

## CHAIRMAN'S STATEMENT



Li Gui Rong Chairman

### To the shareholders:

#### Business Review

With the full support and efforts of the staff, the Company made remarkable progress in the year 2000, further strengthening its dominant position in the beer industry of China.

The Chinese beer market grew steadily in the year 2000, total production volume amounted to 22.31 million tonnes, representing a 6.8% increase over 1999. During the year, the Company actively expanded into new markets and enhanced its production scale to capture a larger market share. Production volume exceeded 1.8 million tonnes. Sales revenue and profits amounted to RMB3.8 billion and RMB95.20 million respectively, increasing by 54% and 15% over last year. The Company has become the largest brewery in the PRC, maintaining a leading position in terms of production volume, market share, sales revenue, foreign exchange generation, profits and taxation.

During the year, the Company was accredited as "Grade AAA Best Corporate Image in the PRC" and "The Top Ten Most Influential Enterprises in the PRC". Mr Peng Zuo Yi, general manager, was among the "Men for the Financial Year of 2001 in the PRC" selected by the Central Television Station of the PRC. Furthermore, the brand value of "Tsingtao Beer" surged to RMB5,945 million, ranking top in the beer industry.

#### Strategic Positioning:

By adopting persistently a proactive development strategy of reinforcing its brandname reputation, the Company acquired and merged with 14 breweries in major cities of Beijing, Shanghai, Chongqing and Zhejiang Province where there is good market potential during the year, and basically completed its strategic positioning in the domestic market with firm establishment in each growth area. At present, apart from the headquarter in Qingdao, the Company owns 38 breweries in other regions nationwide and achieved a total production capacity of approximately 3 million tonnes, making it a key player in all major markets across the country.

#### Network Building:

The Company continued to focus on the formation of a strong domestic sales network through effective implementation of the policy of "beer freshness control" and "direct distribution" on a national scale. The network now consists of 49 branches and offices covering all major markets throughout the country. At the same time, the Company introduced an advanced electronic network technology with international standard for the comprehensive renovation of its logistics, information flow and settlement systems. Such efforts were made to achieve management of logistics, materials delivery and capital flow through computer networks, with an ultimate aim of increasing efficiency and moving towards B2B e-commerce.

#### System Integration:

For better control of its subsidiaries outside Qingdao, the Company has established five business development divisions respectively in Southern China, Eastern China, Huaihai, Central Shandong and Northern China to consolidate production and market resources within the region and to respond quickly with high flexibility in sales and marketing initiatives. The Company has also set up task forces comprising experienced personnel with technical and management expertise to visit its subsidiaries and give guidance on their management and technological transformation, as well as introducing Tsingtao beer's proven management system and corporate culture. It is expected that such endeavours can help in the overall improvement in both product quality and operation management of the subsidiaries.

The beer enterprises acquired by and merged with the Company prior to 1997 have basically generated profits, and those acquired and merged in 1998 and 1999 showed good prospects of growth, with production and sales volumes increasing by an average of 63%. More particularly, breweries with

## CHAIRMAN'S STATEMENT (CONT'D)

better production facilities and higher technology level such as Zhuhai Brewery and Sanshui Brewery in Guangdong Province had already made profits in the year of acquisition. With further implementation of Tsingtao's management pattern, the subsidiaries are expected to make more earnings contribution.

### Export Market:

Through the Company's continued expansion and marketing efforts in its three major markets: South-east Asia, Western Europe and North America, export sales reported stable growth, of which the Western Europe and North America markets increased by 12% and 2.4% respectively in 2000 over last year, generating foreign exchanges in the total amount of US\$19.17 million, representing a 4% increase over 1999.

### Scientific Research:

The Company will continue to step up its efforts in research and development and strive for further technological development. The research and development projects during the year included six new technological innovative projects at the state level. Among these, the "Application Research on Spectrum Technology of Beer Taste Substances" was certified and accepted by the State Economy and Trade Commission, given its higher practical value.

### Business Forecasts For The Coming Year

In face of the challenges and opportunities of the new millennium, the Company will carry on various successful operating and development strategies. In terms of its initiatives in the coming financial year, the Company will be engaged in system integration, innovative mechanism, enhanced core competitiveness, and striving for assuming a dominating role in the new millennium.

Following the completion of the basic strategic planning for the domestic market, the pace of expansion will be slowed down appropriately. On one hand, the Company will upgrade the facility and technological standards through technological improvements, with a view to increasing its competitive power. On the other hand, the Company will further consolidate the technical aspects, management, brandname and market shares of the newly merged or acquired enterprises, so as to maximize the benefits of resource allocation and sharing. In addition, through the implementation of overall budget management and the "responsibility system" for business targets, the Company aims at increasing corporate economic efficiency on the basis of an expanded scale of operation. The Company will

also selectively merge and acquire other enterprises in such regions which lacks the presence of the Company's business, thereby perfecting the overall market planning.

With the approval of the Company's Year 2000 Extraordinary General Meeting and the approval from China Securities Regulatory Commission, the Company has successfully issued 100 million additional A shares, raising proceeds of RMB787 million, which was received by the end of February 2001. The proceeds will be applied for the acquisition of the equity interests held by foreign parties in Carlsberg (Shanghai) Brewery Co., Ltd., Beijing Five Stars and Beijing Three Ring Asia Pacific Beer Co., Ltd., and for the technological improvement projects taken in the Company and its subsidiaries. This will facilitate the continuous development of the Company in the future.

The Board of Directors believes that the beer industry is an industry enjoying bright prospects. With its strong brandname, high technological standard, quality management, expertise and excellent market planning, the Company has the best development potential among its counterparts in the intensely competitive environment. The Company's proactive development strategies, coupled with the consolidation efforts through mergers and acquisitions, will maintain and further enhance its competitive advantages. The production and sales volume of the Company's beers is expected to reach 2.6 million tonnes in 2001, and exceed 3 million tonnes by 2003. The Company strives to become one of the ten largest beer enterprises in the world and is committed to bring in satisfying return for its investors.

Finally, I would like to take this opportunity to extend my sincere gratitude and appreciation to our shareholders and our customers for their strong and wholehearted support for the Company and to all staff members for their loyalty and dedication.

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Li Gui Rong

Chairman

Qindao, People's Republic of China

April 18th, 2001