

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note(s)	30th June, 2002 (Unaudited)	31st December, 2001
Current assets:			
Cash and bank deposits	17a	889,337,118	549,394,472
Other cash and bank deposits	17a	53,305,123	20,932,450
Bills receivable	18	71,487,628	25,853,353
Accounts receivable	20a, 39b	328,834,005	322,576,568
Less: Provision for bad debts	20a, 37a	(150,407,971)	(170,929,056)
Accounts receivable, net		<u>178,426,034</u>	151,647,512
Other receivables	21a, 21c, 39b	425,537,958	365,078,571
Less: Provision for bad debts	21a, 21c, 37a	(36,622,761)	(37,163,318)
Other receivables, net		<u>388,915,197</u>	327,915,253
Prepayments and deposits	22a, 39b	92,519,484	72,986,045
Subsidies receivable		-	1,097,161
Inventories	23	1,125,232,123	1,088,571,034
Less: Provision for diminution in value of inventories	23, 37a	(41,362,620)	(44,009,292)
Inventories, net		<u>1,083,869,503</u>	1,044,561,742
Deferred expenses	24	18,249,742	8,622,763
Total current assets		<u>2,776,109,829</u>	<u>2,203,010,751</u>
Long-term investments:			
Long-term equity investments	25	56,601,191	60,390,059
Long-term equity investment difference	25	(182,915,763)	(196,159,436)
Long-term debt investments	26a	34,782,538	35,198,446
Less: Provision for impairment of long-term investment	37a	(4,061,918)	(3,906,918)
Total long-term investments		<u>(95,593,952)</u>	<u>(104,477,849)</u>
Fixed assets:			
At cost	27a	8,084,283,239	7,784,843,365
Less: Accumulated depreciation	27a	(2,830,250,327)	(2,568,252,253)
Less: Provision for impairment of fixed assets	27a, 37a	(84,856,300)	(57,984,575)
Fixed assets, net		<u>5,169,176,612</u>	5,158,606,537
Construction-in-progress	28	293,686,951	211,824,589
Fixed assets in suspense		809,729	120,201
Total fixed assets		<u>5,463,673,292</u>	<u>5,370,551,327</u>
Intangible and other assets:			
Intangible assets	29a	722,116,706	684,035,518
Long-term deferred expenses	30a	9,450,341	8,514,508
Long-term accounts receivable	20, 39b	105,128,438	95,000,000
Less: Provision for bad debts	37a	(21,191,858)	(21,191,858)
Long-term accounts receivable, net		<u>83,936,580</u>	73,808,142
Total intangible and other assets		<u>815,503,627</u>	<u>766,358,168</u>
Deferred tax:			
Deferred tax asset		5,421,454	8,396,015
Total assets		<u>8,965,114,250</u>	<u>8,243,838,412</u>

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET (Cont'd)

AS AT 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	<i>Note(s)</i>	30th June, 2002	31st December, 2001
		<i>(Unaudited)</i>	
Current liabilities:			
Short-term loans	31a, 39a	2,597,971,173	2,496,232,770
Bills payable	33	238,391,980	167,277,887
Accounts payable	32, 39b	739,047,542	583,678,960
Advances from customers	32	129,696,276	91,203,918
Salary payables		10,413,534	13,881,287
Staff welfare payables		13,197,977	12,275,354
Dividends payable	15	110,000,000	110,000,000
Dividends payable to minority shareholders		1,373,423	14,628,423
Taxes payable	14, 34	217,439,405	121,726,244
Other payables	32, 39b	650,088,492	565,474,637
Other liabilities		5,966,037	5,300,549
Accruals	35	136,067,588	40,321,458
Current portion of long-term loans	31a, 39a	83,433,143	119,834,025
		4,933,086,570	4,341,835,512
Long-term liabilities:			
Long-term bank loans	31b, 39a	185,440,294	203,348,432
Long-term payables	31b	41,847,330	56,501,370
		227,287,624	259,849,802
		5,160,374,194	4,601,685,314
Minority interests			
		717,094,828	677,238,512
Shareholders' equity:			
Share capital	36	1,000,000,000	1,000,000,000
Capital reserve		1,574,556,378	1,574,507,219
Statutory surplus reserve		119,850,056	119,850,056
Statutory public welfare fund		90,580,834	90,580,834
Unappropriated profits		302,783,599	179,964,360
Cumulative translation adjustment		(125,639)	12,117
		3,087,645,228	2,964,914,586
		8,965,114,250	8,243,838,412

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Wang Xiu Yun

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED

BALANCE SHEET

AS AT 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note(s)	30th June, 2002 (Unaudited)	31st December, 2001
Current assets:			
Cash and bank deposits	17b	188,004,288	162,305,530
Other cash and bank deposits	17b	28,000,000	–
Bills receivable	18	4,154,368	4,317,600
Dividends receivable	19	–	14,370,000
Accounts receivable	20b, 39b	225,394,321	259,850,378
Less: Provision for bad debts	20b, 37b	(82,711,831)	(89,097,925)
Accounts receivable, net		142,682,490	170,752,453
Other receivables	21b, 21c, 39b	1,283,700,691	1,112,653,899
Less: Provision for bad debts	21b, 21c, 37b	(18,863,851)	(18,863,851)
Other receivables, net		1,264,836,840	1,093,790,048
Prepayments and deposits	22b, 39b	22,309,659	11,941,656
Inventories	23	232,825,602	270,151,386
Less: Provision for diminution in value of inventories	23, 37b	(1,022,238)	(2,692,543)
Inventories, net		231,803,364	267,458,843
Deferred expenses	24	4,075,710	2,230,598
Total current assets		1,885,866,719	1,727,166,728
Long-term investments:			
Long-term equity investments	25	1,739,928,604	1,628,899,239
Long-term equity investment difference	25	(127,405,391)	(137,288,294)
Long-term debt investments	26b	34,779,538	35,195,446
Total long-term investments		1,647,302,751	1,526,806,391
Fixed assets:			
At cost	27b	1,956,424,225	1,948,510,031
Less: Accumulated depreciation	27b	(931,805,886)	(885,989,082)
Less: Provision for impairment of fixed assets	27b, 37b	(8,000,000)	–
Fixed assets, net		1,016,618,339	1,062,520,949
Construction-in-progress	28	131,379,698	90,776,959
Fixed assets in suspense		302,035	–
Total fixed assets		1,148,300,072	1,153,297,908
Intangible and other assets:			
Intangible assets	29b	153,456,587	154,958,996
Long-term deferred expenses	30b	3,403,224	2,825,000
Long-term accounts receivable	20b, 39b	105,128,436	95,000,000
Less: Provision for bad debts	37b	(21,191,858)	(21,191,858)
Long-term accounts receivable, net		83,936,578	73,808,142
Total intangible and other assets		240,796,389	231,592,138
Deferred tax:			
Deferred tax asset		5,421,454	8,396,015
Total assets		4,927,687,385	4,647,259,180

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED

BALANCE SHEET (Cont'd)

AS AT 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note(s)	30th June, 2002 (Unaudited)	31st December, 2001
Current liabilities:			
Short-term loans	31a	1,130,500,000	1,085,500,000
Bills payable	33	163,792,117	109,809,642
Accounts payable	32, 39b	125,982,658	112,726,358
Advances from customers	32	23,670,149	42,214,755
Salary payables		810,337	3,230,522
Staff welfare payables		(12,640,297)	(15,185,798)
Dividends payable	15	110,000,000	110,000,000
Taxes payable	14, 34	13,239,407	6,623,399
Other payables	32, 39b	93,980,637	73,252,774
Other liabilities		171,771	1,414,277
Accruals	35	53,255,216	5,790,922
Current portion of long-term loans	31a	17,653,645	35,938,358
		<u>1,720,415,640</u>	<u>1,571,315,209</u>
Total current liabilities			
Long-term liabilities:			
Long-term bank loans	31b	80,923,644	66,619,536
Long-term payables	31b	167,134	667,134
		<u>81,090,778</u>	<u>67,286,670</u>
Total long-term liabilities			
		<u>1,801,506,418</u>	<u>1,638,601,879</u>
Total liabilities			
Shareholders' equity:			
Share capital	36	1,000,000,000	1,000,000,000
Capital reserve		1,624,295,478	1,624,246,319
Statutory surplus reserve		104,427,431	104,427,431
Statutory public welfare fund		75,158,210	75,158,210
Unappropriated profits		322,299,848	204,825,341
		<u>3,126,180,967</u>	<u>3,008,657,301</u>
Total shareholders' equity			
		<u>4,927,687,385</u>	<u>4,647,259,180</u>
Total liabilities and shareholders' equity			

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Wang Xiu Yun

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME AND PROFIT
APPROPRIATION

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002
(Prepared in accordance with PRC accounting standards)
(UNIT: RMB)

		For the six months ended 30th June, 2002	For the six months ended 30th June, 2001
	Note	(Unaudited)	(Unaudited)
Turnover	5, 7, 39a	3,516,728,143	2,693,133,930
Less: Cost of sales	5, 7, 39a	(2,071,867,799)	(1,642,328,404)
Sales taxes and surcharges	8	(363,607,608)	(277,715,753)
Gross profit		1,081,252,736	773,089,773
Add: Profit from other operations	9	9,374,039	3,622,398
Less: Selling expenses		(502,248,381)	(381,611,885)
General and administrative expenses		(305,377,759)	(244,963,422)
Finance costs, net	10	(73,641,850)	(57,472,461)
Operating profit		209,358,785	92,664,403
Add: Investment income	11	10,587,691	16,416,465
Subsidy income	13	21,228,045	18,260,244
Non-operating income	12	2,983,192	3,936,269
Less: Non-operating expenses	12	(31,259,761)	(2,932,904)
Profit before tax		212,897,952	128,344,477
Less: Enterprise income tax	14	(58,407,173)	(39,077,581)
Profit before minority interests		154,490,779	89,266,896
Less: Current period minority interests		(31,671,540)	(18,431,241)
Net profit		122,819,239	70,835,655
Add: Unappropriated profits brought forward		179,964,360	218,934,012
Unappropriated profits		302,783,599	289,769,667
Less: Transfer to statutory surplus reserve		-	-
Transfer to statutory public welfare fund		-	-
Profit distributable to shareholders		302,783,599	289,769,667
Less: Dividends	15	-	-
Unappropriated profits carried forward		302,783,599	289,769,667
Earnings per share – weighted average	16	0.1228	0.0733

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Wang Xiu Yun

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED
STATEMENT OF INCOME AND PROFIT APPROPRIATION

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

		For the six months ended 30th June, 2002	For the six months ended 30th June, 2001
	Note	(Unaudited)	(Unaudited)
Turnover		1,116,402,507	999,235,723
Less: Cost of sales		(669,292,951)	(608,905,919)
Sales taxes and surcharges	8	(67,241,967)	(53,173,357)
Gross profit		379,867,589	337,156,447
Add: Profit (Loss) from other operations	9	1,375,329	(1,193,270)
Less: Selling expenses		(119,663,855)	(127,407,546)
General and administrative expenses		(125,519,673)	(113,405,432)
Finance costs, net	10	(29,630,675)	(24,727,434)
Operating profit		106,428,715	70,422,765
Add: Investment income	11	45,154,672	16,456,376
Non-operating income	12	175,148	308,839
Less: Non-operating expenses	12	(8,611,143)	(952,638)
Profit before tax		143,147,392	86,235,342
Less: Enterprise income tax	14	(25,672,885)	(19,551,868)
Net profit		117,474,507	66,683,474
Add: Unappropriated profits brought forward, as reported		204,825,341	239,452,897
Unappropriated profits		322,299,848	306,136,371
Less: Transfer to statutory surplus reserve		-	-
Transfer to statutory public welfare fund		-	-
Profit distributable to shareholders		322,299,848	306,136,371
Less: Dividends	15	-	-
Unappropriated profits carried forward		<u>322,299,848</u>	<u>306,136,371</u>

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Wang Xiu Yun

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

RETURN ON EQUITY AND EARNINGS PER SHARE INDEX

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

	Group				Company			
	Return on Equity ("ROE")		Earnings Per Share ("EPS")		Return on Equity ("ROE")		Earnings Per Share ("EPS")	
Profit for the period	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average
For the six months ended 30th June, 2002 (Unaudited)								
Gross profit	35.02%	35.73%	1.0813	1.0813	12.15%	12.38%	0.3799	0.3799
Operating profit	6.78%	6.92%	0.2094	0.2094	3.40%	3.47%	0.1064	0.1064
Net profit	3.98%	4.06%	0.1228	0.1228	3.76%	3.83%	0.1175	0.1175
Net profit before extraordinary items	4.21%	4.29%	0.1299	0.1299	4.03%	4.10%	0.1259	0.1259
For the six months ended 30th June, 2001 (Unaudited)								
Gross profit	25.42%	28.16%	0.7731	0.7997	10.91%	12.15%	0.3372	0.3488
Operating profit	3.05%	3.38%	0.0927	0.0959	2.28%	2.54%	0.0704	0.0729
Net profit	2.33%	2.58%	0.0708	0.0733	2.16%	2.40%	0.0667	0.0690
Net profit before extraordinary items	1.75%	1.94%	0.0532	0.0550	2.16%	2.40%	0.0667	0.0690

ROE and EPS are calculated based on the method specified in "Listed Companies Disclosure Regulation No. 9 – Computation and Disclosure of ROE and EPS".

1. Fully diluted ROE and EPS are computed as follows:

Fully diluted ROE = Profit for the period ÷ Net asset as at end of period

Fully diluted EPS = Profit for the period ÷ Number of shares as at end of period

2. Weighted average ROE is computed as follows:

$$\text{ROE} = \frac{P}{E_0 + NP \div 2 + E_i \times M_i \div M_0 - E_j \times M_j \div M_0}$$

P = Profit for the period

NP = Net profit for the period

E₀ = Net asset as at beginning of the period

E_i = Increase in net asset due to issuance of new shares or conversion from bonds/debts to new shares during the period

E_j = Decrease in net asset due to repurchase of shares or cash dividends declared during the period

M₀ = Number of months during the period

M_i = Number of months between the net asset increase and end of the period.

M_j = Number of months between the net asset decrease and end of the period.

3. Weighted average EPS is computed as follows:

$$\text{EPS} = \frac{P}{S_0 + S_1 + S_i \times M_i \div M_0 - S_j \times M_j \div M_0}$$

P = Profit for the period

S₀ = Number of shares as at beginning of the period

S₁ = Increase in number of shares due to transferral from reserves or declaration of stock dividends during the period

S_i = Increase in number of shares due to issuance of new shares or conversion from bonds/debts to new shares during the period.

S_j = Decrease in number of shares due to repurchase or reduction of share capital during the period.

M₀ = Number of months during the period.

M_i = Number of months between the increase in number of shares and end of the period

M_j = Number of months between the decrease in number of shares and end of the period

4. Net profit before extraordinary items represents net profit excluding subsidy income, non-operating income and non-operating expenses.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

		For the six months ended 30th June, 2002	For the six months ended 30th June, 2001
	Note	(Unaudited)	(Unaudited)
Cash Flows from Operating Activities:			
Cash received from sales of goods and rendering of services		4,133,407,277	3,294,522,709
Refund of taxes		24,760,074	47,102,237
Cash received relating to other operating activities	38a	228,471,426	8,908,967
		4,386,638,777	3,350,533,913
Sub-total of cash inflows			
Cash paid for purchases of goods and services		(2,153,510,211)	(1,828,633,718)
Cash paid for salaries and on behalf of employees		(248,563,716)	(213,402,613)
Cash paid for various taxes		(674,433,622)	(472,167,676)
Cash paid relating to other operating activities	38b	(595,473,403)	(424,912,269)
		(3,671,980,952)	(2,939,116,276)
Sub-total of cash outflows			
Net cash flows from operating activities	(a)	714,657,825	411,417,637
Cash Flows from Investing Activities:			
Proceeds from realisation of investments		10,000,000	34,087,489
Return on investment		13,412	650,859
Proceeds from disposal of fixed assets		31,266,477	115,918,721
Cash received relating to other investing activities		12,606,587	5,535,714
		53,886,476	156,192,783
Sub-total of cash inflows			
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(367,160,656)	(555,027,574)
Cash paid for investments		(7,479,847)	(156,808,719)
Cash paid relating to other investing activities		(1,885,490)	(54,210,612)
		(376,525,993)	(766,046,905)
Sub-total of cash outflows			
Net cash flows from investing activities		(322,639,517)	(609,854,122)

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002
 (Prepared in accordance with PRC accounting standards)
 (UNIT: RMB)

	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i>
	<i>Note</i>	
Cash Flows from Financing Activities:		
Proceeds from equity investments	8,942,000	757,728,570
Proceeds from borrowings	1,875,416,393	1,477,750,113
Cash received relating to other financing activities	<u>3,316,331</u>	<u>18,745,066</u>
Sub-total of cash inflows	<u>1,887,674,724</u>	<u>2,254,223,749</u>
Repayment of borrowings	(1,826,229,274)	(1,765,832,097)
Dividends and interest paid	(87,409,674)	(70,581,912)
Cash paid relating to other financing activities	<u>(840,663)</u>	<u>(5,037,326)</u>
Sub-total of cash outflow	<u>(1,914,479,611)</u>	<u>(1,841,451,335)</u>
Net cash flows from financing activities	<u>(26,804,887)</u>	<u>412,772,414</u>
Effect of changes in foreign exchange rate on cash	<u>18,616</u>	<u>(15,830)</u>
Net increase in Cash and Cash Equivalents	(b) <u>365,232,037</u>	<u>214,320,099</u>

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED CASH FLOW STATEMENT (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i> <i>(Note 43)</i>
(a) Reconciliation of Net Profit to Cash Flows from Operating Activities:		
Net profit	122,819,239	70,835,655
Current period minority interests	31,671,540	18,431,241
Provision for impairment of fixed assets	52,240,904	46,289,552
Depreciation of fixed assets	222,598,253	186,546,895
Amortisation of intangible assets	8,731,092	9,499,717
Amortisation of long-term deferred expenses	799,280	2,923,263
Increase in accrued expenses	95,746,130	43,681,470
Increase in deferred expenses	(9,626,979)	(25,432,504)
Loss (Gain) on disposal of fixed assets	1,014,066	(1,223,898)
Finance costs, net	73,641,850	57,472,461
Investment income	(10,587,691)	(16,416,465)
Increase in inventories	(36,661,089)	(117,017,781)
Decrease in deferred tax assets	2,974,561	-
(Increase) Decrease in operating receivable items	(259,335,738)	32,323,874
Increase in operating payable items	418,632,407	103,504,157
	<u>714,657,825</u>	<u>411,417,637</u>
(b) Net Increase in Cash and Cash Equivalents:		
Cash on hand and at banks, end of period	867,342,118	801,604,837
Less: Cash on hand and at banks, beginning of period	(485,906,341)	(586,427,981)
Add: Cash equivalents, end of period	-	84,963,742
Less: Cash equivalents, beginning of period	(16,203,740)	(85,820,499)
	<u>365,232,037</u>	<u>214,320,099</u>
(c) Cash and bank deposits		
Cash and cash equivalents	867,342,118	886,568,579
Short-term bank deposits	21,995,000	28,213,453
Other cash and bank balances	53,305,123	37,033,315
	<u>942,642,241</u>	<u>951,815,347</u>

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Wang Xiu Yun

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED

CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i>
	<i>Note</i>	
Cash Flows from Operating Activities:		
Cash received from sales and rendering of services	1,321,341,055	1,187,845,629
Refund of taxes	–	20,872,819
Cash received relating to other operating activities	38a 39,477,207	30,607,469
Sub-total of cash inflow	1,360,818,262	1,239,325,917
Cash paid for purchases of goods and services	(633,426,586)	(631,841,748)
Cash paid for salaries and on behalf of employees	(79,426,727)	(83,256,564)
Cash paid for various taxes	(191,211,486)	(142,528,434)
Cash paid relating to other operating activities	38b (352,671,950)	(300,066,170)
Sub-total of cash outflow	(1,256,736,749)	(1,157,692,916)
Net cash flow from operating activities	(a) 104,081,513	81,633,001
Cash Flows from Investing Activities:		
Proceeds from realisation of investments	–	33,932,765
Return on investment	14,370,000	58,202
Proceeds from disposal of fixed assets	10,148,236	90,548,204
Cash received relating to other investing activities	8,929,259	1,594,780
Sub-total of cash inflow	33,447,495	126,133,951
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(68,996,472)	(35,854,093)
Cash paid for investments	(17,449,847)	(407,391,034)
Cash paid relating to other investing activities	–	(25,060,222)
Sub-total of cash outflow	(86,446,319)	(468,305,349)
Net cash used in investing activities	(52,998,824)	(342,171,398)

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED**CASH FLOW STATEMENT (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i>
	<i>Note</i>	
Cash Flows from Financing Activities:		
Proceeds from equity investments	–	757,728,570
Proceeds from borrowings	741,605,393	465,000,000
Cash paid received relating to other financing activities	–	11,382,661
	<hr/>	<hr/>
Sub-total of cash inflow	741,605,393	1,234,111,231
	<hr/>	<hr/>
Repayment of borrowings	(700,585,997)	(1,047,699,939)
Dividends and interests paid	(30,155,919)	(31,059,450)
	<hr/>	<hr/>
Sub-total of cash outflow	(730,741,916)	(1,078,759,389)
	<hr/>	<hr/>
Net cash flows from financing activities	10,863,477	155,351,842
	<hr/>	<hr/>
Effect of changes in exchange rate on cash	36,983	(26,513)
	<hr/>	<hr/>
Net increase (decrease) in cash and cash equivalents	61,983,149	(105,213,068)
	<hr/> <hr/>	<hr/> <hr/>

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED

CASH FLOW STATEMENT (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i> <i>(Note 43)</i>
(a) Reconciliation of Net Profit to Cash Flows from Operating Activities:		
Net profit	117,474,507	66,638,474
Provision for impairment of fixed assets	24,271,270	37,314,101
Depreciation of fixed assets	59,195,206	57,094,909
Amortisation of intangible assets	2,311,809	2,233,072
Amortisation of long-term deferred expenses	153,799	-
Increase in accrued expenses	47,464,294	16,147,285
Increase in deferred expenses	(1,845,112)	(7,773,981)
Loss (Gain) on disposal of fixed assets	204,137	(42,205)
Finance costs, net	29,630,675	24,727,434
Investment income	(45,154,672)	(16,456,376)
Decrease in inventories	37,325,784	23,828,923
Decrease in deferred tax assets	2,974,561	-
Increase in operating receivable items	(219,845,594)	(103,858,629)
Increase (Decrease) in operating payable items	49,920,849	(18,220,006)
	<u>104,081,513</u>	<u>81,633,001</u>
(b) Net Increase (Decrease) in Cash and Cash Equivalents:		
Cash on hand and at bank, end of period	177,004,288	272,552,140
Less: Cash on hand and at bank, beginning of period	(104,803,539)	(313,757,652)
Add: Cash equivalents, end of period	-	22,176,543
Less: Cash equivalents, beginning of period	(10,217,600)	(86,184,099)
	<u>61,893,149</u>	<u>(105,213,068)</u>
(c) Cash and bank deposits		
Cash and cash equivalents	177,004,288	294,728,683
Short-term bank deposits	11,000,000	82,712,617
Other cash and bank balances	28,000,000	-
	<u>216,004,288</u>	<u>377,441,300</u>

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS'
EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002
 (Prepared in accordance with PRC accounting standards)
 (UNIT: RMB)

	Note	30th June, 2002 (Unaudited)	31st December, 2001
Share Capital			
Beginning of period/year		1,000,000,000	900,000,000
Add: Issuance of new share		–	100,000,000
End of period/year	36	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Share Premium			
Beginning of period/year		1,574,507,219	907,339,314
Add: Wavied payables of a subsidiary		–	9,439,335
Add: Premium on issuance of new shares		–	657,728,570
Add: Others		49,159	–
End of period/year		<u>1,574,556,378</u>	<u>1,574,507,219</u>
Statutory Surplus Reserve:			
Beginning of period/year		119,850,056	103,921,358
Add: Current period/year appropriation		–	15,928,698
End of period/year		<u>119,850,056</u>	<u>119,850,056</u>
Statutory Public Welfare Fund:			
Beginning of period/year		90,580,834	74,652,136
Add: Current period/year appropriation		–	15,928,698
End of period/year		<u>90,580,834</u>	<u>90,580,834</u>
Unappropriated Profits:			
Beginning of period/year		179,964,360	218,934,012
Add: Current period/year net profit		122,819,239	102,887,744
Less: Current period/year appropriation		–	(31,857,396)
Less: Dividends declared	15	–	(110,000,000)
End of period/year		<u>302,783,599</u>	<u>179,964,360</u>

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Wang Xiu Yun

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED
STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note	30th June, 2002 (Unaudited)	31st December, 2001
Share Capital			
Beginning of period/year		1,000,000,000	900,000,000
Add: Issuance of new shares		—	100,000,000
End of period/year	36	<u>1,000,000,000</u>	<u>1,000,000,000</u>
Share Premium:			
Beginning of period/year		1,624,246,319	935,968,414
Add: Surplus on revaluation of assets		—	21,110,000
Add: Waiver of payables of a subsidiary		—	9,439,335
Add: Premium on issuance of new shares		—	657,728,570
Add: Others		49,159	—
End of period/year		<u>1,624,295,478</u>	<u>1,624,246,319</u>
Statutory Surplus Reserve:			
Beginning of period/year		104,427,431	95,005,876
Add: Current period/year appropriation		—	9,421,555
End of period/year		<u>104,427,431</u>	<u>104,427,431</u>
Statutory Public Welfare Fund:			
Beginning of period/year		75,158,210	65,736,655
Add: Current period/year appropriation		—	9,421,555
End of period/year		<u>75,158,210</u>	<u>75,158,210</u>
Unappropriated Profits:			
Beginning of period/year		204,825,341	239,452,896
Add: Current period/year net profit		117,474,507	94,215,555
Less: Current period/year appropriation		—	(18,843,110)
Less: Dividends declared	15	—	(110,000,000)
End of period/year		<u>322,299,848</u>	<u>204,825,341</u>

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Wang Xiu Yun

The accompanying notes form an integral part of these financial statements.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with PRC accounting standards)

(Amounts expressed in RMB unless otherwise stated)

1. COMPANY BACKGROUND AND OPERATIONS

Tsingtao Brewery Company Limited (referred as the “Company” below) was established in accordance with the requirements of the “Company Law”, the “Standard Opinion on Joint Stock Limited Companies”, the “Addendum thereto in relation to the implementation of the “Standard Opinion on Joint Stock Limited Companies” by companies listed in Hong Kong” and other relevant laws, regulations and administrative rules of the People’s Republic of China (referred as the “PRC” below). With the approval of the Qingdao Municipal People’s Government, the Company was established on 16th June, 1993 and obtained the Sino-foreign Joint Stock Company business license on 27th December, 1995. The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 15th July, 1993 and the A shares were listed on The Shanghai Stock Exchange on 27th August, 1993.

The Company is principally engaged in the production and distribution of beer products. The subsidiaries and associated companies are principally engaged in the production, sales and domestic and export trading of beer products.

Please refer to Note 6 for details of establishment of new subsidiaries during the period.

2. PRINCIPAL ACCOUNTING POLICIES

a. Financial year

The financial year runs from 1st January to 31st December of each calendar year.

b. Basis of consolidation

Entities, in which the Company holds more than 50% equity interests, are included in the scope of consolidated financial statements. Consolidated financial statements are prepared based on the following:

- (1) Differences arising from various accounting standards adopted by the parent company and subsidiaries are adjusted.
- (2) Significant intra-group transactions among the parent company and subsidiaries are eliminated.
- (3) Equity investments, intra-group balances and unrealised profits are eliminated. Goodwill/Negative goodwill arising from acquisitions are separately presented as “Long-term Equity Investment Differences” on the consolidated balance sheet.
- (4) The results of subsidiaries acquired or disposed of during the period are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal.

c. Accounting standards and basis of recording

The books and records are maintained on the accrual basis using the historical cost convention.

d. Revenue recognition

Revenue is recognised on the following bases:

(1) Turnover

Turnover represents revenue from sale of goods.

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the revenue and costs, if applicable, can be measured reliably, sale of goods is recognised when the significant risks and rewards of ownership of goods have been transferred to the buyer and when the Group does not exert management and control over the goods.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

d. Revenue recognition (Cont'd)

(2) Interest income

Interest income from bank deposits and other financial institutions is recognised on a time proportion basis that takes into account the applicable interest rate.

e. Reporting currency and foreign currency translation

The Company maintains its books and records in Renminbi ("RMB"). Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("reporting currencies"). In the accounts of the individual companies, transactions in other currencies during the period are translated into the respective reporting currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into their respective reporting currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Renminbi ("RMB"). For the purpose of consolidation, assets and liabilities of subsidiaries with reporting currencies other than RMB are translated into RMB at the applicable rates of exchange in effect at the balance sheet date; shareholders' equity items (except unappropriated profits) are translated into RMB at historical rates; income and expense items are translated into RMB at the average applicable rates during the period. Exchange differences arising from such translations are dealt with as movements of the cumulative translation adjustment account, under shareholders' equity.

f. Cash and cash equivalents

Cash represents cash on hand and deposits with banks or other financial institutions which are repayable on demand.

Cash equivalents represent short-term, highly liquid investments which are readily convertible into known amounts of cash with original maturities of three months or less and that are subject to an insignificant risk of change in value.

g. Provision for doubtful debts

Doubtful debts are accounted for using the provision method, pursuant to which provision for doubtful debts is made based on the collectibility of accounts receivable balances as at the period end. Management makes reasonable estimates on the provision for doubtful debts based on aging analysis, previous experience and financial and operating situations of the customers. Provision for doubtful debts is further classified as specific doubtful debt provision and general doubtful debt provision.

Specific doubtful debt provision is made after an analysis of significant accounts receivable balances is performed. The aging of the balances, the financial, operational and cash flow condition of the debtors and the repayment pattern in the current and subsequent periods, etc., are considered in the analysis before the amount of the provision is determined.

General doubtful debt provision is made based on the balances of other insignificant accounts receivable balances. The general doubtful debt provision made as a percentage of the gross receivable balance is as follows:

Aging	Percentage of general doubtful debt provision
Three years and over	100%
Two to less than three years	10 - 50%
One to less than two years	10 - 50%
Less than one year	0 - 50%

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

h. Inventories

Inventories mainly comprise raw materials, work-in-progress, packaging materials, auxiliary materials, low value consumables and finished goods.

Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average cost basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Low-value consumables and certain packaging materials are amortised into expenses over their estimated useful lives of 2-5 years using the straight-line method.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period in which the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The Company adopts the perpetual inventory system.

i. Long-term investments

Long-term equity investments

Long-term equity investments are accounted for using the cost method or equity method based on different circumstances.

- (1) If the Company has no control, no common control and no significant influence over the investees, the long-term equity investments are accounted for using the cost method. Other than additions to or reductions of the investments, the carrying amounts of investments remain unchanged. The Company's share for distributions or cash dividends declared by the investees is recognised as investment income for the current period. Investment income recognised by the Company is limited to the proportionate share of the accumulated net profit earned by the investees after the Company's investments. The excess portion of the Company's share of distributions or cash dividends declared by the investees over the above limit is treated as withdrawal of the initial investments, and should be offset against the carrying amounts of the investments.
- (2) If the Company has control, common control or significant influence over the investees, the long-term equity investments are accounted for using the equity method. The carrying amounts of the investments and the investment income for the current period are adjusted to recognise the Company's share of the post-acquisition net profits or losses of the investees for the period. The Company's share of distributions or cash dividends declared by the investees reduced the carrying amounts of the investments. The share of net loss of investees ceased to be recognised by the Company when the carrying amount of an investee is reduced to zero. If the investee begins to earn profit again in subsequent periods, the Company's share of the net profit of the investee, after offsetting previous unrecognised share of losses, is adjusted against the carrying amount of the investment.
- (3) For investees accounted for using the equity method, the difference between the initial investment cost and the share of the shareholders' equity of the investees is treated as equity investment difference and is amortised into income statement over 10 years.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

i. Long-term investments (Cont'd)

Long-term debt investments

Long-term debt investments are recognised at cost of investments. The difference between the cost of long-term debt investments, after deduction of related expenses and accrued interests, and the face value of the debts is treated as discount or premium on the debt investment. The amount of discount or premium is amortised using straight-line method against debt interest income recognised over the period from the date of debt acquisition to its maturity. Interest income arising from the debt investment is accounted for using the accrual basis, and is recognised as investment income for the current period, after adjusting for the unamortised discount or premium on debt investments.

Provision for impairment on long-term investments

Provision for impairment on long-term investments is accounted for on individual investment basis. Provision is made and charged to the income statement in the current period for the excess of the carrying amount of the investment over its recoverable amount, which is caused by continuous decline in market value or deteriorating operating results of the investee.

j. Fixed assets and depreciation

The fixed asset recognition criteria of the Company and its subsidiaries are:

- (1) Buildings, plant and machinery, motor vehicles and other equipment, utensils and tools related to production with useful lives over 1 year.
- (2) Items which are not major facilities for production, but with useful lives of over 2 years and unit cost of over RMB2,000.

Fixed assets are stated at cost or revaluation amount less accumulated depreciation and provision for impairment. The cost of a fixed asset comprises its purchase price plus relevant taxes and any directly attributable costs of bringing the asset to its working condition for its intended use. The revaluation amount was determined based on the asset valuation undertaken upon the Company's reorganisation to a joint stock limited liabilities company and at the time of the acquisitions of subsidiaries. Daily maintenance, repairs and overhaul expenditures incurred after the fixed assets have been put into operation is charged to the income statement in the period in which they are incurred. Costs incurred for significant improvement and renewals, which has resulted in increase in future economic benefits, are capitalised as additional costs of the fixed asset.

Depreciation is provided on a straight-line basis to write off the cost of the assets over their estimated useful lives, after taking into account their estimated residual value of 3% of cost. The estimated useful lives of fixed assets are as follows:

Buildings	20-40 years
Plant and machinery	10-14 years
Motor vehicles	5-12 years
Equipment	5-10 years

When the fixed asset is disposed of, the difference between the carrying amount and proceeds from disposal is recognised in the income statement for the current period.

As at balance sheet date, the Company and its subsidiaries review each of the fixed asset items. Provision for impairment is made for the excess of the carrying amount of an asset over its recoverable amount, which is caused by continued declining market value, obsolete technology, damage, or idle usage, etc. Provision for impairment is charged to the income statement for the current period except when it reduces previous recognised valuation surplus. Provision for impairment is accrued based on individual item.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

k. Construction-in-progress

Construction-in-progress represents buildings and plants under construction and machinery and equipment under installation and testing, and is stated at cost. The cost includes cost of construction, direct costs and the eligible capitalised borrowing costs incurred on specific loans during the period of construction, installation and testing. Construction-in-progress is transferred to the fixed asset when it is ready for its intended use. No depreciation is provided for construction-in-progress.

At each balance sheet date, the Company and its subsidiaries conduct a full-scale review over their respective construction-in-progress. Provision for impairment is made and charged to the income statement for those construction-in-progress whose construction is suspended and is expected not to resume within 3 years, the specification and technology are obsolete and the economic benefits of which is uncertain, or items which show other evidence of impairment.

l. Intangible assets and amortisation

Intangible assets are recognised at cost. The cost of intangible assets is amortised on a straight-line basis to write off the cost of the intangible assets over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Trademarks	40 years
Land use rights	50 years
Technology know-how	10 years
Others	1 - 10 years

Land under development is transferred to construction-in-progress at carrying amount. Pursuant to the requirements of Caikuai [2000] No. 43 issued by the Ministry of Finance, land use rights accounted for as intangible assets but not transferred to the cost of the respective buildings before the adoption of Accounting Regulations for Business Enterprises are not adjusted retrospectively.

The Company and its subsidiaries regularly review the estimated future economic benefits of each intangible asset items. When evidence indicates that the value of the intangible asset has impaired, a provision for impairment is made for the excess of the carrying amount over its recoverable amount.

m. Long-term deferred expenses

Long-term deferred expenses mainly represent major repair expenditures on fixed assets and other deferred expenses with amortisation period over 1 year, and are recognised at cost. Major repair expenditures on fixed assets are evenly amortised over the period between each major repairs; other long-term deferred expenses are evenly amortised over the expected beneficial period.

Expenses incurred during the period of plant construction and planning are charged as expenses in the month of commencement of production.

n. Entrusted loans

Loans entrusted for lending through financial institutions are recorded based on the amount of the loan balance advanced. Interest income is accrued based on the interest rates specified in the entrustment loan agreements and is credited to the income statement for the period.

The Company and its subsidiaries review each of the entrusted loans as at each balance sheet date. If there is indication that the carrying amount of individual entrusted loan has exceeded its recoverable amount, a provision for impairment is accrued.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

o. Taxation

The Company and its subsidiaries provide for enterprise income tax on the basis of their profit before tax for financial reporting purposes, adjusted for income and expense items which are not assessable or deductible and all the available tax benefits, at the applicable tax rates.

Deferred taxation is computed based on the current period's timing differences between profit as computed for taxation purposes and profits as stated in financial statements using the current tax rates. Deferred taxation is provided for using the liability method. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

p. Borrowing costs

Borrowing costs refer to interest expense, amortisation of discount or premium and auxiliary charges, and expenses incurred in connection with the borrowing of funds and exchange differences arising from foreign currency loans. They are normally charged to the current year income statement directly.

Specific loans are loans borrowed specifically for the construction of fixed assets. The related interest expense, amortisation of discount or premium and exchange differences arising from specific loans are capitalised when expenditures for the specified construction are incurred and upon the commencement of construction/acquisition activities that are necessary for the asset to be ready for its intended use. Capitalisation of borrowing costs ceases upon the completion of activities that are necessary for the asset to be ready for its intended use.

q. Profit appropriations

The Company's profit appropriation and dividends distribution schemes are proposed by the Board of Directors and are submitted to the shareholders' general meeting for approval.

Net profit of the Company is to be appropriated in the following sequence:

- (i) set off against prior periods' losses;
- (ii) transfer to statutory surplus reserves at 10% of current period net profit;
- (iii) transfer to statutory public welfare fund at 10% of current period net profit;
- (iv) transfer to discretionary surplus reserves; and
- (v) distribution of dividends.

In accordance with the Company's Articles of Association and Document Cai Kuai Zi 1995 [31] issued by the State Ministry of Finance, appropriation to statutory surplus reserves, statutory public welfare fund and discretionary surplus reserves should be made based on the financial statements prepared in accordance with PRC accounting standards and regulations. In accordance with the Company's Articles of Association, profit distribution to shareholders should be made based on the lesser of the income calculated in accordance with the PRC accounting standards and regulations and that calculated in accordance with the accounting principles generally accepted in Hong Kong, after deduction of the appropriations to the statutory reserves.

r. Contingent liabilities

An obligation arising from contingencies is recognised as liability when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of obligation can be measured with sufficient reliability.

The amount of the liability is recognised at the best estimate of the required payment. When all or part of obligation is reimbursed by third parties or other parties, this reimbursement is recognised as an asset when it is probable of receipt to the extent of the related liabilities recognised.

2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

s. Changes in principal accounting policies and accounting estimates

The accounting policies should be changed when required by the provisions of relevant laws or accounting standards, or when the change of accounting policies would provide more reliable and relevant accounting information of the Group's and the Company's financial position, results of operations and cash flows.

Changes in accounting policies should be applied retrospectively unless the cumulative impact arising from the change of accounting policies that relates in prior periods cannot be reasonably estimated in which case the change should be applied prospectively.

When there are changes in the basis of accounting estimates or as a result of new information obtained, more experience accumulated, or any other subsequent changes or developments, the accounting estimates may need to be revised.

When the accounting estimates are revised, the revised accounting estimates are used in the accounting for transactions or events occurring in the current period and future periods.

3. CHANGES IN PRINCIPAL ACCOUNTING POLICIES AND ACCOUNTING ESTIMATES

There is no change in principal accounting policies and accounting estimates for the Group and the Company in current period.

4. NON-MONETARY TRANSACTION

During the six months ended 30th June, 2002, there was no significant non-monetary transaction for the Group and the Company.

5. SEASONAL/CYCLICAL REVENUE

Summer and autumn times (May to October) of each year is the peak season for beer sales. The sales volume during the peak season is normally 1 to 2 times the sales volume in the slack season (November to April) of the following year.

6. INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES

a. As at 30th June, 2002, particulars of the principal subsidiaries of the Company are as follows:

(i) Subsidiaries established/acquired on or before 31st December, 2001.

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery Huanan Holding Company Limited	Shenzhen, the PRC	RMB200,000,000	95%	–	Investment holding
Tsingtao Brewery (Zhuhai) Company Limited	Zhuhai, the PRC	RMB60,000,000	–	72.83%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Sanshui) Company Limited	Sanshui, the PRC	RMB41,335,505	–	71.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Chenzhou) Company Limited	Chenzhou, the PRC	RMB70,003,056	–	84.36%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Huangshi) Company Limited	Huangshi, the PRC	RMB5,000,000	–	90.25%	Manufacturing and domestic trading of beer

6. INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

a. As at 30th June, 2002, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

(i) Subsidiaries established/acquired on or before 31st December, 2001. (Cont'd)

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery (Yingcheng) Company Limited	Yingcheng, the PRC	RMB5,000,000	–	90.25%	Manufacturing and domestic trading of beer
Shenzhen Tsingtao Beer Asahi Company Limited	Shenzhen, the PRC	USD30,000,000	51%	–	Manufacturing and trading of beer
Shenzhen Tsingtao Brewery Sales Company Limited	Shenzhen, the PRC	RMB20,000,000	95%	–	Domestic trading of beer
Tsingtao Brewery Huadong Holding Company Limited	Shanghai, the PRC	RMB100,000,000	95%	–	Investment holding
Tsingtao Brewery Huadong Shanghai Sales Company Limited	Shanghai, the PRC	RMB3,000,000	–	94.53%	Domestic trading of beer
Tsingtao Brewery Huadong Nanjing Sales Company Limited	Nanjing, the PRC	RMB1,000,000	–	93.88%	Domestic trading of beer
Tsingtao Brewery (Shanghai) Company Limited	Shanghai, the PRC	RMB50,000,000	–	90.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Wuhu) Company Limited	Wuhu, the PRC	RMB20,000,000	–	85.50%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Maanshan) Company Limited	Maanshan, the PRC	RMB5,000,000	–	91.25%	Manufacturing and domestic trading of beer
Shanghai Tsingtao Brewery Sales Company Limited	Shanghai, the PRC	RMB1,000,000	35%	–	Domestic trading of beer
Tsingtao Brewery Shanghai Songjiang Company Limited	Shanghai, the PRC	USD36,640,000	75%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Shouguang) Company Limited	Shouguang, the PRC	RMB60,606,060	99%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Weifang) Company Limited	Weifang, the PRC	RMB5,000,000	70%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Anqiu) Company Limited	Anqiu, the PRC	RMB5,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery No. 3 Company Limited	Pingdu, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer

6. INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

a. As at 30th June, 2002, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

(i) Subsidiaries established/acquired on or before 31st December, 2001. (Cont'd)

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery (Xuzhou) Company Limited	Peixian, the PRC	RMB10,000,000	66%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xuzhou Pengcheng) Company Limited	Pengcheng, the PRC	RMB5,000,000	90%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xuecheng) Company Limited	Xuecheng, the PRC	RMB10,000,000	85%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tengzhou) Company Limited	Tengzhou, the PRC	RMB15,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Taierzhuang) Malt Company Limited	Taierzhuang, the PRC	RMB500,000	–	87.5%	Manufacturing and domestic trading of malt
Beijing Three Ring Asia Pacific Beer Company Limited ("Beijing Three Ring")	Beijing, the PRC	USD28,900,000	54%	–	Manufacturing and domestic trading of beer
Beijing Five Star Tsingtao Brewery Company Limited	Beijing, the PRC	RMB863,000,000	37.64%	25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Fuzhou) Company Limited	Taicang, the PRC	USD26,828,100	51%	–	Manufacturing and domestic trading of malt
Tsingtao Brewery (Langfang) Company Limited	Beijing, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Xian Company Limited ("Xian Company")	Xian, the PRC	RMB222,200,000	76.10%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Weinan Company Limited	Xian, the PRC	RMB50,000,000	28%	54.79%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Anshan) Company Limited	Anshan, the PRC	RMB50,000,000	60%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xingkaihu) Company Limited	Jixi, the PRC	RMB20,000,000	95%	–	Manufacturing and domestic trading of beer

6. INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

a. As at 30th June, 2002, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

(i) Subsidiaries established/acquired on or before 31st December, 2001. (Cont'd)

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery (Mishan) Company Limited	Mishan, the PRC	RMB20,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Haerbin) Company Limited	Haerbin, the PRC	RMB22,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Penglai) Company Limited	Penglai, the PRC	RMB12,500,000	80%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Rongcheng) Company Limited	Rongcheng, the PRC	RMB20,000,000	70%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Import/Export Company Limited	Qingdao, the PRC	RMB5,000,000	95%	–	Import/Export trading of beer
Tsingtao Brewery Group Sales Company Limited	Qingdao, the PRC	RMB5,000,000	95%	–	Domestic trading of beer
Tsingtao Brewery (No. 5) Company Limited	Qingdao, the PRC	RMB3,000,000	93.79%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Kai Fa Company Limited	Qingdao, the PRC	RMB1,320,000	100%	–	Domestic trading of beer
Tsingtao Brewery (Pingyuan) Company Limited	Pingyuan, the PRC	RMB5,000,000	90%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Rizhao) Company Limited	Rizhao, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Heze) Company Limited	Heze, the PRC	RMB10,000,000	90%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Wuhan) Company Limited	Wuhan, the PRC	RMB1,000,000	51%	44.22%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Chongqing) Company Limited	Chongqing, the PRC	RMB7,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Taizhou) Company Limited	Taizhou, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer

6. INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

a. As at 30th June, 2002, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

(i) Subsidiaries established/acquired on or before 31st December, 2001. (Cont'd)

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery (Hong Kong) Trading Company Limited	Hong Kong	HKD500,000	100%	–	Trading of Tsingtao beer in Hong Kong
Jiangsu Tsingtao Brewery Sales Company Ltd.	Nanjing, the PRC	RMB2,000,000	90%	–	Domestic trading of beer
Tsingtao Brewery (Hanzhong) Company Limited	Hanzhong, the PRC	RMB29,410,000	–	50.23%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Doumen) Malt Company Limited	Doumen, the PRC	RMB10,000,000	–	90.25%	Manufacturing and domestic trading of malt
Tsingtao Brewery (Luzhou) Company Limited	Luzhou, the PRC	RMB111,110,000	55%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Nanjing) Company Limited	Nanjing, the PRC	USD5,000,000	75%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Suqian) Company Limited	Suqian, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Beifang Sales Company Limited	Beijing, the PRC	RMB29,980,000	80%	14.25%	Domestic trading of beer
Tsingtao Brewery Haerbin Northeast Sales Company Limited	Haerbin, the PRC	RMB10,000,000	85%	14.25%	Domestic Trading of beer
Tsingtao Brewery (Laoshan) Company Limited	Laoshan, the PRC	RMB16,635,592	50%	46.90%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tengzhou) Huaihai Sales Company Limited	Tengzhou, the PRC	RMB500,000	–	82.50%	Domestic trading of beer
Tsingtao Brewery (Suzhou) Company Limited	Taicang, the PRC	RMB5,000,000	10%	85.50%	Manufacturing and domestic trading of beer
Tsingtao Brewery Huadong Hangzhou Sales Company Limited	Hangzhou, the PRC	RMB1,000,000	–	94.53%	Domestic trading of beer
Tsingtao Brewery Huadong Suzhou Sales Company Limited	Suzhou, the PRC	RMB3,000,000	–	76.10%	Domestic trading of beer
Tsingtao Brewery Fuzhou Sales Company Limited	Fuzhou, the PRC	RMB2,000,000	95%	–	Domestic trading of beer

6. INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

a. As at 30th June, 2002, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

(i) Subsidiaries established/acquired on or before 31st December, 2001. (Cont'd)

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery Xinan Sales Company Limited	Chengdu, the PRC	RMB2,000,000	60%	30%	Domestic trading of beer
Tsingtao Brewery (Suizhou) Company Limited	Suizhou, the PRC	RMB24,000,000	–	85.50%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tianmen) Company Limited	Tianmen, the PRC	RMB18,000,000	–	85.50%	Manufacturing and domestic trading of beer

(ii) During the six months ended 30th June, 2002, the Group established the following new subsidiaries.

Name of new subsidiaries	Name of minority shareholders	Date of acquisition/ establishment	Place of establishment and principal operation	Registered and paid-in capital	Equity interest held by the Company (%)		Principal activities
					Directly held	Indirectly held	
Tsingtao Brewery Taizhou Sales Company Limited	Jiaojiang The Second Tang Yan Jiu Company, Yuan Xu Sheng	January 2002	Taizhou, the PRC	RMB6,800,000	–	48.45%	Domestic Trading of Beer
Tsingtao Changhong Shangwu Company Limited	Tsingtao Brewery Advertising Co. Ltd.	March 2002	Qingdao, the PRC	RMB1,000,000	95%	–	Car Rental Services
Tsingtao Brewery Zhaoshang Logistic Co. Ltd.	Zhaoshangju Logistic Co. Ltd.	March 2002	Qingdao, the PRC	RMB2,000,000	51%	–	Logistic Services
Tsingtao Brewery Chenzhou Sales Co. Ltd.	China Railway Construction Company Railroad Transportation Division, Tsingtao Brewery Advertising Company	April 2002	Chenzhou, the PRC	RMB1,000,000	–	94.69%	Domestic Trading of Beer
Tsingtao Brewery Luzhong (Weifang) Sales Co. Ltd.	Shandong Weifang Lanzai Brewery Company Ltd., Tsingtao Brewery Group Co. Ltd.	March 2002	Shouguang, the PRC	RMB2,000,000	–	90.30%	Domestic Trading of Beer
Tsingtao Brewery Xuzhou Sales Co. Ltd.	Tsingtao Brewery Group Co., Ltd Shandong Zaozhuang City, Xuecheng District State-owned Operations Centre Peixian State-owned Operations Centre	April 2002	Xuzhou, the PRC	RMB5,000,000	–	86.20%	Domestic Trading of Beer

6. INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

a. As at 30th June, 2002, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

- (iii) In November 2001, the Company entered into an equity transfer agreement with Canada EVG Enterprises Inc. ("EVG") pursuant to which EVG will pay a cash consideration of US\$5,787,000 to acquire a 25% equity interest in Beijing Three Ring owned by the Company. The Company will continue to own the remaining 29% equity interest in Beijing Three Ring. During the period, EVG renegotiated with the Company for delaying the payment of the consideration of the said equity transfer. Both parties then agreed that the rights and obligations of EVG's 25% equity ownership in Beijing Three Ring will be borne by the Company before the full settlement of consideration. Up to 30th June, 2002, the consideration had not been settled and the Company continues to consolidate use 54% of itsequity interest in its financial statements.
- (iv) In April 2002, the Company and Tsingtao Ou Mei Investment Holding Co., Ltd. contributed RMB8,000,000 and RMB2,000,000, respectively to establish Tsingtao Brewery (Xiamen) Co., Ltd. ("Xiamen Company"). The Company holds 80% of the registered share capital of Xiamen Company.
- (v) In June 2002, the Company entered into an agreement with Xuecheng District State-owned Operations Centre for the purchases of an additional 15% equity interest in Tsingtao Brewery (Xuecheng) Co., Ltd. ("Xuecheng Company"), at a cash consideration of RMB6,480,000. After the transaction, the Company holds 85% of the registered capital of Xuecheng Company.

b. As at 30th June, 2002, particulars of the principal associated companies of the Group are as follows:

Name of associated companies	Place of establishment and principal operation	Registered Capital	Equity Interest held by the Group (%)		Principal Activities	Total Investment RMB
			directly held	indirectly held		
Tsingtao Brewery (Yangzhou) Company Limited	Yangzhou, the PRC	RMB5,000,000	20%	–	Manufacturing and domestic trading of beer	74,893,955
Tsingtao Asahi Beverage Company Limited	Qingdao, the PRC	RMB70,000,000	–	37.52%	Manufacturing and domestic trading of tea beverage products	26,821,485

The operating results of the associated companies have been included in the consolidated and company-only financial statements using the equity method if they are material to the operating results or financial position of the Group or the Company.

- c. In November 2001, Tsingtao Huanan Holding Company Limited and Tailian Brewery (Caymen Islands) Company Limited ("Tailian") signed an equity transfer agreement, pursuant to which the Company will purchase Tailian's 30% equity interest in Guangxi Nanning Wan Tai Brewery Company Limited at a consideration of RMB96,000,000. The name of the acquiree will also be changed to Tsingtao Brewery (Nanning) Company Limited. As the equity transfer process had not yet been completed, the Group and the Company did not account for the investment using the equity method for the period ended 30th June 2002.

7. TURNOVER AND COST OF SALES

a. Business segments

The sole principal activity of the Group and the Company is the production and distribution of beer products and the profit from other operations attributed to less than 10% of the consolidated net profit of the Group. Accordingly, no analysis of business segment information is provided.

7. TURNOVER AND COST OF SALES (CONT'D)

b. Geographical segment

	Group	
	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i>
Turnover		
Tsingtao region	1,125,400,324	974,679,434
Other Shandong region	522,773,589	513,439,275
Northern China region	811,254,205	570,495,819
Southern China region	1,198,595,585	696,566,147
	<hr/>	<hr/>
Sub-total	3,658,023,703	2,755,180,675
Intra-segment elimination	<u>(141,295,560)</u>	<u>(62,046,745)</u>
Total	<u><u>3,516,728,143</u></u>	<u><u>2,693,133,930</u></u>
Cost of sales		
Tsingtao region	642,727,039	552,135,504
Other Shandong region	350,996,831	362,315,171
Northern China region	509,913,048	365,268,622
Southern China region	709,526,441	424,655,852
	<hr/>	<hr/>
Sub-total	2,213,163,359	1,704,375,149
Inter-segment elimination	<u>(141,295,560)</u>	<u>(62,046,745)</u>
Total	<u><u>2,071,867,799</u></u>	<u><u>1,642,328,404</u></u>

No geographical analysis of the Company is provided as most of the sales and cost of sales incurred by the Company were attributable to markets within the Tsingtao region.

For period ended 30th June, 2002, sales made to the five largest customers of the Group and the Company approximately amounted to RMB235,467,000 and RMB171,536,000, respectively, being 8.7% and 17.2% of the turnover of the Group and the Company, respectively (for the six months ended 30th June, 2001: RMB205,030,000 and RMB173,173,000, being 5.8% and 15.5%, respectively).

8. SALES TAXES AND SURCHARGES

Types	Accrual basis	Group		Company	
		For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i>	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i>
Consumption tax	Refer to note 14(c)	309,470,158	242,586,555	53,066,916	43,002,447
City construction tax	Refer to note 14(b)	32,281,092	24,418,651	9,799,577	7,105,930
Others		21,856,358	10,710,547	4,375,474	3,064,780
		<hr/>	<hr/>	<hr/>	<hr/>
Total		<u><u>363,607,608</u></u>	<u><u>277,715,753</u></u>	<u><u>67,241,967</u></u>	<u><u>53,173,357</u></u>

9. PROFIT (LOSS) FROM OTHER OPERATIONS

	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Income from other operations				
Sale of materials	4,443,944	7,348,887	44,146,359	42,521,522
Sale of scraps	6,277,491	5,597,038	582,903	883,369
Others	17,270,909	10,806,734	4,536,794	622,023
Sub-total	<u>27,992,344</u>	<u>23,752,659</u>	<u>49,266,056</u>	<u>44,026,914</u>
Cost of other operations				
Sale of materials	6,159,558	5,541,433	46,226,836	42,425,782
Sale of scraps	1,201,441	1,951,069	599,871	855,092
Others	11,257,306	12,637,759	1,064,020	1,939,310
Sub-total	<u>18,618,305</u>	<u>20,130,261</u>	<u>47,890,727</u>	<u>45,220,184</u>
Profit (Loss) from other operations	<u><u>9,374,039</u></u>	<u><u>3,622,398</u></u>	<u><u>1,375,329</u></u>	<u><u>(1,193,270)</u></u>

10. FINANCE COSTS, NET

	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Interest expense	(77,310,179)	(69,610,534)	(30,583,159)	(31,012,168)
Interest income - subsidiaries	–	–	1,005,194	508,584
Interest income - others	6,433,640	7,222,996	1,612,630	3,539,096
Exchange differences, net	(1,490,626)	4,537,425	(1,470,939)	1,935,644
Others	(1,274,685)	377,652	(194,401)	301,410
Total	<u><u>(73,641,850)</u></u>	<u><u>(57,472,461)</u></u>	<u><u>(29,630,675)</u></u>	<u><u>(24,727,434)</u></u>

The capitalised borrowing costs for the Group amounted to approximately RMB2,260,000 in the current period (for the six months ended 30th June, 2001 : RMB1,840,000) (Note 28). The Company has no capitalised borrowing costs in the current period (for the six months ended 30th June, 2001: Nil).

11. INVESTMENT INCOME

	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Equity share in profits of subsidiaries	–	–	36,717,082	2,185,744
Equity share in (losses) profits of associated companies	(2,842,713)	1,078,575	(1,733,200)	1,078,575
Income from debt investments	983,652	983,652	983,652	983,652
Amortisation of investment differences	12,547,908	15,167,072	9,187,138	12,784,709
Others	(101,156)	(812,834)	–	(576,304)
Total	<u><u>10,587,691</u></u>	<u><u>16,416,465</u></u>	<u><u>45,154,672</u></u>	<u><u>16,456,376</u></u>

There are no material restrictions on the repatriation of investment income of the Company and its subsidiaries.

12. NON-OPERATING INCOME AND EXPENSES

	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Non-operating income				
Gain on disposal of fixed assets	426,750	972,230	20,000	121,158
Others	2,556,442	2,964,039	155,148	187,681
Total	<u>2,983,192</u>	<u>3,936,269</u>	<u>175,148</u>	<u>308,839</u>

	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Non-operating expenses				
Loss on disposal of fixed assets	1,440,816	926,246	224,137	299,542
Provision for impairment of fixed assets	26,871,725	–	8,000,000	–
Others	2,947,220	2,006,658	387,006	653,096
Total	<u>31,259,761</u>	<u>2,932,904</u>	<u>8,611,143</u>	<u>952,638</u>

13. SUBSIDY INCOME

As part of the business combinations and acquisition activities undertaken by the Group in prior years, the Group entered into various agreements with the relevant municipal governments. Under the terms of these agreements, the newly established subsidiaries can enjoy various financial incentives granted by the relevant municipal governments, including financial subsidies computed based on the amount of various taxes paid by the subsidiaries. Subsidy income is recognised when the right to receive payment is established.

Pursuant to Documents Guofa [2000] No.2 issued by the State Council of the PRC in January 2000 and Caishui [2000] No.99 issued by the Ministry of Finance of the PRC in July 2000, the above financial subsidies granted by municipal governments to the subsidiaries might cease to be available to the subsidiaries in the future. However, the Company's directors are not aware of any reasons that the said financial subsidies will not be available to the subsidiaries in the future.

14. TAXATION

a. Profits tax

	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
PRC Enterprise Income Tax (i)	54,937,992	39,077,581	22,698,323	19,551,868
Hong Kong profits tax (ii)	494,619	–	–	–
Write-off of deferred tax assets (iii)	2,974,562	–	2,974,562	–
Total	<u>58,407,173</u>	<u>39,077,581</u>	<u>25,672,885</u>	<u>19,551,868</u>

14. TAXATION (CONT'D)

a. Profits tax (Cont'd)

(i) PRC enterprise income tax

PRC Enterprise Income Tax ("EIT") is provided on the assessable income of the period calculated in accordance with the relevant regulations of the PRC after considering all the available tax benefits from refunds and allowances.

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 is subject to profits tax at 15% effective from the date of establishment of the Company. This rate will remain effective until and unless the enterprise income tax law and regulations change otherwise. The Company received confirmation from the Qingdao Ministry of Finance on 23rd March, 1997 that this preferential tax treatment would not be terminated until further notice.

Tsingtao Brewery (Sanshui) Company Limited, Tsingtao Brewery (Chenzhou) Company Limited, Shenzhen Tsingtao Beer Asahi Company Limited and Beijing Five Star Tsingtao Beer Company Limited were approved as foreign invested enterprises and therefore, they are exempt from EIT for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction for the next three years.

Tsingtao Brewery (Zhuhai) Company Limited was established and operated in the Zhuhai Special Economic Zone, accordingly, it is subject to EIT at a rate of 15%.

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

(ii) Hong Kong profit tax

Hong Kong profits tax has been provided at the rate of 16% (30th June, 2001: 16%) on the estimated assessable profit for the period.

(iii) Reversal of deferred tax asset

According to the current EIT Regulations, the taxpayers can apply to the relevant tax bureaus to claim a deduction of bad debts expense for EIT assessment when certain criteria are fulfilled. As at 31st December, 2001, the Group and the Company had applied to relevant tax bureau to claim a deduction of bad debt expense of approximately RMB19,830,000 from their assessable income. Approximately RMB2,975,000 of the related tax effect was recognised as deferred tax asset. As at 30th June, 2002, the claim had not yet been approved by the relevant tax bureau. Management considered the related deferred tax assets would not be likely to crystallise in the foreseeable future and thus was reversed in the current period under the prudent accounting principle.

b. Value-added tax ("VAT")

According to the PRC value-added tax temporary regulations ("VAT Regulations"), the Group is subject to output value-added tax ("output VAT") which is calculated at 17% of the sales of tangible goods. The Group pays VAT on its purchases of raw material and auxiliary materials ("input VAT") which is deducted against output VAT in arriving at the net VAT amount payable to the PRC Government. In addition, the Group accrues and pays city construction tax ("CCT") and educational surcharge ("ES") based on 7% and 3% of net VAT amount payable, respectively.

c. Consumption tax

Prior to May 2001, pursuant to the SAT's regulations, consumption tax of RMB220 per ton is charged on the sale of beer. In May 2001, the Ministry of Finance of the PRC and the SAT had issued the "Notice for changes in consumption tax for alcoholic products" (Caishui [2001] No. 84), which states that for beer with an ex-factory price (including packaging material and related deposits) over RMB3,000 per ton, the consumption tax is RMB250 per ton. For all the other beer sold below that price, the consumption tax remains at RMB220 per ton.

15. DIVIDENDS

Dividends for year 2001 was approved on 3rd April, 2002. As of 30th June, 2002, the dividend has not been distributed.

The directors do not recommend the payment of an interim dividends for the six months ended 30th June, 2002 (six months ended 30th June, 2001 : Nil).

16. EARNINGS PER SHARE

The calculation of weighted average earnings per share for the six months ended 30th June, 2002 is based on the consolidated net profit of RMB122,819,239 (30th June, 2001 : RMB70,835,655) and on the weighted average number of 1,000,000,000 (30th June, 2001 : 966,666,666) shares in issue during the period.

17. CASH AND BANK DEPOSITS

a. Group

	30th June, 2002 (Unaudited)			31st December, 2001		
	Foreign currency balance	Exchange rate	RMB equivalents	Foreign currency balance	Exchange rate	RMB equivalents
Cash - RMB	–	–	5,464,783	–	–	1,247,167
Bank deposits - RMB	–	–	<u>863,097,219</u>	–	–	<u>537,256,983</u>
Subtotal			868,562,002			538,504,150
Foreign currency deposits						
– USD	2,500,894	8.271	20,685,914	1,281,798	8.277	10,608,819
– HKD	84,058	1.061	<u>89,202</u>	265,287	1.061	<u>281,503</u>
Total cash and bank deposits			<u>889,337,118</u>			<u>549,394,472</u>
Other cash and bank deposits (c)			<u>53,305,123</u>			<u>20,932,450</u>

17. CASH AND BANK DEPOSITS (CONT'D)

b. Company

	30th June, 2002 (Unaudited)			31st December, 2001		
	Foreign currency balance	Exchange rate	RMB equivalents	Foreign currency balance	Exchange rate	RMB equivalents
Cash - RMB	–	–	1,357,765	–	–	113,735
Bank deposit - RMB	–	–	<u>168,760,442</u>	–	–	<u>153,689,804</u>
Subtotal			170,118,207			153,803,539
Foreign currency deposit						
–USD	2,160,944	8.277	<u>17,886,081</u>	1,027,243	8.277	<u>8,501,991</u>
Total cash and bank deposits			<u>188,004,288</u>			<u>162,305,530</u>
Other cash and bank deposits (c)			<u>28,000,000</u>			<u>–</u>

c. Other cash and bank deposits are deposits required to be placed with bank for obtaining banks drafts.

18. BILLS RECEIVABLE

As at 30th June, 2002, the bills receivable balance for the Group and the Company amounted to approximately RMB71,488,000 (31st December, 2001 : RMB25,853,000) and RMB4,154,000 (31st December, 2001 : RMB4,318,000) respectively. They were all unsecured bank drafts or commercial bills.

19. DIVIDENDS RECEIVABLE

	Company	
	31st December, 2002 (Unaudited)	30th June, 2001
Shenzhen Tsingtao Beer Asahi Company Limited	–	13,770,000
Shanghai Tsingtao Brewery Sales Company Limited	–	600,000
Total	<u>–</u>	<u>14,370,000</u>

20. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

a. Group

	30th June, 2002 (Unaudited)				31st December, 2001			
	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)
Within one year	180,898,762	55.01%	(28,007,364)	15.48%	139,803,917	43.34%	(22,401,059)	16.02%
Within one to two years	16,338,954	4.97%	(13,420,886)	82.14%	37,646,422	11.67%	(11,338,596)	30.12%
Within two to three years	48,381,996	14.71%	(40,366,700)	83.43%	54,704,203	16.96%	(53,389,250)	97.60%
Over three years	83,214,293	25.31%	(68,613,021)	82.45%	90,422,026	28.03%	(83,800,151)	92.68%
Total	328,834,005	100.00%	(150,407,971)	45.74%	322,576,568	100.00%	(170,929,056)	52.99%

As at 30th June, 2002, the aggregate amount of the Group's five largest accounts receivable balances was approximately RMB150,837,000 (31st December, 2001 : RMB141,720,000), being 35% (31st December, 2001: 34%) of the total accounts receivable balance and long-term accounts receivable balances.

During the period, the Group wrote off uncollectible accounts receivable against the provision for bad debts in the amount of approximately RMB47,163,000 (31st December, 2001: RMB12,337,000).

b. Company

	30th June, 2002 (Unaudited)				31st December, 2001			
	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)
Within one year	149,204,733	66.20%	(20,944,388)	14.04%	160,618,906	61.81%	(16,564,317)	10.31%
Within one to two years	4,888,203	2.17%	(1,511,570)	30.92%	23,065,604	8.87%	(6,126,127)	26.56%
Within two to three years	23,807,824	10.56%	(22,493,146)	94.48%	33,277,180	12.81%	(29,882,960)	89.80%
Over three years	47,493,561	21.07%	(37,762,727)	79.51%	42,888,688	16.51%	(36,524,521)	85.16%
Total	225,394,321	100.00%	(82,711,831)	36.70%	259,850,378	100.00%	(89,097,925)	34.29%

As at 30th June, 2002, the Company's five largest accounts receivable balances amounted to approximately RMB186,652,000 (31st December, 2001 : 164,935,000), being 56% (31st December, 2001 : 46%) of the total accounts receivable and long-term receivable balances.

During the period, the Company wrote off uncollectible accounts receivable against the provision for bad debts in the amount of approximately RMB24,328,000 (31st December, 2001 : RMB12,377,000).

The Group and the Company assessed the amount of specific bad debt provision for individual doubtful accounts receivable balance. Furthermore, based on past experience and actual circumstances, full provision is made for balances which aged over three years and with evidence indicating that they are uncollectible. For balances with partial collection expected, provision is made for the uncollectible portion. For balances which have been outstanding for one to three years, a general provision of 10% - 50% is made depending on individual circumstances.

20. ACCOUNTS RECEIVABLE (CONT'D)

b. Company (Cont'd)

The Group and the Company reached an agreement with a customer and a related company in connection with an aggregate receivable balance aged between one to four years, totalling RMB105,000,000 as at 31st December, 2001. Pursuant to the agreement, the entire outstanding balances will be repayable in eight annual installments, commencing from 1st January, 2002. In addition, Tsingtao Brewery Group Company Limited also undertook to guarantee the repayment of the balance. As at 30th June, 2002, the related accounts receivable balance had been included in long-term accounts receivable.

The Group and the Company have no receivable balance which was due from parties with 5% or above shareholdings in the Company.

21. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

a. Group

	30th June, 2002 (Unaudited)				31st December, 2001			
	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)
Within one year	254,339,550	59.77%	(428,587)	0.16%	202,468,755	55.46%	(2,806,249)	1.39%
Within one to two years	54,799,513	12.88%	(4,590,750)	8.38%	39,572,827	10.84%	(3,296,823)	8.33%
Within two to three years	44,268,520	10.40%	(6,508,601)	14.70%	52,346,080	14.34%	(7,395,937)	14.13%
Over three years	72,130,375	16.95%	(25,094,823)	34.79%	70,690,909	19.36%	(23,664,309)	33.48%
Total	425,537,958	100.00%	(36,622,761)	8.61%	365,078,571	100.00%	(37,163,318)	10.18%

As at 30th June, 2002, the Group's five largest other receivable balances amounted to approximately RMB125,795,000 (31st December, 2001: RMB128,964,000), being 30% (31st December, 2001: 35%) of the total other receivables balance.

b. Company

	30th June, 2002 (Unaudited)				31st December, 2001			
	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision percentage (%)
Within one year	660,233,875	51.43%	(373,569)	0.06%	530,288,042	47.66%	-	-
Within one to two years	436,156,839	33.98%	(2,618,957)	0.60%	398,098,240	35.78%	(459,965)	0.12%
Within two to three years	130,961,452	10.20%	(2,939,182)	2.24%	132,147,338	11.88%	(4,959,503)	3.75%
Over three years	56,348,525	4.39%	(12,932,143)	22.95%	52,120,279	4.68%	(13,444,383)	25.79%
Total	1,283,700,691	100.00%	(18,863,851)	1.47%	1,112,653,899	100.00%	(18,863,851)	1.69%

As at 30th June, 2002, the Company's five largest other receivable balances amounted to approximately RMB447,956,000 (31st December, 2001: RMB330,940,000), being 35% (31st December, 2001: 30%) of the total other receivable balance.

21. OTHER RECEIVABLES (CONT'D)

b. Company (Cont'd)

Included in the Company's other receivables balance aged one to three years were mainly working capital loans receivable from subsidiaries. The Company considered no provision for bad debts was necessary after assessing the operating results of the subsidiaries.

Included in the Group and the Company's other receivables aged two years or above was a working capital loan receivable from Tsingtao Brewery (Yangzhou) Company Limited of approximately RMB76,457,000 (31st December, 2001: approximately RMB76,537,000). No provision for doubtful receivables was considered necessary by the Company after assessing its operating results.

The Group and the Company have no receivable balances which was due from parties with 5% or above shareholding in the Company.

c. The breakdown of other receivables is as follow:

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Due from subsidiaries	–	–	960,893,649	866,057,774
Due from associated companies	76,456,544	76,536,544	76,456,544	76,536,544
Due from related companies	143,414,039	65,839,925	107,649,946	59,160,142
Others	205,667,375	222,702,102	138,700,552	110,899,439
Total	<u>425,537,958</u>	<u>365,078,571</u>	<u>1,283,700,691</u>	<u>1,112,653,899</u>

22. PREPAYMENTS AND DEPOSITS

The aging analysis of prepayments and deposits is as follows:

a. Group

	30th June, 2002 (Unaudited)		31st December, 2001	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	87,094,242	94.14%	58,975,865	80.80%
Within one to two years	4,568,244	4.94%	13,314,467	18.24%
Within two to three years	407,203	0.44%	269,726	0.37%
Over three years	449,795	0.48%	425,987	0.59%
Total	<u>92,519,484</u>	<u>100.00%</u>	<u>72,986,045</u>	<u>100.00%</u>

b. Company

	30th June, 2002 (Unaudited)		31st December, 2001	
	Amount	Percentage (%)	Amount	Percentage (%)
Within one year	22,135,324	99.22%	11,748,871	98.39%
Within one to two years	–	–	–	–
Within two to three years	–	–	–	–
Over three years	174,335	0.78%	192,785	1.61%
Total	<u>22,309,659</u>	<u>100.00%</u>	<u>11,941,656</u>	<u>100.00%</u>

22. PREPAYMENTS AND DEPOSITS (CONT'D)

b. Company (Cont'd)

The Group and the Company have no prepayments and deposits balances which was made to parties with 5% or above shareholdings in the Company.

Prepayment and deposits balance of the Group and the Company aged over one year was mainly the purchase deposits brought forward from prior years.

23. INVENTORIES

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Raw materials	376,786,136	321,315,782	126,300,719	122,859,388
Packaging materials	262,622,650	273,489,937	10,904,402	35,595,635
Low-value consumables and auxiliary materials	173,161,812	231,658,774	21,677,294	37,383,850
Materials on consignment	8,063,219	10,496,384	468,600	–
Work-in-progress	147,395,175	119,888,669	33,142,381	35,887,641
Consigned goods	–	2,637,161	–	–
Finished goods	157,203,131	129,084,327	40,332,206	38,424,872
Total	1,125,232,123	1,088,571,034	232,825,602	270,151,386
Less: Provision for diminution in value of inventories				
– Raw materials	(19,580,010)	(19,673,101)	(1,022,238)	(1,022,238)
– Finished goods	(17,931,530)	(21,667,611)	–	(1,670,305)
– Other inventories	(3,851,080)	(2,668,580)	–	–
Total	(41,362,620)	(44,009,292)	(1,022,238)	(2,692,543)
Inventories, net	1,083,869,503	1,044,561,742	231,803,364	267,458,843

24. DEFERRED EXPENSES

	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 31st December, 2001	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 31st December, 2001
Insurance	2,918,389	2,980,026	525,959	986,245
Advertising	3,864,272	647,046	–	–
Housing rental	765,436	1,147,532	187,159	966,261
Others	10,701,645	3,848,159	3,362,592	278,092
Total	18,249,742	8,622,763	4,075,710	2,230,598

25. LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	30th June, 2002 <i>(Unaudited)</i>	31st December, 2001	30th June, 2002 <i>(Unaudited)</i>	31st December, 2001
Investments in subsidiaries	–	–	1,717,952,536	1,605,189,971
Investments in associated companies	30,901,117	33,743,830	4,006,507	5,739,707
Other equity investments	25,700,074	26,646,229	17,969,561	17,969,561
	56,601,191	60,390,059	1,739,928,604	1,628,899,239
Investment differences	(182,915,763)	(196,159,436)	(127,405,391)	(137,288,294)
	<u>(126,314,572)</u>	<u>(135,769,377)</u>	<u>1,612,523,213</u>	<u>1,491,610,945</u>

The details of equity investments accounted for by the equity method are as follows:

Name of investees	Initial investment	Actual investment			Dividends for the period <i>(Unaudited)</i>	Cumulative changes in equity <i>(Unaudited)</i>	Actual investment as at 30th June, 2002 <i>(Unaudited)</i>
		Additional investment <i>(Unaudited)</i>	31st December, 2001	Change in equity for the period <i>(Unaudited)</i>			
Shenzhen Tsingtao Brewery Huanan Holding Company Limited	190,000,000	–	189,998,791	25,207,704	–	25,206,495	215,206,495
Tsingtao Brewery Xian Company Limited	179,888,114	–	252,983,252	29,554,807	–	102,649,945	282,538,059
Tsingtao Brewery Shanghai Songjiang Company Limited	153,750,000	–	154,276,552	(1,057,062)	–	(530,510)	153,219,490
Shenzhen Tsingtao Beer Asahi Company Limited	126,746,680	–	139,966,591	22,021,721	–	35,241,632	161,988,312
Tsingtao Brewery (Fuzhou) Company Limited	85,000,000	–	83,380,942	(3,921,716)	–	(5,540,774)	79,459,226
Tsingtao Brewery (Haerbin) Company Limited	78,900,000	–	64,613,249	(4,895,255)	–	(19,182,006)	59,717,994
Tsingtao Brewery (Rongcheng) Company Limited	65,103,434	–	55,474,904	(5,883,511)	–	(15,512,041)	49,591,393
Tsingtao Brewery (Shouguang) Company Limited	60,000,000	–	51,483,052	(2,194,003)	–	(10,710,951)	49,289,049
Shenzhen Tsingtao Brewery Sales Company Limited	19,000,000	–	40,409,073	36,188,523	–	57,597,596	76,597,596
Tsingtao Brewery (Luzhou) Company Limited	61,110,000	–	57,232,237	(1,869,922)	–	(5,747,685)	55,362,315
Others	630,546,983	14,834,082	515,371,328	19,611,279	–	(110,398,458)	534,982,607
Total	1,650,045,211	14,834,082	1,605,189,971	112,762,565	–	53,073,243	1,717,952,536

25. LONG-TERM EQUITY INVESTMENTS (CONT'D)

The details of equity investment differences are as follows:

Name of Investees	Reason	Initial investment	Investment beginning of period	Current period addition (Unaudited)	Current period amortisation (Unaudited)	Unamortised balance (Unaudited)
Tsingtao Brewery Shanghai Songjiang Company Limited	Acquisition	(133,483,335)	(118,929,975)	–	6,674,167	(112,255,808)
Beijing Five Star Tsingtao Beer Company Limited	Acquisition	(54,539,713)	(50,903,732)	–	2,726,985	(48,176,747)
Beijing Three Rings Asia Pacific Beer Company Limited	Acquisition	49,285,564	45,999,860	–	(2,464,279)	43,535,581
Tsingtao Brewery (Fuzhou) Company Limited	Acquisition	40,755,768	39,397,243	–	(2,037,789)	37,359,454
Others	Acquisition	(84,810,564)	(52,851,690)	695,765	4,288,054	(47,867,871)
Company total		(182,792,280)	(137,288,294)	695,765	9,187,138	(127,405,391)
Indirectly held subsidiaries of the Group		(68,869,807)	(58,871,142)	–	3,360,770	(55,510,372)
Group Total		<u>(251,662,087)</u>	<u>(196,159,436)</u>	<u>695,765</u>	<u>12,547,908</u>	<u>(182,915,763)</u>

The investment difference of the Group and the Company are amortised over 10 years.

26. LONG-TERM DEBT INVESTMENTS

a. Group

Type	Face value	Purchase costs	Accumulated amortisation of premium (Unaudited)	Balance as at period end (Unaudited)	Balance as at beginning of period	Annual interest rate	Maturity date	Current period interest income (Unaudited)	Cumulative interest income (Unaudited)
Government Bonds	32,700,000	39,998,088	(5,218,550)	34,779,538	35,195,446	8.56%	December 2004	1,399,560	12,596,040
Others	3,000	3,000	–	3,000	3,000	–	–	–	–
Total	<u>32,703,000</u>	<u>40,001,088</u>	<u>(5,218,550)</u>	<u>34,782,538</u>	<u>35,198,446</u>			<u>1,399,560</u>	<u>12,596,040</u>

b. Company

Type	Face value	Purchase costs	Accumulated amortisation of premium (Unaudited)	Balance as at period end (Unaudited)	Balance as at beginning of period	Annual interest rate	Maturity date	Current period interest income (Unaudited)	Cumulative interest income (Unaudited)
Government Bonds	32,700,000	39,998,088	(5,218,550)	34,779,538	35,195,446	8.56%	December 2004	1,399,560	12,596,040
	<u>32,700,000</u>	<u>39,998,088</u>	<u>(5,218,550)</u>	<u>34,779,538</u>	<u>35,195,446</u>			<u>1,399,560</u>	<u>12,596,040</u>

In the opinion of the Company's Directors, the underlying value of long-term debt investments are not less than the carrying value of such investments as at 30th June, 2002.

27. FIXED ASSETS

The movements of fixed assets are as follows:

a. Group

	30th June, 2002 (Unaudited)					31st December, 2001
	Building	Plant and machinery	Motor vehicles	Equipment	Total	Total
Original cost						
Beginning of period/year	2,452,826,955	4,866,383,904	465,632,506	–	7,784,843,365	6,014,292,303
Re-classification	(1,226,728)	(59,752,070)	(83,134,224)	144,113,022	–	–
Beginning of period/year, restated	2,451,600,227	4,806,631,834	382,498,282	144,113,022	7,784,843,365	6,014,292,303
Effect of acquisition of subsidiaries	56,811,890	101,217,116	3,470,621	2,351,074	163,850,701	1,196,868,427
Transfer in from construction-in-progress ("CIP")	17,878,209	65,480,481	1,538,769	313,991	85,211,450	706,236,287
Additions	6,412,574	35,750,262	17,876,498	14,660,146	74,699,480	402,536,617
Disposal	(383,907)	(17,320,962)	(4,930,823)	(1,686,065)	(24,321,757)	(535,090,269)
End of period/year	<u>2,532,318,993</u>	<u>4,991,758,731</u>	<u>400,453,347</u>	<u>159,752,168</u>	<u>8,084,283,239</u>	<u>7,784,843,365</u>
Accumulated depreciation						
Beginning of period/year	534,140,447	1,883,987,321	150,124,485	–	2,568,252,253	1,937,854,289
Re-classification	193,293	(29,612,431)	(40,057,694)	69,476,832	–	–
Beginning of period/year, restated	534,333,740	1,854,374,890	110,066,791	69,476,832	2,568,252,253	1,937,854,289
Effect of acquisition of subsidiaries	11,839,209	44,798,372	1,219,718	934,855	58,792,154	315,388,583
Charge for the period/year	30,689,747	163,248,621	18,025,794	10,634,091	222,598,253	509,632,257
Write-back on disposal	(229,502)	(11,572,916)	(5,174,041)	(2,415,874)	(19,392,333)	(194,622,876)
End of period/year	<u>576,633,194</u>	<u>2,050,848,967</u>	<u>124,138,262</u>	<u>78,629,904</u>	<u>2,830,250,327</u>	<u>2,568,252,253</u>
Impairment loss						
Beginning of period/year	<u>29,311,544</u>	<u>28,094,402</u>	<u>578,629</u>	<u>–</u>	<u>57,984,575</u>	<u>–</u>
End of period/year	<u>37,494,574</u>	<u>44,845,251</u>	<u>2,516,475</u>	<u>–</u>	<u>84,856,300</u>	<u>57,984,575</u>
Net book value						
End of period/year	<u>1,918,191,225</u>	<u>2,896,064,513</u>	<u>273,798,610</u>	<u>81,122,264</u>	<u>5,169,176,612</u>	<u>5,158,606,537</u>
Beginning of period/year	<u>1,887,954,943</u>	<u>2,924,162,542</u>	<u>271,852,862</u>	<u>74,636,190</u>	<u>5,158,606,537</u>	<u>4,076,438,014</u>

27. FIXED ASSETS (CONT'D)

a. Group (Cont'd)

Fixed assets with carrying values of approximately RMB755,396,000 (31st December, 2001: RMB649,130,000) as at 30th June, 2002 were pledged as security for certain loans of the Group.

b. Company

	30th June, 2002 (Unaudited)				31st December, 2001	
	Building	Plant and machinery	Motor vehicles	Equipment	Total	Total
Original cost						
Beginning of period/year	560,923,926	1,176,680,413	210,905,692	–	1,948,510,031	2,030,080,701
Re-classification	(1,904,030)	(38,452,727)	(35,426,427)	75,783,184	–	–
Beginning of period/year, restated	559,019,896	1,138,227,686	175,479,265	75,783,184	1,948,510,031	2,030,080,701
Transfer in from construction-in-progress ("CIP")	–	811,972	–	231,319	1,043,291	39,748,214
Additions	640,651	17,401,849	534,398	7,227,291	25,804,189	141,068,020
Disposal	–	(12,737,700)	(4,046,545)	(2,149,041)	(18,933,286)	(262,386,904)
End of period/year	<u>559,660,547</u>	<u>1,143,703,807</u>	<u>171,967,118</u>	<u>81,092,753</u>	<u>1,956,424,225</u>	<u>1,948,510,031</u>
Accumulated depreciation						
Beginning of period/year	134,305,798	681,460,164	70,223,120	–	885,989,082	792,396,811
Re-classification	106,246	(24,217,540)	(16,413,320)	40,524,614	–	–
Beginning of period/year, restated	134,412,044	657,242,624	53,809,800	40,524,614	885,989,082	792,396,811
Charge for the period/year	7,189,670	39,360,641	8,143,615	4,501,280	59,195,206	133,013,745
Write-back on disposal	–	(10,366,507)	(1,559,310)	(1,452,585)	(13,378,402)	(39,421,474)
End of period/year	<u>141,601,714</u>	<u>686,236,758</u>	<u>60,394,105</u>	<u>43,573,309</u>	<u>931,805,886</u>	<u>885,989,082</u>
Impairment loss						
Beginning of period/year	–	–	–	–	–	–
End of period/year	–	8,000,000	–	–	8,000,000	–
Net book value						
End of period/year	<u>418,058,833</u>	<u>449,467,049</u>	<u>111,573,013</u>	<u>37,519,444</u>	<u>1,016,618,339</u>	<u>1,062,520,949</u>
Beginning of period/year	<u>424,607,852</u>	<u>480,985,062</u>	<u>121,669,465</u>	<u>35,258,570</u>	<u>1,062,520,949</u>	<u>1,237,683,890</u>

Certain reclassification of fixed assets among different categories was made by the Group and the Company. Equipment is separately presented as a category of fixed assets and the corresponding balances were reclassified from buildings, plant and machinery, motor vehicles and equipment. The estimated useful life of equipment is 5 to 10 years. The reclassification has no material impact on the financial statements.

28. CONSTRUCTION-IN-PROGRESS

Construction works	Beginning of period	Additions (Unaudited)	Transfer to fixed assets (Unaudited)	Other transfer-out (Unaudited)	End of period (Unaudited)	Source of financing
Plant 1 production line improvement	23,867,278	5,242,454	(290,000)	–	28,819,732	Internally generated fund
Plant 2 production line improvement	7,356,388	41,944,114	–	–	49,300,502	Internally generated fund
New factory plant	52,456,079	–	–	(10,000,000)	42,456,079	Internally generated fund
Malt production line improvement	5,431,646	475,116	(636,072)	–	5,270,690	Internally generated fund
Others	1,665,568	56,227,990	(117,219)	(52,243,644)	5,532,695	Internally generated fund
Company total	90,776,959	103,889,674	(1,043,291)	(62,243,644)	131,379,698	
Sanshui Company production line improvement	6,249,763	15,334,726	(488)	–	21,584,001	Share issuance
Chenzhou Company production line improvement	496,815	3,146,270	(1,374,343)	–	2,268,742	Internally generated fund
Huangshi Company production line improvement	139,950	1,801,141	(482,093)	(185,188)	1,273,810	Internally generated fund
Yingcheng Company production line improvement	4,941,600	7,046,137	(10,889,656)	–	1,098,081	Internally generated fund
Shanghai Songjiang Company production line improvement	35,883,220	4,800,260	(38,491,762)	–	2,191,718	Bank loans
Shouguang Company production line improvement	1,157,371	199,297	(283,630)	(93,774)	979,264	Internally generated fund
Xuecheng Company production line improvement	571,737	3,264,279	(2,994,424)	–	841,592	Internally generated fund
Tengzhou Company production line improvement	4,334,316	2,521,488	(6,300,120)	–	555,684	Internally generated fund
Beijing Five Star Company production line improvement	3,966,533	1,278,927	(773,671)	(47,745)	4,424,044	Internally generated fund
Beijing Three Ring Company production line improvement	300,012	276,676	(207,964)	–	368,724	Internally generated fund
Xian Company production line improvement	4,486,586	6,614,654	(3,901,549)	–	7,199,691	Internally generated fund
Anshan Company production line improvement	3,843,105	587,567	(120,530)	–	4,310,142	Internally generated fund
Xingkaihu Company production line improvement	8,074,090	179,732	(1,448,200)	–	6,805,622	Internally generated fund

28. CONSTRUCTION-IN-PROGRESS (CONT'D)

Construction works	Beginning of period	Additions (Unaudited)	Transfer to fixed assets (Unaudited)	Other transfer-out (Unaudited)	End of period (Unaudited)	Source of financing
Penglai Company production line improvement	14,643,435	14,187,433	(179,799)	(4,965,139)	23,685,930	Internally generated fund
Chongqing Company production line improvement	4,762,140	1,945,143	–	–	6,707,283	Internally generated fund
No. 5 Company production line improvement	10,451,518	2,266,720	(636,094)	(217,378)	11,864,766	Internally generated fund
Heze Company production line improvement	324,198	2,669,156	(2,494,394)	–	498,960	Internally generated fund
Others	16,421,241	77,515,864	(13,589,442)	(14,698,464)	65,649,199	Internally generated fund
Group Total	<u>211,824,589</u>	<u>249,525,144</u>	<u>(85,211,450)</u>	<u>(82,451,332)</u>	<u>293,686,951</u>	

To the extent that funds are borrowed generally and used for the purpose of financing the construction of fixed assets, the capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of these assets ranged from 5.27% to 6.37% per annum (31st December, 2001: from 0% to 6.44% per annum). During the period, the Group capitalised approximately RMB2,260,000 (31st December, 2001: RMB3,847,000) of interest costs.

29. INTANGIBLE ASSETS

a. Group

Items	Original cost	Beginning of period	Effect of acquisitions of subsidiaries (Unaudited)	Additions (Unaudited)	Amortisation (Unaudited)	Disposal (Unaudited)	End of period (Unaudited)	Remaining years of amortisation
Trademarks (i)	121,190,026	81,893,629	–	17,844,300	(1,440,522)	–	98,297,407	4.5 - 31.5 years
Land use rights (ii)	645,074,508	571,590,473	–	28,119,780	(6,660,627)	–	593,049,626	41.5 - 48.5 years
Technology know-how (iii)	18,629,100	15,379,159	–	–	(87,053)	–	15,292,106	7 years
Others	19,852,617	15,172,257	–	848,200	(542,890)	–	15,477,567	9.5 - 10 years
Total	<u>804,746,251</u>	<u>684,035,518</u>	<u>–</u>	<u>46,812,280</u>	<u>(8,731,092)</u>	<u>–</u>	<u>722,116,706</u>	

The increase in intangible assets was mainly due to the establishment of new subsidiaries.

b. Company

Items	Original cost	Beginning of period	Additions (Unaudited)	Amortisation (Unaudited)	Disposal (Unaudited)	End of period (Unaudited)	Remaining years of amortisation
Trademarks (i)	100,000,000	78,750,031	–	(1,250,000)	–	77,500,031	31.5 years
Land use rights (ii)	87,975,035	73,130,814	–	(879,750)	–	72,251,064	41.5 years
Others	4,143,568	3,078,151	809,400	(182,059)	–	3,705,492	1 - 10 years
Total	<u>192,118,603</u>	<u>154,958,996</u>	<u>809,400</u>	<u>(2,311,809)</u>	<u>–</u>	<u>153,456,587</u>	

29. INTANGIBLE ASSETS (CONT'D)

b. Company (Cont'd)

(i) Trademarks

Trademarks represent the "TSINGTAO BEER" trademark injected by the founding shareholders into the Company on 16th June, 1993 as capital. The recorded value of the trademark was determined based on a valuation approved by the State Owned Assets Administration Bureau of the PRC. Amortisation of the trademark is provided for on a straight-line basis to write off the revalued amount of the trademark over its estimated useful life of 40 years.

Other trademarks were acquired during acquisitions of certain subsidiaries and are amortised over their estimated useful lives ranging from 4.5-10 years.

(ii) Land use rights

As at 30th June, 2002, approximately RMB7,800,000 of land use right has to be sold to the original seller at cost if it is sold within the next one and a half years.

(iii) Technology know-how

Technology know-how was injected by the minority shareholders of certain subsidiaries during the reorganisation of those subsidiaries. It was recorded at a value agreed among all the shareholders of those subsidiaries and is amortised using straight-line method over an expected period of inflow of economic benefits of 10 years.

30. LONG-TERM DEFERRED ASSETS

a. Group

Items	Original cost	Accumulated amortisation (Unaudited)	Beginning of period	Additions (Unaudited)	Amortisation (Unaudited)	End of period (Unaudited)	Remaining years of amortisation
Xian Company greening cost	10,804,764	(9,609,182)	1,294,138	-	(98,556)	1,195,582	4.5 years
Headquarter advertising expense	3,732,023	(328,799)	2,825,000	732,023	(153,799)	3,403,224	8.5 years
Yingcheng Company technological upgrade	2,248,887	(940,012)	1,550,399	-	(241,524)	1,308,875	2.5 years
Anqiu Company building usage rights	1,570,681	(563,132)	1,098,868	-	(91,319)	1,007,549	4.5 years
Huadong Nanjing Sales Company leasehold improvement costs	466,215	(88,804)	169,275	296,940	(88,804)	377,411	2.5 years
Others	8,520,351	(6,362,651)	1,576,828	706,150	(125,278)	2,157,700	1.5 - 4.5 years
Total	<u>27,342,921</u>	<u>(17,892,580)</u>	<u>8,514,508</u>	<u>1,735,113</u>	<u>(799,280)</u>	<u>9,450,341</u>	

b. Company

Items	Original cost	Accumulated amortisation (Unaudited)	Beginning of period	Additions (Unaudited)	Amortisation (Unaudited)	End of period (Unaudited)	Remaining years of amortisation
Headquarter advertising expense	<u>3,732,023</u>	<u>(328,799)</u>	<u>2,825,000</u>	<u>732,023</u>	<u>(153,799)</u>	<u>3,403,224</u>	8.5 years

31. LOANS

Loans of the Group and the Company mainly include bank loans bearing interest at rates determined by the People's Bank of China.

a. Short-term loans and current portion of long-term loans

Type	Group		Company	
	30th June, 2002 <i>(Unaudited)</i>	31st December, 2001	30th June, 2002 <i>(Unaudited)</i>	31st December, 2001
Secured loans	116,400,000	124,900,000	–	–
Guaranteed loans	1,766,253,143	1,865,005,666	497,653,645	530,000,000
Credit loans	798,751,173	626,161,129	650,500,000	591,438,358
Total	<u>2,681,404,316</u>	<u>2,616,066,795</u>	<u>1,148,153,645</u>	<u>1,121,438,358</u>
Short-term loans	2,597,971,173	2,496,232,770	1,130,500,000	1,085,500,000
Current portion of long-term loans	83,433,143	119,834,025	17,653,645	35,938,358
Total	<u>2,681,404,316</u>	<u>2,616,066,795</u>	<u>1,148,153,645</u>	<u>1,121,438,358</u>

b. Long-term bank loans and long term payables

	Group				Company			
	Bank loans				Bank loans			
	Foreign currency balances	Exchange rate	RMB equivalents	Other Long-term payables	Foreign currency balances	Exchange rate	RMB equivalents	Other Long term payables
Maturity within one to two years								
– Yen	119,520,000	0.069	8,265,644	–	119,520,000	0.0690	8,265,644	–
– Denmark Francs	400,000	0.972	388,720	–	–	–	–	–
– Belgium Francs	6,398,619	0.179	1,145,901	–	–	–	–	–
– RMB	–	–	43,028,000	7,499,547	–	–	25,964,000	167,134
Maturity within two to three years								
– Denmark Francs	400,000	0.972	388,720	–	–	–	–	–
– Belgium Francs	6,408,619	0.179	1,145,901	–	–	–	–	–
– RMB	–	–	54,508,000	14,052,875	–	–	19,220,000	–
Maturity within three to five years								
– Denmark Francs	800,000	0.972	777,440	–	–	–	–	–
– Belgium Francs	12,797,238	0.179	2,291,803	–	–	–	–	–
– RMB	–	–	56,762,000	20,294,908	–	–	27,474,000	–
Maturity over five years								
– Denmark Francs	5,800,000	0.972	5,636,440	–	–	–	–	–
– Belgium Francs	60,602,571	0.179	10,851,725	–	–	–	–	–
– RMB	–	–	250,000	–	–	–	–	–
Total			<u>185,440,294</u>	<u>41,847,330</u>			<u>80,923,644</u>	<u>167,134</u>

31. LOANS (CONT'D)

- c. Pursuant to the debt restructuring agreements or acquisition agreements of certain subsidiaries, the interest charge on the Group's and the Company's loans of approximately RMB157,376,000 (31st December, 2001: RMB185,993,000) and RMB82,046,000 (31st December, 2001 : RMB83,732,000) respectively were waived. The remaining loans bear interest at rates ranging from interest-free to 7.61% per annum (31st December, 2001: interest-free to 7.61%).

Loans of the Group and the Company amounting to approximately RMB912,080,000 (31st December, 2001: RMB1,499,850,000) and RMB637,080,000 (31st December, 2001 RMB637,080,000) were guaranteed by a related company. In additions, loans of the Group amounting to approximately RMB125,000,000 (31st December, 2001 : RMB125,000,000) are guaranteed by certain minority shareholders of subsidiaries.

Approximately 225,400,000 (31st December, 2001 : RMB385,000,000) of the Group's loans are guaranteed by the Company.

Approximately 150,390,000 (31st December, 2001 : RMB158,900,000) of the Group's loans are secured by all assets of Tsingtao Brewery (Xian) Company Limited and certain fixed assets of the Group with an aggregate carrying value of approximately RMB755,396,000 (31st December, 2001 : RMB649,130,000).

Most of the bank financing of the Group is in the form of short-term bank loans. As a result, the Group had net current liabilities of approximately RMB2,156,977,000 (31st December, 2001 : RMB2,138,825,000) as at 30th June, 2002. The board of directors of the Company is confident that the Group will be able to renew these short-term facilities upon their maturity or to identify new sources of financing to replace the existing short-term facilities.

32. ACCOUNTS PAYABLE, ADVANCE FROM CUSTOMERS, AND OTHER PAYABLES

The Group and the Company have no payable balance which was due to parties with 5% or above shareholdings in the Company.

33. BILLS PAYABLE

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Commercial bills	165,727,619	109,809,642	163,792,117	109,809,642
Bank drafts	72,664,361	57,468,245	-	-
Total	<u>238,391,980</u>	<u>167,277,887</u>	<u>163,792,117</u>	<u>109,809,642</u>

34. TAXES PAYABLE

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Types of tax payable				
Value added tax ("VAT")				
Unutilised input VAT credit, end of period/year	(3,091,747)	(19,291,424)	(1,616,751)	-
VAT payable, end of period/year	65,601,267	40,885,900	10,640,394	7,029,224
VAT payable, net	62,509,520	21,594,476	9,023,643	7,029,224
Consumption tax	140,581,022	101,715,177	9,385,293	5,306,069
Enterprise income tax	6,636,678	(8,472,037)	(5,677,449)	(8,879,470)
City construction tax	7,005,725	5,477,801	424,901	3,167,576
Others	706,460	1,410,827	83,019	-
Total	<u>217,439,405</u>	<u>121,726,244</u>	<u>13,239,407</u>	<u>6,623,399</u>

35. ACCRUALS

Particulars	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Import duties on materials	916,278	150,085	916,278	916,278
Selling expenses	21,115,442	5,634,437	3,658,827	–
Audit fee	848,000	4,760,819	848,000	4,758,699
Interest expense	8,225,243	1,327,436	1,805,963	–
Repairs and maintenance	18,198,123	3,855,655	6,168,589	–
Utilities	7,672,798	1,182,336	386,957	–
Advertising expenses	32,388,691	2,183,955	26,497,000	–
Transportation expenses	9,930,667	772,900	5,188,827	–
Others	36,772,346	20,453,835	7,784,775	115,945
Total	<u>136,067,588</u>	<u>40,321,458</u>	<u>53,255,216</u>	<u>5,790,922</u>

36. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is RMB1,000,000,000 (31st December, 2001: RMB1,000,000,000) divided into 1,000,000,000 (31st December, 2001: 1,000,000,000) ordinary shares of RMB1 each. A summary of the share capital is set out below:

	30th June, 2002 (Unaudited)		31st December, 2001	
	RMB	Percentage	RMB	Percentage
State shares	399,820,000	39.98%	399,820,000	39.98%
PRC legal person shares	53,330,000	5.33%	53,330,000	5.33%
PRC public shares (“A Shares”)	200,000,000	20.00%	200,000,000	20.00%
Overseas public shares (“H Shares”)	346,850,000	34.69%	346,850,000	34.69%
Total	<u>1,000,000,000</u>	<u>100.00%</u>	<u>1,000,000,000</u>	<u>100.00%</u>

37. ANALYSIS OF ASSET IMPAIRMENT LOSSES

a. Group

Item	31st December, 2001	Additions (Unaudited)	Write back/Set off (Unaudited)	30th June, 2002 (Unaudited)
Accounts receivables	170,929,056	26,641,946	(47,163,031)	150,407,971
Other receivables	37,163,318	1,218,905	(1,759,462)	36,622,761
Long-term receivables	21,191,858	–	–	21,191,858
Total provision for bad debts	<u>229,284,232</u>	<u>27,860,851</u>	<u>(48,922,493)</u>	<u>208,222,590</u>
Raw materials	19,673,101	83,544	(176,635)	19,580,010
Finished goods	21,667,611	–	(3,736,081)	17,931,530
Other inventories	2,668,580	1,182,500	–	3,851,080
Total provision for diminution of inventories	<u>44,009,292</u>	<u>1,266,044</u>	<u>(3,912,716)</u>	<u>41,362,620</u>
Provision for diminution of long-term investments	<u>3,906,918</u>	<u>155,000</u>	–	<u>4,061,918</u>
Land and buildings	29,311,544	8,183,030	–	37,494,574
Plant and machinery	28,094,402	16,750,849	–	44,845,251
Motor vehicles	578,629	1,937,846	–	2,516,475
Equipment	–	–	–	–
Total provision for impairment of fixed assets	<u>57,984,575</u>	<u>26,871,725</u>	–	<u>84,856,300</u>

37. ANALYSIS OF ASSET IMPAIRMENT LOSSES (CONT'D)

b. Company

Item	31st December, 2001	Additions (Unaudited)	Write back/Set off (Unaudited)	30th June, 2002 (Unaudited)
Accounts receivable	89,097,925	17,941,575	(24,327,669)	82,711,831
Other receivables	18,863,851	–	–	18,863,851
Long-term receivables	21,191,858	–	–	21,191,858
Total provision for bad debts	<u>129,153,634</u>	<u>17,941,575</u>	<u>(24,327,669)</u>	<u>122,767,540</u>
Raw materials	1,022,238	–	–	1,022,238
Finished goods	1,670,305	–	(1,670,305)	–
Total provision for diminution of inventories	<u>2,692,543</u>	<u>–</u>	<u>(1,670,305)</u>	<u>1,022,238</u>
Land and buildings	–	–	–	–
Plant and machinery	–	8,000,000	–	8,000,000
Motor vehicles	–	–	–	–
Equipment	–	–	–	–
Total provision for impairment of fixed assets	<u>–</u>	<u>8,000,000</u>	<u>–</u>	<u>8,000,000</u>

38. NOTES TO CASH FLOW STATEMENTS

a. Cash receipts relating to other operating activities during the period mainly include:

Type of receipt	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Non-operating income	2,666,658	2,505,452	175,148	320,920
Other operating income	–	3,622,398	–	1,505,392
Bottle and plastic box deposits	93,905,282	–	13,520,000	–
Others	131,899,486	2,781,117	25,782,059	28,781,157
	<u>228,471,426</u>	<u>8,908,967</u>	<u>39,477,207</u>	<u>30,607,469</u>

b. Cash payments for other operating activities during the period mainly include:

Type of payment	Group		Company	
	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Advertising expenses	151,590,045	108,016,417	22,743,166	23,478,900
Transportation expenses	63,695,756	39,438,346	9,800,177	36,487,631
Payment for manufacturing expenses, selling expenses and others	380,187,602	277,457,506	320,128,607	240,099,639
	<u>595,473,403</u>	<u>424,912,269</u>	<u>352,671,950</u>	<u>300,066,170</u>

39. RELATED PARTY TRANSACTIONS

Related party relationship mainly refers to:

1. Control of another enterprise directly or indirectly or being subject to control by another enterprise, and two or more enterprises being subject to common control by another enterprise;
2. Joint ventures;
3. Associated companies;
4. Major investors, key management or their close family members;
5. Enterprises controlled directly by the major investors, key management or their close family members.

Related parties with control relationship mainly represent subsidiaries and associated companies. Particulars of those entities are detailed in Note 6.

39. RELATED PARTY TRANSACTIONS (CONT'D)

The name and relationship with the Group of the related parties with no control relationship but with transactions or balances outstanding are as follows:

Name of company	Relationship with the Group
Tsingtao Brewery Group Co., Ltd.	Same directors
Tsingtao Brewery Shi Ye Co., Ltd.	Same directors
Tsingtao Brewery Real Estate Co., Ltd.	Same directors
Tsingtao Brewery Engineering Co., Ltd.	Same directors
Tsingtao Brewery Advertising Co., Ltd.	Same directors
Tsingtao Brewery Trading Co., Ltd.	Same directors
Xi'an Hans Beverages Company Limited	Minority shareholder of a subsidiary
Asahi Breweries Limited	Minority shareholder of a subsidiary
Itochu Corporation	Minority shareholder of a subsidiary
Sumikin Bussan Corporation	Minority shareholder of a subsidiary
Shandong Zaozhuang City, Xuecheng District State Owned Operations Centre	Minority shareholder of a subsidiary
Shandong Sheng Rongcheng Shi The First Light Industry Company	Minority shareholder of a subsidiary
Pexian State Owned Operations Centre	Minority shareholder of a subsidiary
Tsingtao Beverage Company Limited	Same management
Shandong Weifang Lanzai Brewery Company Limited	Minority shareholder of a subsidiary
Sichuan Huo Ju Hua Gong Company Limited	Minority shareholder of a subsidiary
Beijing Asia Shuang He Sheng Five Star Beer Company Limited	Minority shareholder of a subsidiary
Fuzhou Brewery (Singapore) Private Company Ltd.	Minority shareholder of a subsidiary
Tsingtao Ou Mei Investment Holding Co. Ltd.	Minority shareholder of a subsidiary
Tsingtao Brewery (Guangzhou) General Agency Co. Ltd.	Associated company
Beijing Tsingtao Brewery General Agency Co. Ltd.	Associated company
Qinghua International Trade Development Corporation	Associated company
Tsingtao Brewery (Yangzhou) Company Limited	Associated company
Qingdao Tsingtao Beer Asahi Beverage Co., Ltd.	Associated company
Tsingtao Brewery (Zhangzhou) Company Limited	Same directors

None of the above related companies own shares in the Company during the period.

39. RELATED PARTY TRANSACTIONS (CONT'D)

- a. For the six months ended 30th June, 2002, the Group had the following material transactions with related and associated companies:

	For the six months ended 30th June, 2002 (Unaudited)	For the six months ended 30th June, 2001 (Unaudited)
Included in turnover:		
Tsingtao Beverage Company Limited	36,645,613	32,546,412
Beijing Tsingtao Brewery General Agency Co., Ltd.	-	91,300
Qinghua International Trade Development Corporation	-	2,063,658
Tsingtao Brewery (Yangzhou) Company Limited	621,920	1,148,120
Xian Hans Beverages Company Limited	-	331,153
	<hr/>	<hr/>
Total	37,267,533	36,180,643
	<hr/>	<hr/>
Included in cost of sales:		
Tsingtao Brewery Shi Ye Co., Ltd.	-	180,843
Tsingtao Brewery (Yangzhou) Company Limited	-	1,767,838
Tsingtao Brewery Trading Co., Ltd.	8,317,851	11,527,659
Shandong Weifang Lanzai Brewery Company Limited	1,660,344	1,442,080
Xian Hans Beverages Company Limited	-	222,999
	<hr/>	<hr/>
Total	9,978,195	15,141,419
	<hr/>	<hr/>
Equipment installation services provided by a related company:		
Tsingtao Brewery Engineering Co., Ltd.	155,794	12,971,454
	<hr/>	<hr/>
Guarantees provided by related companies for the Group's bank loans:		
Asahi Breweries Limited, Itochu Corporation, Sumikin Bussan Corporation	125,000,000	244,000,000
Tsingtao Brewery Group Co., Ltd.	912,080,000	1,048,103,000
	<hr/>	<hr/>
Total	1,037,080,000	1,292,103,000
	<hr/>	<hr/>

During 2001, Tsingtao Brewery Group Co., Ltd., provided a guarantee for the accounts receivable repayment plan of RMB105,000,000 due from a customer and a related company (Note 20).

39. RELATED PARTY TRANSACTIONS (CONT'D)

- b. As at 30th June, 2002, the Group had the following significant current balances with related and associated companies:

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Included in accounts receivable and long-term accounts receivable:				
Amounts due from subsidiaries (a)	–	–	84,134,449	78,484,476
Tsingtao Beverage Company Limited	–	4,513,662	–	–
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd.	105,128,438	102,360,810	105,128,438	102,360,810
Beijing Tsingtao Brewery General Agency Co., Ltd.	11,245,784	11,245,784	11,245,784	11,245,784
Tsingtao Brewery Shi Ye Co., Ltd.	–	318,315	–	318,315
Tsingtao Brewery (Yangzhou) Company Limited	1,177,728	–	1,177,728	–
Tsingtao Brewery (Zhangzhou) Company Limited	156,000	–	156,000	–
Total	<u>117,707,950</u>	<u>118,438,571</u>	<u>201,842,399</u>	<u>192,409,385</u>
Included in other receivables:				
Amounts due from subsidiaries	–	–	960,893,649	866,057,774
Tsingtao Brewery Shi Ye Co., Ltd.	18,923,676	16,708,658	18,923,676	16,708,658
Xi'an Hans Beverages Co., Ltd.	7,364,371	2,140,000	–	–
Tsingtao Brewery (Yangzhou) Co., Ltd.	76,456,544	76,536,544	76,456,544	76,536,544
Tsingtao Brewery Advertising Co. Ltd.	23,733,852	8,085,499	23,733,852	7,739,359
Shandong ZaoZhuang City, Xuecheng District State Owned Operations Centre	–	3,000,000	–	3,000,000
Tsingtao Brewery Group Company Limited	46,685,831	22,138,149	41,684,036	22,138,149
Tsingtao Brewery Engineering Co., Ltd.	3,025,651	2,635,451	2,869,857	2,635,451
Tsingtao Brewery Trading Co., Ltd.	6,938,525	6,938,525	6,938,525	6,938,525
Sichuan Huo Ju Hua Gong Co., Ltd.	–	2,313,643	–	–
Fuzhou Brewery (Singapore) Private Co., Ltd.	1,880,000	1,880,000	–	–
Shandong Province Rongcheng The First Light Industry Company	1,362,133	–	–	–
Tsingtao Brewery Zhangzhou Company Limited	13,500,000	–	13,500,000	–
Total	<u>199,870,583</u>	<u>142,376,469</u>	<u>1,145,000,139</u>	<u>1,001,754,460</u>

39. RELATED PARTY TRANSACTIONS (CONT'D)

- b. As at 30th June, 2002, the Group had the following significant current balances with related and associated companies: (Cont'd)

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Included in prepayments:				
Tsingtao Brewery Engineering Co., Ltd.	<u>78,000</u>	<u>211,160</u>	<u>-</u>	<u>-</u>
Included in other payables:				
Amounts due to subsidiaries	-	-	19,925,334	17,932,142
Tsingtao Brewery Engineering Co., Ltd.	1,819,913	1,643,913	-	347,890
Tsingtao Brewery Real Estate Co., Ltd.	-	171,896	-	171,896
Tsingtao Brewery (Yangzhou) Company Limited	500,000	2,000,000	-	-
Peixian State Owned Operations Centre	2,768,000	3,768,000	-	-
Beijing Asia Shuang He Sheng Five Star Beer Co., Ltd.	26,454,165	27,304,860	-	-
Total	<u>31,542,078</u>	<u>34,888,669</u>	<u>19,925,334</u>	<u>18,451,928</u>
Included in accounts payable:				
Amounts due to subsidiaries	-	-	10,001,296	-
Tsingtao Brewery Trading Co., Ltd.	3,529,647	1,899,945	3,529,647	1,899,945
Tsingtao Brewery Shi Ye Co. Ltd.	136,124	20,295	61,581	-
Tsingtao Brewery (Yangzhou) Company Limited	-	89,012	-	-
Fuzhou Brewery (Singapore) Private Co., Ltd.	1,562,345	1,490,364	-	-
Sichuan Huo Ju Hua Gong Co., Ltd.	596,501	3,054,144	-	-
Tsingtao Brewery Engineering Co., Ltd.	529,265	2,652,545	-	-
Qingdao Tsingtao Beer & Asahi Beverage Co., Ltd.	2,675,231	-	-	-
Total	<u>9,029,113</u>	<u>9,206,305</u>	<u>13,592,524</u>	<u>1,899,945</u>

The Group's and the Company's current balances with related parties are unsecured, non-interest bearing and have no fixed repayment term, except for the balance with an associated company which bears interest at 5.85% per annum.

Until 31st July, 2002, Tsingtao Brewery Group Company Limited and its subsidiaries have repaid other receivable balances amounted to approximately RMB 57,200,000.

39. RELATED PARTY TRANSACTIONS (CONT'D)

- c. As detailed in Note 6, the equity transfer process of Tsingtao Brewery (Nanning) Company Limited ("Nanning Company") was still in progress as at 30th June, 2002. For the period ended 30th June, 2002, the Group had the following material transactions with Nanning Company:

	For the six months ended 30th June, 2002 (Unaudited)
Included in Sales	2,992,458
Included in Cost of sales	60,228,326

As of 30th June, 2002, the current balances between the Group and Nanning Company are as follows:

	30th June, 2002 (Unaudited)
Included in accounts receivables	1,622,500
Included in other receivables	20,000,000

40. CONTINGENT LIABILITIES

- a. Pursuant to the related policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, allocation of living quarters as staff housing welfare was terminated. Instead, qualified employees are to be compensated in the form of monetary housing subsidies. The Group and the Company are in the process of studying the requirements of the policies issued by the authorities and will formulate a plan for such monetary housing subsidies. The financial impact of the plan will be reflected in the financial statements of the relevant period when the plan is formulated and approved by the relevant authorities. As at 30th June, 2002, no formal plan has yet been developed by the Group and the Company. In addition, the Group and the Company have not announced any plans to their employees in respect of such housing subsidies. The Directors are of the opinion that the Group and the Company had no obligation to make any payment or provision for such monetary housing subsidies as at 30th June, 2002.

The Ministry of Finance issued Document Caiqi [2000] No. 295 on 6th September, 2000 which became effective on the same date, announcing the accounting treatment in relation to such housing reform. The Company's Board of Directors has evaluated the policies referred to in the document and believes that except for the impact of the above mentioned monetary housing subsidies which could not be reasonably estimated, other related policies will not have a material impact on the Group and the Company.

- b. In November, 2001, a distributor of the products of the Company (the "Claimant") filed a lawsuit with Shandong Municipal Higher People's Court ("the Court") against the Company. The Claimant sued the Company for breach of a sales and distribution contract ("the Contract") and claimed for damages of approximately RMB134,870,000. The Company denied the claim and has filed a counter claim against the Claimant for delay of settlement of the receivable balances arising from sales of goods to the Claimant. In addition, the Company also demanded for termination of the Contract, repayment of the outstanding receivable balances, as well as the return of certain motor vehicles and beer-selling machinery provided to the Claimant by the Company. As of the date of approval of these financial statements by the board of directors, no verdict has yet been made by the Court. After consultation with the Company's legal advisor, the directors are of the opinion that such proceedings will not have a material negative impact on the operating results of the Group and the Company. Accordingly, no provision for losses in relation to the legal proceeding was considered necessary.

41. COMMITMENTS

Saved as disclosed in other notes to the financial statements, the Group's and the Company's capital commitments which are authorised but not contracted and provided for are as follows:

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Construction projects	<u>211,416,000</u>	<u>93,295,000</u>	<u>146,821,000</u>	<u>42,190,000</u>

41. COMMITMENTS (CONT'D)

The Group's and the Company's capital and rental commitments which were contracted but not provided for were as follows:

	Group		Company	
	30th June, 2002 (Unaudited)	31st December, 2001	30th June, 2002 (Unaudited)	31st December, 2001
Capital commitments				
– Construction projects	264,975,000	244,275,000	251,142,000	50,381,000
– Investments and acquisitions	98,000,000	262,030,000	98,000,000	262,030,000
	<u>362,975,000</u>	<u>506,305,000</u>	<u>349,142,000</u>	<u>312,411,000</u>
Rental commitments	15,765,000	1,953,000	9,849,000	1,953,000
	<u>15,765,000</u>	<u>1,953,000</u>	<u>9,849,000</u>	<u>1,953,000</u>
Total	<u>378,740,000</u>	<u>508,258,000</u>	<u>358,991,000</u>	<u>314,364,000</u>

42. SUBSEQUENT EVENTS

Saved as disclosed in other notes to the financial statements, the following subsequent events occurred:

In July 2002, Tsingtao Brewery Co., Ltd. and Anheuser-Busch Companies, Inc. entered into an agreement for a strategic alliance. Both parties are still under negotiation with respect to the form and terms of the proposed strategic alliance. The details of the agreement are still subject to the approval of the relevant government authorities in the PRC.

In July 2002, the Company and Tsingtao Brewery Group Company Limited ("TB Group Co.") entered into an "Asset Management Agreement", pursuant to which the Company has undertaken to manage the operations of Tsingtao Brewery (Zhangzhou) Company Limited ("Zhangzhou Co"), which is 90% owned by TB Group Co. Upon the request of the Company, TB Group Co. will transfer its whole equity interest in Zhangzhou Co. to the Company or other parties designated by the Company at a consideration not exceeding RMB63,000,000.

43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current period's presentation.

44. RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HK GAAP

The Group has prepared a separate set of statutory financial statements for the period ended 30th June, 2002 in accordance with “Accounting Standards for Business Enterprises”, “Accounting Regulations for Business Enterprises” and relevant regulations (“PRC GAAP”) for shareholders of “A” shares of the Company.

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

Impact on the consolidated balance sheet:

	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 RMB'000
Net assets per financial statements prepared under PRC GAAP	3,087,645	2,964,915
HK GAAP adjustments:		
Swap rate adjustment on IPO proceeds in 1993 (a)	361,173	361,173
Amortisation of exchange gain resulting from adoption of the unification of exchange rates (a)	(182,042)	(182,042)
Other swap rate adjustment in 1993 (b)	(37,878)	(37,878)
Additional depreciation charges under HK GAAP (c)	(84,184)	(78,444)
Additional staff welfare expenses under HK GAAP (d)	(12,639)	(15,185)
Amortisation of investment differences under PRC GAAP (e)	(39,292)	(33,710)
Dividends declared after the balance sheet date (f)	–	110,000
Others	(17,043)	(16,278)
Net assets as per financial statements prepared under HK GAAP	<u>3,075,740</u>	<u>3,072,551</u>

Impact on the consolidated income statement:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Net profit attributable to shareholders under PRC GAAP	122,819	70,835
HK GAAP adjustments:		
Additional depreciation charges under HK GAAP (c)	(5,740)	(5,740)
Additional staff welfare expenses under HK GAAP (d)	2,546	–
Reversal of amortisation of investment differences under PRC GAAP and amortisation of goodwill and negative goodwill under HK GAAP (e)	(5,582)	(6,306)
Forfeited payable balances of subsidiaries (g)	–	8,381
Others	(726)	1,732
Net profit attributable to shareholders under HK GAAP	<u>113,317</u>	<u>68,902</u>

- a. Due to the issuance of “H” share in 1993, the Company had to report under HK GAAP for the first time since its establishment. For “H” share reporting, Foreign Exchange Swap Center (“Swap Center”) rates were used for translation of transactions denominated in foreign currencies instead of the official exchange rate adopted under the PRC accounting rules and regulations. The proceeds from the issuance of “H” shares that the Company collected in Hong Kong dollars from investors was translated at the historical Swap Center rate applicable at the time of the transaction. This led to exchange differences of approximately RMB361,173,000.

44. RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HK GAAP (CONT'D)

As a result of the unification of exchange rates in the PRC effective on 1st January, 1994, monetary assets and liabilities of the Company as at 1st January, 1994 denominated in foreign currencies were translated into RMB using the unified rate. The unified rate as at 1st January, 1994 was effectively determined based on the Swap Centre rate. A exchange gain of RMB182,042,000 arising from the retranslation of the foreign currencies monetary assets and liabilities as at 1st January, 1994 was deferred and amortised into income over 5 years in the financial statements prepared in accordance with PRC GAAP. Since the Swap Centre rates had already been used in preparing the financial statements under HK GAAP as of and for the year ended 31st December, 1993, the above exchange gain had already been reflected in the HK GAAP financial statements as of and for the year ended 31st December, 1993.

- b. During 1993, foreign currency transactions were translated into RMB at the average official exchange rate prevailing on the dates of the transactions under PRC GAAP. Monetary assets and liabilities denominated in foreign currencies were translated into RMB at the average official exchange rate ruling at the end of each month. The exchange differences were dealt with in the income statement of the year. However, under HK GAAP, foreign currencies transactions were translated into RMB at the applicable Swap Center exchange rate prevailing at the day of the transaction. Monetary assets and liabilities denominated in other currencies were translated into RMB at the applicable rates of exchange prevailing on the balance sheet date as quoted by the Swap Center. As a result of the different exchange rates used under the two GAAPs, there was an exchange difference of RMB37,878,000 in 1993.
- c. As a result of the different foreign exchange rates adopted in preparing the financial statements of 1993 under HK GAAP and PRC GAAP, the cost of fixed assets denominated in foreign currency acquired up to 31st December, 1993 was different between the two sets of financial statements. This has resulted in an additional depreciation charge of RMB5,740,000 (for the six months ended 30th June, 2001: RMB5,740,000) in the financial statements prepared in accordance with HKGAAP for the period ended 30th June, 2002.
- d. Pursuant to the regulations of the Ministry of Finance and PRC GAAP, provision for staff welfare fund was calculated at 14% of staff payroll, any excess payments were captured as a debit balance of the provision balance. Under HK GAAP, actual welfare expenses were charged to the income statement as incurred, resulting in reversal of the accrual of approximately RMB2,546,000 for the current period.
- e. Under PRC GAAP, negative goodwill arising from the excess of the Group's share of the net assets of the subsidiaries acquired over the acquisition cost is amortised into the income statement over 10 years. Under HK GAAP, the difference between the cost of investment and the share of the fair value of the net assets of the investee company is recognised as goodwill or negative goodwill. The amount recognised is amortised on a straight-line basis in accordance with the relevant regulation. As a result of the difference in accounting treatment, net income was reduced by approximately RMB5,582,000 (for the six months ended 30th June, 2001: RMB6,306,000) for the current period under HK GAAP.
- f. The Company adopted HKSSAP 9 (revised), "Events after balance sheet date", effective from 1st January, 2001. As a result, dividends proposed or declared after year end are not recognised as liabilities at the balance sheet date. Under PRC accounting standards, the aforesaid dividends are recognised in the accounting period during which the dividends are proposed or declared.
- g. During the period, no subsidiary of the Company had received waivers from creditors on payable balance (for the six months ended 30th June, 2001: 1,732,000). Pursuant to the requirements under PRC GAAP, such amount was credited directly to reserves while under HK GAAP, the amount waived was recognised as other income.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

(EXPRESSED IN THOUSANDS OF RMB EXCEPT FOR PER SHARE DATA)

		For the six months ended 30th June, 2002	For the six months ended 30th June, 2001
	<i>Note(s)</i>	(Unaudited)	<i>(Unaudited)</i>
Turnover	3, 4, 7	3,162,548	2,422,579
Cost of sales	3	(2,071,868)	(1,642,328)
Gross profit		1,090,680	780,251
Other revenue, net		(8,848)	19,402
Distribution and selling expenses		(502,248)	(381,612)
General and administrative expenses		(301,240)	(240,847)
Profit from operations	4	278,344	177,194
Finance income		6,434	7,223
Finance costs		(80,075)	(64,695)
Share of (loss) profit of associated companies		(2,843)	1,079
Profit before tax	5	201,860	120,801
Taxation	6	(56,871)	(35,367)
Profit before minority interests		144,989	85,434
Minority interests		(31,672)	(16,532)
Profit attributable to shareholders	9	113,317	68,902
Dividends	8	(110,000)	(100,000)
Earnings per share – Basic	10	RMB0.1133	RMB0.0712
Earnings per share – Fully Diluted	10	N/A	N/A

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2002

(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

(EXPRESSED IN THOUSANDS OF RMB)

	Note(s)	30th June, 2002 (Unaudited)	31st December, 2001
ASSETS			
Non-current assets			
Fixed assets, net	11	5,582,558	5,550,989
Construction-in-progress		288,839	206,976
Intangible assets, net	12	129,068	112,445
Long-term investments, net	22	55,563	57,081
Investment in associated companies	22	30,901	33,743
Goodwill	13	73,803	77,427
Negative goodwill	14	(106,994)	(111,975)
Deferred tax assets		5,421	8,396
Other long-term assets	15	93,387	80,816
		<u>6,152,546</u>	<u>6,015,898</u>
Current assets			
Cash and cash equivalents		867,342	502,110
Short-term bank deposits		21,995	47,284
Pledged bank deposits		53,305	20,932
Bills receivable		71,488	25,853
Accounts receivable, net	3, 15	178,426	151,648
Deposits, prepayments and other receivables	3	493,379	403,220
Subsidies receivable		-	1,097
Inventories, net	16	1,083,870	1,044,571
		<u>2,769,805</u>	<u>2,196,715</u>

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)

AS AT 30TH JUNE, 2002

(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

(EXPRESSED IN THOUSANDS OF RMB)

	Note(s)	30th June, 2002 (Unaudited)	31st December, 2001
Current liabilities			
Short-term bank loans	3, 17	2,597,971	2,496,233
Current portion of long-term bank loans	3, 17	83,433	119,834
Accounts payable	3, 18	739,048	583,679
Bills payable		238,392	167,278
Advance from customers		129,696	91,204
Accruals		136,068	40,321
Taxes payable	6	217,439	121,726
Dividends payable to minority shareholders of subsidiaries		–	14,628
Dividends payable	8	110,000	100,000
Other payables	3	696,650	515,088
		<u>4,948,697</u>	<u>4,249,991</u>
Net current liabilities		<u>(2,178,892)</u>	<u>(2,053,276)</u>
Total assets less current liabilities		<u>3,973,654</u>	<u>3,962,622</u>
Long-term liabilities			
Long-term bank loans	3, 17	185,440	203,349
Other long-term liabilities	17	41,847	55,951
		<u>227,287</u>	<u>259,300</u>
Minority interests		<u>670,627</u>	<u>630,771</u>
NET ASSETS		<u>3,075,740</u>	<u>3,072,551</u>
Shareholders' equity			
Share capital	19	1,000,000	1,000,000
Reserves	20	2,075,740	1,962,551
Proposed dividends	8, 20	–	110,000
		<u>3,075,740</u>	<u>3,072,551</u>

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

(EXPRESSED IN THOUSANDS OF RMB)

	For the six months ended 30th June, 2002 <i>(Unaudited)</i>	For the six months ended 30th June, 2001 <i>(Unaudited)</i> <i>(Note 26)</i>
Net cash inflow from operating activities	678,536	356,206
Net cash outflow from investing activities	<u>(280,003)</u>	<u>(387,911)</u>
Net cash inflow (outflow) before financing activities	398,533	(31,705)
Net cash (outflow) inflow from financing activities	<u>(33,173)</u>	<u>419,263</u>
Increase in cash and cash equivalents	365,360	387,558
Cash and cash equivalents, beginning of period	502,110	499,012
Effect of translation differences	<u>(128)</u>	<u>(2)</u>
Cash and cash equivalents, end of period	(a) <u><u>867,342</u></u>	<u><u>886,568</u></u>

- (a) Cash and cash equivalents do not include the short-term bank deposits with maturities longer than 3 months and other cash and bank deposits required to place with banks for obtaining banks drafts. As at 30th June 2002, the short-term bank deposits and other cash and bank deposits are approximately RMB 21,995,000 and RMB 53,305,000 respectively.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE, 2002

(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

(EXPRESSED IN THOUSANDS OF RMB)

	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Cumulative translation adjustment	Unappropriated profits (Accumulated deficit)	Reserves total	Proposed dividends
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
As at 1st January, 2002	1,000,000	1,893,826	119,851	90,581	12	(141,719)	1,962,551	110,000
Dividends declared (Note 8)	-	-	-	-	-	-	-	(110,000)
Profit attributable to shareholders	-	-	-	-	-	113,317	113,317	-
Cumulative translation difference	-	-	-	-	(128)	-	(128)	-
As at 30th June, 2002 (Unaudited)	<u>1,000,000</u>	<u>1,893,826</u>	<u>119,851</u>	<u>90,581</u>	<u>(116)</u>	<u>(28,402)</u>	<u>2,075,740</u>	<u>-</u>
	Share capital	Share premium	Statutory surplus reserve	Statutory public welfare fund	Cumulative translation adjustment	Unappropriated profits (Accumulated deficit)	Reserves total	Proposed dividends
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
As at 1st January, 2001	900,000	1,236,097	107,099	77,829	(9)	(89,727)	1,331,289	100,000
Issuance of new share	100,000	-	-	-	-	-	-	-
Premium on issuance of new shares	-	657,729	-	-	-	-	657,729	-
Transfer from statutory surplus reserve	-	-	(3,182)	-	-	3,182	-	-
Transfer from statutory public welfare fund	-	-	-	(3,182)	-	3,182	-	-
Dividends declared (Note 8)	-	-	-	-	-	-	-	(100,000)
Profit attributable to shareholders	-	-	-	-	-	68,902	68,902	-
Cumulative translation difference	-	-	-	-	(2)	-	(2)	-
As at 30th June, 2001 (Unaudited)	<u>1,000,000</u>	<u>1,893,826</u>	<u>103,917</u>	<u>74,647</u>	<u>(11)</u>	<u>(14,461)</u>	<u>2,057,918</u>	<u>-</u>

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Tsingtao Brewery Company Limited (collectively referred to as the “Company” below) was established in the People’s Republic of China (the “PRC”) on 16th June, 1993 as a joint stock company with limited liability and obtained a Sino-foreign Joint Stock Company business license on 27th December, 1995. Its “H” shares have been listed on The Stock Exchange of Hong Kong Limited since 15th July, 1993 and its “A” shares have been listed on The Shanghai Stock Exchange since 27th August, 1993.

The Company is principally engaged in the production and distribution of beer products. The subsidiaries and associated companies are principally engaged in the production, sales and domestic and export trading of beer products.

Please refer to Note 22 for details of the Group and the Company’s major acquisitions during the period.

2. PRINCIPAL ACCOUNTING POLICIES

a. Basis of presentation

The condensed interim consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group” below) are prepared in accordance with Statement of Standard Accounting Practice No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed financial statements are unaudited, but they have been reviewed by the audit committee of the Company.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the period are included in the condensed consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. All significant intra-group transactions and balances have been eliminated on consolidation.

b. Adoption of Statements of Standard Accounting Practice

In 2002, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants:

SSAP 1 (revised)	Presentation of financial statements
SSAP 11 (revised)	Foreign currency translation
SSAP 15 (revised)	Cash flow statements
SSAP 25 (revised)	Interim financial reporting
SSAP 34	Employee benefits

The cash flow statement for the current period was prepared in accordance with the requirement of SSAP 15 (revised) “Cash flow statements”. Other than this, management considers that the adoption of the above SSAPs have no material impact on the financial statements of the Group.

Except for the adoption of the above mentioned new SSAPs, the accounting policies adopted by the Group during the six months ended 30th June, 2002 are in line with those adopted in prior year.

3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- a. For the six months ended 30th June, 2002, the Group had the following material transactions with related parties:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Sales to associated companies	622	3,303
Sales to related companies (with the same key management personnel as the Group)	36,646	32,546
Purchases from an associated company	-	1,768
Purchases from related companies (with the same key management personnel as the Group)	8,318	11,709
Equipment and installation services provided by a related company (with the same key management personnel as the Group)	156	12,971

All transactions with related parties are made in the ordinary course of business and on the basis of estimated market value of the transactions as determined by the directors of the Group and the related parties.

- a. As at 30th June, 2002, the Group had the following significant current balances with related parties:

	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 RMB'000
Included in:		
Accounts receivable	117,708	118,439
Deposits, prepayments and other receivables	189,342	135,568
Other payables	28,774	31,121
Accounts payable	6,870	4,662

The Group's current balances with related parties are unsecured, non-interest bearing and have no fixed repayment term, except for the balance with an associated company which bears interest at 5.85% per annum.

Until 31st July, 2002, Tsingtao Brewery Group Company Limited and its subsidiaries have repaid other receivable balances amounted to approximately RMB57,200,000.

- b. Loans of the Group amounting to approximately RMB912,080,000 (31st December, 2001: RMB1,499,850,000) are guaranteed by Tsingtao Brewery Group Co., Ltd., a related company with the same key management personnel as the Group (Note 17).
- c. Loans of the Group amounting to RMB125,000,000 (31st December, 2001: RMB125,000,000) are guaranteed by the minority shareholders of a subsidiary (Note 17).
- d. During 2001, Tsingtao Brewery Group Co., Ltd. provided a guarantee for an accounts receivable repayment plan of RMB105,000,000 due from a customer and a related company (Note 15).

3. RELATED PARTY TRANSACTIONS (CONT'D)

- e. As detailed in Note 22, the equity transfer process of Tsingtao Brewery (Nanning) Company Limited ("Nanning Company") was still in progress as at 30th June, 2002. For the period ended 30th June, 2002, the Group had the following material transactions with Nanning Company:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000
Included in sales	2,992
Included in cost of sales	60,228

As of 30th June, 2002, the current balances between the Group and Nanning Company are as follows:

	30th June, 2002 (Unaudited) RMB'000
Included in accounts receivables	1,623
Included in other receivables	20,000

4. SEGMENTAL REPORTING

The sole principal activity of the Group is the production and distribution of beer products. Accordingly, no analysis of business segment information is provided.

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

	For the six months ended 30th June, 2002 (Unaudited)					
	Tsingtao Region RMB'000	Other Shandong Region RMB'000	Northern China RMB'000	Southern China RMB'000	Eliminations RMB'000	Consolidated RMB'000
REVENUES						
External sales	1,019,522	450,793	685,639	1,006,594	–	3,162,548
Inter-segment sales	25,932	254	27,852	87,257	(141,295)	–
Total revenue	1,045,454	451,047	713,491	1,093,851	(141,295)	3,162,548
RESULTS						
Segment results	195,029	89	23,015	112,957	–	331,090
Unallocated expenses, net						(52,746)
Profit from operations						278,344
Finance income						6,434
Finance costs						(80,075)
Share of loss of associated companies	(2,843)	–	–	–	–	(2,843)
Taxation						(56,871)
Minority interests						(31,672)
Profit attributable to shareholders						113,317

4. SEGMENTAL REPORTING (CONT'D)

For the six months ended 30th June, 2001
(Unaudited)

	Tsingtao Region <i>RMB'000</i>	Other Shandong Region <i>RMB'000</i>	Northern China <i>RMB'000</i>	Southern China <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
REVENUES						
External sales	882,776	419,499	497,215	623,089	–	2,422,579
Inter-segment sales	27,838	21,522	–	12,686	(62,046)	–
Total revenue	<u>910,614</u>	<u>441,021</u>	<u>497,215</u>	<u>635,775</u>	<u>(62,046)</u>	<u>2,422,579</u>
RESULTS						
Segment results	<u>115,195</u>	<u>(6,376)</u>	<u>27,146</u>	<u>44,176</u>	<u>–</u>	180,141
Unallocated expenses, net						(2,947)
Profit from operations						177,194
Finance income						7,223
Finance costs						(64,695)
Share of profit of associated companies	1,079	–	–	–	–	1,079
Taxation						(35,367)
Minority interests						(16,532)
Profit attributable to shareholders						<u>68,902</u>

5. PROFIT BEFORE TAX

The consolidated profit before taxation was determined after charging (crediting) the following items:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Amortisation of intangible assets	2,071	2,879
Depreciation of fixed assets	225,576	197,249
Provision for impairment of fixed assets	26,872	–
Provision for impairment of long-term equity investment	155	–
Amortisation of goodwill	4,320	254
Amortisation of negative goodwill	(4,981)	(941)
Loss on disposal of fixed assets, net	1,014	926
Auditors' remuneration	848	2,000
Operating lease rentals	7,341	4,918
Provision for doubtful debts	27,861	46,290
Net realisable value provision for inventories	1,266	–
Write-back of net realisable value provision for inventories	(3,913)	–
Interest income	(6,434)	(7,223)
Interest expense (Note (a))	77,310	69,611
Staff costs (including directors' emoluments)	220,449	189,758
Directors' emoluments (Note (b))	185	434
Pension and retirement fund contributions	11,411	10,225
Research and development expenses	1,633	1,548
Costs of inventories (including depreciation, amortisation and staff costs)	<u>2,071,868</u>	<u>1,642,328</u>

(a) Interest expense

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Interest expense on bank and other loans		
– wholly repayable within 5 years	79,570	71,450
– not wholly repayable within 5 years	–	–
	<u>79,570</u>	<u>71,450</u>
Less: Interest capitalised	(2,260)	(1,839)
Total	<u>77,310</u>	<u>69,611</u>

5. PROFIT BEFORE TAX (CONT'D)

(b) Emoluments of directors, supervisory committee members and the five highest paid individuals:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Directors' emoluments		
Non-executive directors		
Directors' fee	–	–
Other emoluments	–	–
Executive directors		
Directors' fee	–	–
Salaries, allowances and benefits-in-kind	173	128
Performance related bonuses	–	296
Retirement fund contributions	12	10
Compensation paid for loss of office	–	–
Total	<u>185</u>	<u>434</u>

Management's emoluments

Details of emoluments of the five highest paid individuals (including directors and employees) are as follows:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Salaries, allowances and benefits-in-kind	417	220
Performance related bonuses	–	–
Retirement fund contributions	12	11
Compensation paid for loss of office	–	–
Total	<u>429</u>	<u>231</u>

Supervisory committee members' emoluments

The emoluments of the five existing and former committee members are as follows:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Salaries, allowances and benefits-in-kind	81	74
Performance related bonuses	–	–
Retirement fund contributions	12	10
Compensation paid for loss of office	–	–
Total	<u>93</u>	<u>84</u>

5. PROFIT BEFORE TAX (CONT'D)

(b) Emoluments of directors, supervisory committee members and the five highest paid individuals: (Cont'd)

Out of the five highest paid individuals, none of them was director of the Company. For the period ended 30th June, 2002, emoluments of each of the directors and the five highest paid individuals (including directors, supervisory committee members and employees) were less than RMB530,000 (equivalent to HK\$500,000) and no director has waived or agreed to waive any emoluments. During the period, no emoluments were paid to the five highest paid individuals (including directors, supervisory committee members and employees) as an inducement to join the Group or as compensation for loss of office. No emoluments were paid to non-executive directors.

6. TAXATION

a. Profits tax

	For the six months ended 30th June, 2002 <i>(Unaudited)</i> RMB'000	For the six months ended 30th June, 2001 <i>(Unaudited)</i> RMB'000
Hong Kong profits tax (i)	495	–
PRC Enterprise Income Tax ("EIT") (ii)	54,938	39,078
Write-back of deferred tax assets (iii)	2,975	–
Less: Subsidy income (iv)	<u>(1,537)</u>	<u>(3,711)</u>
	<u><u>56,871</u></u>	<u><u>35,367</u></u>

- (i) Hong Kong profits tax has been provided at the rate of 16% (2001: 16%) on the estimated assessable profit for the period.
- (ii) PRC Enterprise Income Tax is provided on the assessable income of the year calculated in accordance with the relevant regulations of the PRC after considering all the available tax benefits from refunds and allowances.

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 is subject to profits tax at 15% effective from the date of establishment of the Company. This rate will remain effective until and unless the enterprise income tax law and regulations change otherwise. The Company received a confirmation from the Qingdao Ministry of Finance on 23rd March, 1997, stating that this preferential tax treatment would not be terminated until further notice.

Tsingtao Brewery (Sanshui) Company Limited, Tsingtao Brewery (Chenzhou) Company Limited, Shenzhen Tsingtao Beer Asahi Company Limited and Beijing Five Star Tsingtao Beer Company Limited were approved as foreign invested enterprises and therefore, they are exempt from EIT for two years starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction for the next three years.

Tsingtao Brewery (Zhuhai) Company Limited was established and operates in the Zhuhai Special Economic Zone, accordingly, it is subject to EIT at a rate of 15%.

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

(iii) Write-back of deferred tax assets

According to the current EIT Regulations, taxpayers can apply to the relevant tax bureaus to claim deduction of bad debts expense for EIT assessment when certain criteria are fulfilled. As at 31st December, 2001, the Group had applied to relevant tax bureau to claim a deduction of bad debt expense of approximately RMB19,830,000 from their assessable income. Approximately RMB2,975,000 of the related tax effect was recognised as a deferred tax asset. As at 30th June, 2002, the claim has not yet been approved by the relevant tax bureaus. Management considered the related deferred tax assets would not be likely to crystallise in the foreseeable future and thus is reversed in the current period based on the prudent accounting principle.

6. TAXATION (CONT'D)

a. Profits tax (Cont'd)

- (iv) As part of the business combinations and acquisition activities undertaken by the Group in prior years, the Group entered into agreements with the relevant municipal governments. Under the terms of these agreements, the newly established subsidiaries can enjoy various financial incentives granted by the relevant municipal governments, including financial subsidies computed based on the amount of various taxes paid by the subsidiaries. The financial subsidies granted based on EIT paid by the Group were approximately RMB1,537,000 for the six months ended 30th June, 2002 (30th June, 2001: RMB3,711,000).

Pursuant to Documents Guofa [2000] No.2 issued by the State Council of the PRC in January 2000 and CaiShui [2000] No.99 issued by the Ministry of Finance of the PRC in July 2000, the above financial subsidies granted by municipal governments to the subsidiaries might cease to be available to the subsidiaries in the future. However, the Company's directors are not aware of any reasons that the said financial subsidies will not be available to the subsidiaries in the future.

b. Value-added tax ("VAT")

According to the PRC value-added tax temporary regulations ("VAT Regulations"), the Group is subject to output value-added tax ("output VAT") which is calculated at 17% of the sales of tangible goods. The Group pays VAT on its purchases of raw materials and auxiliary materials ("input VAT") which is deducted against output VAT in arriving at the net VAT amount payable to the PRC Government. In addition, the Group accrues and pays city construction tax ("CCT") and educational surcharge ("ES") based on 7% and 3% of net VAT amount payable, respectively.

c. Consumption tax

Prior to May 2001, pursuant to the SAT's regulations, consumption tax of RMB220 per ton is charged on the sales of beer. In May 2001, the Ministry of Finance of the PRC and the SAT issued the "Notice for changes in consumption tax for alcoholic products" (Caishui [2001] No. 84), which states that for beers with an ex-factory price (including packaging materials and related deposits) over RMB3,000 per ton, the consumption tax is changed to RMB250 per ton. For all other beer sold below that price, the consumption tax remains at RMB220 per ton.

7. SEASONAL/CYCLICAL REVENUE

Summer and autumn times (May to October) of each year is the peak season for beer sales. The sales volume during the peak season is normally 1-2 times the sales volume in the slack season (November to April of the following year).

8. DIVIDENDS

During the period, the dividends appropriation of RMB110,000,000 (dividend per share: RMB0.11) for 2001 was approved in the shareholders' meeting. The board of directors do not recommend the payment of an interim dividends for the six months ended 30th June, 2002 (30th June 2001: nil).

	30th June, 2002 (Unaudited) RMB'000	30th June, 2001 (Unaudited) RMB'000
Dividends paid:	—	—
Dividends proposed:		
Final dividends for 2001 of RMB0.11 per share (2000 final dividends: RMB0.10 per share)	110,000	100,000

The final dividends for 2001 of RMB0.11 per share (based on 1,000,000,000 issued shares of the Company as at the date of the approval of the financial statements) was proposed on 3rd April, 2001. As of 30th June, 2002, the dividend has not been distributed. The final dividends of RMB0.10 per share for 2000 was proposed on 18th April, 2001 and was paid in August 2001.

9. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes profit of approximately RMB69,301,000 (30th June, 2001: RMB45,870,000) which has been dealt with in the financial statements of the Company.

10. EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30th June, 2002 is based on consolidated profit attributable to shareholders of approximately RMB113,317,000 (30th June, 2001: RMB68,902,000), divided by the weighted average number of shares outstanding during the current period. For the six months ended 30th June, 2002, the weighted average number of shares issued is 1,000,000,000 shares (30th June, 2001: 966,666,666 shares).

Diluted earnings per share have not been presented as there were no dilutive potential ordinary shares outstanding.

11. FIXED ASSETS

	30th June, 2002 <i>(Unaudited)</i> RMB '000
Cost or valuation	
Beginning of period	7,408,521
Transfer in from construction-in-progress	85,211
Additions	206,169
Disposal	<u>(24,322)</u>
End of period	<u>7,675,579</u>
Accumulated depreciation/amortisation	
Beginning of period	1,799,547
Charge for the period	225,576
Write-back on disposal	<u>(16,958)</u>
End of period	<u>2,008,165</u>
Impairment loss	
Beginning of period	<u>57,985</u>
End of period	<u>84,856</u>
Net book value	
End of period	<u><u>5,582,558</u></u>
Beginning of period	<u><u>5,550,989</u></u>

All the land and buildings of the Group are located in the PRC. The remaining useful lives of the land use rights of the Group range from 41.5 to 48.5 years.

Fixed assets with carrying values of approximately RMB755,396,000 (31st December, 2001: RMB649,130,000) were pledged as security for certain loans of the Group.

As at 30th June, 2002, approximately RMB7,800,000 of land use right has to be sold to the original seller at cost if it is sold within the next one and a half years.

12. INTANGIBLE ASSETS

For the six months ended 30th June, 2002
(Unaudited)

	Trademarks (i) <i>RMB'000</i>	Technology know-how (ii) <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>
Cost				
Beginning of period	103,346	18,629	17,322	139,297
Additions	17,844	–	850	18,694
End of period	121,190	18,629	18,172	157,991
Accumulated amortisation				
Beginning of period	21,452	3,250	2,150	26,852
Charge for the period	1,441	87	543	2,071
End of period	22,893	3,337	2,693	28,923
Net book value				
End of period	<u>98,297</u>	<u>15,292</u>	<u>15,479</u>	<u>129,068</u>
Beginning of period	<u>81,894</u>	<u>15,379</u>	<u>15,172</u>	<u>112,445</u>

(i) Trademarks

Trademarks represent the “TSINGTAO BEER” trademark injected by the founding shareholders into the Company on 16th June, 1993 as capital. The recorded value of the trademark was based on the valuation amount approved by the State Owned Assets Administration Bureau of the PRC. Since then, amortisation of the trademark is provided on a straight-line basis to write off the revalued amount of the trademark over its estimated useful lives of 40 years.

In the opinion of the Company’s directors, since the above trademark is essential to the operation of the Group and it is expected to bring enduring economic benefits to the Group continuously, it is amortised over a period of 40 years, which is longer than the presumed period of 20 years prescribed by SSAP 29.

Other trademarks were acquired as a result of the acquisitions of certain subsidiaries. They are amortised over their estimated useful lives ranging from 4.5 to 10 years. The cost of these intangible assets are based on their fair value at the respective date of acquisition.

(ii) Technology know-how

Technology know-how was injected by the minority shareholders of certain subsidiaries during the reorganisation of that subsidiaries. It was recorded at a value as agreed among all the shareholders of those subsidiaries and is amortised using straight-line method over an expected period of inflow of economic benefits of 10 years.

13. GOODWILL

For the six months ended
30th June, 2002
(Unaudited)
RMB'000

Cost	
Beginning of period	89,168
Additions	696
	<hr/>
End of period	89,864
	<hr/>
Accumulated Amortisation	
Beginning of period	(11,741)
Amortisation for the period	(4,320)
	<hr/>
End of period	(16,061)
	<hr/>
Net Book Value	
End of period	73,803
	<hr/> <hr/>
Beginning of period	77,427
	<hr/> <hr/>

In the opinion of the Company's directors, the underlying value of goodwill as at 30th June, 2002 was not less than its carrying value.

14. NEGATIVE GOODWILL

For the six months ended
30th June, 2002
(Unaudited)
RMB'000

Cost	
Beginning and end of period	(124,001)
	<hr/>
Accumulated Amortisation	
Beginning of period	12,026
Amortisation for the period	4,981
	<hr/>
End of period	17,007
	<hr/>
Net Book Value	
End of period	(106,994)
	<hr/> <hr/>
Beginning of period	(111,975)
	<hr/> <hr/>

15. ACCOUNTS RECEIVABLES, NET

The aging analysis of accounts receivable is as follows:

	30th June, 2002			31st December, 2001		
	<i>(Unaudited)</i>					
	Amount	Provision for bad debts	Net	Amount	Provision for bad debts	Net
Less than one year	180,899	(28,007)	152,892	139,804	(22,401)	117,403
One to less than two years	16,339	(13,421)	2,918	37,647	(11,339)	26,308
Two to less than three years	48,382	(40,367)	8,015	54,704	(53,389)	1,315
Three years and over	83,214	(68,613)	14,601	90,422	(83,800)	6,622
Total	<u>328,834</u>	<u>(150,408)</u>	<u>178,426</u>	<u>322,577</u>	<u>(170,929)</u>	<u>151,648</u>

Credit is granted to customers according to specific review of the circumstances of each customer with credit period not more than one year.

The Group makes specific bad debt provisions for doubtful accounts receivable balances. In addition, based on past experience and actual conditions, full provision for doubtful debts is generally made for outstanding balances aged over three years and with clear evidence indicating that they are uncollectible. For balances with partial collection expected, provision is made for the uncollectible portion. For balances which have been outstanding for one to three years, a general provision of 10% - 50% is made depending on individual circumstances.

The Group reached an agreement with a customer and a related company in connection with an aggregate receivable balance aged between one to four years, totalling RMB105,000,000. Pursuant to the agreement, the entire outstanding balance will be repayable in eight annual installments, commencing from 1st January, 2002. In addition, Tsingtao Brewery Group Company Limited also undertook to guarantee the repayment of the balance. As at 30th June, 2002, the related accounts receivable balance has been included in other long-term assets.

16. INVENTORIES, NET

	30th June, 2002	31st December, 2001
	<i>(Unaudited)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>
Raw materials, packaging materials and auxiliary materials	820,635	836,971
Work-in-progress	147,395	119,889
Finished goods	157,203	131,720
	<u>1,125,233</u>	<u>1,088,580</u>
Less: Provision for net realisable value of inventories	<u>(41,363)</u>	<u>(44,009)</u>
Inventories, net	<u>1,083,870</u>	<u>1,044,571</u>

17. LOANS

30th June, 2002

(Unaudited)

	Short-term bank loans RMB'000	Long-term bank loans RMB'000	Other long-term liabilities RMB'000	Total RMB'000
Repayable:				
– within 1 year	2,597,971	83,433	–	2,681,404
– in the second to fifth years inclusive	–	168,702	41,847	210,549
– over 5 years	–	16,738	–	16,738
Total	2,597,971	268,873	41,847	2,908,691
Less: Portion due within one year	(2,597,971)	(83,433)	–	(2,681,404)
Long-term portion	–	185,440	41,847	227,287

31st December, 2001

(Unaudited)

	Short-term bank loans RMB'000	Long-term bank loans RMB'000	Other long-term liabilities RMB'000	Total RMB'000
Repayable:				
– within 1 year	2,496,233	119,834	–	2,616,067
– in the second to fifth years inclusive	–	184,009	55,951	239,960
– over 5 years	–	19,340	–	19,340
Total	2,496,233	323,183	55,951	2,875,367
Less: Portion due within one year	(2,496,233)	(119,834)	–	(2,616,067)
Long-term portion	–	203,349	55,951	259,300

Pursuant to the debt restructuring agreements or acquisition agreements of certain subsidiaries, the interest charge on the Group's loans of approximately RMB157,376,000 (31st December, 2001: RMB185,993,000) were waived. The remaining outstanding loans balances bear interest at rates ranging from interest-free to 7.61% per annum (31st December 2001 : interest-free to 7.61% per annum).

Loans of the Group amounting to approximately RMB912,080,000 (31st December, 2001 : RMB1,499,850,000) were guaranteed by a related company. In addition, loans of the Group amounting to approximately RMB125,000,000 (31st December, 2001 : RMB125,000,000) are guaranteed by the minority shareholders of a subsidiary.

Approximately RMB150,390,000 (31st December, 2001 : RMB158,900,000) of the Group's loans are secured by all assets of Tsingtao Brewery Xian Company Limited and certain fixed assets of the Group with an aggregate carrying value of approximately RMB755,396,000 (31st December, 2001 : RMB649,130,000).

Most of the bank financing of the Group was in the form of short-term bank loans. As a result, the Group had net current liabilities of approximately RMB2,178,892,000 (31st December, 2001 : RMB2,053,276,000) as at 30th June, 2002. The board of directors of the Company is confident that the Group will be able to renew these short-term facilities upon their maturity or to identify new sources of financing to replace the existing short-term facilities.

18. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	30th June, 2002	31st December, 2001
	<i>(Unaudited)</i>	
	<i>RMB'000</i>	<i>RMB'000</i>
Less than 1 year	670,362	487,670
One to less than two years	13,469	42,954
Two to less than three years	9,518	27,751
Three years and over	45,699	25,304
Total	<u>739,048</u>	<u>583,679</u>

19. SHARE CAPITAL

The authorised, issued and fully paid share capital of the Company is RMB1,000,000,000 (31st December, 2001 : RMB1,000,000,000), divided into 1,000,000,000 (31st December, 2001 : 1,000,000,000) shares of RMB1 each. A summary of the share capital is set out below:

	30th June, 2002		31st December, 2001	
	<i>(Unaudited)</i>			
	<i>RMB'000</i>	<i>Percentage (%)</i>	<i>RMB'000</i>	<i>Percentage (%)</i>
State shares	399,820	39.98%	399,820	39.98%
PRC legal person shares	53,330	5.33%	53,330	5.33%
PRC public shares (A Shares)	200,000	20.00%	200,000	20.00%
Overseas public shares (H Shares)	346,850	34.69%	346,850	34.69%
Total	<u>1,000,000</u>	<u>100.00%</u>	<u>1,000,000</u>	<u>100.00%</u>

20. RESERVES

(i) Statutory reserves

According to the Articles of Association of the Company, the Company shall set aside 10% of its net profit after taxation for the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's paid-up share capital), and another amount for the statutory public welfare fund at a percentage of the net profit after taxation determined by the directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The directors have resolved that the statutory public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's employees, but the fund cannot be used to pay for staff welfare expenses. Title to these capital items remains with the Company.

Pursuant to Document Cai Hui Zi 1995 [14] issued by the State Ministry of Finance, the Company has to transfer an equivalent amount of the consideration used in the acquisitions of staff quarters from the statutory public welfare fund to the statutory surplus reserve.

(ii) Basis of profit distribution and appropriation

In accordance with the Company's Articles of Association and Document Cai Hui Zi 1995 [31] issued by the State Ministry of Finance, appropriations to statutory surplus reserves, statutory public welfare fund and discretionary surplus reserves should be made based on the amount of profits reflected in the financial statements prepared in accordance with PRC accounting standards and regulations. In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of distributable profits as reported in accordance with the PRC accounting standards and regulations and those reported in financial statements reported in accordance with the accounting principles generally accepted in Hong Kong, after deduction of the appropriation to the statutory reserves. The unappropriated profit available for distribution to shareholders as at 30th June, 2002 was approximately RMB165,505,000 (31st December, 2001 : RMB96,204,000).

21. PENSIONS AND RETIREMENT FUNDS CONTRIBUTION

Pursuant to the Temporary Regulations on Municipal Enterprise Employee Pensions and Retirement Protection for Qingdao which has become effective since 1st October, 1994, the Company has provided a government-sponsored defined contribution retirement scheme for its full-time employees. The Group and the employees are required to contribute 25.5% and 3% to 8% of the employees' average salary respectively to the scheme, and the Company has no further obligation for actual pension payments or post-retirement benefits beyond the annual contributions. The government-sponsored retirement plan is responsible for the entire pension obligations payable to retired employees. During the period ended 30th June, 2002, the Group's contributions were approximately RMB27,150,000 (2001: RMB23,000,000).

Tsingtao Brewery (Hong Kong) Trading Company Limited, a subsidiary operating in Hong Kong, established a defined contribution mandatory provident fund in accordance with the Mandatory Provident Fund legislation of the government of Hong Kong. It makes monthly contributions to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution made by each of the subsidiary and the employees being limited to HKD12,000 per annum per employee. During the period ended 30th June, 2002, the subsidiary made contributions of approximately HKD118,000 (2001: HKD120,000). The assets of the fund are held separately from those of the subsidiary and are managed by independent professional fund managers.

22. SUBSIDIARIES AND ASSOCIATED COMPANIES

Comparing with the financial statements for the prior year, the scope of consolidation has included the following newly established subsidiaries:

Name of new subsidiaries	Name of minority shareholders	Date of acquisition/ establishment	Place of establishment and principal operation	Registered and paid-in capital	Equity interest held by the Company (%)		Principal activities
					Directly held	Indirectly held	
Tsingtao Brewery Taizhou Sales Company Limited	Jiaojiang The Second Tang Yan Jiu Co., Yuan Xu Sheng	January 2002	Taizhou, the PRC	RMB6,800,000	–	48.45%	Domestic Trading of Beer
Tsingtao Changhong Shangwu Company Limited	Tsingtao Brewery Advertising Co Ltd	March 2002	Qingdao, the PRC	RMB1,000,000	95%	–	Car Rental Services
Tsingtao Brewery Zhaoshang Logistic Co Ltd	Zhaoshangju Logistic Co. Ltd	March 2002	Qingdao, the PRC	RMB2,000,000	51%	–	Logistic Services
Tsingtao Brewery Chenzhou Sales Co Ltd	China Railway Construction Company Railroad Transportation Division, Tsingtao Brewery Advertising Company	April 2002	Chenzhou, the PRC	RMB1,000,000	–	94.69%	Domestic Trading of Beer
Tsingto Brewery Luzhong (Weifang) Sales Co. Ltd	Shandong Weifang Lanzai Brewery Company Ltd., Tsingtao Brewery Group Co., Ltd.	March 2002	Shouguang, the PRC	RMB2,000,000	–	90.30%	Domestic Trading of Beer
Tsingtao Brewery Xuzhou Sales Co. Ltd	Tsingtao Brewery Group Co., Ltd. Shandong Zaozhang City, Xuecheng District State Owned Operations Centre Pexian State Owned Operations Centre	April 2002	Xuzhou, the PRC	RMB5,000,000	–	86.20%	Domestic Trading of Beer

22. SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

In November 2001, the Company entered into an equity transfer agreement with Canada EVG Enterprises Inc. ("EVG") pursuant to which EVG will pay a cash consideration of US\$5,787,000 to acquire a 25% equity interest in Beijing Three Ring Asia Pacific Beer Company Limited ("Beijing Three Ring") owned by the Company. The Company will continue to own the remaining 29% equity interest in Beijing Three Ring. During the period, EVG renegotiated with the Company for delaying the payment of the consideration of the said equity transfer. Both parties then agreed that the rights and obligations of EVG's 25% equity ownership in Beijing Three Ring will be borne by the Company before the full settlement of consideration. Up to 30th June, 2002, the consideration had not been settled and the Company continues to consolidate 54% of its equity interest in its financial statements.

In November 2001, Tsingtao Huanan Holding Company Limited and Tailian Brewery (Caymen Islands) Company Limited ("Tailian") signed an equity transfer agreement, pursuant to which the Company will purchase Tailian's 30% equity interest in Guangxi Nanning Wan Tai Brewery Company Limited at a consideration of RMB96,000,000. The name of the acquiree will also be changed to Tsingtao Brewery (Nanning) Company Limited. As the equity transfer process had not yet been completed, the Group and the Company did not account for the investment using the equity method for the period ended 30th June, 2002.

In April 2002, the Company and Tsingtao Ou Mei Investment Holding Co., Ltd. contributed RMB8,000,000 and RMB2,000,000, respectively to establish Tsingtao Brewery (Xiamen) Co., Ltd. ("Xiamen Company"). The Company holds 80% of the registered share capital of Xiamen Company.

In June 2002, the Company entered into an agreement with Xuecheng District State-owned Operation Centre for the purchase of additional 15% equity interest in Tsingtao Brewery (Xuecheng) Co. Ltd. ("Xuecheng Company") at a cash consideration of RMB6,480,000. After the transaction, the Company holds 85% of the registered capital of Xuecheng Company.

23. CONTINGENT LIABILITIES

- a. Pursuant to the related policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, allocation of living quarters as staff housing welfare was terminated. Instead, qualified employees are to be compensated in the form of monetary housing subsidies. The Group is in the process of studying the requirements of the policies issued by the authorities and will formulate a plan for such monetary housing subsidies. The financial impact of the plan will be reflected in the financial statements of the relevant period when the plan is formulated and approved by the relevant authorities. As at 30th June, 2002, no formal plan has yet been developed by the Group. In addition, the Group has not announced any plans to their employees in respect of such housing subsidies. The Directors are of the opinion that the Group had no obligation to make any payment or provision for such monetary housing subsidies as at 30th June, 2002.

The Ministry of Finance issued Document Caiqi [2000] No. 295 on 6th September, 2000 which became effective on the same date, announcing the accounting treatment in relation to such housing reform. The Company's Board of Directors has evaluated the policies referred to in the document and believes that except for the impact of the above mentioned monetary housing subsidies which could not be reasonably estimated, other related policies will not have a material impact on the Group.

- b. In November 2001, a distributor of the products of the Company (the "Claimant") filed a lawsuit with Shandong Municipal Higher People's Court ("the Court") against the Company. The Claimant sued the Company for breach of a sales and distribution contract ("the Contract") and claimed for damages of approximately RMB134,870,000. The Company denied the claim and has filed a counter claim against the Claimant for delay of settlement of the receivable balances arising from sales of goods to the Claimant. In addition, the Company also demanded for the termination of the Contract, repayment of the outstanding receivable balances, as well as the return of certain motor vehicles and beer-selling machinery provided to the Claimant by the Company. As of the date of approval of these financial statements by the board of directors, no verdict has yet been made by the Court. After consultation with the Company's legal advisor, the directors are of the opinion that such proceedings will not have a material negative impact on the operating results of the Group. Accordingly, no provision for losses in relation to the legal proceeding was considered necessary.

24. CAPITAL COMMITMENTS

Saved as disclosed in other notes to the financial statements, as at 30th June, 2002, the Group had the following commitments:

a. Capital commitments

The Group's capital commitments which were authorised but not contracted and provided for during the period were as follows:

	30th June, 2002 <i>(Unaudited)</i> <i>RMB'000</i>	31st December, 2001 <i>RMB'000</i>
Construction projects	<u>211,416</u>	<u>93,295</u>

The Group's capital commitments which were contracted but not provided for during the period were as follows:

	30th June, 2002 <i>(Unaudited)</i> <i>RMB'000</i>	31st December, 2001 <i>RMB'000</i>
Construction projects	264,975	244,275
Investments and acquisitions	<u>98,000</u>	<u>262,030</u>
Total	<u><u>362,975</u></u>	<u><u>506,305</u></u>

b. Operating lease commitments

As at 30th June 2002, the Group had future aggregate minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	30th June, 2002 <i>(Unaudited)</i> <i>RMB'000</i>	31st December, 2001 <i>RMB'000</i>
Not later than one year	12,699	1,953
Later than one year and no later than five years	3,066	–
Later than five years	–	–
	<u>15,765</u>	<u>1,953</u>

25. SUBSEQUENT EVENTS

Saved as disclosed in other notes to the financial statements, the following subsequent events occurred:

In July 2002, Tsingtao Brewery Co., Ltd. and Anheuser-Busch Companies, Inc. entered into an agreement for a strategic alliance. Both parties are still under continuous negotiation with respect to the form and the terms of the proposed alliance. The details of the agreement are still subject to the approval of the relevant government authorities in the PRC.

In July 2002, the Company and Tsingtao Brewery Group Company Limited ("TB Group Co.") entered into an "Asset Management Agreement", pursuant to which the Company has undertaken to manage the operations of Tsingtao Brewery (Zhangzhou) Company Limited ("Zhangzhou Co."), which is 90% owned by TB Group Co. Upon the request of the Company, TB Group Co. will transfer its whole equity interest in Zhangzhou Co. to the Company or other parties designated by the Company at a consideration not exceeding RMB63,000,000.

26. COMPARATIVE FIGURES

Certain 2001 comparative figures were reclassified to conform with the presentation in the current period due to adoption of the revised Statement of Standard Accounting Practice Number 15 "Cash Flow Statements" issued by the Hong Kong Society of Accountants.

27. RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HK GAAP

The Group has prepared a separate set of statutory financial statements for the period ended 30th June, 2002 in accordance with "Accounting Standards for Business Enterprises", "Accounting Regulations for Business Enterprises" and relevant regulations ("PRC GAAP") for shareholders of "A" shares of the Company.

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

Impact on the consolidated balance sheet:

	30th June, 2002 (Unaudited) RMB'000	31st December, 2001 RMB'000
Net assets per financial statements prepared under PRC GAAP	3,087,645	2,964,915
HK GAAP adjustments:		
Swap rate adjustment on IPO proceeds in 1993 (a)	361,173	361,173
Amortisation of exchange gain resulting from adoption of the unification of exchange rates (a)	(182,042)	(182,042)
Other swap rate adjustments in 1993 (b)	(37,878)	(37,878)
Additional depreciation charges under HK GAAP (c)	(84,184)	(78,444)
Additional staff welfare expenses under HK GAAP (d)	(12,639)	(15,185)
Amortisation of investment differences under PRC GAAP (e)	(39,292)	(33,710)
Dividends declared after the balance sheet date (f)	-	110,000
Others	(17,043)	(16,278)
Net assets as per financial statements prepared under HK GAAP	<u>3,075,740</u>	<u>3,072,551</u>

Impact on the consolidated income statement:

	For the six months ended 30th June, 2002 (Unaudited) RMB'000	For the six months ended 30th June, 2001 (Unaudited) RMB'000
Net profit attributable to shareholders under PRC GAAP	122,819	70,835
HK GAAP adjustments:		
Additional depreciation charges under HK GAAP (c)	(5,740)	(5,740)
Additional staff welfare expenses under HK GAAP (d)	2,546	-
Reversal of amortisation of investment differences under PRC GAAP and amortisation of goodwill and negative goodwill under HK GAAP (e)	(5,582)	(6,306)
Forfeited payable balances of subsidiaries (g)	-	8,381
Others	(726)	1,732
Net profit attributable to shareholders under HK GAAP	<u>113,317</u>	<u>68,902</u>

27. RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HK GAAP (CONT'D)

- a. Due to the issuance of “H” share in 1993, the Company had to report under HK GAAP for the first time since its establishment. For “H” share reporting, Foreign Exchange Swap Center (“Swap Center”) rates were used for translation of transactions denominated in foreign currencies instead of the official exchange rate adopted under the PRC accounting rules and regulations. The proceeds from the issuance of “H” shares that the Company collected in Hong Kong dollars from investors was translated at the historical Swap Center rate applicable at the time of the transaction. This led to exchange differences of approximately RMB361,173,000.

As a result of the unification of exchange rates in the PRC effective on 1st January, 1994, monetary assets and liabilities of the Company as at 1st January, 1994 denominated in foreign currencies were translated into RMB using the unified rate. The unified rate as at 1st January, 1994 was effectively determined based on the Swap Centre rate. A exchange gain of RMB182,042,000 arising from the retranslation of the foreign currencies monetary assets and liabilities as at 1st January, 1994 was deferred and amortised into income over 5 years in the financial statements prepared in accordance with PRC GAAP. Since the Swap Centre rates had already been used in preparing the financial statements under HK GAAP as of and for the year ended 31st December, 1993, the above exchange gain had already been reflected in the HK GAAP financial statements as of and for the year ended 31st December, 1993.
- b. During 1993, foreign currency transactions were translated into RMB at the average official exchange rate prevailing on the dates of the transactions under PRC GAAP. Monetary assets and liabilities denominated in foreign currencies were translated into RMB at the average official exchange rate ruling at the end of each month. The exchange differences were dealt with in the income statement of the year. However, under HK GAAP, foreign currencies transactions were translated into RMB at the applicable Swap Center exchange rate prevailing at the day of the transaction. Monetary assets and liabilities denominated in other currencies were translated into RMB at the applicable rates of exchange prevailing on the balance sheet date as quoted by the Swap Center. As a result of the different exchange rates used under the two GAAPs, there was an exchange difference of RMB37,878,000 in 1993.
- c. As a result of the different foreign exchange rates adopted in preparing the financial statements of 1993 under HK GAAP and PRC GAAP, the cost of fixed assets denominated in foreign currency acquired up to 31st December, 1993 was different between the two sets of financial statements. This has resulted in an additional depreciation charge of RMB5,740,000 (for the six months ended 30th June, 2001: RMB5,740,000) in the financial statements prepared in accordance with HKGAAP for the period ended 30th June, 2002.
- d. Pursuant to the regulations of the Ministry of Finance and PRC GAAP, provision for staff welfare fund was calculated at 14% of staff payroll, any excess payments were captured as a debit balance of the provision balance. Under HK GAAP, actual welfare expenses were charged to the income statement as incurred, resulting in reversal of the accrual of approximately RMB2,546,000 for the current period.
- e. Under PRC GAAP, negative goodwill arising from the excess of the Group’s share of the net assets of the subsidiaries acquired over the acquisition cost is amortised into the income statement over 10 years. Under HK GAAP, the difference between the cost of investment and the share of the fair value of the net assets of the investee company is recognised as goodwill or negative goodwill. The amount recognised is amortised on a straight-line basis in accordance with the relevant regulation. As a result of the difference in accounting treatment, net income was reduced by approximately RMB5,582,000 (for the six months ended 30th June, 2001: RMB6,306,000) for the current period under HK GAAP.
- f. The Company adopted HKSSAP 9 (revised), “Events after balance sheet date”, effective from 1st January, 2001. As a result, dividends proposed or declared after year end are not recognised as liabilities at the balance sheet date. Under PRC accounting standards, the aforesaid dividends are recognised in the accounting period during which the dividends are proposed or declared.
- g. During the period, no subsidiary of the Company had received waivers from creditors on payable balance (for the six months ended 30th June, 2001: 1,732,000). Pursuant to the requirements under PRC GAAP, such amount was credited directly to reserves while under HK GAAP, the amount waived was recognised as other income.

On behalf of the Board of directors

Li Gui Rong

Director

13th August, 2002

Tsingtao, the PRC

MANAGEMENT DISCUSSION AND ANALYSIS

1. OPERATIONS REVIEW FOR THE FIRST HALF OF THE YEAR

The Company, the largest beer brewer and seller in the PRC, is currently engaged in the business of brewing and selling beers of various grades under different brand names (but principally under the brand name of Tsingtao Brewery) within the PRC.

The drastic drop in market demand in the second half of last year has basically come to an end. In the first half of 2002, the market stabilized and showed signs of steady growth. During the period, the total domestic output of beer reached 11,890,000 tonnes, representing a 6% year on year growth. The Company was able to increase its domestic market share by marketing proactively. We were able to achieve the sales target of 1,525,000 tonnes for the first half of the year, which represented a 27% year on year growth. In particular, sales of beer of the Tsingtao Brewery brand increased by 39% over the same period of last year thus boosted the overall gross profit.

During the period under review, we have, in compliance with the business strategy and targets set down for 2002 by the Board of Directors and with the view to leverage on the National Quality and Management Award (全國質量管理獎), put into practice the corporate motto of self advancement and strive for excellence, and improved the overall management standard by adopting the advanced model of quality management. The Company has been concentrating on integrating the market network, management structure, and branding and sales issues within the Group, especially those of the subsidiaries. Complemented with optional allocation of resources, we are able to see initial signs of efficiency brought about by the integration. In the first half of the year, there was a more substantial growth in terms of beer production and sales, revenues and profits. Profits contributed from the subsidiaries increased sharply from the same period of last year. Through stringent budget management and organizational integration, as well as streamlined management procedure, we were able to exert effective control on costs and ensure that the increase in profits outstrips the increase in revenues and sales.

Exports for the first half of the year increased by 61% over the same period last year and foreign revenue generated increased by 56.5%. The Company was able to breakthrough the bottleneck of export sales that had existed for years. The main reason is that we were able to capitalise on the opportunities arising from the accession of the PRC and Taiwan to the WTO and organised our specific "Tsingtao Brewery" brand to enter into the regional market of Taiwan through an alliance with the distributors in Taiwan for the first time. Since April, local sales of "Tsingtao Brewery" in Taiwan has been climbing and reached 9,000 tonnes within a short span of 3 months. It is expected that export sales to Taiwan will reach 15,000 tonnes for the full year.

The draught beer production lines of Tsingtao Brewery No. 2 Factory, one of the investment projects proposed under the use of proceeds plan pursuant to the issue of A Shares last year, was duly completed in April this year. The high quality of beer brewed by the production lines is well received in the market and it is expected to be the Company's new high-profit earner.

With the acquisition of Fujian Xiamen Yincheng Brand Brewery in the first half of this year, the Company now owns 48 breweries in 17 provinces and municipals which encompass all the major markets in the most economic developed areas in the PRC. With an annual production capacity of 4,000,000 tonnes, the Company's position as the leading brewer in the domestic market is further fortified.

Output of beer by geographical region in the first half of 2002

('000 Tonnes)	First Half of 2002	First Half of 2001	YoY increase
Qingdao	243	200	22%
Shandong (excluding Qingdao)	295	296	-0.3%
Huabei Region	394	355	11%
Huanan Region	593	350	69%
Total	<u>1,525</u>	<u>1,201</u>	<u>27%</u>

2. USE OF PROCEEDS

In 2001, the Company raised RMB787,000,000 by issuing additional A Shares. After deduction of issue expenses, the net proceeds from the issue was RMB757,728,570.09.

(i) Use of Proceeds at the end of the Reporting Period (RMB ten thousand)

Description of Application of Proceeds	Amount of Investment Committed	Amount of Actual Investment at the end of the Reporting Period	Percentage of Actual Investment (%)
Acquisition of 75% equity interest from foreign investors of Carbsbrew Shanghai	15,375	15,375	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	18,624	18,624	100
Technological renovation of draught beer production lines of Tsingtao Brewery No. 2 Factory	6,800	5,400	79
Technological renovation of draught beer production lines of Xi'an Company for an annual production of 50,000 tonnes	12,000	0	-
Phase 1 Technological renovation in respect of Maanshan Company for an annual production of 100,000 tonnes	7,700	7,700	100
Technological renovation in respect of Zhuhai Company for a Phase 1 production of 100,000 tonnes (annual production of 150,000 tonnes)	5,800	5,800	100
Technological renovation in respect of Sanshui Company for a Phase 1 production of 150,000 tonnes (annual production of 200,000 tonnes)	9,000	9,000	100
Setting-up of the electronic sales network of the Company	1,000	835	84
Total	<u>76,299</u>	<u>62,734</u>	<u>82</u>

- (ii) As at the end of the reporting period, the proceeds raised were invested as scheduled. Amongst these projects, the Company was able to complete the establishment of an electronic sales network with only RMB8,350,000 by adhering strictly to the dual principle of improved efficiency and stringent budgetary control. RMB1,650,000 was saved as a result. The pure draught beer project of Xi'an Company, however, has yet to be commenced because of the change in local market vis-a-vis the product. As at the end of the reporting period, the balance of the proceeds was RMB130,390,000. This sum is temporally used as working capital.

3. BUSINESS OUTLOOK FOR THE SECOND HALF OF THE YEAR

As the PRC has acceded to the WTO, the pace of economic globalization will pick up substantially. The Company, convinced in the merits of uniting the strongest and strengths, entered into an exclusive negotiation agreement with Anheuser-Busch ("A-B"), the largest beer brewery company in the world, on 30th July, 2002 to form a strategic alliance. It is hoped that both parties will join resources to keep up the business growth of the Company in the PRC's beer industry and develop beers of Tsingtao Brand such that the management and profit levels of the Company can be enhanced, and its core competitiveness the strengthened. Ultimately the Company will be able to enjoy steady growth and perpetuate its leading position in the PRC market.

Meanwhile, the Company continues to adhere thoroughly to our guiding principle of "striving for further success in the new millennium through system integration, mechanism innovation, upgrading of core competitiveness and committing to consolidation and improvement for market dominance". We aim at further perfecting the integrated utilization of resources, so that we, together with our subsidiaries, are able to achieve synergy and economy of scale and ultimately increase the level of profits.

It is expected that under PRC GAAP, the net profit of the Company for the three quarters ending September 2002 will increase by more than 50% over the same period last year.

The Board of Directors are of the view that after the series of acquisitions and expansion as well as the market network formed during the past few years, the Company is so positioned that it shall be able to brew and sell in the most developed parts of the PRC. The Company is looking to ride high on future competition and emerge with yet greater preponderance. With a view to continuing to improve core competitiveness and the ability to attain sustainable growth, we will exploit to the fullest extent the enormous market potential afforded by the brand name and take advantage of management model and experience developed and gained by developed countries overseas. We are entirely confident that we will be able to achieve the sales target set for this year and to maintain continuous growth in terms of revenues and profits.

SIGNIFICANT EVENTS

1. On 24th June, 2002, the Company convened its 2001 Annual General Meeting, members of the Board for the fourth session being elected in the Meeting were: Li Gui Rong, Jin Zhi Guo, Liu Ying Di, Sun Yu Guo, Chu Zhen Gang, Wang Li Jun, Tan Li Ning, Wu Hai Hua and Pan Gui Rong; members of the Supervisory Committee for the fourth session were: Wu Yu Ting, Yu Jia Ping, Ren Zeng Gui, Liu Qing Yuan, Zhong Ming Shan and Chen Jun. On the same day, the Company convened the first meeting of the fourth Board, in which elected Li Gui Rong as Chairman, Jin Zhi Guo as Vice-Chairman; appointed Jin Zhi Guo as President of the Company, appointed Sun Ming Bo, Sun Yu Guo, Yan Xu, Zhang Xue Ju, Cao Xiang Dong as Vice-Presidents of the Company, appointed Fan Wei as Chief Engineer of the Company and appointed Yuan Lu as Secretary to the Board of the Company. The Supervisory Committee for the fourth session convened its first meeting, in which elected Wu Yu Ting as Chairman of the Supervisory Committee.

The above personnel shall hold office for a term of 3 years from the date of election or appointment.

2. Pursuant to the provisions of its Articles of Association, the Company will not make payment of any interim dividend for the six months ended 30th June 2002.
3. According to the 2001 profit distribution plan approved in the 2001 Annual General Meeting of the Company, a cash bonus dividend of RMB1.1 (tax included) was distributed for every 10 shares, and the distribution was completed.
4. Material litigation or arbitration of the Company during the period under review.

(1) As disclosed in the Company's 2001 interim report, the Higher People's Court of Shangdong has held a hearing and examined the evidence in relation to the case initiated by Guangming General Company of Qingdao for the alleged breach of contract by the Company. The investigation on the facts in relation to the case has been basically completed and both parties have a considerable divergence of views on whether a breach of contract has been committed. The Higher People's Court of Shangdong tried to bring about a reconciliation for both parties, yet no arrangement has been reached by now and the case is still being processed by the Court. The Company considers that the litigation will not cause a significant impact to the Company's operating results and no provision is necessary for the litigation at this stage.

(2) As disclosed in the Company's 2000 interim reports, in respect of the legal proceedings initiated by the Company for default payment by Tsingtao Honglong Business and Trade Co., Ltd. ("Honglong Company"). Currently, the Intermediate People's Court of Qingdao has assigned a verification institution to conduct an audit on the books to verify the amount owed by Honglong Company to the Company in relation to the sales of beer. However, Honglong Company appealed against the judgement and the audit and the proceeding is still underway. The Company does not rule out the possibility of reaching a settlement by both parties with the support of the Court.

5. Acquisitions and mergers by the Company and asset reorganization during the reporting period.

The details in relation to the Company's acquisition of assets disposed by Xiamen Yincheng Joint-stock Company Limited have been disclosed in the 2001 annual report of the Company. On 4 April 2002, the Company and Tsingtao Europe and America Investment Company Limited jointly established Tsingtao Brewery (Xiamen) Company Limited ("Xiamen Company") and the registered capital of the Company was RMB10 million. The Company will inject RMB8 million of cash, representing 80% of the registered capital of Xiamen Company. All of the assets in relation to the disposal will be transferred to under the name of Xiamen Company and the Company shall be responsible for the operation of Xiamen Company. The procedures for taking over of assets have been completed. The capacity for annual beer production for Xiamen Company is 150,000 tonnes and was commenced operation at the end of June, 2002 after the renovation and pre-productive preparation works have been completed.

6. The 2001 Annual General Meeting of the Company appointed PricewaterhouseCoopers Zhongtian CPAs Company Limited as auditor in the PRC and PricewaterhouseCoopers, Hong Kong as the international auditor, respectively for the year of 2002.
7. The Company had neither any trust deposit nor any overdue unrecovered fixed deposit during the reporting period.

8. During the reporting period, the Company did not repurchase or cancel any of its listed shares, and neither the Company nor its subsidiaries had purchased nor resold any listed shares of the Company.

The 2001 Annual General Meeting of the Company authorized the Board of Directors to further issue H shares not exceeding 10% of the aggregate nominal value of the issued H shares. As at the date of publication of this report, the Company did not exercise such authority.

9. Subsequent Events

- (1) In July 2002, the Company and Tsingtao Brewery Group Company Limited (“TB Group Co.”) entered into an “Asset Management Agreement”, pursuant to which the Company has undertaken to manage the operations of Tsingtao Brewery (Zhangzhou) Company Limited (“Zhangzhou Co.”), which is 90% owned by TB Group Co. Upon the request of the Company, TB Group Co. will transfer its whole equity interest in Zhangzhou Co. to the Company or other parties designated by the Company at a consideration not exceeding RMB63,000,000.

Zhangzhou Company was established by the Group Company and 香港富利運投資有限公司 (「富利運公司」) in July, 2001, and the registered capital was RMB70 million, out of which the Group Company injected RMB63 million, representing 90% of registered capital. An asset transfer agreement (「資產轉讓協議」) was entered into between Zhangzhou Company and Zhangzhou State Owned Assets Investment Operations Company Limited (「ZHTIC」) in July 2001, pursuant to which, Fujian Jiuzhou Yingxue Brewery Group Co., Ltd. and the operating assets relating beer production (including factory, land use right and other machinery and equipment, with an estimated value of RMB89,450,000) that were formerly owed by ZHTIC were transferred to Zhangzhou Company at a price of RMB70 million. The annual beer production capacity for Zhangzhou Company is 80,000 tonnes. By the end of June 2002, Zhangzhou Company had been engaged in the renovation works and pre-production preparation.

- (2) On 31st July, 2002, the Company announced that it has entered into an agreement with A-B on 30th July, 2002 for an exclusive negotiation to form a strategic alliance. It is hoped that such strategic alliance may help to pool together the resources of the Company and A-B to support the Company’s continual growth and to maintain a leading position in the PRC’s beer industry, so as to raise the competitiveness of the Company and the profitability. Such strategic alliance is formed based on mutual understandings, and that the PRC Government shall remain as the major shareholder of the Company. Both parties are now having discussion on the form and the terms of such strategic relationship, and the Company wish to reach an agreement in relation to strategic alliance as soon as possible.

CHANGES IN SHARE CAPITAL

1. CHANGES IN SHARE CAPITAL

No Changes of equity of the Company occurred during the reporting period.

2. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

1. Changes in Shareholdings of Directors, Supervisors and Senior Management.

Name	Number of shares held at beginning of period (Share)	Number of shares held at the end of period (Share)
Directors		
Li Gui Rong	0	0
Jin Zhi Guo	0	0
Liu Ying Di	5,000	5,000
Sun Yu Guo	0	0
Chu Zhen Gang	0	0
Wang Li Jun	0	0
Tan Li Ning	0	0
Wu Hai Hua	0	0
Pan Gui Rong	0	0
Supervisors		
Wu Yu Ting	0	0
Yu Jia Ping	0	0
Ren Zeng Gui	0	0
Liu Qing Yuan	0	0
Zhong Ming Shan	0	0
Chen Jun	0	0
Senior Management		
Teng An Gong	0	0
Sun Ming Bo	1,261	1,261
Fan Wei	3,882	3,882
Yan Xu	0	0
Zhang Xue Ju	1,000	1,000
Cao Xiang Dong	2,000	2,000
Yuan Lu	0	0

Neither the Company nor its subsidiaries entered into any arrangement allowing any director, supervisor and chief executive of the Company to profit from any acquisition of shares of the Company.

CODE OF BEST PRACTICE

The Company complied with the Code of Best Practice as set out in Appendix 14 to the Rules Governing the Listing of Securities of the Stock Exchange of Hong Kong Limited during the reporting period.

AUDIT AND FINANCIAL COMMITTEE

The Board of Directors of the Company established its audit and financial committee which reviewed the 2002 interim report of the Company.

DOCUMENTS AVAILABLE FOR INSPECTION

1. A copy of the interim report as duly signed by the Chairman of the Company.
2. Accounting statements as duly signed and sealed by legal representatives, financial managers and accounting managers.
3. Original copies of documents and announcements of the Company disclosed in newspapers designated by China Securities Regulatory Commission during the reporting period.

Li Gui Rong
Chairman

Qingdao, the People's Republic of China
13th August 2002

CORPORATE INFORMATION

1. Official Name of the Company: 青島啤酒股份有限公司
Name in English: TSINGTAO BREWERY COMPANY LIMITED
2. Registered Address: 56 Dengzhou Road, Qingdao, Shandong Province, People's Republic of China
Office Address: Tsingtao Beer Tower, May Fourth Square, Hong Kong Rd., Central, Qingdao
Postal Code: 266071
Website: <http://www.tsingtao.com.cn>
Email: info@tsingtao.com.cn
3. Legal Representative: Li Gui Rong
4. Secretaries of the Board: Yuan Lu
Securities Affairs Representative: Zhang Rui Xiang
Telephone: 86-532-5713831
Fax: 86-532-5713240
Email: secretary@tsingtao.com.cn
5. Designated Newspapers for Information Disclosure: China Securities Post, Shanghai Securities Post, Wen Wei Po, HONGKONG IMail
Website for Interim Report: <http://www.sse.com.cn>
<http://www.hkex.com.hk>
Interim Report Kept at: Secretariat of the Board
6. Listing of Shares:
H Shares: The Stock Exchange of Hong Kong Limited
Code: 0168; Name of Stock in short: 青島啤酒 (TSINGTAO BREWERY)
A Shares: Shanghai Stock Exchange
Code: 600600; Name of Stock in short: 青島啤酒 (TSINGTAO BREWERY)