TSINGTAO BREWERY COMPANY LIMITED

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

(Stock Code: 168)

2011 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the "Board") of Tsingtao Brewery Company Limited (the "Company") hereby presents the preliminary consolidated results of the Company and its subsidiaries (the "Group") for the year ended 31 December 2011 (the "Reporting Period") prepared pursuant to China Accounting Standards for Business Enterprise as follows:

1. FINANCIAL INFORMATION

(All amounts in RMB Yuan unless otherwise stated)

Consolidated Balance Sheet

	Note	**31 December 2011**	31 December 2010
ASSETS			
Current assets			
Cash at bank and on hand		**6,107,611,258**	7,597,958,091
Notes receivable		**98,350,000**	12,605,000
Accounts receivable	*3*	**88,097,460**	89,810,071
Advances to suppliers		**273,208,801**	49,775,991
Interest receivable		**13,346,298**	—
Other receivables		**114,425,093**	188,917,414
Inventories		**2,717,721,790**	1,942,413,649
Other current assets		**170,592,062**	13,157,293
Total current assets		**9,583,352,762**	9,894,637,509

	Note	31 December 2011	31 December 2010
Non-current assets			
Long-term receivables		—	2,000,000
Long-term equity investments		**151,965,192**	153,017,377
Fixed assets		**7,204,985,036**	5,511,053,295
Construction in progress		**624,331,319**	282,565,821
Fixed assets pending for disposal		**3,426,554**	3,148,488
Intangible assets		**2,378,806,001**	1,318,785,832
Goodwill		**1,081,684,918**	122,816,301
Long-term prepaid expenses		**7,582,630**	7,906,289
Deferred tax assets		**392,464,144**	332,191,308
Other non-current assets		**205,555,005**	148,993,638
Total non-current assets		**12,050,800,799**	7,882,478,349
TOTAL ASSETS		**21,634,153,561**	17,777,115,858
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term borrowings		**162,696,637**	196,216,646
Notes payable		**83,893,730**	70,711,200
Accounts payable	*4*	**1,662,021,869**	1,262,629,805
Advances from customers		**751,128,688**	775,414,619
Employee benefits payable		**757,810,303**	648,993,939
Taxes payable		**568,596,400**	514,219,277
Interest payable		**2,458,418**	—
Dividends payable		**761,458**	9,549,729
Other payables		**3,164,401,766**	2,520,112,525
Current portion of non-current liabilities		**2,315,634**	17,930,254
Total current liabilities		**7,156,084,903**	6,015,777,994
Non-current liabilities			
Long-term borrowings		**454,116,834**	10,722,061
Debentures payable		**1,334,692,717**	1,264,646,258
Long-term payables		**1,000,000**	1,625,414
Payables for specific projects		**190,538,407**	184,215,175
Deferred tax liabilities		**209,569,271**	31,094,094
Other non-current liabilities		**1,011,216,862**	549,289,390
Total non-current liabilities		**3,201,134,091**	2,041,592,392
Total liabilities		**10,357,218,994**	8,057,370,386

	Note	31 December 2011	31 December 2010
Shareholders' equity			
Share capital		**1,350,982,795**	1,350,982,795
Capital surplus		**4,017,938,901**	4,016,839,641
Surplus reserve		**808,735,661**	691,825,740
Undistributed profits	*5*	**4,915,661,595**	3,537,820,385
Difference on translation of foreign currency financial statements		**17,119,722**	5,643,471
Total equity attributable to equity holders of the Company		**11,110,438,674**	9,603,112,032
Minority interests		**166,495,893**	116,633,440
Total shareholders' equity		**11,276,934,567**	9,719,745,472
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**21,634,153,561**	17,777,115,858

Consolidated Income Statement

ITEM	*Note*	**Year ended 31 December 2011**	2010
Revenue	*6*	**23,158,054,330**	19,897,827,765
Less: Cost of sales	*6*	**(13,416,658,758)**	(11,234,490,165)
Taxes and surcharges	*7*	**(2,024,413,362)**	(1,663,133,370)
Selling and distribution expenses		**(4,414,666,287)**	(3,917,917,893)
General and administrative expenses		**(1,184,193,076)**	(1,079,202,647)
Financial expenses — net		**36,212,900**	(4,872,515)
Asset impairment losses		**(17,028,876)**	(72,149,797)
Add: Investment income		**4,261,371**	9,654,001
Including: Share of profit of associates and joint venture		**4,499,264**	9,690,511
Operating profit		**2,141,568,242**	1,935,715,379
Add: Non-operating income		**469,804,738**	245,027,758
Less: Non-operating expenses		**(156,460,416)**	(57,547,428)
Including: Losses on disposal of non-current assets		**(136,610,344)**	(39,213,622)
Total profit		**2,454,912,564**	2,123,195,709
Less: Income tax expenses	*8*	**(657,298,005)**	(538,776,594)
Net profit		**1,797,614,559**	1,584,419,115
Attributable to equity holders of the Company		**1,737,928,034**	1,520,484,350
Minority interests		**59,686,525**	63,934,765
Earnings per share			
Basic earnings per share	*9*	**1.286**	1.125
Diluted earnings per share	*9*	**1.286**	1.125
Other comprehensive income		**12,575,511**	2,277,889
Total comprehensive income		**1,810,190,070**	1,586,697,004
Attributable to equity holders of the Company		**1,750,503,545**	1,522,762,239
Minority interests		**59,686,525**	63,934,765

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 collectively referred to as "CAS") and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Rules on Financial Reporting (2010 revised) issued by the China Securities Regulatory Commission.

2. Business combination involving entities not under common control

The significant business combination involving entity not under common control occurred during the Reporting Period is disclosed as follows:

	Amount of goodwill	Calculation of goodwill
Shandong Xin Immense Brewery Company Limited ("Xin Immense Brewery")	958,868,617	The amount of the cost of combination over the acquirer's interests in the fair value of the acquiree's identifiable net assets acquired is recognised as goodwill.

The Company and its wholly owned subsidiary Tsingtao Brewery (Hong Kong) Trading Company Limited ("Tsingtao Brewery HK") entered into an agreement with the transferors Xin Immense Brewery (Hong Kong) Company Limited and China Skill Limited to acquire 75% and 25% equity interest in Xin Immense Brewery held by the transferors respectively. The completion date of this acquisition was 31 March 2011, on which the Group effectively obtains the rights to control Xin Immense Brewery.

(i) Details of the cost of combination and goodwill recognised are as follows:

Cost of combination — Cash paid	1,874,866,697
Less: Fair value of the identifiable net assets acquired	(915,998,080)
Goodwill	958,868,617

(ii) The revenue, net profit and cash flows of Xin Immense Brewery for the period from the acquisition date to 31 December 2011 are as follows:

Revenue	759,670,447
Net profit	20,033,714
Cash flows from operating activities	37,045,150
Net cash flows	(15,176,385)

3. Accounts receivable

	31 December 2011	31 December 2010
Accounts receivable	**325,048,799**	337,912,495
Less: provision for bad debts	**(236,951,339)**	(248,102,424)
	88,097,460	89,810,071

The majority of the Company's domestic sales are made with advances from customers. The remainings are settled by letters of credit, bank acceptance notes or credit terms from 30 to 150 days.

The ageing of accounts receivable based on their recording dates is analysed below:

	31 December 2011	31 December 2010
Within 6 months	**87,799,273**	88,718,287
6 months to 1 year	**137,349**	329,036
1 to 2 years	**335,411**	1,558,400
2 to 3 years	**186,438**	1,891,312
Over 3 years	**236,590,328**	245,415,460
	325,048,799	337,912,495

4. Accounts payable

The ageing of accounts payable based on their recording dates is analysed below:

	31 December 2011	31 December 2010
Within 1 year	**1,631,517,734**	1,241,636,171
1 to 2 years	**11,031,540**	6,420,787
2 to 3 years	**5,507,092**	2,713,839
Over 3 years	**13,965,503**	11,859,008
	1,662,021,869	1,262,629,805

5. Undistributed profits

	2011	2010
Undistributed profits at the end of the year	**4,915,661,595**	3,537,820,385
Dividend proposed but not declared	**351,255,527**	243,176,903
Total proposed dividend in the year	**351,255,527**	243,176,903

In accordance with the resolution at the Board of Shareholders' meeting dated on 16 June 2011, the Company proposed a cash dividend to the shareholders of the Company of RMB243,176,903 (RMB0.18 per share (pre-tax)), based on total numbers of shares 1,350,982,795.

In accordance with the resolution at the Board of Directors' meeting dated on 29 March 2012, the Company proposed a cash dividend to the shareholders of the Company of RMB351,255,527 (RMB0.26 per share (pre-tax)) based on total numbers of shares 1,350,982,795. Such dividend distribution is still subject to the approval of the Board of shareholders, and is not reflected in these financial statements.

6. Revenue and cost of sales

	2011	2010
Revenue from main operation	**22,790,387,561**	19,614,145,234
Revenue from other operations	**367,666,769**	283,682,531
	23,158,054,330	19,897,827,765

	2011	2010
Cost of main operation	**(13,159,564,329)**	(11,044,332,613)
Cost of other operations	**(257,094,429)**	(190,157,552)
	(13,416,658,758)	(11,234,490,165)

7. Tax and surcharges

	2011	2010
Consumption tax	**1,598,292,430**	1,399,255,887
City maintenance and construction tax	**240,017,943**	175,392,741
Education surcharge	**176,719,119**	82,213,689
Business tax	**9,328,687**	6,146,388
Others	**55,183**	124,665
	2,024,413,362	1,663,133,370

8. Income tax expenses

	2011	2010
Current income tax calculated according to tax law and related regulations in mainland China	**731,007,362**	629,303,654
Current profits tax calculated according to tax law and related regulations in Hong Kong	**4,243,313**	4,008,941
Current profits supplemental tax calculated according to tax law and related regulations in Macau	**1,538,547**	—
Deferred income tax	**(79,491,217)**	(94,536,001)
	657,298,005	538,776,594

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:

	2011	2010
Total profit	**2,454,912,564**	2,123,195,709
Income tax expenses calculated at applicable tax rates	**578,629,304**	497,522,734
Tax impact for equivalent sales and expenses not deductible	**65,299,634**	48,025,551
Income not subject to tax	**(35,051,266)**	(5,066,978)
Utilisation of previously unrecognised deferred tax assets	**(46,299,603)**	(56,658,940)
Tax impact for which no deferred tax asset was recognised	**94,719,936**	54,954,227
Income tax expenses	**657,298,005**	538,776,594

(1) Enterprise income tax

(i) Enterprise income tax of the Company

In accordance with an approval document dated 18th April 1994 issued by the State Administration for Taxation ("SAT") of the PRC, net profit earned by the Company was subject to enterprise income tax at 15%, which was effective from the date of establishment of the Company 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 (Guoshuihan [2007] No. 664) 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 were 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 applicable rules and provisions under the promulgated Law on Tax Collection and Administration of the PRC. For this purpose, the Company issued an announcement in relation to such matter on the websites of stock exchanges in the PRC and overseas, and in domestic newspapers on 6 July 2007.

On April 2008, the Company was informed by the governing local tax bureau that the applicable enterprise income tax rate for the year ended 31 December 2007 was adjusted from 15% to 33%. 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 enterprise income tax exposure in prior years had been made in the financial statements.

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

(ii) Enterprise income tax of the subsidiaries

The applicable enterprise income tax rate of the subsidiaries incorporated and operated in mainland China is 25% except for certain subsidiaries which are taxed at preferential tax rate of 12.5% or 24% based on the relevant PRC tax laws and regulations.

(2) Hong Kong profits tax and Macau profits supplemental tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the year. Macau profits supplemental tax is imposed on the estimated taxable profit for the year at a progressive rate scale ranging from 3% to 12%.

9. Earnings per share

(a) Basic earnings per share

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

	2011	2010
Consolidated net profit attributable to ordinary shareholders of the Company	**1,737,928,034**	1,520,484,350
Weighted average number of ordinary shares outstanding	**1,350,982,795**	1,350,982,795
Basic earnings per share	**1.286**	1.125
Including:		
— Basic earnings per share relating to continuing operations	**1.286**	1.125

(b) Diluted earnings per share

Diluted earnings per share is calculated by dividing net profit attributable to ordinary shareholders of the Company adjusted based on the dilutive potential ordinary share by the adjusted weighted average number of ordinary shares outstanding. As there were no dilutive potential ordinary shares in 2011 (2010: nil), diluted earnings per share equal to basic earnings per share.

10. 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.

The Group established Tsingtao Brewery Finance Company Limited ("Finance Company") in 2011. Finance Company is principally engaged in the financial business of wealth management and agency collection and payment for its members. Due to the unique business characteristics of Finance Company, the Group manages its operation independently and evaluates its operating results separately, to determine its resource allocation and assess its performance.

Inter-segment transfer pricing are based on mutually-agreed prices.

Assets are allocated based on the operation of the segment and the physical location of the assets. Liabilities are allocated based on the operation of the segment. Expenses indirectly attributable to each segment are allocated among segments based on the proportion of each segment's revenue.

(a) Segment information as at and for the year ended 31 December 2011 is as follow:

	Shandong Region	Huanan Region	Huabei Region	Huadong Region	Dongnan Region	Hong Kong, Macau and other overseas	Finance Company	Unallocated	Elimination	Total
Revenue from external customers	11,443,959,513	4,514,961,587	3,398,912,070	1,686,848,799	1,653,806,999	459,565,362	–	–	–	23,158,054,330
Inter-segment revenue	1,610,561,236	207,400,527	607,895,602	146,371,426	54,403,621	143,569,079	242,820	–	(2,770,444,311)	–
Selling and distribution expenses	(2,436,278,274)	(867,251,711)	(329,064,565)	(332,317,703)	(342,195,131)	(111,862,534)	–	–	4,303,631	(4,414,666,287)
Interest income	13,066,089	8,801,052	20,806,873	3,562,726	1,539,583	3,871	61,399,903	56,179,842	(18,142,597)	147,217,342
Interest expenses	(1,283,443)	(7,651,831)	(29,866,996)	(7,692,668)	–	(8,051,393)	(18,142,597)	(82,046,459)	57,857,607	(96,877,780)
Share of profit of associates and jointly controlled entity	–	–	–	–	–	–	–	4,499,264	–	4,499,264
Asset impairment losses	(1,025,118)	(2,371,092)	(7,037,478)	(2,986,384)	(3,610,493)	1,689	–	–	–	(17,028,876)
Depreciation and amortisation	(283,248,015)	(167,575,727)	(114,889,611)	(68,455,228)	(24,779,080)	(2,477,969)	(204,464)	(36,179,633)	–	(697,809,727)
Total profit	1,611,315,349	617,503,727	342,076,634	(129,862,277)	102,724,362	88,536,806	41,681,562	(210,893,518)	(8,170,081)	2,454,912,564
Income tax expenses	(351,555,679)	(154,941,899)	(88,204,787)	(9,463,465)	(24,782,982)	(17,649,586)	(10,699,607)	–	–	(657,298,005)
Net profit	1,259,759,670	462,561,828	253,871,847	(139,325,742)	77,941,380	70,887,220	30,981,955	(210,893,518)	(8,170,081)	1,797,614,559
Total assets	8,765,643,279	3,955,076,028	3,525,050,902	1,600,233,539	979,568,831	228,077,840	4,202,730,438	3,410,209,502	(5,032,436,798)	21,634,153,561
Total liabilities	3,641,192,298	1,902,404,312	2,375,098,247	819,138,477	587,552,569	427,021,138	3,871,748,484	1,732,364,428	(4,999,300,959)	10,357,218,994
Long-term equity investments in associates and jointly controlled entity	–	–	–	–	–	–	–	150,656,550	–	150,656,550
Additions to non-current assets other than long-term equity investments	1,888,033,290	905,554,202	409,062,244	331,629,069	323,843,150	11,535,588	3,892,268	156,907,978	(15,644,900)	4,014,812,889

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

	Shandong Region	Huanan Region	Huabei Region	Huadong Region	Dongnan Region	Hong Kong, Macau and other 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 entity	–	–	–	–	–	–	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 amortisation	(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	4,947,907,936	3,330,800,596	2,789,227,151	1,281,204,467	753,600,855	144,061,998	5,535,097,837	(1,004,784,982)	17,777,115,858
Total liabilities	3,030,763,141	1,818,250,066	1,804,732,366	602,782,474	440,132,160	31,578,836	1,381,710,298	(1,052,578,955)	8,057,370,386
Long-term equity investments in associates and jointly controlled entity	–-	–	–	–	–	–	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

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 summarised as follows:

Revenue from external customers	**2011**	2010
Domestic	**22,559,150,988**	19,389,528,792
Hong Kong and Macau	**257,940,191**	200,694,726
Other overseas	**340,963,151**	307,604,247
	23,158,054,330	19,897,827,765

Total non-current assets	**31 December 2011**	31 December 2010
Domestic	**11,646,437,298**	7,546,386,103
Hong Kong and Macau	**11,899,357**	1,900,938
	11,658,336,655	7,548,287,041

11. Net current assets

	31 December 2011	31 December 2010
Current assets	**9,583,352,762**	9,894,637,509
Less: Current liabilities	**(7,156,084,903)**	(6,015,777,994)
Net current assets	**2,427,267,859**	3,878,859,515

12. Total assets less current liabilities

	31 December 2011	31 December 2010
Total assets	**21,634,153,561**	17,777,115,858
Less: Current liabilities	**(7,156,084,903)**	(6,015,777,994)
Total assets less current liabilities	**14,478,068,658**	11,761,337,864

13. Contingencies

As described in Note 8(1)(i), the Group's potential risk of income tax liabilities related to prior years has not been settled. The directors are of the view that the potential income tax liabilities could not be reliably estimated and therefore, no provision was made in these financial statements.

14. Capital commitments

(a) Capital expenditures contracted for but not yet necessary to be recognised on the balance sheet

	31 December 2011	31 December 2010
Buildings, machinery and equipment and intangible assets	**512,592,871**	535,897,846

(b) Capital commitments authorised by the management but not yet contracted for

	31 December 2011	31 December 2010
Buildings, machinery and equipment and intangible assets	**3,232,054,227**	2,381,648,040

As at the balance sheet date, jointly controlled entity of the Group has no significant capital expenditures contracted for, or capital commitments authorised by the management but not yet contracted for.

II. MANAGEMENT DISCUSSION AND ANALYSIS

1. Review of the operations

In 2011, China's economy realized a steady and rapid growth, but it slowed down since the second half of the year. Therefore, the growth in the domestic beer market in general also revealed a trend of high-to-low, the whole-year output of beer reached 489.9 million hl, representing an increase of 10.67% (according to the data disclosed by National Bureau of Statistics) comparing with that of the same period in the previous year.

Facing the complicated and ever-changing market, and the pressure of rising costs such as production and labor, in 2011, the Company's Board and management team accurately grasped the situation, and led the employees to be positive to the situation and overwhelm the difficulties with full efforts, to realize the continuous and comparatively rapid growth of operating results. In the year, the Group's beer sales volume reached 71.5 million hl, representing an increase of 12.6% comparing with that of the same period in the previous year; sales incomes reached RMB23.158 billion, representing an increase of 16.38% comparing with that of the same period in the previous year; net profits attributable to the shareholders of the Company reached RMB1.738 billion, representing an increase of 14.3% comparing with that of the same period in the previous year.

The Group continued to insist on the development strategy as driven by its brands, fully utilized Tsingtao beer's advantage in brand, improve the height of its brands, extend its product categories, improve the premium capacity of its brands, kept improving and optimizing the product mix, reserved and enlarged its leading position in the domestic mid-and-high-end market. In 2011, the Group's principal brand Tsingtao beer was sold 39.9 million hl, representing an increase of 15% comparing with that of the same period in the previous year, in which the high-end products including draft, canned and little bottled beer were sold 12 million hl in aggregate, representing an increase of 23% comparing with that of the same period in the previous year. The Group also actively developed new products such as "Augersta" and "Yipin Draft", which were extensively acknowledged by the general consumers as a result of their high quality products images, and kept rapid growth in term of sales volume.

The Group continued to optimize its sales network through promoting the sales mode of "Big Customers + Micro-operations" to insist on building its regional base markets, and strengthened its market exploration to realize the continuous growth in Shandong Province and Shaanxi Province, steady growth of market share, and the sound growth trend of other strategic markets. The Group continued to insist on its strategy of sports marketing by holding the Tsingtao Beer "Dancing the Passion" cheering squad selection contest, successfully sponsored members of China's sports delegation, "Team of Champions", which will take part in the 2012 London Olympic Games, and the USA NBA team, "Miami Heats", to improve its brand image and competitiveness of the products. In 2011, the brand value of Tsingtao beer reached RMB50.2 billion (RMB42.6 billion in 2010), remained to be No. 1 in the domestic beer industry.

The Group actively implemented the strategy of "double-drive", It expanded its production scale in a short time and improved the market layouts in way of mergers and acquisitions, new constructions, and expansions after relocation. Within the year, after it successfully acquired 100% equity interests in Xin Immense Brewery and 80% equity interests in Hangzhou Zijintan Wine Co., Ltd., and the assets in Guangdong Huoli Company, the Group immediately started the project of technical restructuring and expansion in the two plants to improve their production capacity and technical level. The Group also started to construct the brewing project in Jieyang, Guangdong Province for an annual output volume of 3 million hl, making the Group continue to be in the leading position in the domestic market layout.

In 2011, the price hike of the raw materials such as barley needed in the Group's production brought huge difficulties to the Group's cost control. The Group, on one hand, strengthened its management system, actively promoted the new techniques of energy conservation, improved the efficiency and lowered the energy consumption, strived to reduce the production costs, and strengthened the research and decision-making on the trend of the price of the raw materials to control the purchase cost by adopting the flexible purchasing policies; on the other hand, through adjusting the product mix, increasing the sales volume and appropriately adjusting the price of some products of Tsingtao beer, the principal brand, at the year beginning, set off the devaluation factors to the highest extent including the price hike of raw materials, increase of labor costs and taxation in the full year of 2011, which was amounted to nearly RMB1.2 billion.

In 2011, the domestic capital market continued to make adjustments. The Company obtained broad acknowledgement from the gross investors by relying on its sound results and clear development strategy. Therefore, the Company's share price and negotiable market capitalisation increased greatly.

The Group pays highly attention to the investors' return. It has distributed cash dividends to the shareholders for successive 12 years based on the continuous growth of sales volume, sales income and profit in recent years. In 2011, the Board continued to propose a dividend of RMB0.26 (with tax) per share in cash.

2. Outlook for 2012

The implementation of policies of China's "Twelfth Five-Year Plan" including increasing disposable personal income and structural tax reduction will boost the continuous growth in the future beer market. At the same time, the fiercer market competition will obsolete some small breweries, and make the large breweries, with advantages in funds, brand and management, obtain more rapid development, and therefore further promote the industry integration.

In June 2011, after the new round of the Company's Board was established, it expressly stated that the Group would make full use of its advantages in brand, quality, techniques and management to seize the opportunities to accelerate its development, and strive to realize its goal of selling 100 million hl of beer in 2014. The Company's Board and management team is fully determined and confident to realize this grand goal.

In 2012, facing the operational pressure that the global economy remains low, the growth of domestic consumption market slows down while the cost factors such as that of human resources keep rising, the Group's management team will forge ahead despite difficulties, keep obtaining new achievements, and improve its leading position in the domestic market, The Group will continue to improve the brand impact of Tsingtao beer, keep optimizing the product mix, and further promote the sports marketing strategies, explore domestic markets with great efforts, continue to promote the marketing mode of "Big Customers + Micro-operations" to run the regional markets deeply and thoroughly, and keep improving its control over the markets to consolidate and enlarge its base markets and strategic markets.

The Group will seize the opportunities by improving the asset quality, the technical level of the equipment and production capacity through new constructions and expansion after relocation, and actively seeking the appropriate targets of mergers and acquisitions to realize win-win and market synergic effects so as to keep increasing its market share. At the same time, it will strengthen its management of cash flow, improve the efficiency of asset turnover, fully play the role of the finance company, and improve the Company's efficiency and benefits in fund use.

The Group will, based on the rising trend of the domestic consumption, actively develop new products and species to meet the consumers' needs, cultivate the new growing point in the markets, and at the same time, strengthen the promotion of its principal brand, continue to improve the product mix, Tsingtao beer, and pay more attention to the cultivation and propaganda of the secondary brands, to realize the overall and continuous growth in the domestic market with full efforts and build a solid base for the sales target of 100 million hl of beer in 2014.

III. DIVIDENDS

The Board proposed a final dividend of RMB0.26 (with tax) per share for the year ended 31 December 2011. The proposed distribution is subject to the consideration and approval at the Company's 2011 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

During the Reporting Period, no changes happened to the total number of shares or the share capital structure of the Group.

During the Reporting Period, no listed securities of the Company were purchased, sold or redeemed by the Group or any of its subsidiaries.

V. CORPORATE GOVERNANCE

For the year ended 31 December 2011, the Group 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 2011 Annual Report.

VI. AUDIT COMMITTEE

The Audit & Finance Committee ("Audit Committee") has been set up under the Board in compliance with the requirements pursuant to Rule 3.21 of the *Listing Rules*, and has reviewed the audited 2011 annual results of the Company.

VII. SIGNIFICANT EVENTS

1. Assets and equity interests acquisitions by the Group during the Reporting Period

(1) As approved by the Board, on 7 December 2010, the Company and Tsingtao Brewery HK entered into an equity transfer agreement with Xin Immense Brewery (Hong Kong) Limited and China Skill Limited (collectively, the "Vendors"), whereby the Company and Tsingtao Brewery HK agreed to respectively acquire 75% and 25% equity interests held by the Vendors in Xin Immense Brewery. For details of the acquisition, please refer to the announcement published on 7 December 2010 on the websites of the stock exchanges on which the Company is listed. The change of registration at the industrial and commercial administration for the aforesaid acquiring equity interests in Xin Immense Brewery had been completed on 31 March 2011, Xin Immense Brewery thus became a wholly-owned subsidiary of the Company.

(2) As approved by the Board, on 26 March 2011, the Company acquired 80% equity interests in Hangzhou Zijintan Wine Co., Ltd. (the "Target Company") for a consideration of RMB66 million, and invested RMB120 million to increase the Target Company's capital, and for the technical reconstruction and expansion for an annual output of 2 million hl. The Board is of the view that, the acquisition of the Target Company's equity interests is beneficial for the Company to improve its strategic layout in the Eastern-China market, helps to improve the Company's competitiveness in the market in Zhejiang Province. As at 2 April 2011, the change of registration at the industrial and commercial administration for the aforesaid acquisition of the Target Company's equity interests had been completed, the Target Company thus became a wholly-controlled subsidiary of the Company and was renamed as Tsingtao Brewery (Hangzhou) Company Limited.

(3) As approved by the Board, on 28 November 2011, the Company acquired through bidding the assets including brewing machines and equipment, electronic devices, vehicles, buildings, structures and land use right combining possessed by Shaoguan Huoli Brewery Factory Co., Ltd., Shaoguan Huoli Beer Managing Co., Ltd., Guangdong Huoli Co., Ltd. in the factory yard at 4km of Shaonan Highway, Shaoguan, Guangdong Province. On 5 December 2011, the Company established Tsingtao Brewery (Shaoguan) Company Limited with sole investment of RMB200 million, and Tsingtao Brewery (Shaoguan) Company Limited acquired the aforesaid assets by paying RMB190 million. By the end of the Reporting Period, the transaction had been completed.

2. The Company's new constructions of brewing plant and establishment of subsidiary

(1) On 16 June 2011, the Company held the first meeting of the 7th Board to discuss and approve, among others, the feasibility report of new construction project in Jiedong Economic Developing Zone, Jieyang, Guangdong Province, with an investment of estimated RMB401.46 million for the construction of fixed assets. On 8 July 2011, Tsingtao Brewery (Jieyang) Company Limited ("Jieyang Company") was formally established with the Company's sole investment of RMB150 million. At present, the construction of the plant is in the phase of equipment installing and adjusting, and is supposed be put into production in July 2012.

(2) On 24 November 2011, the Company held an extraordinary meeting (voting through communications) of the 7th Board to discuss and approve, among others, the feasibility report of new construction project of brewing plant with annual output of 2 million hl in Hainan Province, with an investment of estimated RMB329.80 million for the construction of fixed assets. On 6 January 2012, the Company established Tsingtao Brewery (Hainan) Company Limited with an investment of RMB200 million for holding 100% equity interests in Tsingtao Brewery (Hainan) Company Limited.

3. Information on the approval for the Company to establish a group finance company

To fully utilize the Company's advantages at the centralized management of the funds, and to improve the Company's finance management and capital operations, as discussed and approved by the Board, the Company established the Finance Company with sole investment of registered capital of RMB300 million. During the Reporting Period, the Company had completed the preparation and opening work of the Finance Company. The Finance Company had been permitted to open after receiving on 26 May 2011 from China Banking Regulatory Commission ("CBRC") the *Reply by CBRC on the Opening of Tsingtao Brewery Finance Company Liability Limited* (No. YJF[2011]155), receiving the license of business corporation on 31 May 2011 issued by the State Administration for Industry and Commerce of Qingdao, and receiving the *Financial License* for the non-banking financial institutes issued by CBRC.

4. Guarantees and trusted loans provided by the Company to the subsidiaries during the Reporting Period

(1) As discussed and approved by the Board, the Company agreed to provide guarantee to Tsingtao Brewery Import and Export Company Liability Limited ("I/E Company"), a wholly-owned subsidiary of the Company, for its business of opening letter of credit and entered into *Cap Amount Guarantee Contract* with Sub-branch No. 2 of Shinan District, Qingdao Branch, Industrial and Commercial Bank of China for a period from 25 March 2011 to 31 December 2011 for a guarantee amount of RMB20 million. During the Reporting Period, the I/E Company actually opened EUR0.986 million of letters of credit which had been settled as at 31 December 2011, therefore, the Company had been relieved of guaranteeing responsibility.

(2) In accordance with the resolution of the Company's provision of guarantee for the financing business of Tsingtao Brewery HK as discussed and approved at the Company's first extraordinary general meeting held in 2011, during the Reporting Period, the Company and China Development Bank Co., Ltd. entered into *Contract of Counter-guarantee of Foreign Exchanges L/G of China Development Bank Co., Ltd.*, whereby the Company agreed to provide counter-guarantee for the HKD550 million of L/G (Letter of Guarantee) issued by China Development Bank Co., Ltd. to Tsingtao Brewery HK (that is, the Company agreed to provide guarantee for the HKD550 million of loans applied by Tsingtao Brewery HK to Hong Kong Branch, China Development Bank) for a period from 25 May 2011 to 24 June 2014.

(3) As approved by the Board, the Company agreed to provide guarantee for the borrowing of HKD55 million borrowed by Tsingtao Brewery HK from Sub-branch No. 1 of Shibei District, Qingdao Branch, China Communications Bank for a period from 20 July 2009 to 19 July 2011. During the Reporting Period, Tsingtao Brewery HK repaid HKD16.17 million of the borrowing. As the borrowing had been totally paid off, the Company had been relieved of guaranteeing responsibilities.

(4) 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, approximately RMB981.88 million in aggregate of trusted loans was provided by the Company to its controlling subsidiaries.

5. During the Reporting Period, the Group did not involve in or newly arose significant litigations or arbitration affairs.

6. Under the *Entrusted Operation and Management Agreement* and its supplementary agreement entered into 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 the Yangzhou Company into the consolidated scope of financial statements. Save as the above, there is no other custodian affairs relating to the Group.

Tsingtao Brewery Company Limited
Chairman
JIN Zhi Guo

Qingdao, the People's Republic of China
29 March 2012

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, Ms. JIANG Hong and Mr. SUN Yu Guo*
Non-executive Directors:	*Mr. Fumio YAMAZAKI and Mr. CHEN Zhi Cheng*
Independent Non-executive Directors:	*Mr. WANG Xue Zheng, Mr. ZHAO Chang Wen, Mr. WU Xiao Bo and Mr. MA Hai Tao*