

CEO's Statement



REVIEW

The year 2003 was a milestone in China's economic reform and market liberalisation. Property rights on privately-owned assets have gained political recognition and protection, state-owned enterprises have withdrawn from the competitive marketplace, sources of corporate investments have diversified, and an economic structure based on mixed ownership has been developed. All these play an instrumental role in the economic reform. Other industries such as wholesaling, logistics and retailing are expected to open up their markets to foreign investors in 2004. These developments will have profound impact on the velocity and form of development of China's beer market. In the transition from a planned economy to a market economy, changes in market forces including consumer behaviour and economic pattern interact with each other. Riding on this wave

of reform, Harbin Brewery Group Limited ("Harbin Brewery" or the "Group") is developing rapidly.

Competition comes with market liberalisation, which also brings driving force and business opportunities for corporate development. In the environment of growing competition, Harbin Brewery recognises the importance of brand equity and sustainable development. The Group's process-based management model has reduced resources wastage. The Group's diversified market and production bases have led to the consolidation of resources and, most importantly, cultural integration. Harbin Brewery's corporate culture is the culture of a "single mega-brand", and the concepts of brand equity and cost-driven management are the keys to its sustainable development.

2003 was not a pleasant year. In the face of the Severe Acute Respiratory Syndrome ("SARS") outbreak, increasing costs of raw materials, relatively low summer temperatures in the Northeast Region, increasing expenses on social security and medical insurance, cut-throat price competition and the withdrawal of major shareholder, Harbin Brewery managed to register growth in production output, turnover and profit. The turnover from non-Northeast region, in particular, exceeded 10% of the Group's total turnover. In addition, Harbin Brewery gained a number of recognitions in 2003. Harbin Brewery was accredited ISO14000 in Environmental Management. Meanwhile, the "Harbin" brand was ranked one of top three in the customer satisfaction survey conducted jointly by the China Quality Control Association and China Consumers Association. Harbin Brewery's Premium Wheat Beer and Pure Draft Beer were also accredited the "Famous New Products" by the China National Food Industry Association. In overseas, the Group was again awarded the "2003 Best Small Cap Company (China)" by the financial magazine, *AsiaMoney*.

THE FUTURE

Based on the assumption of an average growth rate at 5% to 6% in China's beer market, it is believed that a more diversified market and product variety will offer Harbin Brewery with greater room for development. It is anticipated that mergers and acquisitions will soon reach the peak in China's beer industry. However, it would be unrealistic to expect that mergers and acquisitions will reduce competition, because without complementing with resources consolidation and cultural integration, the effectiveness of the acquisition will be undermined. Moreover, new competitors tend to emerge only after the completion of acquisition. From the history of consumer market development, mergers and acquisitions do not put an end to competition. On the contrary, only enterprises that grow out of competition will have sustained vitality. I believe that in the next few years, with the further liberalisation of the market, enterprises will shift their focus from the production output basis to the sales and marketing basis.

In 2004, while continuing to secure its market dominance in the Northeast Region, Harbin Brewery will expand its market coverage to the non-Northeast markets, namely Beijing, Tianjin and Tangshan regions, as well as the Yangtze River Delta and Pearl River Delta. In addition, Harbin Brewery will strive to improve its product mix, maximise its production efficiency, manage its distribution network effectively, as well as optimise its resources so as to improve the overall performance and to consolidate its market position in China. With SABMiller becoming the Group's substantial shareholder and strategic investor in July 2003, Harbin Brewery hopes that the cooperation will bring about synergy to both parties.

ACKNOWLEDGEMENT

I would like to extend my heartfelt appreciation to our shareholders, customers and suppliers for their continued support to the Group in the past year, as well as to our management and staff for their hard work and dedication. In the future, we will work with our concerted efforts in the pursuit of more favourable results.

Peter Lo

Chief Executive Officer

Hong Kong, 22 April 2004