

APB Acquires 40% Stake in Jiangsu DaFuHao Breweries

Singapore 31 March 2005 - Making further inroads into China, which has the world's largest beer market, Asia Pacific Breweries Limited ("APB"), through its associated company, Heineken-APB (China) Pte Ltd ("Heineken-APB") has entered into an agreement with Nantong Alcohol Industry Co., Ltd ("NAC") to acquire a 40% equity interest in Jiangsu DaFuHao Breweries Co, Ltd ("DaFuHao").

The total acquisition is valued at US\$28,600,000 of which APB's share is 50% or US\$14,300,000; the remaining amount will be contributed by Asia Pacific Investment Pte Ltd, which owns the remaining 50% of Heineken-APB.

DaFuHao, incorporated in 1996, is one of the most profitable breweries in the Jiangsu Province today. Ranked amongst the top five breweries in the province, DaFuHao owns four plants with a total production capacity of 3.5 million hectolitres in Nantong, Tongzhou, Qidong and Yancheng. It brews, markets and distributes major beer brands including "*BBOSS*", "*Tongzhou*" and "*Changjiang*" which are popular in Nantong. The brewery has a 60% share of the 1.6 million-hectolitre Nantong beer market and 12% share of the Jiangsu beer market.

DaFuHao's flagship brand, *BBOSS* and its variants cater to both the premium and standard segments while *Tongzhou* and *Changjiang* are positioned in the local standard segment. Partnering with no less than 1200 first tier distributors in the country, DaFuHao's beer brands are familiar names which are well-distributed at the on-trade and off-trade channels.

Apart from its dominant market share in Nantong, DaFuHao is also growing "*BBOSS*" in other parts of Jiangsu, in particular Taizhou, Yancheng, Nanjing and cities near Suzhou. The total beer market in the Jiangsu province in 2004 is estimated to be 14.6 million hectolitres, 5% of the China beer market. The Jiangsu county which is located at the Yangtze River where growth potential is tremendous, also has the second largest absolute GDP and is ranked 6th in per capita GDP of all provinces in China.

Mr Koh Poh Tiong, Chief Executive Officer, APB and Chairman, Heineken-APB said, “Our investment in DaFuHao is consistent with APB’s growth strategy to forge strategic alliances with suitable domestic breweries to create profitable business opportunities and strengthen APB’s position in the fast consolidating China beer market. Amongst the key provinces identified in APB’s growth blueprint for the PRC are provinces such as Guangdong and Jiangsu where the level of income per capita are amongst the highest in China.”

“DaFuHao possesses strong beer brands, an experienced and capable management team and a strong position in Nantong which is located in the Jiangsu province. Along with our alliance with Kingway Brewery in Guangdong, our strategic investment in DaFuHao reinforces our commitment to the China beer market and complements our operations in Shanghai and Hainan. We believe that this collaboration will better place us for competition and allow APB to expand further in the long-term growth of the China beer market,” he continued.

The DaFuHao stake is Heineken-APB’s second investment in China. In January 2004, it acquired a 21% interest in Kingway Brewery Holdings Ltd (KBH) which brews the popular “*Kingway*” beer in Guangdong. Heineken-APB also owns two other breweries namely Shanghai Asia Pacific Brewery in Shanghai and Hainan Asia Pacific Brewery in Haikou.

APB’s Growth Strategy for China: Heineken-APB

In light of the growth and market consolidation trends in China, APB implemented a “One-China-Organisation” strategy in 2004 to give its business activities in China undivided focus and address its long term growth in the industry. The move saw all its brewery operations streamlined under Heineken-APB. Heineken-APB also assumes all production, marketing and sales efforts for APB’s beer brands and spearheads all business strategic activities such as investments, mergers and acquisition in the PRC.

Since the inception of Heineken-APB, the APB group has been realising better returns as a result of economies of scale and witnessing a more efficient management of its brewery operations in the PRC.

Heineken-APB commenced brewing Heineken lager at its Shanghai operations in early 2004 after it was awarded the licence to brew the popular international beer in China. Since June 2004, all "*Heineken*" beer in China has been brewed in Shanghai and this saw an improvement in the utilisation of the brewery.

The Shanghai operations, where "*REEB*" beer is also brewed, introduced **Tiger Crystal-Lite** last October to corner a slice of the premium light beer segment. The Tiger variant has been specially created to cater to the increasing consumer preference for light beers in the market.

Performance at APB's Hainan brewery, too, has improved and the brewery turned profitable last year. In July 2004, it further increased its annual production capacity to 1.2 million hectolitres to cater to increasing demand for "*Anchor*" beer and its variants.

On top of that, Heineken-APB is realising good returns from its 21% investment in KBH.

Explaining why APB is keen on the China beer market, Mr Koh said, "China has the largest beer market in the world with an estimated sales volume of 291 million hectolitres of beer in 2004, an increase of 15.2% over the previous year. Despite the challenges and intense competition in the China beer market, APB recognises China's potential as a significant long-term growth market and is investing in the growth of China. Our plan is to forge strategic alliances to become one of the major players of the beer market at the end of the industry consolidation."

-End-