TSINGTAO BREWERY COMPANY LIMITED

(a Sino-foreign joint stock limited company established in the People's Republic of China)

(Stock Code: 168)

2007 ANNUAL RESULTS ANNOUNCEMENT

The Board of Directors of Tsingtao Brewery Company Limited ("the Company") hereby presents its audited results as at 31 December 2007 prepared in accordance with the Hong Kong Financial Reporting Standards (the "HKFRS") as follows:

I. FINANCIAL INFORMATION

(Unless otherwise specified, all amounts are quoted in RMB)

BALANCE SHEETS

		Group		Company	
		As at 31 December		As at 31 December	
		2007	2006	**2007**	2006
	Note	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
ASSETS					
Non-current assets					
Property, plant and equipment		**5,608,946**	5,098,594	**946,698**	957,531
Investment Property		**—**	—	**20,853**	—
Leasehold land and land use rights		**717,172**	676,759	**65,878**	68,892
Prepayment for land use rights		**17,442**	17,442	**17,442**	17,442
Intangible assets		**237,269**	232,493	**95,494**	78,741
Investments in subsidiaries	5	**—**	—	**1,857,838**	1,628,989
Loans to subsidiaries	5	**—**	—	**2,704,878**	2,759,788
Interests in associates		**27,882**	18,576	**7,200**	6,004
Deferred income tax assets	8	**174,783**	70,813	**120,425**	41,563
Available-for-sale financial assets		**20,223**	—	**12,195**	16,504
Other long-term assets		**11,120**	27,258	**3,167**	22,664
		6,814,837	6,141,935	**5,852,068**	5,598,118
Current assets					
Inventories		**2,187,254**	1,641,319	**411,062**	316,998
Amounts due from subsidiaries		**—**	—	**237,434**	146,509
Trade receivables		**94,199**	101,180	**44,117**	33,535
Bills receivable		**37,294**	44,979	**—**	—
Deposits, prepayments and other receivables		**1,076,742**	415,803	**293,260**	88,736
Pledged bank deposits		**20,266**	19,524	**—**	—
Cash and cash equivalents		**1,314,643**	1,213,243	**689,459**	594,700
		4,730,398	3,436,048	**1,675,332**	1,180,478
Total assets		**11,545,235**	9,577,983	**7,527,400**	6,778,596

	Note	Group As at 31 December 2007 RMB'000	Group As at 31 December 2006 RMB'000	Company As at 31 December 2007 RMB'000	Company As at 31 December 2006 RMB'000
EQUITY					
Capital and reserves attributable to the Company's shareholders					
Share capital	*6*	**1,308,219**	1,308,219	**1,308,219**	1,308,219
Other reserves	*7*	**3,632,861**	3,560,423	**3,608,856**	3,541,588
Retained earnings					
— Proposed final dividend		**287,808**	287,808	**287,808**	287,808
— Others		**280,297**	90,979	**325,789**	528,623
		5,509,185	5,247,429	**5,530,672**	5,666,238
Minority interests		**479,150**	452,294	**—**	—
Total equity		**5,988,335**	5,699,723	**5,530,672**	5,666,238
LIABILITIES					
Non-current liabilities					
Borrowings		**90,854**	53,259	**—**	—
Derivative financial instruments		**22,801**	3,749	**22,801**	3,749
Deferred income tax liabilities		**17,035**	16,448	**1,828**	—
Long-term loan due to a shareholder		**—**	117,131	**—**	—
Finance lease liabilities		**5,726**	—	**—**	—
Deferred government grants		**76,275**	—	**11,308**	—
Other financial liabilities		**28,286**	31,800	**—**	—
		240,977	222,387	**35,937**	3,749
Current liabilities					
Trade payables		**1,080,803**	794,675	**188,918**	133,615
Bills payable		**207,268**	250,117	**81,180**	70,900
Accruals and other payables		**2,172,297**	1,766,404	**572,702**	450,760
Deposits and advance from customers		**482,882**	191,662	**374,158**	62,899
Taxes payable		**279,227**	51,106	**198,603**	—
Loan due to a shareholder		**109,569**	—	**—**	—
Borrowings		**971,096**	599,745	**545,230**	390,435
Current portion of long-term borrowings		**10,216**	2,164	**—**	—
Current portion of finance lease liabilities		**2,565**	—	**—**	—
		5,315,923	3,655,873	**1,960,791**	1,108,609
Total liabilities		**5,556,900**	3,878,260	**1,996,728**	1,112,358
Total equity and liabilities		**11,545,235**	9,577,983	**7,527,400**	6,778,596
Net current (liabilities)/assets		**(585,525)**	(219,825)	**(285,459)**	71,869
Total assets less current liabilities		**6,229,312**	5,922,110	**5,566,609**	5,669,987

CONSOLIDATED INCOME STATEMENT

		Year ended 31 December	
		2007	2006
	Note	***RMB'000***	*RMB'000*
Sales		**13,529,892**	11,677,160
Cost of goods sold		**(9,215,999)**	(8,003,086)
Gross profit		**4,313,893**	3,674,074
Selling and marketing expenses		**(2,651,635)**	(2,020,660)
Administrative expenses		**(689,326)**	(837,020)
Other gains — net	*10*	**97,469**	92,674
Other operating losses-net		**(63,095)**	(255,390)
Operating profit		**1,007,306**	653,678
Finance expenses — net	*11*	**(15,009)**	(26,899)
Share of profit of associates — net		**283**	1,041
Profit before income tax		**992,580**	627,820
Income tax expense	*9(a)*	**(413,812)**	(179,063)
Profit for the year		**578,768**	448,757
Attributable to:			
Shareholders of the Company		**538,911**	447,867
Minority interests		**39,857**	890
		578,768	448,757
Earnings per share for profit attributable to the Shareholders of the Company during the year (expressed in RMB per share)			
— Basic and diluted	*12*	**0.41**	0.34
Dividends	*13*	**287,808**	287,808

NOTES TO FINANCIAL INFORMATION

1. BASIS OF PREPARATION

The consolidated financial statements of the Group have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The principal accounting policies applied in the preparation of these consolidated financial statements have been consistently applied to both 2006 and 2007 presented, except the accounting policy for the determination of the surplus reserve in consolidated balance sheet and statement of changes in equity as disclosed below.

During the year ended 31 December 2007, the Group changed its policy for reserve appropriations that share of profits from subsidiaries after their respective reserve appropriations would not be subject to additional reserve appropriations at the statutory financial statements of the Company in the PRC. As a result of such change, the Group restated its reserve balances of prior years retroactively.

The effect of such change in current year is shown below:

	As at 31 December 2007
	RMB'000
Increase in accumulated losses brought forward	**236,203**
Decrease in surplus reserve	**(236,203)**

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 3.

The adoption of new/revised HKFRS

(a) Standards, amendment and interpretations effective in 2007

- HKFRS 7, "Financial instruments: Disclosures", and the complementary amendment to IAS/HKAS 1, "Presentation of financial statements — Capital disclosures", introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group's financial instruments, or the disclosures relating to taxation and trade and other payables; and

- HK(IFRIC) — Int 10, "Interim financial reporting and impairment", prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at a subsequent balance sheet date. This standard does not have any impact on the Group's financial statements; and

- HK(IFRIC) — Int 8, "Scope of HKFRS 2", requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of HKFRS 2. This standard does not have any impact on the Group's financial statements.

(b) Standards, amendments and interpretations effective in 2007 but not relevant

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group's operations:

- HK(IFRIC) — Int 11 — HKFRS2, Group and Treasury Share Transaction (effective for annual periods beginning on or after 1 March 2007). HK(IFRIC) — Int 11 provides guidance on the how to apply requirements of IFRS 2 when involving the equity instruments of the parent or subsidiaries and when involving the purchase of the entity's own equity instrument from third parties.

  As the Company's Article of Association does not provide any provision for treasury share and redemption of the Company's own shares, IFRIC — Int 11 is not relevant to the Group's operation;

- HK(IFRIC) — Int 7, "Applying the restatement approach under IAS/HKAS 29, Financial reporting in hyper — inflationary economies"; and

- HK(IFRIC) — Int 9, "Re-assessment of embedded derivatives".

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following standards, amendments and interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group has not early adopted them:

- HKAS 1 (Revised), "Presentation of Financial Statements" (effective from 1 January 2009). IHKAS 1 (Revised) requires all owner changes in equity to be presented in a statement of changes in equity. All comprehensive income is presented in one statement of comprehensive income or in two statements (a separate income statement and a statement of comprehensive income). It requires presenting a statement of financial position as at the beginning of the earliest comparative period in a complete set of financial statements when there are retrospective adjustments or reclassification adjustments. However, it does not change the recognition, measurement or disclosure of specific transactions and other events required by other HKFRSs. The Group will apply HKAS 1 (Revised) from 1 January 2009;

- HKAS 23 (Amendment), "Borrowing costs" (effective from 1 January 2009). The amendment requires an entity to capitalise borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs will be removed. The Group will apply HKAS 23 (Amended) from 1 January 2009. Currently the directors are of the view that the revised HKAS 23 will not have material impact to the Group as the Group have already adopted the alternative approach under existing HKAS 23 which is similar to the revised HKAS 23;

- HKFRS 8, "Operating segments" (effective from 1 January 2009). HKFRS 8 replaces HKAS 14 and aligns segment reporting with the requirements of the US standard SFAS 131, "Disclosures about segments of an enterprise and related information". The new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply HKFRS 8 from 1 January 2009. The expected impact is still being assessed in details by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Nevertheless, management does not anticipate that this will result in any material impairment to the goodwill balance; and

- HK(IFRIC) — Int 13, "Customer loyalty programmes" (effective from 1 July 2008). IFRIC/HK(IRFIC) — Int 13 clarifies that where goods or services are sold together with a customer loyalty incentive (for example, loyalty points or free products), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The Group will apply HK(IFRIC) — Int 13 from 1 January 2009. The expected impact is still being assessed in detail by management, in respect of whether any incentives offered by the Group to the customers would fall into the scope of this interpretation. Management does not anticipate that this will result in any material changes to the Group's operating results.

(d) Interpretations to existing standards that are not yet effective and not relevant for the Group's operations

The following interpretations to existing standards have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods but are not relevant the Group's operations:

- HK(IFRIC) — Int 12, "Service concession arrangements" (effective from 1 January 2008). HK(IFRIC) — Int 12 applies to contractual arrangements whereby a private sector operator participates in the development, financing, operation and maintenance of infrastructure for public sector services. HK(IFRIC) — Int 12 is not relevant to the Group's operations because none of the Group's companies provide public sector services;

- HK(IFRIC) — Int 14, "HKAS 19 — The limit on a defined benefit asset, minimum funding requirements and their interaction" (effective from 1 January 2008). HK(IFRIC) — Int 14 provides guidance on assessing the limit in HKAS 19 on the amount of the surplus that can be recognised as an asset. It also explains how the pension asset or liability may be affected by a statutory or contractual minimum funding requirement. HK(IFRIC) — Int 14 is not relevant to the Group's operation as the Group has no defined benefit plans;

- HKAS 32 and HKAS 1 Amendments "Puttable Financial Instruments and Obligations Arising on Liquidation" (effective from 1 January 2009). The amendment requires some puttable financial instruments and some financial instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation to be classified as equity. The Group will apply HKAS 32 and HKAS 1 Amendments from 1 January 2009, but it is not expected to have any impact on the Group's accounts;

- HKAS 27 (Revised) "Consolidated and Separate Financial Statements" (effective from annual period beginning on or after 1 July 2009). The amendment requires non-controlling interests (i.e. minority interests) to be presented in the consolidated statement of financial position within equity, separately from the equity of the owners of the parent. Total comprehensive income must be attributed to the owners of the parent and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Changes in a parent's ownership interest in a subsidiary that do not result in the loss of control are accounted for within equity. When control of a subsidiary is lost, the assets and liabilities and related equity components of the former subsidiary are derecognised. Any gain or loss is recognised in profit or loss. Any investment retained in the former subsidiary is measured at its fair value at the date when control is lost. The Group has already chosen the similar accounting policy as HKAS 23 (Revised) in prior years;

- HKFRS 3 (Revised) "Business Combination" (effective for business combinations with acquisition date on or after the beginning of the first annual reporting period beginning on or after 1 July 2009). The amendment may bring more transactions into acquisition accounting as combinations by contract alone and combinations of mutual entities are brought into the scope of the standard and the definition of a business has been amended slightly. It now states that the elements are "capable of being conducted" rather than "are conducted and managed". It requires considerations (including contingent consideration), each identifiable asset and liability to be measured at its acquisition-date fair value, except leases and insurance contracts, reacquired right, indemnification assets as well as some assets and liabilities required to be measured in accordance with other HKFRSs. They are income taxes, employee benefits, share-based payment and non current assets held for sale and discontinued operations. Any non-controlling interest in an acquiree is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. The Group will apply HKFRS 3 (Revised) from 1 January 2010; and

- IFRS Amendment "Share-based Payment Vesting Conditions and Cancellations" (effective from 1 January 2009). This amendment is not relevant to the Group's operation as the Group has currently no such schemes.

2. FINANCIAL RISK MANAGEMENT

2.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk, and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The foreign exchange risks of the Group occur due to the fact that the Group has financing activities and highly probable cash outflow arising from purchase of raw materials which are denominated in foreign currencies, primarily in US dollars. The Group has entered into foreign exchange forward contracts to manage the risk arising from certain recognised liabilities. The directors are of the opinion that the Group's exposure to foreign exchange risk would not be very significant.

At 31 December 2007, if US dollar had appreciated by 7% against RMB with all other variables held constant, post-tax profit for the year would have been approximately RMB2,982,000 (2006: RMB4,904,000) lower, mainly as a result of foreign exchange losses on translation of US dollar-denominated borrowings.

(ii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly bank deposits which bear effective interests at approximately 3.7% p.a. (2006: 1.8% p.a.). They expose the Group to fair value interest-rate risk. The directors are of the opinion that future interest rate changes would not lead to significant adverse impact on the Group's operating results.

The Company and the Group's long-term borrowings and loans to subsidiaries were issued at fixed rates, and they expose the Company and the Group to fair value interest-rate risk.

At 31 December 2007, if interest rates on US dollar-dominated borrowings had increased/decreased 0.5% with all other variables held constant, post-tax profit for the year would have been approximately RMB1,224,000 (2006: RMB1,308,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

At 31 December 2007, if interest rates on RMB-dominated borrowings had increased/decreased 0.5% with all other variables held constant, post-tax profit for the year would have been approximately RMB3,592,000 (2006: RMB887,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

(b) Liquidity risk

Most of the bank financing of the Group is in the form of short-term bank loans. As a result, the Group had net current liabilities of approximately RMB585,525,000 as at 31 December 2007 (2006: RMB219,825,000). The directors are confident that the Group will be able to renew its short-term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones. In addition, the Group had unutilised banking facilities granted by certain banks in an aggregate amount of approximately RMB1,400,000,000 as at 31 December 2007 which the Group could utilise in order to meet its short-term cash needs. The Company has also successfully completed the issuance of a bond offering with maturity in 2014 with a net proceeds received by amounting to approximately RMB1,472 million in April 2008 in order to finance the ongoing capital commitments. As a result, the Directors do not consider there is significant liquidity risk which may affect the adoption of going concern basis in preparing the Company and the Group's financial statements as at 31 December 2007.

In addition, management monitors rolling forecasts of the Group's liquidity reserve (comprises undrawn borrowing facility and cash and cash equivalents based on expected cash flow.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

3.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below:

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment in accordance with its accounting policy. The recoverable amounts of each identified cash-generating units have been determined based on value-in-use calculations.

For the year ended 31 December 2007, the Group had not reported impairment losses (2006: RMB151,061,000) for impairment loss on goodwill based on such calculations. There are two critical estimates adopted in the calculations, the expected gross margin of product sales and the pre-tax discount rate.

The Group would not be able to reverse any impairment losses on goodwill recognized if the actual gross margin had been higher or the pre-tax discounted rate lower than management's estimates.

Impairment of goodwill would not be further recognized even if the actual gross margin had been 10% lower or the pre-tax discounted rate had been 10% higher than management's estimates with all other variables had constant.

(b) Estimated impairment of property, plant and equipment

The Group also tests whether property, plant and equipment have suffered any impairment, whenever events or changes in circumstances, indicate that the carrying amount may not be recoverable in accordance with its accounting policy. Similar to impairment of goodwill, the recoverable amounts of the property, plant and equipments have been determined based on value-in-use calculations. These calculations require the use of estimates which are similar to (a) stated above.

For the year ended 31 December 2007, the Group reported impairment losses amounting to RMB141,008,000 (2006: RMB163,688,000) for property, plant and equipment based on such calculations.

If the estimated gross margin at 31 December 2007 had been 10% lower than management's estimates at 31 December 2007, the Group would have recognised a further impairment against property, plant and equipment by RMB116,436,000 (unaudited).

If the estimated pre-tax discount rate applied to the discounted cash flows adopted in the value-in-use calculations had been 10% higher than management's estimates, the Group would have recognised a further impairment against property, plant and equipment by RMB16,715,000 (unaudited) .

If the actual gross margin had been 10% higher or the pre-tax discounted rate had been 10% lower than management's estimates, in 2007 the Group would be able to reduce the impairment losses by RMB80,766,000 (unaudited) and RMB18,547,000 (unaudited) that had been recognized on these assets in current year.

4. SEGMENT INFORMATION

(a) Primary reporting format — geographical segment

The Group's operating activities are mainly conducted in the PRC. An analysis by geographical segment is as follows:

	For the year ended 31 December 2007						
	Qingdao Region *RMB'000*	Other Shandong Regions *RMB'000*	Huabei Region *RMB'000*	Huanan Region *RMB'000*	Overseas *RMB'000* *(Note a)*	Eliminations *RMB'000*	Consolidated *RMB'000*
Turnover							
External sales	5,546,386	947,763	2,410,880	4,278,920	345,943	—	13,529,892
Inter-segment sales	177,819	1,163,419	169,649	36,178	—	(1,547,065)	—
	5,724,205	2,111,182	2,580,529	4,315,098	345,943	(1,547,065)	13,529,892
Results							
Segment results	673,383	23,493	(47,026)	412,792	80,390	—	1,143,032
Unallocated expenses, net							(135,726)
Operating profit							1,007,306
Finance costs							(15,009)
Share of profit of associates	283	—	—	—	—	—	283
Profit before income tax							992,580
Income tax expense							(413,812)
Profit for the year							578,768
Other information							
Depreciation	117,784	53,343	129,680	203,672	708		505,187
Amortisation	5,542	1,921	8,737	6,820	—		23,020
Impairment of property, plant and equipment	37,001	20,357	81,132	2,518	—		141,008

	For the year ended 31 December 2006						
	Qingdao Region *RMB'000*	Other Shandong Regions *RMB'000*	Huabei Region *RMB'000*	Huanan Region *RMB'000*	Overseas *RMB'000* *(Note a)*	Eliminations *RMB'000*	Consolidated *RMB'000*
Turnover							
External sales	4,229,615	1,027,676	2,566,863	3,526,259	326,747	—	11,677,160
Inter-segment sales	143,139	773,931	112,723	61,593	—	(1,091,386)	—
	4,372,754	1,801,607	2,679,586	3,587,852	326,747	(1,091,386)	11,677,160
Results							
Segment results	913,544	(154,413)	(97,999)	(81,084)	113,478	—	693,526
Unallocated expenses, net							(39,848)
Operating profit							653,678
Finance costs							(26,899)
Share of loss of associates	1,041	—	—	—	—	—	1,041
Profit before income tax							627,820
Income tax expense							(179,063)
Profit for the year							448,757
Other information							
Depreciation	93,477	72,657	119,367	227,395	684		513,580
Amortisation	7,322	1,434	17,278	3,788	—		29,822
Impairment of property, plant and equipment	5,952	42,618	47,558	67,560	—		163,688
Impairment of goodwill	—	—	20,166	130,895	—		151,061

Segment assets consist primarily of property, plant and equipment, intangible assets, investments in associates, inventories, trade and other receivables, and cash and cash equivalents.

Segment liabilities comprise operating liabilities.

Capital expenditure comprises additions to property, plant and equipment, leasehold land and land use rights, and intangible assets.

The segment assets and liabilities at 31 December 2007 and capital expenditure for the year then ended are as follows:

	As at 31 December 2007						
	Qingdao Region *RMB'000*	**Other Shandong Regions** *RMB'000*	**Huabei Region** *RMB'000*	**Huanan Region** *RMB'000*	**Overseas** *RMB'000* *(Note a)*	**Eliminations** *RMB'000*	**Consolidated** *RMB'000*
Assets							
Segment assets	**2,404,599**	**2,038,935**	**2,398,711**	**4,835,985**	**—**	**(1,045,266)**	**10,632,964**
Interests in associates	**27,882**	**—**	**—**	**—**	**—**	**—**	**27,882**
Unallocated assets							**884,389**
							11,545,235
Liabilities							
Segment liabilities	**1,138,448**	**604,075**	**872,838**	**2,121,114**	**—**	**(1,097,462)**	**3,639,013**
Unallocated liabilities							**1,917,887**
							5,556,900
Capital expenditure	**173,328**	**703,138**	**107,769**	**283,171**	**1,087**	**—**	**1,268,493**

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	As at 31 December 2006						
	Qingdao Region *RMB'000*	Other Shandong Regions *RMB'000*	Huabei Region *RMB'000*	Huanan Region *RMB'000*	Overseas *RMB'000* *(Note a)*	Eliminations *RMB'000*	Consolidated *RMB'000*
Assets							
Segment assets	5,812,330	1,696,896	2,226,120	5,116,957	—	(6,224,860)	8,627,443
Interests in associates	18,576	—	—	—	—	—	18,576
Unallocated assets							931,964
							9,577,983
Liabilities							
Segment liabilities	703,127	712,130	793,028	2,579,692	—	(1,964,206)	2,823,771
Unallocated liabilities							1,054,489
							3,878,260
Capital expenditure	148,646	30,929	343,802	104,673	1,323	—	629,373

Note a: The segment represents sales of goods to regions (including Hong Kong) out of the PRC through the Group's overseas subsidiaries or the Group's PRC branches and subsidiaries established for overseas sales. Separable segment assets and liabilities are insignificant to the Group as a whole.

(b) Secondary reporting format — business segment

The Group is mainly engaged in the production and distribution of beer products, accordingly, no analysis of business segment information is provided.

5. INVESTMENTS IN AND LOANS TO SUBSIDIARIES

(a) New subsidiaries established during the year

i. In June 2007, a wholly-owned subsidiary, Tsingtao Brewery (Chengdu) Company Limited was established with a registered capital of RMB150,000,000, which was fully contributed by the Company in cash. The relevant legal procedures for the registration were completed in June 2007.

ii. As brought forward from prior years, the Company had entered into a repayment agreement with a customer, Shijixinke Company Limited ("Shijixinke"), for a long-term receivable balance due to the Company. The outstanding balance was RMB35,893,000 as at 31 December 2006. In March 2007, Shijixinke decided to cease its operations and it reached a settlement agreement with the Company to settle the outstanding debt by a transfer of its equity interests held by its owner, Fuliyun Investment Company Limited ("Fuliyun"), to the Company; and a waiver of a debt which the Company owed to Fuliyun amounting to approximately RMB8,220,000 as at 31 December 2006. The relevant legal procedures of equity interest transfer were completed in April 2007 and Shijixinke then changed its name to Qingdao Guangrunlong Logistic Company Limited thereafter. The respective fair values of assets acquired and debt waived; as compared to the then carrying amount of such receivable balance is set out as below:

	RMB,000
The carrying amount of the outstanding balance due from Shijixinke	35,893
The fair value of net assets of Shijikinke acquired by the Group	(15,481)
Amount due to Fuliyun waived	(8,220)
The remaining exposure of the debtor, fully provided for in 2006	12,192

As the business of Shijixinke had been ceased before the acquisition by the Company, this transaction was accounted for as purchase of assets, not business combination.

iii. In July 2007, the Company acquired 100% equity interests of Tsingtao Brewery Cultural Communication Company Limited ("Cultural Communication Company") from TB Group Company at a consideration of RMB5,290,000, paid by cash. The Group started to consolidate Cultural Communication Company from 28 November 2007, when the Group gains control in it.

(b) Registered capital increment

i. Pursuant to an agreement entered into between the two equity owners in June 2006, the registered capital of Tsingtao Brewery Xi'an Company Limited ("Xi'an Company") was increased by RMB65,703,022, which was fulfilled by injection of cash by both the Company and Xi'an Industry Assets Management Company, the other equity owner, of RMB50,000,000 and RMB15,703,022, respectively. The relevant legal procedures were completed in February 2007.

ii. During the year, the Company contributed additional capital of RMB120,000,000 in cash to Tsingtao Brewery (Jinan) Company Limited a wholly owned subsidiary of the Company. The relevant legal procedures were completed in May 2007.

(c) Pursuant to the provisions of agreements entered into between the Group and TB Group Company in January 2003 and December 2004 respectively, TB Group Company, being the majority equity owner of Tsingtao Brewery (Yangzhou) Company Limited ("Yangzhou Company") entrusted the Company to control

the operations and management of Yangzhou Company. In addition, a majority of the members of the board of directors of Yangzhou Company are also appointed by the Company. Accordingly, Yangzhou Company has been consolidated as a subsidiary of the Group because the Group has control over its financial and operating decisions.

(d) ***Subsidiaries liquidated/put under liquidation***

During the year, the legal procedure were completed for deregistration of Tsingtao Brewery (Nanjing) Company Limited, Tsingtao Brewery (Tengzhou) Huaihai Sales Company Limited and Xuzhou Pengcheng Sales Company Limited. No material gain or loss occurred from liquidation of these subsidiaries.

During the year, Tsingtao Brewery (Suzhou) Company Limited was put into voluntary liquidation, and as at 31 December 2007, the procedures had not yet been completed. The relevant losses have been recognized in the income statement in 2007.

(e) In prior year, the Company has reached certain arrangements with the minority equity owners of these two subsidiaries. Under these arrangements, parts of the minority interests were not qualified as equity according to HKAS32, Financial Instruments: Disclosure and Presentation anymore. Accordingly these amounts at RMB28,286,000 were reclassified as other financial liabilities.

(f) The Directors of the Company performed impairment tests on the carrying amounts of its investments in and loans lent to subsidiaries in accordance with the accounting policy as stated in during the year. Approximately RMB78,900,000 and RMB5,096,000 of impairment provisions for the investment in subsidiaries were recognised for Tsingtao Brewery (Hairbin) Company Limited and Tsingtao Brewery (Xingkaihu) Company Limited respectively according to their poor operations.

As at 31 December 2007, all the subsidiaries owned by the Company are limited liability companies.

6. SHARE CAPITAL

As at 31 December 2007, the authorised registered share capital of the Company was RMB1,308,219,178 (as at 31 December 2006: RMB1,308,219,178) of RMB1 each.

	31 December 2007		31 December 2006	
	RMB'000	**Number of *shares('000)***	*RMB'000*	Number of *shares('000)*
PRC public shares subject to restriction (a)	**417,395**	**417,395**	417,395	417,395
PRC public shares ("A Shares")	**235,755**	**235,755**	235,755	235,755
Overseas public shares ("H Shares")	**655,069**	**655,069**	655,069	655,069
	1,308,219	**1,308,219**	1,308,219	1,308,219

As at 31 December 2007, all issued share capital had been fully paid up.

(a) According to the shareholding restructuring scheme approved in an A shares shareholders meeting in October 2006, the shareholders of the State shares and PRC legal person shares (collectively defined as the "Non Public Shares") offered to the A share shareholders 35,755,495 shares of their shares and a cash consideration of RMB48,000,000 in return for the conversion of the Non Public Shares into A shares, subject to certain disposal restrictions imposed that the shareholders of the Non Public Shares shareholders will not sell the shares which gain liquidity within a period of five years. In addition, the Non Public Shares shareholders, being the substantial shareholders of the Company, also undertake to appropriate 70% of the available profit of the Company as dividends for a period of 3 years.

Following the completion of the above transactions, Qingdao State Assets Supervision and Administration Committee transferred its equity interests held in the Company to its wholly owned subsidiary, TB Group Company on 4 April 2007 and TB Group Company became the substantial shareholder of the Company since then.

7. OTHER RESERVES

	Share premium *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000*	Public welfare fund *RMB'000*	Cumulative translation adjustments *RMB'000*	Total *RMB'000*
Balance at 1 January 2006, as previously reported	3,058,231	17,252	329,147	269,923	(981)	3,673,572
Opening adjustments for the accounting policy change *(note 1)*	—	—	(209,576)	—	—	(209,576)
Balance at 1 January 2006, as restated	3,058,231	17,252	119,571	269,923	(981)	3,463,996
Transfer	—	—	269,923	(269,923)	—	—
Profit appropriation to surplus reserve	—	—	43,940	—	—	43,940
Translation difference	—	—	—	—	3,986	3,986
Acquisition/disposal of interests from/to minority shareholders	—	48,501	—	—	—	48,501
Balance at 31 December 2006	3,058,231	65,753	433,434	—	3,005	3,560,423
Balance at 1 January 2007, as previously reported	3,058,231	65,753	669,637	—	3,005	3,796,626
Opening adjustments for the accounting policy change *(note 1)*	—	—	(236,203)	—	—	(236,203)
Balance at 1 January 2007, as restated	3,058,231	65,753	433,434	—	3,005	3,560,423
Profit appropriation to surplus reserve (a)	—	—	61,785	—	—	61,785
Translation difference	—	—	—	—	898	898
Gross gain on fair value of available-for-sale financial assets	—	13,007	—	—	—	13,007
Deferred income tax liabilities for available-for-sale financial assets	—	(3,252)	—	—	—	(3,252)
Balance at 31 December 2007	3,058,231	75,508	495,219	—	3,903	3,632,861

Pursuant to the provisions under the Company law of PRC and the Articles of Association of the Company, as amended in the annual general meeting held on 29 June 2006, the Company ceased to appropriate funds to the public welfare fund of the Company from 1 January 2006 onwards. The balance of the public welfare fund of the Group as at 1 January 2006 of approximately RMB269,923,000 were transferred to the surplus reserve in accordance with regulations promulgated by the Ministry of Finance of the PRC.

8. DEFERRED INCOME TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable principal taxation rates of entities within the Group from 18% to 25% (2006: 15% to 33%).

The movements in deferred tax assets/liabilities are as follows:

(i) Deferred tax assets

	As at 1 January 2007 *RMB'000*	**(Credited)/ charged to the income statement** *RMB'000*	**As at 31 December 2007** *RMB'000*	As at 1 January 2006 *RMB'000*	(Credited)/ charged to the income statement *RMB'000*	As at 31 December 2006 *RMB'000*
Fair value adjustment on depreciation of fixed assets	**3,789**	**(1,608)**	**2,181**	4,206	(417)	3,789
Impairment provision	**9,395**	**3,057**	**12,452**	—	9,395	9,395
Advertising expenses not tax deductible in current year	**3,687**	**35,171**	**38,858**	3,232	455	3,687
Accruals not tax deductible in current year	**53,380**	**58,712**	**112,092**	14,368	39,012	53,380
Loss on derivative financial instruments	**562**	**5,138**	**5,700**	—	562	562
Others	**—**	**3,500**	**3,500**	—	—	—
Total	**70,813**	**103,970**	**174,783**	21,806	49,007	70,813

(ii) Deferred tax liabilities

	Fair value adjustment on depreciation		**Gain on AFS financial assets**		**Total**	
	2007 *RMB'000*	2006 *RMB'000*	**2007** *RMB'000*	2006 *RMB'000*	**2007** *RMB'000*	2006 *RMB'000*
At 1 January	**16,448**	17,374	**—**	—	**16,448**	17,374
Credited to the income statement	**(2,819)**	(926)	**—**	—	**(2,819)**	(926)
Charged to equity	**—**	—	**3,406**	—	**3,406**	—
At 31 December	**13,629**	16,448	**3,406**	—	**17,035**	16,448

As at 31 December 2007, deferred tax assets were mainly recognised for temporary differences arising from fair value adjustments made on depreciation of fixed assets acquired in business combinations; impairment loss provision against fixed assets and financial assets, and certain promotion expenses and accrual of expenses not allowed for current year tax deduction claims, to the extent that realisation of such tax benefits through future taxable profits is probable.

The Group adjusted the deferred tax assets/liabilities according to the changed reversal tax rate (Note 9 (a)(ii)). The impact of the adjustment on income tax expense was approximately RMB7,382,000.

In addition, the Group also had aggregate unrecognised deferred tax assets amounting to approximately RMB253,496,000 (2006: RMB276,453,000) as at December 2007 mainly attributable to tax losses of subsidiaries of approximately RMB1,013,983,000 (2006: RMB837,737,000) carried forward, which will expire in the period from 2008 to 2012; fair value adjustments made on depreciation of fixed assets of approximately RMB29,038,000 (2006: RMB39,000,000); provision for realisation losses and impairment losses of receivable balances; and inventories and fixed assets of approximately RMB224,935,000 (2006: RMB258,607,000). Deferred tax assets had not been recognised due to the fact that there is no certainty of their respective realisation of these tax benefits through available future taxable profits of the subsidiaries concerned.

9. TAXATION

(a) Income tax expense

	2007	2006
	RMB'000	*RMB'000*
Current income tax		
— Hong Kong profits tax *(i)*	**5,456**	3,161
— PRC enterprise income tax *(ii)*	**515,145**	225,835
Deferred income tax *(note 8)*	**(106,789)**	(49,933)
	413,812	179,063

(i) Hong Kong profits tax

Hong Kong profit tax has been provided at the rate of 17.5% (2006: 17.5%) on the estimated assessable profit for the year.

(ii) PRC enterprise income tax ("EIT")

EIT is provided on the estimated assessable income of the year calculated in accordance with the relevant regulations of the PRC after considering all the available tax benefits from refunds and allowances.

Tax concessions and holidays entitled by the Group:

In accordance with an approval document dated 18 April 1994 issued by the State Administration for Taxation ("SAT") of the PRC, net profit earned by the Company is subject to EIT at 15%, which is effective from the date of establishment of the Company and until there is further changes of the relevant laws and regulations. The Company also received a confirmation from the Finance Bureau of Qingdao on 23 March 1997 that this preferential tax treatment would not be terminated until further notice.

On 5 July 2007, the Company became aware of a notice which was issued by SAT in June 2007 (the "Notice") regarding the preferential tax treatment granted to nine state-owned enterprises listed on the Stock Exchange of Hong Kong Limited in 1993 (including the Company). According to the Notice, the relevant local tax authorities are required to immediately rectify the expired preferential tax treatments adopted by the Company and take appropriate action on the differences of income taxes collected in prior years arising therefore in accordance with the promulgated rules and provisions under the promulgated Law on Tax Collection and Administration of the PRC.

On 15 April 2008, the Company was informed by the governing local tax bureau that the applicable EIT rate for the year ended 31 December 2007 was adjusted from 15% to 33%. The PRC EIT for current year of the Company was hence provided at 33% (2006: 15%) in the financial statements of the Company and the Group. The Company has not been notified by any tax authorities regarding the exposure of prior years. The directors are of the view that the final outcome cannot be reliably estimated and, therefore, no provision for potential EIT exposure in prior years had been made in the financial statements.

Tsingtao Brewery (Xiamen Company) Limited ("Xiamen Company"), Tsingtao Brewery (Songjiang) Company Limited ("Songjiang Company"), Tsingtao Brewery (Changsha) Company Limited ("Changsha Company"), Tsingtao Brewery (Yulin) Company Limited, Beijing Five Star Tsingtao Brewery Company Limited, Beijing Tsingtao Brewery Three Ring Company Limited, Tsingtao Brewery (Fuzhou) Company Limited ("Fuzhou Company") and

Tsingtao Brewery (Nanning) Company Limited were approved as enterprises with foreign investment and therefore, they are exempt from EIT for two years starting from the first year of profit-marking after offsetting prior year tax losses, followed by a 50% reduction for the next three consecutive years thereafter. 2007 is the fourth profitable year of Xiamen Company, the second profitable year of Songjiang Company and the first profitable year of Changsha Company and Fuzhou Company. Accordingly, EIT expense for Xiamen Company was provided at a reduced rate of 7.5%; while Songjiang Company, Changsha Company and Fuzhou Company were exempt from the income tax for the current year. Other subsidiaries described above had not yet reached their first year of profit-marking after offsetting prior year tax losses brought forward.

Shenzhen Huanan Tsingtao Brewery Sales Company Limited, Shenzhen Tsingtao Brewery Huanan Holding Company Limited, Shenzhen Tsingtao Beer Asahi Company Limited, Tsingtao Brewery (Zhuhai) Company Limited and Xiamen Tsingtao Brewery (Dongnan) Sales Company Limited were established in Shenzhen, Zhuhai and Xiamen Special Economic Zones for the PRC where they conduct their operations. Accordingly, they are subject to EIT at a reduced rate of 15%.

Tsingtao Brewery (Sanshui) Company Limited ("Sanshui Company") was approved as enterprises with foreign investment in Sanshui County, one of the Coastal open economic regions. Accordingly, enterprise and local income tax rates for Sanshui Company were 24% and 3%.

Other subsidiaries of the Group which are established and operating in the PRC are subject to EIT at a standard rate of 33% based on their respective assessable income for the year.

Changes in Enterprise Income Tax Law in the PRC:

On 16 March 2007, the 10th National Peoples Congress of PRC approved the PRC Enterprise Income Tax Law ("EIT Law"), being effective on 1 January 2008. Applicable income tax rate of entities within the Group currently apply 33% tax rate will be subject to 25% from 1 January 2008. According to Guo Fa [2007] No. 39, "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies", from 1 January 2008, the lower preferential tax rates enjoyed by certain enterprises shall gradually be increased to the statutory tax rate of 25% within 5 years from 1 January 2008, while entities currently applying 24% EIT rate of 24% shall be adjusted to 25% in 2008. The effective of this change has been reflected in the calculation of deferred income tax assets/liabilities as at 31 December 2007.

For entities still subject to the entitlement of unutilized tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilized tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards.

Reconciliation of weighted average applicable tax rate to effective tax rate:

	2007	2006
Weighted average applicable tax rate	**19%**	10%
Effect from change of the EIT rate	**(1%)**	—
Adjustment to deferred tax assets/liabilities brought forward due to change in tax rate	**—**	—
Effect of temporary differences not recognised as deferred tax assets this year	**24%**	20%
Effect of utilisation of temporary differences not recognised as deferred tax assets of prior years	**(2%)**	(4%)
Tax return or relief granted	**(3%)**	(2%)
Costs, expenses and losses which could not be deducted from ascertaining the assessable tax profit for tax purposes	**5%**	5%
Effective tax rate	**42%**	29%

(a) Value-added tax ("VAT")

According to "the People's Republic of China Value-added Tax Temporary Regulations" ("VAT Regulations"), the Group is subject to output VAT calculated at 17% of the domestic sales value of tangible goods. In addition, it is subject to a refund of 13% on its export sales of products based on an "exempt, credit, refund" policy enacted. The Group also pays input VAT on its purchases of raw materials and auxiliary materials which is deductible against output VAT on its sales in order to arrive at the net VAT amount payable to the PRC government.

(b) Consumption tax

Beers production, manufacturing consignment and beer product importation activities undertaken by the Group are subject to consumption tax in the PRC. For beer with an ex-factory price (including packaging materials and related deposits) of RMB3,000 or above per ton, the consumption tax is RMB250 per ton. For all other beer sold below that price, the consumption tax is levied at RMB220 per ton.

10. OTHER GAINS — NET

	2007	2006
	RMB'000	*RMB'000*
Derivative instruments:		
— foreign exchange forward contracts not qualified for hedge accounting	**(19,052)**	(3,659)
— realised gain on foreign exchange forward contracts	**(3,905)**	7,791
Interest income	**24,224**	22,499
Government grants *(i)*	**96,202**	66,043
	97,469	92,674

(i) In connection with the acquisitions of certain subsidiaries of the Group in prior years, the Group entered into various agreements with the relevant municipal governments that these subsidiaries could enjoy certain financial incentives granted by the governments, mainly including financial subsidies determined with reference to the amounts of taxes paid by these subsidiaries.

11. FINANCE EXPENSES

	2007	2006
	RMB'000	*RMB'000*
Interest on bank loans	**39,426**	39,473
Net foreign exchange translation gains	**(24,417)**	(12,574)
	15,009	26,899

12. EARNINGS PER SHARE — BASIC AND DILUTED

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the year.

	Year ended 31 December	
	2007	2006
Profit attributable to share holders of the Company (RMB'000)	**538,911**	447,867
Number of ordinary shares in issue (thousands)	**1,308,219**	1,308,219
Basic earnings per share (RMB per share)	**0.41**	0.34

The diluted earnings per share information was the same as basic for 2007 and 2006 as there were no dilutive potential ordinary shares as of 31 December 2007 and 2006.

13. DIVIDENDS

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.22 (2006: RMB0.22) per share	**287,808**	287,808

The dividends paid during the year ended 31 December 2007 were for final dividends of 2006 at RMB287,808,000 (RMB0.22 per share) (2006: final dividend for 2005 at RMB209,315,000) (RMB0.16 per share). At the board of directors meeting on 21 April 2008, the directors proposed a final dividend in respect of 2007 of RMB0.22 per share, amounting to an aggregate amount of RMB287,808,000. This proposed dividend will be approved at the Annual General Meeting and shown as appropriations in the year ending 31 December 2007. These financial statements do not reflect this dividends payable.

RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HKFRS

The Group has prepared a separate set of financial information for the year ended 31 December 2007 in accordance with "Accounting Standards for Business Enterprises (2006)" and relevant regulations ("PRC GAAP") for shareholders of A shares of the Company.

Differences between PRC GAAP and HKFRS give rise to differences in the reported balances of assets, liabilities and net profit of the Group. The financial effects of the material differences between PRC GAAP and HKFRS are summarised and explained in the following table:

Impact on the consolidated net assets:

	As at 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net assets as per accounts prepared under PRC GAAP	**5,509,185**	5,228,197
HKFRS adjustments:		
Miscellaneous insignificant adjustments	**—**	19,232
Net assets attributable to the Company's shareholders as per financial statements prepared under HKFRS	**5,509,185**	5,247,429

Impact on the consolidated net profit:

	Year ended 31 December	
	2007	2006
	RMB'000	*RMB'000*
Net profit under PRC GAAP	**558,142**	436,958
HKFRS adjustments:		
Additional depreciation charges arising from differences in accounting of assets valuation under PRC GAAP and HKFRS	**(18,434)**	(366)
Miscellaneous insignificant adjustments	**(797)**	11,275
Profit attributable to shareholders of the Company under HKFRS	**538,911**	447,867

II. DISCUSSION AND ANALYSIS BY THE MANAGEMENT

1. Review of Operations

In 2007, the domestic brewery sector maintained its continuous growth. Its annual sales volume reached 393.1 million hl with a year-on-year growth of 13.8%, which enabled it to become the country with largest beer production and consumption, and one of the fastest growing markets in the world for the fifth consecutive year. At present, China's beer market is still in the phase of integration, and the prospect brought about by the rise in consumption has caused the domestic and international brewery magnates to increase their investments in China. The production capacity was increased through mergers and acquisitions, new construction and expansion, which led to fiercer competition and a more centralized market. In 2007, the market share of the top 10 domestic beer producers reached 64%. The moderately tightened financial trend in China and the rising price of raw materials for beer production in recent years brings great pressure to the beer producers, and the profit of the industry remains low. Despite these factors, as there is still a relatively big disparity in per capita beer consumption volume between China and other developed countries, the leading enterprises in the beer industry still have great room for development with the increase in national consumption level.

In 2007, the Company further improved its corporate governance and internal risk control system by focusing on its annual work guideline, and achieved better operational results by deepening organizational reform, optimizing resource utilization and strengthening brand promotion, etc.. This year, the Company realized a sales volume of 50.5 million hl, representing an increase of 11% compared to 2006, among that the sales volume of the major brand reached 19.3 million hl, representing an increase of 19% compared to the previous year. The financial statement prepared in accordance with the HKFRS revealed a sales income of RMB13,530 million, representing an increase of 15.9% compared to the previous year; profit attributable to shareholders was RMB540 million, representing an increase of 20% compared to the previous year, which continues to show a good development trend in which the growth in profit is greater than the increase in sales income, which is in turn greater than the increase in sales volume. The Board of Directors proposed RMB0.22 per share as full-year final dividend for the year of 2007.

Based on an analysis of the future competition situation, the Company has carried out organizational reform and business rebuilding process with the principal aim to improve its value chain. It has carried out specialized division of work for the Company's headquarters and its 7 original regional sales companies based on the overall value chain of the Company, and established a centralized management structure with 3 centers, namely, investment, marketing and manufacturing, building an organization with 'integrative structure, resources gathering, specialized work division and consistent implementation'. To ensure the smooth implementation of the organizational reform, the Company implemented team building, financial control and risk prevention measures which has, and will ensure the steady promotion of the reform. The organizational reform will give an impetus in improving the Company's core competitiveness, operational efficiency and strategic cooperation impacts.

In recent years, by focusing on the internal systematic integration, the Company has been improving its management ability which helped to establish a sound basis for future development. Under the latest competitive situation, the Board of Directors of the Company has formulated a development strategy of integration and expansion to speed up its development. The year of 2007 was the first year in which the Company has implemented its latest development strategy. Under the direction of the Company's overall strategy, a series of projects of new establishments and expansion like Tsingtao Brewery No. 3 Company Limited, Tsingtao Brewery Jinan Company, Tsingtao Brewery Chengdu Company were successively carried out, which led to an increase of 8 million hl in the Company's total output capacity within the year. The Company will maintain its leading position in the national beer industry through more intense market development.

In 2007, the Company further carried out Olympic marketing activities in the theme of "Passion with Olympics". It effectively promoted the implementation of the Company's Olympic marketing strategy, and raised its brand impact and reputation through the activities of "Tsingtao Beer • City Show" and "Tsingtao Beer • I am the Champion". The carrying out of the "1+3" brand strategy led to a higher brand centralization level, and the sales volume of its top 4 brands amounted to 76% of its total sales volume, which is 8% higher than that of the previous year, and the sales volume of the high-end products like draft beer and canned beer increased by 23% compared to the previous year. According to the results of the "Top 10 Chinese Global Brands Survey" announced by the UK "*Financial Times*", Tsingtao Beer was awarded the "Top 10" for the second time and its ranking rose from No. 4 to No. 3. In addition, Tsingtao Beer was ranked No. 1 in 4 areas, namely, brand value, brand quality, product & service, and brand value overseas rank, establishing an image of high-end brand in the global markets.

As a beer producer, the Company takes its social responsibilities seriously by saving energy and protecting the environment. For years, the Company has been following the principles of "reducing waste, recycling and transforming into resources", and continuously carries out clean production and develops a sustainable economy. It was also the first, among the domestic beer industry, to be authenticated by ISO14001, OHSAS18001 and HACCP, and was awarded "Model Enterprise of Cleaner Production" by China Cleaner Production Center. Compared to the previous year, in 2007, the Company's factories' total water consumption decreased by 10.37%, its electricity consumption decreased by, 6.95%, while its standard coal consumption decreased by 9.89%, making contributions to the harmonic development of the enterprise and the society.

2. Outlook for 2008

For the year of 2008, we will face the opportunities brought about by the rapid development of China's economy, but on the other hand, we will have to meet the challenges of increasing raw materials price and fiercer competition. Therefore, the Company had laid down its working guideline as "Deepening organizational reform, gathering resources, integrating the capabilities, and building a centralized supplying platform; strengthening operational integration, insisting on cooperation, ensuring the implementation, and establishing a powerful competitive system". The Company will adjust and improve its policies and work procedures through deepening its organizational reform, and establish the Company's core competitive system by adopting more professional reform management. The Company will promote the projects with full strength using proceeds from RMB1.5 billion of bonds with warrants to reach its actual production capability in time, so as to enlarge its production and sales scale, and improve its profitability.

The 2008 Beijing Olympic Games is coming soon. It is a great event for the world, and also an important opportunity for marketing. As the official sponsor of the Games, Tsingtao Brewery will continue to increase the brand impacts and market share of Tsingtao Beer through a series of Olympic marketing activities in the theme of "Being Passionate".

In 2008, the Company will strive to achieve a total beer sales volume of 57 million hl, with Tsingtao Beer accounting for 22 million hl. The Board of Directors believes that, with the efforts of the management and all staff, the Company would achieve faster development and reward all of its shareholders, clients, staff and the society with good results.

III. DIVIDENDS

The Board of Directors proposed to distribute a final dividend of RMB0.22 per share for the year ended 31 December 2007. The proposed distribution is subject to consideration and approval at the Company's 2007 Annual General Meeting.

IV. SHARE CAPITAL

1. During the reporting period, there was no change in the share capital of the Company.

2. During the reporting period, no listed securities of the Company were purchased, sold or redeemed by the Company or any of its subsidiaries.

V. CORPORATE GOVERNANCE

For the year ended 31 December 2007, the Company has complied with the provisions set out in the *Code on Corporate Governance Practices* (the "*Code*") under Appendix 14 of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* (the "*Listing Rules*"). The details of implementation of the *Code* will be set out in the section headed "Corporate Governance Report" in the 2007 Annual Report.

VI. AUDIT COMMITTEE

The Audit and Finance Committee (the "Audit Committee") was set up under the Board of Directors of the Company in compliance with the requirements under Rule 3.21 of the *Listing Rules*, and the Audit Committee has reviewed the Company's audited 2007 annual results.

VII. SIGNIFICANT EVENTS

1. Material Litigations and Arbitrations During the Reporting Period

In April 2000, the Company acquired all assets (except liquid assets) of the beer production section of Huifu Group ("Huifu Group") and established Tsingtao Brewery (Xuzhou) Pengcheng Company Limited ("Pengcheng Company"). In November 2005, Huifu Group was bankrupted, and 999 Group as a joint guarantor for the Huifu Group assumed liability to repay a loan of RMB6.35 million borrowed from Xuzhou Branch of China Construction Bank by Huifu Group, and it repaid debts in the amount of RMB10.5 million and other expenses in the amount of RMB1.534 million on behalf of the Huifu Group. On 8 October 2007, 999 Group brought an action to the Xuzhou Intermediate People's Court, demanding the Company, Pengcheng Company, Xuzhou Bureau of Finance and Xuzhou Light Industry Company to jointly repay its principal payment and interests totaling RMB12,135,200. The case has been registered in Xuzhou Intermediate People's Court and evidence were exchanged on 24 December 2007. Further inquisition is now taking place.

2. Providing Guarantees and Trusted Loans by the Company During the Reporting Period

During the reporting period, with the approval of the Board of Directors, the total amount guaranteed by the Company for the bank loans and accepted bills of exchange incurred by its controlling subsidiaries was RMB277.00 million.

In addition, Tsingtao Brewery No. 5 Company Limited, the Company's controlling subsidiary, provided extension guarantee for Qingdao Tsingtao-Asahi Company Limited, in which it holds 40% stake, in respect of loans in the total amount of RMB22 million offered by the domestic commercial banks. The guarantee period is 12 months, from 16 July 2007 to 15 July 2008. For further details, please refer to the Company's announcement dated 30 July 2007.

During the reporting period, no issues involving trust of wealth management occurred. The Company has, with the approval of the Board of Directors, provided trusted loans in the approximate sum of RMB2,792.55 million to its subsidiaries to secure their production and operation.

3. Adjustment to the Income Tax Rate Applicable for 2007

According to the notice from the tax authority in Qingdao in April 2008, the applicable income tax rate for the Company during the year of 2007 was 33% (the previous income tax rate applicable to the Company was 15%). As a result of the adjustment, the Company needs to pay additional income tax in the sum of RMB 175 million, which will have relatively substantial impacts on the Company's 2007 annual results.

As at the date of disclosure of this Announcement, the tax authority has not made any decision on how to settle the income tax before the year of 2007. The Company will issue further announcement as and when appropriate upon receipt of any further information. Pursuant to the new *Enterprise Income Tax Law of the People's Republic of China* which came into effect on 1 January 2008, the income tax rate applicable to the Company for 2008 is 25%.

VIII. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

1. Acquisition and Sale of Assets, Merger & Acquisition Issues During the Reporting Period

The Company agreed to acquire 23.9% shareholding in Xi'an Company held by Xi'an Industrial Assets Operations Co., Ltd. ("Industrial Co.") through an open bidding in the Xi'an Property Ownership Trading Center. According to the result of public bidding, the consideration to acquire such shares was set to RMB171 million, and the Company signed a share transfer agreement with Industrial Co. on 28 December 2007.

The Board of Directors of the Company (including independent directors) believes that, the transaction is in line with the Company's development strategies, and is beneficial to the Company for strengthening its centralized management over Xi'an Company and further improving the organizational structure and brands integration in the west-north market. The acquisition price is based on the net asset value of Xi'an Company as assessed by valuation agency, and the operational situations and earning ability of Xi'an Company was also taken into account. The transaction price is fair and reasonable, and is in line with the interests of the Company and its shareholders as a whole.

For details of the transaction, please refer to the connected transaction announcement dated 4 January 2008 published in the domestic newspaper and the website of stock exchanges where it is listed. On 25 January 2008, the registration process for transfer of above shares was completed in Xi'an Administration for Industry and Commerce, and Xi'an Company became a wholly-owned subsidiary of the Company.

2. Issuance of Bonds with Warrants

With the approval of the China Securities Regulatory Commission, the Company issued bonds with warrants with a 6-year term in the total value of RMB1.5 billion to qualified investors of A-shares in the Shanghai Stock Exchange on 2 April 2008. Such issuance was completed on 9 April 2008. The bonds and warrants in this offering have been listed on the Shanghai Stock Exchange on 18 April 2008.

Chairman: **LI Gui Rong**
Tsingtao Brewery Company Limited

Qingdao, the People's Republic of China
21 April 2008

Directors of the Company as at the date hereof:

Executive Directors:	*Mr. LI Gui Rong (Chairman), Mr. JIN Zhi Guo (Vice Chairman), Mr. SUN Ming Bo, Mr. LIU Ying Di and Mr. SUN Yu Guo*
Non-executive Directors:	*Mr. Stephen J. BURROWS (Vice Chairman) and Mr. Mark F. SCHUMM*
Independent Directors:	*Mr. CHU Zhen Gang, Mr. FU Yang, Ms. LI Yan and Mr. POON Chiu Kwok*