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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)

2018 ANNUAL RESULTS ANNOUNCEMENT

The board of directors (the “Board”) of Tsingtao Brewery Company Limited (the “Company”) is pleased to present the preliminary consolidated results of the Company and its subsidiaries (the “Group”) for the year ended 31 December 2018 (the “Reporting Period”) extracted from the audited consolidated financial statements of the Group prepared in accordance with the China Accounting Standards for Business Enterprises.

1. FINANCIAL INFORMATION

(All amounts in RMB Yuan unless otherwise stated)

Consolidated Balance Sheet

	Note	31 December 2018	31 December 2017
ASSETS			
Current assets			
Cash at bank and on hand		12,535,737,018	9,805,485,121
Financial assets held for trading		1,202,544,491	—
Financial assets at fair value through profit or loss		—	130,115,254
Notes receivable and accounts receivable	2	164,507,334	183,617,244
Advances to suppliers		173,564,933	116,394,430
Other receivables		297,784,761	348,400,531
Inventories		2,651,224,726	2,392,910,141
Other current assets		734,941,934	1,096,060,646
Total current assets		17,760,305,197	14,072,983,367
Non-current assets			
Available-for-sale financial assets		—	600,000
Long-term equity investments		370,486,200	375,899,439
Other non-current financial assets		600,000	—
Investment properties		27,932,768	27,261,927
Fixed assets		10,326,694,147	10,993,772,759
Construction in progress		379,891,294	200,139,178
Intangible assets		2,599,685,515	2,776,216,295
Goodwill		1,307,103,982	1,307,103,982
Long-term prepaid expenses		33,107,419	36,042,642
Deferred tax assets		1,207,020,387	1,135,894,135
Other non-current assets		62,438,096	48,798,055
Total non-current assets		16,314,959,808	16,901,728,412
TOTAL ASSETS		34,075,265,005	30,974,711,779

Consolidated Balance Sheet (continued)

	Note	31 December 2018	31 December 2017
LIABILITIES AND EQUITY			
Current liabilities			
Short-term borrowings		296,155,600	282,534,200
Notes payable and accounts payable	3	2,572,424,544	2,373,206,083
Advances from customers		—	1,177,632,347
Contract liabilities		5,237,538,511	—
Employee benefits payable		1,175,461,292	1,032,628,088
Taxes payable		691,133,999	400,835,890
Other payables		2,113,507,358	5,184,870,253
Current portion of non-current liabilities		420,320	419,160
Other current liabilities		228,510	107,284
Total current liabilities		12,086,870,134	10,452,233,305
Non-current liabilities			
Long-term borrowings		630,480	1,047,900
Long-term payables		222,324,164	123,140,327
Deferred income		2,343,747,145	1,904,109,828
Long-term employee benefits payable		526,560,514	499,008,449
Deferred tax liabilities		205,181,181	220,667,269
Total non-current liabilities		3,298,443,484	2,747,973,773
Total liabilities		15,385,313,618	13,200,207,078
Equity			
Share capital		1,350,982,795	1,350,982,795
Capital surplus		3,444,186,312	3,444,181,512
Other comprehensive income		(44,696,804)	(9,038,750)
Surplus reserve		1,400,704,380	1,400,704,380
General reserve		199,512,331	155,497,737
Undistributed profits	4	11,619,782,072	10,802,900,749
Total equity attributable to shareholders of the Company		17,970,471,086	17,145,228,423
Non-controlling interests		719,480,301	629,276,278
Total equity		18,689,951,387	17,774,504,701
TOTAL LIABILITIES AND EQUITY		34,075,265,005	30,974,711,779

Consolidated Income Statement

	Note	Year ended 31 December 2018	2017
Revenue	5	26,575,255,205	26,277,051,684
<i>Less:</i> Cost of sales	5	(16,555,774,979)	(15,622,130,867)
Taxes and surcharges	6	(2,326,543,366)	(2,325,028,134)
Selling and distribution expenses		(4,868,834,502)	(5,768,943,601)
General and administrative expenses		(1,386,380,042)	(1,225,567,639)
Research and development expenses		(19,755,502)	(18,688,799)
Financial expenses		497,115,822	370,017,175
Including: Interest expenses		(13,707,476)	(10,542,443)
Interest income		536,675,628	415,164,265
Asset impairment losses		(147,032,754)	(10,716,839)
Credit impairment losses		1,311,608	—
<i>Add:</i> Other income		523,174,569	427,152,035
Investment income		20,518,603	57,988,170
Including: Share of profit of associates and a joint venture		16,615,487	20,461,767
Profits arising from changes in fair value		54,170,936	115,254
Gains on disposals of assets	7	10,339,068	(46,283,580)
Operating profit		2,377,564,666	2,114,964,859
<i>Add:</i> Non-operating income		15,921,391	22,883,938
<i>Less:</i> Non-operating expenses		(13,719,191)	(33,030,158)
Total profit		2,379,766,866	2,104,818,639
<i>Less:</i> Income tax expense	8	(818,755,412)	(722,562,998)
Net profit		1,561,011,454	1,382,255,641
Classified by continuity of operations			
Net profit from continuing operations		1,561,011,454	1,382,255,641
Net profit from discontinued operations		—	—
Classified by ownership of the equity			
Attributable to non-controlling interests		138,811,749	119,238,453
Attributable to shareholders of the Company		1,422,199,705	1,263,017,188
Other comprehensive income, net of tax		(29,549,068)	41,110,672
Other comprehensive income attributable to shareholders of the Company, net of tax			
Items that will not be subsequently reclassified to profit or loss			
Changes arising from remeasurement of defined benefit plan		(22,516,000)	23,670,000
Items that will be subsequently reclassified to profit or loss			
Shares of other comprehensive income of investees accounted for using the equity method that will be subsequently reclassified to profit or loss		(12,848)	135,737
Changes in fair value of available-for-sale financial assets		—	6,108,986
Currency translation differences		(7,020,220)	11,195,949
Total comprehensive income		1,531,462,386	1,423,366,313
Attributable to shareholders of the Company		1,392,650,637	1,304,127,860
Attributable to non-controlling interests		138,811,749	119,238,453
Earnings per share	9		
Basic earnings per share (RMB Yuan)		1.053	0.935
Diluted earnings per share (RMB Yuan)		1.053	0.935

Note:

1 Basis of preparation

The financial statements are prepared in accordance with the Accounting Standards for Business Enterprises — Basic Standards, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods 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 issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

Significant changes in accounting policies

In 2017, the Ministry of Finance issued the revised CAS 14 “Revenue” (hereinafter referred to as “the new revenue standard”) and the revised CAS 22 “Recognition and measurement of financial instruments”, CAS 23 “Transfer of financial assets”, CAS 37 “Presentation of financial instruments” (hereinafter referred to as “the new financial instruments standard”). In 2018, the Ministry of Finance issued “Circular of the Ministry of Finance on revising and issuing the formats of corporate financial statements for 2018” (Cai Kuai [2018] No.15) and its interpretation. The financial statements for the year ended 31 December 2018 are prepared in accordance with the above standards and circular.

(a) Financial statement presentation

The impacts on the consolidated balance sheet and the consolidated income statement are listed as follows:

Contents and reasons of the modification of accounting policies

	The line items affected	The amounts affected	
		31 December 2017	1 January 2017
The Group incorporates ‘notes receivable’ and ‘accounts receivable’ into ‘notes receivable and accounts receivable’.	Accounts receivable Notes receivable Notes receivable and accounts receivable	(141,397,244) (42,220,000) 183,617,244	(124,647,040) (26,400,000) 151,047,040
The Group incorporates ‘interests receivable’ and ‘other receivables’ into ‘other receivables’.	Interests receivable Other receivables	(86,573,933) 86,573,933	(71,557,290) 71,557,290
The Group incorporates ‘fixed assets’ and ‘fixed assets pending for disposal’ into ‘fixed assets’.	Fixed assets pending for disposal Fixed assets	(2,310,587) 2,310,587	(1,158,936) 1,158,936

1 Basis of preparation (continued)

Significant changes in accounting policies (continued)

(a) Financial statement presentation (continued)

Contents and reasons of the modification of accounting policies

The line items affected

The amounts affected

31 December 2017

1 January 2017

The Group incorporates 'notes payable' and 'accounts payable' into 'notes payable and accounts payable'.	Accounts payable	(2,083,733,787)	(2,049,229,359)
	Notes payable	(289,472,296)	(307,516,920)
	Notes payable and accounts payable	2,373,206,083	2,356,746,279
The Group incorporates 'interests payable' and 'other payables' into 'other payables'.	Interests payable	(815,222)	(737,291)
	Other payables	815,222	737,291
The Group incorporates 'long-term payable' and 'payables for special projects' into 'long-term payables'.	Payables for special projects	(123,140,327)	(175,014,368)
	Long-term payables	123,140,327	175,014,368
			Year ended 31 December 2017
The Group solely lists 'research and development expenses' that were recognised in 'general and administrative expenses'.	General and administrative expenses		(18,688,799)
	Research and development expenses		18,688,799

(b) Revenue

According to relevant regulations of the new revenue standard, the Group recognizes the accumulated significant effects of initial adoption of the standard as adjustment to the amount of relevant items at the beginning of 2018. The comparative financial statements of 2017 are not restated.

Contents and reasons in the changes of accounting policies

The line items affected

The amounts affected 1 January 2018

As adoption of the new revenue standard, the Group reclassifies advances from customers relevant to beer sales and promotion-related marketing expenses payables to contract liabilities.	Advances from customers	(1,177,632,347)
	Other payables	(3,144,406,819)
	Contract liabilities	4,322,039,166

1 Basis of preparation (continued)

Significant changes in accounting policies (continued)

(b) Revenue (continued)

Comparing with the original revenue standard, the Group reclassifies advances from customers relevant to beer sales and promotion-related marketing expenses payables into contract liabilities due to the adoption of the new revenue standard and adjusts promotion-related marketing expenses, previously recorded in selling and distribution expenses, to offset revenue. The impact on the consolidated financial statements for the year ended 31 December 2018 is listed as below:

Balance sheet items affected		The amounts affected 31 December 2018
Advances from customers		(1,938,089,853)
Other payables		(3,299,448,658)
Contract liabilities		5,237,538,511
Income statement items affected		The amounts affected Year ended 31 December 2018
Revenue		(1,055,911,916)
Selling and distribution expenses		(1,055,911,916)

(c) Financial instruments

According to relevant regulations of the new financial instruments standard, the Group adjusts retained earnings at the beginning of 2018 and other amounts of related items for the cumulative impact of the initial adoption of the standard. The comparative financial statements of 2017 are not restated.

- (i) As at 1 January 2018, the Group's financial assets in consolidated financial statements classified and measured under the original and the new financial instruments standard are compared as below:

The original financial instruments standard			The new financial instruments standard		
Items	Measurement categories	Carrying amount	Items	Measurement categories	Carrying amount
Cash at bank and on hand	Amortised cost	9,805,485,121	Cash at bank and on hand	Amortised cost	9,805,485,121
Financial assets measured at fair value through profit or loss	Measured at fair value through profit or loss	130,115,254	Financial assets held for trading	Measured at fair value through profit or loss	130,115,254
Notes receivable and accounts receivable	Amortised cost	183,617,244	Notes receivable and accounts receivable	Amortised cost	183,617,244
Other receivables	Amortised cost	348,400,531	Other current assets	Amortised cost	127,919,000
			Other receivables	Amortised cost	220,481,531
Other current assets	Measured at fair value through other comprehensive income	628,145,315	Financial assets held for trading	Measured at fair value through profit or loss	628,145,315
Financial assets held for trading	Measured at cost (equity instruments)	600,000	Other non-current financial assets	Measured at fair value through profit or loss	600,000

2 Notes receivable and accounts receivable

	31 December 2018	31 December 2017
Notes receivable	53,801,550	42,220,000
Accounts receivable (a)	<u>110,705,784</u>	<u>141,397,244</u>
	<u>164,507,334</u>	<u>183,617,244</u>

(a) Accounts receivable

	31 December 2018	31 December 2017
Accounts receivable	301,766,973	334,430,948
Less: Provision for bad debts	<u>(191,061,189)</u>	<u>(193,033,704)</u>
	<u>110,705,784</u>	<u>141,397,244</u>

The majority of the Group's domestic sales are made by advances from customers. The remains are settled by letters of credit, bank acceptance notes or providing credit terms from 30 to 100 days.

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

	31 December 2018	31 December 2017
Within 1 year	110,831,624	141,357,213
1 to 2 years	255,791	244,294
2 to 3 years	41,542	—
3 to 4 years	—	655,737
4 to 5 years	655,737	9,205
Over 5 years	<u>189,982,279</u>	<u>192,164,499</u>
	<u>301,766,973</u>	<u>334,430,948</u>

Accounts receivable are mainly recorded based on the dates of transaction. The ageing of accounts receivable represented on their recording dates is basically the same as the ageing represented on the dates of invoice.

3 Notes payable and accounts payable

	31 December 2018	31 December 2017
Notes payable	326,075,937	289,472,296
Accounts payable (a)	<u>2,246,348,607</u>	<u>2,083,733,787</u>
	<u>2,572,424,544</u>	<u>2,373,206,083</u>

(a) Accounts payable

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

	31 December 2018	31 December 2017
Within 1 year	2,217,835,544	2,052,764,625
1 to 2 years	10,637,317	9,020,945
2 to 3 years	3,481,831	4,530,665
Over 3 years	<u>14,393,915</u>	<u>17,417,552</u>
	<u>2,246,348,607</u>	<u>2,083,733,787</u>

4 Dividend

Pursuant to the resolution at the Annual General Meeting dated 28 June 2018, the Company approved a cash dividend RMB0.42 per share (tax included) to the shareholders of the Company of RMB567,412,774 for the year of 2017, based on a total number of 1,350,982,795 issued shares (2017: cash dividend RMB0.35 per share (tax included) to the shareholders of the Company of RMB472,843,978 for the year of 2016, based on a total number of 1,350,982,795 issued shares).

Pursuant to the resolution at the Board Meeting dated 28 March 2019, the Board proposed a cash dividend RMB0.48 per share (tax included) to the shareholders of the Company with RMB648,471,742, based on a total number of 1,350,982,795 issued shares. Such dividend distribution is subject to the approval at the forthcoming Annual General Meeting.

5 Revenue and cost of sales

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from main operation	26,234,148,017	25,985,075,078
Revenue from other operations	<u>341,107,188</u>	<u>291,976,606</u>
	<u>26,575,255,205</u>	<u>26,277,051,684</u>
	Year ended 31 December 2018	Year ended 31 December 2017
Cost of main operation	(16,343,422,417)	(15,425,885,974)
Cost of other operations	<u>(212,352,562)</u>	<u>(196,244,893)</u>
	<u>(16,555,774,979)</u>	<u>(15,622,130,867)</u>

6 Taxes and surcharges

	Year ended 31 December 2018	Year ended 31 December 2017
Consumption tax	1,734,393,300	1,707,188,709
City maintenance and construction tax	245,735,035	247,254,559
Education surcharges	185,736,833	189,337,531
Real estate tax	60,517,007	60,950,528
Land use tax	58,971,088	68,893,464
Stamp tax	25,606,915	29,190,160
Others	<u>15,583,188</u>	<u>22,213,183</u>
	<u>2,326,543,366</u>	<u>2,325,028,134</u>

7 Gains on disposals of assets

	Year ended 31 December 2018	Year ended 31 December 2017
Gains/(Losses) on disposals of fix assets	6,121,979	(45,418,792)
Gains/(Losses) on disposals of intangible assets	4,217,089	(864,788)
	<u>10,339,068</u>	<u>(46,283,580)</u>

8 Income tax expense

	Year ended 31 December 2018	Year ended 31 December 2017
Current income tax calculated according to tax law and related regulations in mainland China — China enterprise income tax	900,036,176	842,707,539
Current profits tax calculated according to tax law and related regulations in Hong Kong — Hong Kong profits tax	3,439,870	3,423,701
Current profits supplemental tax calculated according to tax law and related regulations in Macau — Macau profits supplemental tax	1,891,706	555,354
Deferred income tax	<u>(86,612,340)</u>	<u>(124,123,596)</u>
	<u>818,755,412</u>	<u>722,562,998</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 expense is listed below:

	Year ended 31 December 2018	Year ended 31 December 2017
Total profit	<u>2,379,766,866</u>	<u>2,104,818,639</u>
Income tax expense calculated by applicable tax rates	592,508,178	524,686,269
Tax impact of equivalent sales and costs, expenses and losses not deductible for tax purpose	26,588,262	75,153,473
Impairment of deferred tax assets	62,331,772	24,047,146
Income not subject to tax	(18,913,592)	(18,570,926)
Utilization of previously unrecognised deferred tax assets	(71,390,743)	(78,788,735)
Deductible temporary differences for which no deferred tax assets were recognised	64,930,457	60,292,181
Deductible tax losses for which no deferred tax assets were recognised	<u>162,701,078</u>	<u>135,743,590</u>
Income tax expense	<u>818,755,412</u>	<u>722,562,998</u>

8 Income tax expense (continued)

(1) Enterprise income tax

The applicable enterprise income tax rate of the Company and its subsidiaries incorporated and operated in mainland China for the current year is 25%.

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

Tsingtao Brewery Hong Kong Trading Co., Ltd and Asia Brewery (Macau) Co., Ltd, the Company's subsidiaries, were established in Hong Kong and Macau, applying Hong Kong profits tax and Macau profits supplemental tax respectively.

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 numbers of ordinary shares outstanding:

	Year ended 31 December 2018	Year ended 31 December 2017
Consolidated net profit attributable to ordinary shareholders of the Company	1,422,199,705	1,263,017,188
Weighted average numbers of ordinary shares outstanding	<u>1,350,982,795</u>	<u>1,350,982,795</u>
Basic earnings per share	<u>1.053</u>	<u>0.935</u>
Including:		
— Basic earnings per share from continuing operations	1.053	0.935

(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 2018 (2017: nil), diluted earnings per share equals 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. Different regions require different marketing strategies, and the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions on resources allocation to these segments and to assess their performance.

Tsingtao Brewery Finance LLC. (“Finance Company”) is principally engaged in the financial businesses 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 resources allocation and assess its performance.

The Group identified seven reportable segments as follows:

- Shandong region segment, responsible for the production and distribution of beer in Shandong region and surrounding regions
- South China region segment, responsible for the production and distribution of beer in South China region
- North China region segment, responsible for the production and distribution of beer in North China region
- East China region segment, responsible for the production and distribution of beer in East China region
- Southeast China region segment, responsible for the production and distribution of beer in Southeast China region
- Hong Kong, Macau and other overseas region segment, responsible for the distribution of beer in Hong Kong, Macau and other overseas
- Finance Company segment, engaged in the financial businesses of wealth management and agency collection and payment for its members

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

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

10 Segment information (continued)

(a) Segment information as at and for the year ended 31 December 2018 is as follows:

	Shandong Region	South China Region	North China Region	East China Region	Southeast China Region	Hong Kong, Macau and other overseas Regions	Finance Company	Unallocated	Elimination	Total
Revenue from external customers	15,392,675,579	2,336,052,494	4,543,411,184	2,855,585,969	777,568,838	662,385,219	5,222,751	2,353,171	—	26,575,255,205
Inter-segment revenue	2,592,813,166	868,176,052	1,403,271,206	131,367,782	6,521,749	140,923,147	35,662,834	600,767	(5,179,336,703)	—
Cost of sales	(12,010,293,924)	(2,196,695,789)	(3,929,801,262)	(2,315,079,748)	(656,984,581)	(552,247,921)	(47,178)	(884,204)	5,106,259,628	(16,555,774,979)
Selling and distribution expenses	(2,840,201,184)	(489,854,239)	(697,956,495)	(575,848,356)	(146,570,735)	(118,403,493)	—	—	—	(4,868,834,502)
Interest income	45,849,724	12,373,953	39,018,141	6,265,791	1,511,571	4,635,120	529,875,446	71,651,640	(174,505,758)	536,675,628
Interest expenses	(8,484,139)	(5,485,241)	(13,263,541)	(14,372,342)	—	(7,007,431)	(177,927,522)	—	212,832,740	(13,707,476)
Share of profits of associates and a joint venture	—	—	—	—	—	—	—	16,615,487	—	16,615,487
Credit impairment reversals/(losses)	599,920	(11,751)	83,992	(35,309)	41,689	(121,635)	(1,314,203)	31,329,200	(29,260,295)	1,311,608
Asset impairment losses	(20,037,878)	(36,624,812)	(17,235,063)	(71,720,811)	(1,414,190)	—	—	(265,895,228)	265,895,228	(147,032,754)
Depreciation and amortization	(501,197,452)	(175,975,595)	(203,899,533)	(176,651,183)	(38,375,206)	(2,167,699)	(789,594)	(54,371,300)	—	(1,153,427,562)
Total profit/(losses)	1,710,475,167	107,792,928	704,434,989	(411,273,768)	(93,378,218)	137,468,140	436,289,364	(415,139,857)	203,098,121	2,379,766,866
Income tax expense	(401,796,078)	(31,774,318)	(179,442,288)	(7,206,103)	(65,280,582)	(33,887,537)	(108,722,066)	—	9,353,560	(818,755,412)
Net profit/(losses)	1,308,679,089	76,018,610	524,992,701	(418,479,871)	(158,658,800)	103,580,603	327,567,298	(415,139,857)	212,451,681	1,561,011,454
Total assets	13,138,710,670	3,861,847,288	6,419,278,995	3,135,373,614	823,900,170	664,201,416	14,250,644,362	7,184,406,255	(15,403,097,765)	34,075,265,005
Total liabilities	8,203,497,988	1,844,903,684	4,246,256,703	2,507,581,724	510,101,122	767,959,169	12,343,083,381	283,948,367	(15,322,018,520)	15,385,313,618
Non-cash expenses other than depreciation and amortization	14,246,903	388,238	7,151,885	129,248	17,657	—	—	—	—	21,933,931
Long-term equity investments in associates and a joint venture	—	—	—	—	—	—	—	370,486,200	—	370,486,200
Additions to non-current assets (i)	200,000,596	70,198,196	294,318,614	68,736,251	24,466,859	2,041,653	1,963,349	49,521,471	(3,644,021)	707,602,968

10 Segment information (continued)

(b) Segment information as at and for the year ended 31 December 2017 is as follows:

	Shandong Region	South China Region	North China Region	East China Region	Southeast China Region	Hong Kong, Macau and other overseas Regions	Finance Company	Unallocated	Elimination	Total
Revenue from external customers	14,292,308,485	3,162,287,425	4,407,098,356	2,794,750,790	925,210,692	692,918,837	700,800	1,776,299	—	26,277,051,684
Inter-segment revenue	2,390,483,367	551,855,702	1,177,817,956	107,469,713	15,477,672	158,838,061	46,397,966	600,767	(4,448,941,204)	—
Cost of sales	(10,644,714,799)	(2,316,347,907)	(3,660,960,131)	(2,166,077,505)	(692,725,985)	(565,385,926)	(31,475)	(952,413)	4,425,065,274	(15,622,130,867)
Selling and distribution expenses	(2,967,752,418)	(1,025,428,613)	(730,113,119)	(681,937,086)	(204,787,082)	(158,925,283)	—	—	—	(5,768,943,601)
Interest income	34,104,487	16,633,108	34,318,966	4,235,264	1,752,702	2,482,546	410,790,742	56,484,968	(145,638,518)	415,164,265
Interest expenses	(13,854,308)	(6,542,590)	(13,532,271)	(16,821,479)	—	(4,747,878)	(147,090,113)	—	192,046,196	(10,542,443)
Share of profits of associates and a joint venture	—	—	—	—	—	—	—	20,461,767	—	20,461,767
Asset impairment (losses)/reversals	(6,271,318)	7,221	(2,718,497)	(450,304)	(1,544,388)	8,898	1,457,282	(149,028,451)	147,822,718	(10,716,839)
Depreciation and amortization	(504,071,695)	(195,340,858)	(205,958,358)	(177,528,595)	(39,777,419)	(1,387,828)	(720,929)	(53,837,297)	—	(1,178,622,979)
Total profit/(losses)	1,575,390,120	(30,198,645)	627,135,625	(374,620,865)	(21,907,392)	112,471,504	337,386,129	(292,356,733)	171,518,896	2,104,818,639
Income tax expense	(397,925,440)	(15,061,480)	(212,700,208)	8,794,771	5,745,786	(25,990,510)	(83,940,593)	—	(1,485,324)	(722,562,998)
Net profit/(losses)	1,177,464,680	(45,260,125)	414,435,417	(365,826,094)	(16,161,606)	86,480,994	253,445,536	(292,356,733)	170,033,572	1,382,255,641
Total assets	11,830,427,706	4,418,006,101	5,688,165,259	3,401,092,800	895,250,134	741,678,964	11,138,523,514	5,412,998,103	(12,551,430,802)	30,974,711,779
Total liabilities	6,218,794,904	2,059,788,646	3,540,854,684	2,522,176,064	485,733,804	854,045,067	9,560,519,518	450,369,758	(12,492,075,367)	13,200,207,078
Non-cash expenses other than depreciation and amortization	12,953,869	454,619	7,671,328	174,133	19,338	—	—	—	—	21,273,287
Long-term equity investments in associates and a joint venture	—	—	—	—	—	—	—	375,899,439	—	375,899,439
Additions to non-current assets (i)	224,951,938	103,823,375	186,153,159	46,413,000	13,546,272	2,936,189	919,470	45,543,304	(30,904,966)	593,381,741

(i) Non-current assets do not include financial assets, long-term equity investments and deferred tax assets.

10 Segment information (continued)

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

	Year ended 31 December 2018	Year ended 31 December 2017
Revenue from external customers		
Domestic	25,905,104,057	25,539,177,885
Hong Kong and Macau	217,980,681	261,987,116
Other overseas	452,170,467	475,886,683
	<u>26,575,255,205</u>	<u>26,277,051,684</u>
Total non-current assets	31 December 2018	31 December 2017
Domestic	15,096,502,165	15,754,162,727
Hong Kong and Macau	10,837,256	11,071,550
	<u>15,107,339,421</u>	<u>15,765,234,277</u>

II. MANAGEMENT DISCUSSION AND ANALYSIS

(I) Business Performance Review

1. *Development Strategies and Business Plan Implementation Description*

In 2018, in the context of steady domestic economic development and the distinctive trend of consumption upgrade, the development of the beer market has stabilized gradually. Its capacity and product structure have been further optimized and industrial competition has seen improvements. In 2018, the total beer production nationwide reached 38.12 million kl (Data source: National Bureau of Statistics above-scale enterprises production capacity), a slight year-on-year increase of 0.5%, which marked its first positive growth since 2014.

During the Reporting Period, the Company has continued to follow the “Development Strategies based on Capacity and Brand” established by the Board, and remained steadfastly confident in its strategy, brand, products, and team. The Company has vigorously promoted its transition from old growth drivers to new ones and the upgrading of its product structure. It has proactively expanded its domestic and foreign markets through a combination of measures, including “maintaining growth, adjusting structure and enhancing cost-effectiveness”. Total annual beer sales volume reached 8.03 million kl, a year-on-year increase of 0.8%; annual operating revenue reached approximately RMB26,575 million, a year-on-year increase of 1.13% (Note: Due to the Company’s implementation of new revenue standards during the Reporting Period, the year-on-year increase of operating revenue was 5.15% on a comparative basis); net profits attributable to the shareholders of the listed company was approximately RMB1,422 million, a year-on-year increase of 12.60%. In summary, the Company has shown a sound development trend with profit growth greater than revenue growth, and revenue growth greater than sales volume growth.

During the Reporting Period, the Company has faced severe challenges in the form of competitive pressure and continually rising costs caused by overcapacity in the beer industry. In light of such challenges, the Company has remained steadfast in its strategic and operational capabilities, and concentrated on its work policy of “achieving quality- and profit-based growth through transformation, upgrading, dual increases, dual adjustments with a focus on the present; unleashing the dual benefits of old and new growth drivers through innovation-driven and assuming responsibilities boldly while keeping the future in mind”. The Company has harnessed the brand and quality advantages of Tsingtao Beer, and further refined a multi-dimensional, structured, and layered nationwide market strategic layout. The Company has also wielded the synergistic effects of production and sales, by focusing on advantaged markets, relying on the existing production bases, as well as fanning out to further establish a strategic market and urban market base. It has placed an emphasis on resource investment based on market layout and persisted in enhancing the market competitiveness of its products through its strong brand and product mix, to achieve breakthroughs in the regional market and drive the growth of its peripheral market. At the same time, the Company has maintained its market share, while keeping a close watch on the market to adjust its structure and prices. These actions have resulted in increased profitability.

The Company has continued to promote and improve its marketing model of “Key Account + Micro Management”, harnessed its advantages in production and sales networks covering major markets across the country, further reinforced market expansion and channel development, refined its distribution network, intensified terminal operations, continued optimizing its division of work along the marketing value chain, enhanced its sales capabilities in regional and subdivided markets, and driven growth in market sales and market share. At the same time, the Company has further optimized its expense management system to enhance the effectiveness of promotional expenses and marketing efficiency. In addition, the Company has proactively explored and practiced the deep integration of real economy and “Internet+”, improved its e-commerce channel system, satisfied the purchasing requirements and consumption experiences of consumers in the Internet era through several channels, and accomplished the innovative transformation of featured new business models.

In light of the emerging trend of upgrades in the industrial consumption structure, the Company has continued to promote its brand strategy of “Core Brand Tsingtao Beer + Secondary Brand Laoshan Beer”. It has remained committed to its “Four in One” promotional model for its brand and vigorously expanded interactions and communications with consumers through sports marketing, music marketing. During the Reporting Period, the Company has taken the opportunity of the Shanghai Cooperation Organization Summit in Qingdao and the 2018 FIFA World Cup in Russia to carry out further global brand promotional activities for Tsingtao Beer, thereby expanding market coverage further and boosting sales. In December 2018, Tsingtao Beer was selected as an official sponsor of the Beijing 2022 Winter Olympics and Paralympics. This marked another cooperation with the Olympic Games, following Tsingtao Beer’s official sponsorship for the 2008 Olympic Games in Beijing. The upcoming event shall further accelerate the internationalization of the Tsingtao Beer brand.

In terms of the international market, the Company has continued the proactive expansion of Tsingtao Beer’s global marketing network through the advancement of the country’s “Belt and Road” Strategy. The Company has adhered to the concept of “High quality, high price and high visibility” for promotion in overseas markets, gathered resources to develop regional influential markets with market potential and brand popularity, and continued to diversify its product lines to accommodate the preferences of consumers in different regions, especially the younger consumers. Furthermore, the Company has elevated its brand influence, and continuously built and enhanced the high-end brand positioning and product image of Tsingtao Beer. The Company has taken active steps to facilitate the implementation of various market strategies and brand strategies. It has continued to optimize the channel structure of overseas markets through a combination of means, including featured market promotions and richer consumer experiences and interactions such as the Chinese New Year and Mid-Autumn Festival activities, as well as the inaugural “Tsingtao Mini” Beer Festival in the Americas, Europe, Oceania and Asia Pacific regions. In addition, it has strengthened brand communications and promotions through concerted online and offline promotional activities on global mainstream social media platforms, hence providing overseas consumers with the best brand and product experiences. In 2018, Tsingtao Beer products sold to over 100 countries and regions around the world.

Thanks to first-class domestic R&D platforms, the Company has developed popular differentiated products based on the consumers' demands. In recent years, a number of new special products have been successfully developed and launched, including "Classic 1903, whole-barley Weissbier, raw stock, Tsingtao Pilsner and Tsingtao Beer IPA". These products have boosted the optimization of the Company's product structure and the layout of strategic new products and new special products. The Company has expedited the transformation and upgrading of high value-added products represented by canned beer and craft beer. While promoting the supply-side reform and leading the consumption trend, the Company has also improved its profitability. In 2018, the Company's total sales volume of its core brand, Tsingtao Beer, reached 3.914 million kl, a year-on-year increase of 3.97%, including a total of 1.733 million kl in high-end products such as "Augerta, Hong Yun Dang Tou, Classic 1903 and draft beer" etc., a year-on-year increase of 5.98%, thus maintaining its leading position in the mid- and high-end market.

During the Reporting Period, the Company was widely recognized by domestic and overseas consumers for its excellent quality. Tsingtao Beer products received the Gold Medal at the "World Beer Championships" and was awarded the "2018 European Beer Star". In 2018, Tsingtao Beer has maintained its top position in terms of beer industrial brand value in China with a brand value of RMB145,575 million (published by World Brand Laboratory). The brand value of "Laoshan Beer" reached RMB27,258 million (published by World Brand Laboratory).

During the Reporting Period, the Company has completed the general election for a new session of the Board and Board of Supervisors, improved its corporate governance structure, as well as laid a solid foundation for the continued progress of its future strategic development goals and sound sustainable development. At the same time, upon review by and approval from the 2017 Annual General Meeting, the Company has amended the *Articles of Incorporation*, implemented the legal position of Party organizations within the Company's corporate governance structure, organically integrated the core role of the Party and corporate governance, and further guaranteed the standard and effective operation of corporate governance.

(II) Future Prospects

1. Industrial Competition Pattern and Development Trends

Chinese beer industry has experienced rapid development over several decades, and market sales have been ranked first in the world, with per capita consumption as high as that of the world's average. At present, the top 5 beer enterprises in China occupies nearly 80% of market shares. The vigorous promotion of various foreign-invested beers and imported beers in China have led to fiercer market competition; while production and operation costs are increasing, all such factors have adversely impacted the sales of beer.

The upgrading of consumption and diversification of consumer demands are changing the structure of the entire beer industry. Market competition is shifting from the expansion of capacity and scale towards quality and differentiation-based competition. There are increasingly marked upgrades

in consumption structures. The high-end product market represented by canned beer, imported beer and craft beer is experiencing rapid growth and the growth rate of the entire industry can be differentiated.

At present, the instant beverages market continues to occupy a dominant position in the domestic beer market. Some medium- and high-end products represented by canned beers and bottled beers which targeted at families have maintained a positive development trend. The mature e-commerce model has brought convenient and speedy choice to families beer consumption.

Currently, the Chinese beer market is still the largest market in the world with the most potential. There is certain potential in increasing the profit and sales of the Chinese beer industry through the further optimization of capacities as well as adjustments in product structure and pricing. Therefore, we are very confident in the beer industry and the Company's future development.

2. *The Company's Development Strategy*

The Company shall continue to implement its "Development Strategies based on Capacity and Brand", focus on the transformation of the development model, accelerate structural optimization and adjustment, build and reinforce strategic markets and its core base market, achieve breakthroughs in emerging markets and continuously increase its shares in both domestic and foreign markets. At the same time, the Company shall innovate to stimulate its development, harness the brand and quality advantages of Tsingtao Beer, accelerate R&D, marketing and upgrading of various strategic new special products, improve its customer-oriented differentiation competitive advantages, and persist in making new progress in the domestic medium- and high-end market by relying on its competitive strategy on differentiation.

3. *Business Plan*

Along with the continuous development of China's economy, the recovery of the beer industry and the upgrading of consumption shall lead to greater opportunities for various domestic beer enterprises with corresponding brand and scale advantages. The Company shall seize the opportunity, harness the brand and quality advantages of Tsingtao Beer, achieve high-quality development through transformation, upgrading, enhancement of product structure, cost reduction and increase in efficiency, and strive to achieve sales volumes that are higher than the average growth rate of the domestic beer industry.

The Company shall take further steps to expand its domestic and foreign markets, continue to improve the utilization ratio of its existing capacity, enhance product and structural optimization and upgrading, establish a normalized price adjustment mechanism, and maintain its leading position in the domestic medium- and high-end markets. Furthermore, the Company shall proactively explore the application of Internet of Things, Big Data, Mobile Applications and other new information technologies, drive the transition from traditional production model to the "Internet + Industry" model, and satisfy various market needs in terms of a wider variety, higher efficiency, higher quality and lower costs.

The Company shall continue to focus on market resources, improve marketing channels and networks and create new marketing modes. It shall accelerate the integration process of the sales network, and set up the most competitive channel network and sales operation model. In addition, the Company shall persist in the implementation of its product differentiation strategy and speed up the transformation and upgrading into high value-added products by continuously optimizing the brand and category structure; the Company shall also promote the development of modern channels, reinforce the strength of e-commerce channels, achieve online and offline sharing of resources and mutual complementation of advantages, strive to enhance marketing efficiency and synergy, and drive the sustained growth of sales volume and revenue.

The Company shall continue to implement its 1+1 brand strategy of “Core Brand Tsingtao Beer + Secondary Brand Laoshan Beer”, use the brand to drive the development of categories, and establish the “Four in One” marketing model. With a focus on in-depth sports marketing and music marketing, the Company shall optimize resource allocation, expedite the development of core products of the core brand by developing popular differentiated products, and thoroughly improve the brand’s international, young and fashionable image.

In 2019, the board and the management layer will lead and organize all employees to positively promote and deepen the reform of state-owned enterprises and the transformation of new and old kinetic energy. According to the Company’s established development strategies, various advantages in the quality, brand and technology will be fully taken to improve the core competitiveness and the sustainable development of the company, creating higher value for the shareholders.

4. *Potential Business Risks*

As a competitive traditional industry, the Company (against the backdrop of industrial overproduction and heavy pressure on rising costs) may face the following major business risks:

1. Due to the vigorous promotion of foreign-invested beers and imported beers in China, market competition in the high-end product market, may become much fiercer. The high proportion of products facing high-end product market of the Company may affect short term sales and revenue growth.
2. The Company’s profitability may be influenced by sharp increases in raw material prices, packaging material prices and labor costs (which puts greater pressure on business operations).
3. Due to the market competition, the beer enterprises must increase their investment into the advertising and relevant promotion activities in order to improve the utilization ratio of the production capacity.
4. Substitute goods (including white spirit and wines etc.) develop rapidly to occupy the shares of the domestic beer market.

III. SHARE CAPITAL

1. During the Reporting Period, the Company's total number of shares and share capital structure did not change.
2. During the Reporting Period, the Company or any of its subsidiaries did not purchase, sell or redeem any of the Company's listed securities.

IV. FINAL DIVIDEND DISTRIBUTION PROPOSAL

The board proposes the distribution of the final dividend for the year ended 31 December 2018, and the amount shall be RMB0.48 per share (taxes included). Any dividend distribution proposal shall be subject to the consideration and approval at the Company's 2018 annual general meeting, and the final dividend is expected to be distributed to shareholders on 5 August 2019. The period for closure of register of members for H-share would be set out in the notice of annual general meeting to be published by the Company separately.

V. CORPORATE GOVERNANCE

The Company was listed simultaneously on Shanghai Stock Exchange and The Stock Exchange of Hong Kong Limited and thus shall comply with the requirements of applicable laws and securities supervisory regulations on corporate governance in both places. The Company always devotes to maintain the high-level corporate governance. For the year ended 31 December 2018, the Company strictly complied with relevant provisions stated in *Corporate Governance Code* as set out in Appendix 14 of *Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "Listing Rules")*, except the deviation from code provision A.4.2.

As stated in Code provision A.4.2, all directors (including the director whose tenure is designated) shall retire by turns once every three years at least. As disclosed in the announcement of the Company dated 14 June 2017, the tenure of the Company's 8th Session of the Board and Board of Supervisors expired on 16 June 2017. Considering that the nomination of relevant director/supervisor candidates was not completed, the re-election and appointment of the 8th session of the Board and Board of Supervisors postponed and the tenure of various special committees of the Company's 8th session of the Board and Board of Supervisors was accordingly extended as well in order to guarantee the continuity and the stability of all works, the Company had completed the general election work of the 9th session of the Board and Board of Supervisors on 28 June 2018. Accordingly, the Company has already complied with the code provision A.4.2 since 28 June 2018, and revised the *Articles of Association of Tsingtao Brewery Company Limited* and its appendices. Please refer to the Company's 2018 Annual Report for details about the Corporate Governance.

VI. AUDIT AND INTERNAL CONTROL COMMITTEE

The Audit and Internal Control Committee is subordinated to the Board. In conformity with Rule 3.21 of the *Listing Rules*, the Group's audited annual financial statements for the fiscal year as at 31 December 2018 have been checked and approved by the audit and internal control committee.

VII. AUDITOR'S SCOPE OF WORK

The figures in respect of this preliminary announcement of the Group's results for the year ended 31 December 2018 have been agreed by the Group's auditor, PricewaterhouseCoopers Zhong Tian LLP ("PwC"), to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by PwC in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PwC on this preliminary results announcement.

VIII. SIGNIFICANT EVENTS

1. Capacity Integration Subsidiaries during the Reporting Period

To proactively promote the conversion of new growth drivers and dissolve overcapacity, the Company held the 22nd meeting of the 8th session of the Board and the 2nd meeting of the 9th session of the Board on 26 April 2018 and on 28 August 2018. During the meeting, the closure and liquidation of Tsingtao Brewery Shanghai Yangpu Co., Ltd. and of Tsingtao Brewery (Wuhu) Co., Ltd. was approved. Re-employment of staff had been completed during the Reporting Period, while the disposal of debts and assets was still in-progress.

2. Information of Guarantees provided by the Company to the subsidiaries during the reporting period

Upon review and approval at the 21st meeting of the eighth session of the Board, by way of onshore guarantees for offshore loans through Bank of China (Qingdao Branch), the Company has applied for a letter of guarantee for financing borrowings with Bank of China (Qingdao Branch) to borrow HKD338 million from the Seoul Branch of Bank of China for Tsingtao Brewery Hong Kong Trading Co., Ltd. ("Tsingtao HK") and provide a financing guarantee of HKD350 million.

3. During the Reporting Period, the Company did not involve in any material litigation or arbitration.

By Order of the Board
Tsingtao Brewery Company Limited
Chairman
Huang Ke Xing

Qingdao, the People's Republic of China
March 28, 2019

The Company's Directors on the date of announcement:

Executive Directors: *Mr. Huang Kexing (Chairman), Mr. Fan Wei, Mr. Yu Zhuming, Mr. Wang Ruiyong*

Non-executive Director: *Mr. Tang Bin*

Independent Non-executive Directors: *Mr. Yu Zengbiao, Mr. Ben Shenglin, Mr. Jiang Min, Mr. Jiang Xinglu*