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## TSINGTAO BREWERY COMPANY LIMITED

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

(Stock Code: 168)

### 2010 ANNUAL RESULTS ANNOUNCEMENT AND PROPOSED ARRANGEMENTS TO ARTICLES OF ASSOCIATION

The Board of Directors (the "Board") of Tsingtao Brewery Company Limited (the "Company") hereby presents its audited results as of 31 December 2010.

According to the *Consultation Conclusion on Acceptance of Mainland Accounting and Auditing Standards and Mainland Audit Firms for Mainland Incorporated Companies Listed in Hong Kong* which was published by The Stock Exchange of Hong Kong Limited ("SEHK") in December 2010, the Mainland incorporated companies listed in Hong Kong are allowed to prepare financial statements, for the purpose of fulfilling the financial reporting requirements of the SEHK, in accordance with the China Accounting Standards for Business Enterprises ("CAS") and to arrange for such financial statements to be audited by a limited number of Mainland China audit firms which are approved by the Ministry of Finance of China and the China Securities Regulatory Commission for such purpose ("Auditing Arrangement").

The following selected consolidated financial information was prepared in accordance with CAS:

#### 1. FINANCIAL INFORMATION

(All amounts in RMB Yuan unless otherwise stated)

##### Consolidated Balance Sheet

	31 December 2010	31 December 2009
	<i>Note</i>	(restated)
<b>ASSETS</b>		
<b>Current assets</b>		
Cash at bank and on hand	7,597,958,091	5,350,580,742
Notes receivable	12,605,000	10,750,000
Accounts receivable	3 89,810,071	92,594,647
Advances to suppliers	49,775,991	139,233,218
Other receivables	188,917,414	133,243,682
Inventories	1,942,413,649	1,877,379,269
Other current assets	13,157,293	9,978,877
<b>Total current assets</b>	<b>9,894,637,509</b>	<b>7,613,760,435</b>

	31 December 2010 <i>Note</i>	31 December 2009 (restated)
<b>Non-Current assets</b>		
Long-term receivables	2,000,000	2,000,000
Long-term equity investments	153,017,377	152,817,852
Fixed assets	5,511,053,295	5,524,562,417
Construction in progress	282,565,821	99,271,062
Fixed assets pending for disposal	3,148,488	13,336,856
Intangible assets	1,318,785,832	1,088,230,932
Goodwill	122,816,301	122,816,301
Long-term prepaid expenses	7,906,289	9,814,076
Deferred tax assets	332,191,308	240,842,706
Other non-current assets	148,993,638	—
	<hr/>	<hr/>
<b>Total Non-Current assets</b>	<b>7,882,478,349</b>	<b>7,253,692,202</b>
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<b>TOTAL ASSETS</b>	<b>17,777,115,858</b>	<b>14,867,452,637</b>
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<b>LIABILITIES AND OWNERS' EQUITY</b>		
<b>Current liabilities</b>		
Short-term borrowings	196,216,646	153,472,309
Notes payable	70,711,200	89,828,083
Accounts payable	4 1,262,629,805	1,057,841,685
Advances from customers	775,414,619	271,015,729
Employee benefits payable	648,993,939	524,188,582
Taxes payable	514,219,277	467,030,243
Dividends payable	9,549,729	—
Other payables	2,520,112,525	2,252,824,315
Current portion of non-current liabilities	17,930,254	28,340,560
	<hr/>	<hr/>
<b>Total current liabilities</b>	<b>6,015,777,994</b>	<b>4,844,541,506</b>
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<b>Non-current liabilities</b>		
Long-term borrowings	10,722,061	28,266,911
Debentures payable	1,264,646,258	1,198,896,050
Long-term payables	1,625,414	14,143,329
Payables for specific projects	184,215,175	13,034,749
Deferred tax liabilities	31,094,094	34,281,493
Other non-current liabilities	549,289,390	171,134,452
	<hr/>	<hr/>
<b>Total non-current liabilities</b>	<b>2,041,592,392</b>	<b>1,459,756,984</b>
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<b>Total liabilities</b>	<b>8,057,370,386</b>	<b>6,304,298,490</b>
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	<i>Note</i>	<b>31 December 2010</b>	31 December 2009 (restated)
<b>Owners' equity</b>			
Share capital		<b>1,350,982,795</b>	1,350,982,795
Capital surplus		<b>4,016,839,641</b>	4,105,965,759
Surplus reserve		<b>691,825,740</b>	613,542,388
Undistributed profits	5	<b>3,537,820,385</b>	2,311,776,634
Difference on translation of foreign currency financial statements		<b>5,643,471</b>	6,031,786
		<hr/>	<hr/>
<b>Total equity attributable to equity holders of the Company</b>		<b>9,603,112,032</b>	8,388,299,362
Minority interests		<b>116,633,440</b>	174,854,785
		<hr/>	<hr/>
<b>Total owners' equity</b>		<b>9,719,745,472</b>	8,563,154,147
		<hr/> <hr/>	<hr/> <hr/>
<b>TOTAL LIABILITIES AND OWNERS' EQUITY</b>		<b>17,777,115,858</b>	14,867,452,637
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## Consolidated Income Statement

Items	Note	Year ended 31 December 2010	Year ended 31 December 2009 (restated)
<b>Revenue</b>	6	<b>19,897,827,765</b>	18,026,107,888
<i>Less:</i> Cost of sales	6	<b>(11,234,490,165)</b>	(10,285,132,095)
Taxes and surcharges		<b>(1,663,133,370)</b>	(1,547,305,716)
Selling and distribution expenses		<b>(3,917,917,893)</b>	(3,484,403,205)
General and administrative expenses		<b>(1,079,202,647)</b>	(998,141,045)
Financial expenses — net		<b>(4,872,515)</b>	(62,853,510)
Asset impairment losses		<b>(72,149,797)</b>	(67,851,793)
<i>Add:</i> Losses on changes in fair value		—	(1,762,500)
Investment income		<b>9,654,001</b>	10,067,304
Including: Share of profit of associates and jointly controlled entities		<b>9,690,511</b>	1,949,978
<b>Operating profit</b>		<b>1,935,715,379</b>	1,588,725,328
<i>Add:</i> Non-operating income		<b>245,027,758</b>	213,327,013
<i>Less:</i> Non-operating expenses		<b>(57,547,428)</b>	(62,718,750)
Including: Losses on disposal of non-current assets		<b>(39,213,622)</b>	(42,077,738)
<b>Total profit</b>		<b>2,123,195,709</b>	1,739,333,591
<i>Less:</i> Income tax expenses	7	<b>(538,776,594)</b>	(440,221,105)
<b>Net profit</b>		<b>1,584,419,115</b>	1,299,112,486
Attributable to equity holders of the Company		<b>1,520,484,350</b>	1,250,008,932
Minority interests		<b>63,934,765</b>	49,103,554
<b>Earnings per share</b>			
Basic earnings per share	8	<b>1.125</b>	0.950
Diluted earnings per share	8	<b>1.125</b>	0.950
<b>Other comprehensive income</b>		<b>2,277,889</b>	(2,169,177)
<b>Total comprehensive income</b>		<b>1,586,697,004</b>	1,296,943,309
Attributable to equity holders of the Company		<b>1,522,762,239</b>	1,247,839,755
Minority interests		<b>63,934,765</b>	49,103,554

## 1. Basis of preparation

The financial statements were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standards for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (hereafter referred to as “the Accounting Standards for Business Enterprises” or “CAS”) and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No. 15 — General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission.

## 2. Changes in significant accounting policies

Details and reasons for the changes	Procedures for approval	Affected items	Amount
Treatment of minority shareholders of a subsidiary over losses in the financial statements			
Before 1 January 2010, where the amount of loss for the current period attributed to the minority shareholders of a subsidiary exceeds the minority shareholders’ portion of the opening balance of owners’ equity of the subsidiary, the excess amount is allocated against owners’ equity attributed to the parent unless the minority shareholders have a binding obligation and are able to cover the loss.	There is no need for the approval of the Group since the change is required by CAS Interpretation No.4.	Increase undistributed profit of the Group as of 1 January 2009, decrease minority interests and capital surplus of the Group as of 1 January 2009.	RMB259,853,587, RMB171,001,858 and RMB88,851,729 respectively
		Increase minority interests of the Group, decrease net profit attributed to equity holders of the Company for the year ended 31 December 2009.	RMB3,282,493 respectively
Under CAS Interpretation No.4 issued by Ministry of Finance on 14 July 2010, where the amount of losses for the current period attributed to the minority shareholders of a subsidiary exceeds the minority shareholders’ portion of the opening balance of owners’ equity of the subsidiary, the excess amount is allocated against minority interests from 1 January 2010.		Increase undistributed profit of the Group as of 1 January 2010, decrease minority interests and capital surplus of the Group as of 1 January 2010.	RMB256,571,094, RMB167,719,365 and RMB88,851,729 respectively
The aforesaid change in accounting policies is applied retrospectively.			

### 3. Accounts receivable

	31 December 2010	31 December 2009
Accounts receivable	337,912,495	344,629,758
Less: provision for bad debts	<u>(248,102,424)</u>	<u>(252,035,111)</u>
	<u><b>89,810,071</b></u>	<u><b>92,594,647</b></u>

The majority of the Group's domestic sales are transacted at cash on delivery terms. The remaining transactions are settled by letters of credit or granted to customers with credit terms of 30 to 90 days.

The ageing of accounts receivable is analysed below:

	31 December 2010	31 December 2009
Within 6 months	88,718,287	91,939,439
6 months to 1 year	329,036	115,857
1 to 2 years	1,558,400	2,134,007
2 to 3 years	1,891,312	632,890
Over 3 years	<u>245,415,460</u>	<u>249,807,565</u>
	<u><b>337,912,495</b></u>	<u><b>344,629,758</b></u>

### 4. Accounts payable

The ageing of accounts payable is analysed below:

	31 December 2010	31 December 2009
Within 1 year	1,241,636,171	1,007,558,540
1 to 2 years	6,420,787	37,367,479
2 to 3 years	2,713,839	2,834,681
Over 3 years	<u>11,859,008</u>	<u>10,080,985</u>
	<u><b>1,262,629,805</b></u>	<u><b>1,057,841,685</b></u>

### 5. Undistributed profits

	2010	2009 (restated)
Undistributed profits at the end of the year	<u><b>3,537,820,385</b></u>	<u><b>2,311,776,634</b></u>
<i>Including:</i> Proposed final dividend	243,176,903	216,157,247
Proposed final dividend in the current year	243,176,903	216,157,247

In accordance with the resolution at the Annual General Meeting dated on 17 June 2010, the Company proposed a cash dividend to equity holders of the Company of RMB216,157,247 (RMB0.16 per share), based on total numbers of shares 1,350,982,795.

In accordance with the resolution at the Board of Directors dated on 30 March 2011, the Company proposed a cash dividend to equity holders of the Company of RMB243,176,903 (RMB0.18 per share), based on total numbers of shares 1,350,982,795. Such dividend distribution is still subject to the approval of Annual General Meeting, and is not reflected in these financial statements.

## 6. Revenue and cost of sales

	2010	2009
Revenue from main operation	19,614,145,234	17,760,536,346
Revenue from other operation	283,682,531	265,571,542
	<u>19,897,827,765</u>	<u>18,026,107,888</u>

	2010	2009
Cost of main operation	(11,044,332,613)	(10,076,821,445)
Cost of other operation	(190,157,552)	(208,310,650)
	<u>(11,234,490,165)</u>	<u>(10,285,132,095)</u>

## 7. Income tax expenses

	2010	2009
Current income tax calculated according to tax law and related regulations in mainland China	629,303,654	584,159,769
Current income tax calculated according to tax law and related regulations in Hong Kong	4,008,941	3,757,016
Deferred income tax	(94,536,001)	(147,695,680)
	<u>538,776,594</u>	<u>440,221,105</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	2010	2009
Total profit	2,123,195,709	1,739,333,591
Income tax expenses calculated at applicable tax rates	497,522,734	384,904,972
Expenses not deductible for tax purposes	48,025,551	76,304,590
Income not subject to tax	(5,066,978)	(7,285,535)
Utilisation of previously unrecognised deferred tax assets	(56,658,940)	(48,343,776)
Tax influence for which no deferred tax assets were recognised	54,954,227	34,640,854
Income tax expenses	<u>538,776,594</u>	<u>440,221,105</u>

## **(1) Corporate income tax**

### **(i) Corporate income tax of the Company**

The applicable enterprise income tax rate of the Company for the current year is 25%.

### **(ii) Corporate income tax of the subsidiaries**

The applicable corporate income tax rate of the subsidiaries incorporated and operated in mainland China is 25% except for certain subsidiaries which are taxed at preferential tax rates of 12.5% or 22% based on the relevant PRC tax laws and regulations.

## **(2) Hong Kong profits tax**

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year.

## **8. Earnings per share**

### **(a) Basic earnings per share**

Basic earnings per share is calculated by dividing consolidated net profit for the current year attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	<b>2010</b>	2009 (restated)
Consolidated net profit attributable to ordinary shareholders of the Company	<b>1,520,484,350</b>	1,250,008,932
Weighted average number of ordinary shares outstanding	<b>1,350,982,795</b>	1,315,346,448
Basic earnings per share	<b>1.125</b>	0.950
Including:		
— Basic earnings per share relating to continuing operations	<b>1.125</b>	0.950

### **(b) Diluted earnings per share**

Diluted earnings per share is calculated by adjusted net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. As there were no potential ordinary shares in 2010, diluted earnings per share is equal to basic earnings per share (2009: The Company issued convertible bonds with detachable warrants. The exercise period of the warrants was due in October 2009. As the exercise price was higher than the average market price of the ordinary shares of the Company before the exercise, the shares issued were not dilutive).

## **9. Segment information**

As the Group is mainly engaged in the production and distribution of beer, the reportable segments of the Group are business units operating in different regions. Each region requires different marketing strategy, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.



Inter-segment transfer prices are based on mutually-agreed prices. Assets are allocated based on the location of segment operation and location of the assets. Liabilities are allocated based on the location of segment operation. Expenses attributable indirectly to each segment are allocated among segments based on the proportion of revenue.

(a) Segment information as at and for the year ended 31 December 2010 is as follows:

	Shandong Region	Huanan Region	Huabei Region	Huadong Region	Dongnan Region	Hong Kong and overseas	Unallocated	Elimination	Total
Revenue from external customers	9,458,372,984	4,045,269,055	2,994,097,123	1,689,653,789	1,309,919,968	400,514,846	—	—	19,897,827,765
Inter-segment revenue	1,050,013,254	189,265,969	472,686,435	75,346,634	87,409,788	174,156,667	—	(2,048,878,747)	—
Selling and distribution expenses	(2,192,262,673)	(796,797,051)	(306,069,258)	(270,767,558)	(234,791,585)	(117,229,768)	—	—	(3,917,917,893)
Interest income	5,751,928	8,986,311	7,526,291	1,588,181	1,305,687	204,620	64,507,415	—	89,870,433
Interest expenses	(98,010)	(6,119,344)	(28,799,482)	(5,685,078)	—	(315,578)	(77,750,208)	35,882,357	(82,885,343)
Share of profit of associates and jointly controlled entities	—	—	—	—	—	—	9,690,511	—	9,690,511
Asset impairment losses	(46,165,392)	(8,644,149)	(1,148,720)	(4,357,059)	(11,758,393)	(76,084)	—	—	(72,149,797)
Depreciation and amortization	(196,183,310)	(161,569,462)	(94,432,136)	(53,341,556)	(23,192,420)	(1,258,712)	(29,330,678)	—	(559,308,274)
Total profit	1,192,550,028	581,888,280	222,926,646	54,902,512	123,794,060	61,859,936	(177,932,473)	63,206,720	2,123,195,709
Income tax expenses	(285,149,422)	(128,129,255)	(68,806,254)	(13,025,480)	(28,789,037)	(14,877,146)	—	—	(538,776,594)
Net profit	907,400,606	453,759,025	154,120,392	41,877,032	95,005,023	46,982,790	(177,932,473)	63,206,720	1,584,419,115
Total assets	<u>4,947,907,936</u>	<u>3,330,800,596</u>	<u>2,789,227,151</u>	<u>1,281,204,467</u>	<u>753,600,855</u>	<u>144,061,998</u>	<u>5,535,097,837</u>	<u>(1,004,784,982)</u>	<u>17,777,115,858</u>
Total liabilities	<u>3,030,763,141</u>	<u>1,818,250,066</u>	<u>1,804,732,366</u>	<u>602,782,474</u>	<u>440,132,160</u>	<u>31,578,836</u>	<u>1,381,710,298</u>	<u>(1,052,578,955)</u>	<u>8,057,370,386</u>
Long-term equity investments in associates and jointly controlled entities	—	—	—	—	—	—	151,708,735	—	151,708,735
Additions to non-current assets other than long-term equity investments	424,022,134	211,031,372	315,944,619	116,207,848	88,948,443	160,518	29,874,086	—	1,186,189,020

(b) Segment information as at and for the year ended 31 December 2009 is as follows:

	Shandong region	Huanan Region	Huabei Region	Huadong Region	Dongnan Region	Hong Kong and overseas	Unallocated	Elimination	Total
Revenue from external customers	8,258,322,580	3,796,122,338	2,738,721,135	1,712,520,748	1,136,347,682	384,073,405	—	—	18,026,107,888
Inter-segment revenue	702,244,659	157,084,951	437,996,592	15,969,749	90,280,796	107,878,501	—	(1,511,455,248)	—
Selling and distribution expenses	(1,791,826,512)	(751,241,098)	(327,306,728)	(297,903,278)	(220,500,417)	(95,625,172)	—	—	(3,484,403,205)
Interest income	26,254,522	6,389,766	6,300,538	1,316,020	567,819	258,362	—	—	41,087,027
Interest expenses	(3,820,335)	(13,082,146)	(38,859,031)	(7,893,527)	(2,723,943)	(3,222,659)	(78,482,634)	52,104,792	(95,979,483)
Share of profit of associates and jointly controlled entities	—	—	—	—	—	—	1,949,978	—	1,949,978
Asset impairment losses	(39,648,600)	(18,794,749)	(1,148,289)	(708,330)	(7,562,507)	10,682	—	—	(67,851,793)
Depreciation and amortisation	(169,648,656)	(166,431,796)	(98,187,986)	(61,639,201)	(23,456,786)	(1,321,204)	(27,587,108)	—	(548,272,737)
Total profit	1,060,599,419	493,882,992	198,606,259	42,866,987	92,995,770	73,810,132	(275,204,007)	51,776,039	1,739,333,591
Income tax expenses	(222,183,647)	(154,545,555)	(39,354,772)	(9,038,155)	1,538,436	(16,637,412)	—	—	(440,221,105)
Net profit	838,415,772	339,337,437	159,251,487	33,828,832	94,534,206	57,172,720	(275,204,007)	51,776,039	1,299,112,486
Total assets	4,463,587,968	3,038,324,060	2,111,380,930	1,239,581,449	560,067,807	228,552,892	4,370,973,682	(1,145,016,151)	14,867,452,637
Total liabilities	1,938,357,206	1,427,677,166	1,675,533,359	708,096,084	365,771,498	66,776,984	1,391,894,539	(1,269,808,346)	6,304,298,490
Long-term equity investments in associates and jointly controlled entities	—	—	—	—	—	—	147,448,949	—	147,448,949
Additions to non-current assets other than long-term equity investments	430,270,693	186,691,649	60,599,045	56,846,229	13,308,497	1,668,467	40,870,689	—	790,255,269

The Group's revenue from external customers in domestic and overseas, and the total non-current assets other than financial assets and deferred tax assets located domestically and in foreign countries or geographical areas are as follows:

Revenue from external customers	<b>2010</b>	2009
Domestic	<b>19,389,528,792</b>	17,579,575,412
Hong Kong	<b>200,694,726</b>	204,057,836
Overseas	<b>307,604,247</b>	242,474,640
	<b><u>19,897,827,765</u></b>	<b><u>18,026,107,888</u></b>
Total non-current assets	<b>2010</b>	2009
Domestic	<b>7,546,386,103</b>	7,008,773,023
Hong Kong	<b>1,900,938</b>	2,076,473
	<b><u>7,548,287,041</u></b>	<b><u>7,010,849,496</u></b>
<b>10. Net current assets</b>		
	<b>2010</b>	2009
Current assets	<b>9,894,637,509</b>	7,613,760,435
Less: current liabilities	<b>(6,015,777,994)</b>	(4,844,541,506)
Net current assets	<b><u>3,878,859,515</u></b>	<b><u>2,769,218,929</u></b>
<b>11. Total assets less current liabilities</b>		
	<b>2010</b>	2009
Total assets	<b>17,777,115,858</b>	14,867,452,637
Less: current liabilities	<b>(6,015,777,994)</b>	(4,844,541,506)
Total assets less current liabilities	<b><u>11,761,337,864</u></b>	<b><u>10,022,911,131</u></b>

## **II. MANAGEMENT DISCUSSION AND ANALYSIS**

### **1. Analysis to the domestic market in 2010**

In 2010, as China's economy continued to grow, the beer market kept its pace of steady growth, as a result, the full-year output of beer reached 448.3 million hl, representing an increase of 6.3% (Source: National Bureau of Statistics) comparing with that of the same period in the previous year. As the whole industry became more consolidated through the merger and acquisition among the large breweries, new constructions and capacity expansion, the market share of the top 4 breweries had reached nearly 60%, meanwhile the competition occurred not only in the markets, but also in the fields including strategic layouts, merger and acquisition and capitals, which made the future competition more challenging.

### **2. Review of the operations**

Facing the complex macroeconomic environment, the Company launched its full-year work guideline as "To consolidate the leading position in the industry as directed by the strategies and under the integrated operations; to improve the efficiency of the systematic operations as promoted by the market and with the optimization of the supply chain". With the efforts of the staff, in the year the Company's beer sales realized 63.5 million hl, representing an increase of 7.4% comparing with that of the same period in the previous year; sales incomes realized RMB19,614 million, representing an increase of 10.4% comparing with that of the same period in the previous year; net profits attributable to the parent company realized RMB1,520 million, representing an increase of 21.6% comparing with that of the same period in the previous year.

The Company fully utilized Tsingtao beer's brand advantage to actively explore the market by relying on its consolidated, unified and professional marketing systems, which supporting the further optimization of its sales mix and the fast growth of mid-high end products. As a result, the Company's principal brand Tsingtao beer was sold 34.8 million hl, representing an increase of 18% comparing with that of the same period in the previous year; the newly presented high-end products-Augersta, Yipin Draft received sound response from the market, and the high-end products including draft, canned and little bottled beer totally grew 26%. The Company's full-year average gross profit reached 35.2%, representing an increase of 0.6 percentage points comparing with that of the same period in the previous year. The brand value of Tsingtao beer rose to RMB42.6 billion from RMB36.6 billion in 2009, continuing to be the leader of the industry.

The Company actively implement the strategy of "Double drives" to improve its strategic layout in the national market by starting in sequence the projects of relocation and expansion in the locations such as Qingdao, Shanghai, Fuzhou, and Zhuhai within the year, successfully acquired Shandong Xin Immense Brewery Company Limited, Taiyuan Brewery Factory under Jiahe Brewery Co., Ltd., and started to build a greenfield in Shijiazhuang, which further increased the production capacity and expanded the scale of the Company, improved the Company's layout in the domestic market, and strengthened the construction of base markets.

The Company strengthened its construction of supply chain system to enforce the long-term cooperation with the strategic suppliers. In the gross purchase of materials, the Company used alternative purchase period by combining both long-term period and short-term period after strengthening the research and judgment to the price movement of the raw materials which effectively controlled the costs and guaranteed the needs for the production.

### **3. Outlook for 2011**

The 2011 is the first year of China's "Twelfth Five-Year Plan" during which it will adjust the development structure and expand the domestic needs. As a result, it will provide sufficient room for the development of beer market so that the Company will actively expand its enterprise scale and increase its market share under the newly launched work guideline for the new year as "To explore the market with full efforts; to reduce the costs with full efforts; and to obtain the opportunities and prevent from inflation with full efforts".

The Company will build a young, fashionable and international image for Tsingtao beer and continue to increase its market share by striving to explore and consolidate the provincial base markets, insisting on the market exploring mode of "Big customer + Micro-operations" and following the principle of sports marketing among its marketing activities. The Company will follow the trend of the upgrade of the consumption in the domestic market by fully utilizing its advantages at Tsingtao beer, continue to increase its shares in the national mid-high end market, and actively adjust the marketing strategies of the secondary brands of Shanshui, Laoshan and Hans to improve their brand familiarities and influence so as to increase the sales volumes.

The Company will fully use the opportunity of the consolidation in the national beer industry to further promote the implementation of the strategy of "Double drives". Within the year, it will complete the projects including the expansion of Tsingtao Brewery Factory No. 2, Company No. 3, and plants in Shanghai, Shenzhen, Fuzhou and Zhuhai, and the greenfield in Shijiazhuang to strongly support the rapid growth in the market. At the same time, it will continue to look for the suitable merger and acquisition targets in the key market areas to improve the Company's overall competitive advantages by striving to rapidly change through merger and acquisition the competition situation in the regional markets.

Facing the situation of the inflation and the price rise of main raw materials, the Company will strive to control the over-fast growth of the costs by taking the measures including further strengthening its price estimation, taking alternative purchase periods and expanding centralized purchase, while the Company will also expedite to launch new techniques and new technologies to further save the energy and reduce the consumption.

The Company will fully grasp the opportunities to further expand the enterprise scale and enhance the profitability to continue to be the leader in the industry with its advantages in brand, management, technologies and funds. It aims to realize a capacity of 100 million hl in the future 5 years. We are confident that we will realize this goal under the correct leadership of the Board and with the combined efforts among the management team and the staff.

### **III. DIVIDENDS**

The Board proposed a final dividend of RMB0.18 (with tax) per share for the year ended 31 December 2010. The proposed distribution is subject to the consideration and approval at the Company's 2010 annual general meeting. The period for closure of register of members for H-share would be set out in the notice of the annual general meeting to be published by the Company separately.

### **IV. SHARE CAPITAL**

1. During the reporting period, no changes happened to the total number of shares or the share capital structure 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 2010, the Company had been in compliance with the code provisions in the *Code on Corporate Governance Practice* as set out in Appendix 14 of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("Listing Rules"). Details of the implementation of the *Code on Corporate Governance Practice* will be set out in the "Corporate Governance" in the 2010 Annual Report.

### **VI. AUDIT COMMITTEE**

It sets up Audit & Finance Committee ("Audit Committee") under the Board in compliance with the requirements pursuant to Rule 3.21 of the *Listing Rules*, and the Audit Committee has reviewed the audited 2010 annual results of the Company.

### **VII. SIGNIFICANT EVENTS**

#### **1. Assets acquisitions of the Company during the reporting period**

- (1) As approved by the Board, on 10 September 2010, the Company and Jiahe Brewery Co., Ltd. ("Jiahe Brewery") entered into an *Asset Transfer Agreement*, whereby the Company agreed to purchase the utilization right of land, and the assets including the premise and machineries related to the beer project currently run by Jiahe Brewery for a consideration of RMB170 million. At present, the production capacity of Taiyuan Factory under Jiahe Brewery is 1.8 million hl. The Board was of the view that, the purchase of the assets of Jiahe Brewery was important to the improvement of the Company's national market layout.

(2) As approved by the Board, on 7 December 2010, the Company entered into an *Equity Transfer Agreement* with Xin Immense Brewery (Hong Kong) Limited, China Skill Limited and Tsingtao Brewery (Hong Kong) Company Limited, whereby the Company agreed to acquire from Xin Immense Brewery (Hong Kong) Limited 71% equity interests held in Shandong Xin Immense Brewery Company Limited for a consideration of Renminbi one thousand three hundred and twenty nine million (¥1,329,000,000) and from China Skill Limited 4% equity interests held in Shandong Xin Immense Brewery Company Limited for a consideration of Renminbi seventy five million (¥75,000,000); Tsingtao Brewery (Hong Kong) Company Limited agreed to acquire from China Skill Limited 25% equity interests held in Shandong Xin Immense Brewery Company Limited for a consideration in Hong Kong dollars equivalent to Renminbi four hundred and sixty nine million (¥469,000,000) (the “Acquisition Transactions”). The Board was of the view that the Acquisition Transactions would play positive roles to the future development of the Company as they were consistent with the Company’s strategy of building base market, and it was expected that the Target Company could coordinate with the Company’s strategy. For details of the Acquisition Transactions, please refer to the announcement published on 7 December 2010 on the websites of the stock exchanges in which the Company is listed. As of the date of this announcement, the Acquisition Transactions had obtained approval from the related governmental approving authorities for the equity transfer issues, but the transfer of the equities have not been completed as the approval for the overseas payment for the considerations and the change of registration at the industrial and commercial administration are still in process.

## **2. Guarantees and trusted loans provided by the Company during the reporting period**

As of the end of the reporting period, upon the approval of the Board, the total amount guaranteed by the Company for the bank loans and accepted bills of exchange of its 12 controlling subsidiaries reached RMB455 million, at the same time, the Company provided an amount of HKD70 million of trust guarantee to the bank facilities of Tsingtao Brewery (Hong Kong) Trade Company Limited, a wholly-owned subsidiary of the Company.

During the reporting period, no event relating to the trusted wealth management had occurred. To secure the production and operation of its subsidiaries, upon the approval by the Board, about RMB950.32 million in aggregate of trusted loans was provided by the Company to its controlling subsidiaries.

3. During the reporting period, the Company did not involve in any newly arose significant litigations or arbitration affairs.
4. Under the *Entrusted Operation and Management Agreement* and its supplementary agreement signed between the Company and Tsingtao Group, during the reporting period, the Company went on to manage the 80% equity interests held by Tsingtao Group in Tsingtao Brewery (Yangzhou) Company Limited (“Yangzhou Company”) as its custodian and included it into the consolidated scope of financial statements. Save as the above, there is no other significant custodian affairs relating to the Company.

## VIII. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

In view of the Auditing Arrangement and in order to bring the articles of association of the Company (the “Articles”) in line with the actual operational requirements of the Company. The proposal of amendments to the Articles are proposed by the Board for approval by the shareholders of the Company at the annual general meeting to be held in June 2011. Details of the proposed amendments are set out in the circular of the Company to be despatched to the shareholders of the Company together with a notice of the forthcoming annual general meeting of the Company to be held in June 2011.

**Tsingtao Brewery Company Limited**

*Chairman*

**JIN Zhi Guo**

Qingdao, the People’s Republic of China

30 March 2011

*Directors of the Company as at the date hereof are:*

*Executive Directors:*

*Mr. JIN Zhi Guo (Chairman), Mr. WANG Fan (Vice Chairman), Mr. SUN Ming Bo, Mr. LIU Ying Di and Mr. SUN Yu Guo*

*Non-executive Directors:*

*Mr. Fumio YAMAZAKI and Mr. TANG Jun*

*Independent Non-executive Directors:*

*Mr. FU Yang, Ms. LI Yan, Mr. POON Chiu Kwok and Ms. WANG Shu Wen*