

## 1. OPERATIONS REVIEW FOR THE FIRST HALF OF THE YEAR

The Company is principally engaged in the manufacture and sale of beer, with its main product, Tsingtao Beer, gaining wide recognition in both domestic and overseas markets. The Company is now the largest brewery and beer distributor in the PRC.

In the first half of the year, the domestic beer market saw steady growth, with a national beer production of 11,330,000 tonnes in aggregate, representing a 4.6% year-on-year growth. Adhering to its mission of “striving for further success in the new millennium through system integration, mechanism innovation, upgrade of core competitiveness and commitment to consolidation and improvement for market dominance” as finalised early this year, the Company embarked on full penetration in the domestic market and intra-group system integration. Such internal integration involving management, technology, market, and brandname was initially effective, as evidenced by substantially enhanced market competitiveness and increased sales in respect of products of its subsidiaries, resulting in gradual availability of the economies of scale. For the first six months, the Group recorded a beer production of 1,210,000 tonnes, or a 68% year-on-year increase. Its share in the domestic market increased to 10.7%, compared to 6.7% in the corresponding period last year. In addition, its sale revenue and profit both achieved expedited growth. The Company’s status as a dominant market player in the domestic market had, therefore, further been reinforced and enhanced.

To further strengthen its presence in the PRC market, the Company acquired 福州第一家啤酒廠 in Fujian Province and 太倉啤酒廠 in Jiangsu in the first half of the year. As a result, the Company had a total of 45 production bases in 16 provinces and cities in China, with its production and sales distribution covering the most economically-developed areas, thus enjoying wider presence in the domestic market. All subsidiaries of the Group enjoyed a higher percentage of growth in terms of its beer production and sales, resulting in increased profit contribution to the Company. For the first six months of the year, its subsidiary, Xi’an Company, maintained profit at a higher level, while the South China Operations (including Zhuhai Company, Sanshui Company and Shenzhen Company) made better performance with a realised aggregate beer production of 110,000 tonnes, or a 92% year-on-year growth. The latter segment had accordingly become another new source of growth for the Company. Shanghai Songjiang Company, Beijing Five Stars and Three Ring Company newly acquired in the previous year remained at a stage of market tapping. Notwithstanding this, they gradually succeeded in their market penetration as a result of internal integration, with its beer production and sales of 140,000 tonnes for the first six months of the year.

Despite the global economic downturn, the Company continued to record satisfactory results in exports during the first half of the year, with beer export of 15,000 tonnes, representing a 5.4% year-on-year growth, and generation of foreign exchanges US\$10,080,000, representing a 8.1% year-on-year growth.

## 2. USE OF PROCEEDS

### (1) Proceeds from Public Subscription

Pursuant to the approval of the China Securities Regulatory Commission (“CSRC”) in its document ZhengJian Gong Si Zi [2001] No. 13, the Company had an additional issue of 100 million A Shares at an issue price of RMB7.87 per share in February 2001, with aggregate proceeds of RMB787,000,000. After deduction of issue expenses of RMB29,271,429.91, the net proceeds from the additional issue of new shares amounted to RMB757,728,570.09.

### (2) Use of Proceeds during the Reporting Period

*(Unit: RMB'000)*

Description of Application of Proceeds	Investment Amount	Actual Investment	Invested Amount expressed as a Percentage
Acquisition of 75% equity interest from foreign investors of Carlsbrew Shanghai	153,750	153,750	100%
Acquisition of 62.64% equity interest from foreign investors of Five Stars Company and 54% equity interest from foreign investors of Three Ring Company	186,240	126,810	68%
Technological renovation of draught beer production lines of Tsingtao Brewery No. 2	68,000	0	0
Technological renovation of draught beer production lines of Xi'an Company for an annual production of 50,000 tonnes	120,000	0	0
Phase 1 Technological renovation in respect of Maanshan Company for an annual production of 100,000 tonnes	77,000	70,000	91%
Technological renovation in respect of Zhuhai Company for a Phase 1 production of 100,000 tonnes (annual production of 150,000 tonnes)	58,000	46,000	79%
Technological renovation in respect of Sanshui Company for a Phase 1 production of 150,000 tonnes (annual production of 200,000 tonnes)	90,000	60,000	67%
Setting-up of the electronic sales network of the Company	10,000	5,780	58%
Total	762,990	462,340	61%

**(3) As at the close of the reporting period, the balance of the proceeds of the Company stood at RMB295,390,000, which was temporarily used as working capital of the Company since the draught beer projects of Tsingtao Brewery No. 2 and Xi'an Company had not been put into operation yet.**

## 3. BUSINESS OUTLOOK FOR THE SECOND HALF OF THE YEAR

Following its satisfactory results in various operations for the first six months of the year, the Company will continue to put into effect all its existing operational development strategies during the second half of the year.

The Company will remain committed to further integration of the domestic beer market and further increase in sales, while enhancing internal system integration in respect of the market, brandname and management, and improvement of resource utilisation rates and cost-effectiveness. Furthermore, the Company will also be involved in the vigorous and expeditious application of the proceeds in its technological renovation and expansion projects so as to increase the sales of its major brandname, Tsingtao Beer, and high value-added products, with eventually enhanced profitability.

The Directors believe that the imminent PRC entry into WTO will actively add an impetus to the restructuring and integration of the domestic beer industry. The Company will continue to step up its technological transfer and cooperation with internationally-renowned beer producers whose advanced, scientific management, production and technology will be adopted in its internal integration to enhance its core competitiveness. With increased income and consumption, domestic consumers demand quality products. Against this backdrop, the Company will be well poised to capture any opportunities so arising to the disadvantage of its competitors, by capitalising on its brandname, technology, scale of operation, market presence and distribution networks. The management is fully confident of meeting its various targets for this year.