

**HARBIN BREWERY GROUP LTD :**  
**THIS IS A LESSON IN HOW NOT TO DO BUSINESS IN THE PRC**

Irrespective of the hype, surrounding the flotation of Harbin Brewery Group Ltd (Code: 249, Main Board, The Stock Exchange of Hongkong Ltd), this Company is, in reality, something of a failure.

In fact, it would appear, on studying the Placing and Offer Prospectus of Harbin Brewery, that it has, since its founding, been very much of a failure.

And its nationalisation, in 1950, by the then, new Government of the newly formed, People's Republic of China (PRC), under the late Chairman Mao Tse Tung (or Mao Zedong), only caused it to be a bigger failure.

And things haven't changed much, over the past 52 years.

The Company went to the Main Board of The Stock Exchange of Hongkong Ltd on June 18, 2002, when it Placed 195.80 million, 10-cent New Shares at a price of not more than \$HK1.59 per Share, and it Offered another tranche of 24.20 million, 10-cent New Shares at the same terms as the Placing Shares.

The money, raised in this exercise, is to be used, the Prospectus alleges, for the following purposes:

1. \$HK150 million to retire some debts;
2. \$HK100 million to be used as future expansion; and,
3. \$HK20 million to be dumped into the General Working Capital Account.

It is noted that, of the estimated \$HK270 million, raised in this flotation, about 55.56 percent of the net proceeds was earmarked for the retirement of some of the Company's debt structure.

(It was assumed that the Offer Price would be \$HK1.485 per share, according to Page 114 of the Prospectus, and that there would be no over-allotment of shares)

According to Page 107 of the Prospectus, the debts of Harbin Brewery stood at about \$HK889.30 million.

The composition of this indebtedness was said to be, as at April 30, 2002:

Convertible Notes	\$HK21.80 million
Secured Short-term Bank Loans	\$HK67.00 million
Unsecured Short-term Bank Loans	\$HK47.10 million
Other Secured Short-term Loans	\$HK 2.50 million
Other Unsecured Short-term Loans	\$HK10.70 million
Secured Long-term Bank Loans	\$HK520.50 million
Unsecured Long-term Bank Loans	\$HK93.60 million
Unsecured Loans from Shareholders	\$HK51.60 million

Unsecured Amounts due to Joint-Venture Partners of  
Subsidiary Companies

\$HK74.50 million

**TOTAL**

**\$HK889.30**  
**MILLION**

Considering that the Turnover of this smallish beer-maker of the PRC was about \$HK836.70 million for the Financial Year, ended December 31, 2001, a debt structure of \$HK889.30 million must be considered to be a sizeable chunk of change.

However, one must bear in mind that this is, after all, a PRC Government-controlled entity so that, to a great extent, one has to appreciate and to adopt a completely different ideological stance when trying to apply the usual financial criteria in trying to determine the success, or otherwise, of such an enterprise.

### **The History**

The history of Harbin Brewery goes right back to the turn of the 20<sup>th</sup> Century when a Russian national, a Mr Ulubulevshij, founded, what Page 52 of the Prospectus claims to be, the first brewery in the PRC.

The name, Harbin Brewery Factory, was adopted in 1932 when it became a jointly owned company of Chinese nationals and Czech nationals.

The Japanese took control of it between 1936 and 1945 and renamed it, Dainippon Malt Wine Company, and the Imperial Japanese Army ... [CLICK TO ORDER FULL ARTICLE](#)

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