

## FREQUENTLY ASKED QUESTIONS



Peng Zuo Yi Vice-Chairman and General Manager

1. What is the Company's situation now after these years' implementation of "expansion at lower cost" strategy?

With this strategy, the Company has gained more than 1 million tons of production capacity and saved a lot in exploring new markets so as to maintain its leading position in China's brewing industry in terms of production scale and market share.

- 1). As at the end of 2000, the Company has spent about RMB 1 billion in acquisition, technological updates and enlarging production scale to achieve an production capacity increase of more than 1 million tons, approximately 10,000 tons VS RMB8 million or RMB10 million. We call it " expansion at lower cost " because the production capacity of every 10, 000 tons generally needs input of about RMB 20 million, when you build a new brewery.
- 2). The Company has completed its strategic positioning domestically in advance of its competitors and

achieved a better position so as to build a higher platform for the Company and promote the consolidation process among domestic brewers.

- 3). With integration of resources, updates, promotion of the Company's management pattern and a excellent leader group, those earlier acquired brewers have made remarkable progress in terms of product quality, competitiveness, market share, sales revenue and taxation contribution.
- 4). The Company acquired 5 originally foreign funded brewing companies, some of which even made profits in the year of acquisition. In recent years, some foreign funded breweries are encountered with many difficulties because of the wrong positioning in market and the original huge investment. The Company takes this advantage and acquired some of them such as Foster's (Guangdong), Qiangli, Shanghai Brewery, Carlsberg(Shanghai), Beijing Five Stars and Three Ring Asia Pacific Beer Co., Ltd. These companies own advanced equipment which enables Tsingtao beer to be locally brewed and enlarge its market shares in the shortest time.

2. What do you think are the key elements for Tsingtao's success?

The Company created its unique advantages during these years' development and increased its core competitiveness which maintained the Company's leading position among domestic brewers.

- 1). Brand name: owns the world known brand which enjoys good reputation internationally.
- 2). Strategic advantage: the first to implement consolidation strategy, not only gets much experience but also achieves a good position in market.
- 3). Technological advantage: perfect quality assurance system of nearly 100 years and strong quality consciousness of its staff.
- 4). Management advantage: developed a complete set of management pattern and unique corporate culture as well as a system against risks resulting from acquired enterprises which includes brands management, funds management, responsibility system for business targets, quality inspection and market supervision etc.

## FREQUENTLY ASKED QUESTIONS (CONT'D)

- 5). Talents: innovative, team working top management with strategic views, perfect corporate management structure to ensure a scientific and far-sighted decision; a team of experienced management staff and technologists; aggressive and industrious staff with much confidence in winning each "economic battle".

3. What is the effects of the Company's promotion of the Business Development Divisions system?

The aim of promotion of Business Development Division system is for internal system integration. For better control of its subsidiaries outside Qingdao and against risks, the Company has established five business development divisions by area in Southern China, Eastern China, Huaihai, Central Shandong and Northern China. With the 5 divisions as profit center and market management center, the Company will act as the decision maker, capital employment center. The brewing companies under each division act as the cost center and quality management center. The competitiveness will be increased a lot through consolidating production and market resources within respective regions and responding quickly with high flexibility in sales and marketing initiatives by these 5 divisions. The establishment of the divisions adopts "less men, more talents" principle so as to increase management efficiency and avoid the repetition of management by different levels.

Take the Southern China Division for example, there are only 12 people in this division. After the establishment of the division in 2000, all the brewing companies under it no longer made any loss and profits made through the whole year reached about RMB30 million. This trend has been continued until now.

4. What effects will the taxation reform has on the Company.

The State Financial Department enacted a policy that sales tax for beer will be exercised by two levels which would play a negative role in the Company's profitability. But, it is hard to evaluate the effects since the detailed rules of new sales tax policy have not come out yet.

5. The Company is said to slow down the pace of expansion this year. Is that because of the lack of funds?

Following recent years' fast development, the Company has made remarkable progress in terms of production scale and market share. The pace of expansion will be slowed down this year. On one hand, the Company will update the facility, technological standards, improve management levels and carry out system integration, with a view to increasing its economic efficiency. On the other hand, the Company will also selectively merge and acquire other enterprises in such regions which lack the presence of the Company's business, thereby perfecting the overall market positioning. The Company has successfully issued 100 million additional A shares in Feb. of 2001, raising proceeds of RMB787 million and the debt/assets ratio has been reduced to 48%. With good financial position and fine credit standing, there is no problem with raising funds for the Company at present.

6. What is the development target of the Company?

In the financial year of 2001, the Company will be engaged in system integration, innovative mechanism, enhanced core competitiveness. System integration will include 4 respects, that is organization integration, markets integration, brands integration and finance integration. The Company will integrate all the subsidiaries with Tsingtao's proven management pattern and corporate culture. Innovative mechanism means further perfection of corporate management structure, increased information transparency of the Company to facilitate investors' supervision. The Company will further improve the Business Development Division system to be a management system with characteristics and perfect the rewards & punishment mechanism.

The development target for the Company is to reach 3 million tons of production volume by year of 2003, with a domestic market share of more than 13%, consolidating its leading position among its domestic competitors, maintaining its competitive advantage and listing itself in the top ten brewers in the world.