordinated, process based management model in the Acquired Breweries. The aim is to have the performance parameters of the Acquired Breweries (including the financial ratios disclosed above) reached a level that is comparable with that of the other breweries of the Group. In particular, in order to reduce overall operating cost, the Group has been planning the production schedule of the Acquired Breweries at the Group level in conjunction with other breweries. In addition, all purchases and sales and marketing works were co-ordinated centrally to lower overall operating costs. The Group is also planning to make use of the existing production capacity of the Acquired Breweries further to produce beer under the brand "Harbin Beer" to cater for the demand of customers.