

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

*(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)
AS AT 30TH JUNE 2003*

		30th June 2003 <i>(Unaudited)</i> RMB	31st December 2002 RMB <i>(Note 45)</i>
Current assets			
Cash and bank deposits	6	1,070,828,579	854,370,803
Short term investments	40	66,450,000	76,640,000
Bills receivable	7	65,364,120	65,899,125
Accounts receivable	9, 40	213,203,873	167,721,734
Other receivables	10, 40	279,007,068	241,222,559
Prepayments and deposits	11, 40	170,522,312	170,229,496
Inventories	12	1,373,228,729	1,223,807,108
Deferred expenses	13	17,620,409	13,749,025
		3,256,225,090	2,813,639,850
		3,256,225,090	2,813,639,850
Long-term investments			
Long-term equity investments	5, 14	(88,276,476)	(120,157,680)
Long-term debt investments	15	33,950,723	34,366,631
		(54,325,753)	(85,791,049)
		(54,325,753)	(85,791,049)
Fixed assets			
At cost	16	8,354,061,509	8,291,501,409
Less: Accumulated depreciation	16	(3,182,666,219)	(2,988,783,365)
		5,171,395,290	5,302,718,044
Less: Provision for impairment of fixed assets	16	(111,308,623)	(98,326,802)
		5,060,086,667	5,204,391,242
Construction-in-progress	17	352,535,472	213,423,273
Fixed assets in suspense		1,951,485	601,595
		5,414,573,624	5,418,416,110
		5,414,573,624	5,418,416,110
Intangible and other assets			
Intangible assets	18	706,924,958	716,614,284
Long-term deferred expenses	19	6,328,543	6,826,905
Long-term accounts receivable	9, 40	63,808,142	63,808,142
		777,061,643	787,249,331
		777,061,643	787,249,331
Deferred taxation			
Deferred tax assets		5,101,358	5,101,358
		5,101,358	5,101,358
		5,101,358	5,101,358
Total assets		9,398,635,962	8,938,615,600
		9,398,635,962	8,938,615,600

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET (Cont'd)

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

AS AT 30TH JUNE 2003

	Note(s)	30th June 2003 (Unaudited) RMB	31st December 2002 RMB (Note 45)
Current liabilities			
Short-term bank loans	20	1,724,548,528	2,669,481,347
Bills payable	21	504,468,005	435,628,227
Accounts payable	22, 40	788,632,734	651,512,581
Advances from customers	22, 40	158,751,395	147,982,572
Salary payables		12,430,865	12,502,898
Staff welfare payables		16,254,236	19,559,986
Dividends payable	38	149,200,576	–
Taxes payable	23, 37	238,534,651	119,487,658
Other payables	22, 40	782,898,553	711,642,115
Other liabilities		8,051,389	2,774,498
Accruals	24	149,080,509	46,193,262
Current portion of long-term loans	20	76,182,615	110,054,376
Current portion of convertible bonds	25	298,013,040	–
		<u>4,907,047,096</u>	<u>4,926,819,520</u>
Total current liabilities			
Long-term liabilities			
Long-term bank loans	20	86,332,902	90,643,520
Convertible bonds	25	665,562,456	–
		<u>751,895,358</u>	<u>90,643,520</u>
Total long-term liabilities			
		<u>5,658,942,454</u>	<u>5,017,463,040</u>
Total liabilities			
		<u>645,565,339</u>	<u>723,798,958</u>
Minority interests			
		<u>645,565,339</u>	<u>723,798,958</u>
Shareholders' equity			
Share capital	26	1,000,000,000	1,000,000,000
Capital reserve	27	1,576,209,250	1,575,971,750
Surplus reserve	28	292,224,158	292,224,158
Included: public welfare fund		129,569,582	129,569,582
Unappropriated profits	29	225,231,761	328,828,477
Cumulative translation adjustment		463,000	329,217
		<u>3,094,128,169</u>	<u>3,197,353,602</u>
Total shareholders' equity			
		<u>9,398,635,962</u>	<u>8,938,615,600</u>
Total liabilities and shareholders' equity			

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED

BALANCE SHEET

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

AS AT 30TH JUNE 2003

	Note(s)	30th June 2003 (Unaudited) RMB	31st December 2002 RMB (Note 45)
Current assets			
Cash and bank deposits	6	281,686,716	279,656,206
Short term investments	40	958,669,041	307,325,817
Bills receivable	7	9,650,237	71,100,000
Dividends receivable	8	63,650,000	10,675,440
Accounts receivable	9, 40	300,442,641	175,696,705
Other receivables	10, 40	272,537,416	543,500,751
Prepayments and deposits	11, 40	20,432,263	25,684,354
Inventories	12	274,995,509	269,435,098
Deferred expenses	13	3,406,377	3,630,557
		<u>2,185,470,200</u>	<u>1,686,704,928</u>
Long-term investments			
Long-term equity investments	5, 14	1,546,256,011	1,627,507,671
Long-term debt investments	15	33,947,723	34,363,631
		<u>1,580,203,734</u>	<u>1,661,871,302</u>
Fixed assets			
At cost	16	1,969,689,940	1,976,907,517
Less: Accumulated depreciation	16	(993,850,217)	(948,475,228)
		<u>975,839,723</u>	<u>1,028,432,289</u>
Less: Provision for impairment of fixed assets	16	(2,950,331)	(8,000,000)
		<u>972,889,392</u>	<u>1,020,432,289</u>
Fixed assets, net		972,889,392	1,020,432,289
Construction-in-progress	17	80,329,259	70,009,020
Fixed assets in suspense		491,019	–
		<u>1,053,709,670</u>	<u>1,090,441,309</u>
Intangible and other assets			
Intangible assets	18	149,934,703	152,167,569
Long-term deferred expenses	19	2,779,800	2,980,400
Long-term accounts receivable	9, 40	63,808,142	63,808,142
		<u>216,522,645</u>	<u>218,956,111</u>
Deferred taxation			
Deferred tax asset		5,101,358	5,101,358
		<u>5,101,358</u>	<u>5,101,358</u>
Total assets		<u>5,041,007,607</u>	<u>4,663,075,008</u>

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED

BALANCE SHEET (Cont'd)

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

AS AT 30TH JUNE 2003

	Note(s)	30th June 2003 (Unaudited) RMB	31st December 2002 RMB (Note 45)
Current liabilities			
Short-term bank loans	20	280,000,000	946,000,000
Bills payable	21	50,310,000	124,375,903
Accounts payable	22, 40	162,980,490	97,174,668
Advances from customers	22, 40	46,115,196	42,701,886
Staff welfare payables		(11,091,813)	(11,579,431)
Dividends payable	38	132,217,800	-
Taxes payable	23, 37	30,858,163	(3,180,514)
Other payables	22, 40	157,587,244	139,991,434
Other liabilities		2,396,058	97,016
Accruals	24	23,898,637	10,383,517
Current portion of long-term loans	20	32,563,485	35,515,661
Current portion of convertible bonds	25	298,013,040	-
		<u>1,205,848,300</u>	<u>1,381,480,140</u>
Long-term liabilities			
Long-term bank loans	20	44,094,000	48,218,934
Convertible bonds	25	665,562,456	-
		<u>709,656,456</u>	<u>48,218,934</u>
Total long-term liabilities		<u>709,656,456</u>	<u>48,218,934</u>
Total liabilities		<u>1,915,504,756</u>	<u>1,429,699,074</u>
Shareholders' equity			
Share capital	26	1,000,000,000	1,000,000,000
Capital reserve	27	1,625,948,350	1,625,710,850
Surplus reserve	28	224,236,461	224,236,461
Included: public welfare fund		97,483,620	97,483,620
Unappropriated profits	29	275,318,040	383,428,623
		<u>3,125,502,851</u>	<u>3,233,375,934</u>
Total shareholders' equity		<u>3,125,502,851</u>	<u>3,233,375,934</u>
Total liabilities and shareholders' equity		<u>5,041,007,607</u>	<u>4,663,075,008</u>

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

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

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)
 FOR THE SIX MONTHS ENDED 30TH JUNE 2003

		For the six months ended 30th June 2003 <i>(Unaudited)</i> RMB	For the six months ended 30th June 2002 <i>(Unaudited)</i> RMB <i>(Note 45)</i>
Turnover	30, 40	3,835,462,035	3,516,728,143
Less: Cost of sales	30, 40	(2,287,661,341)	(2,071,867,799)
Sales tax and surcharges	31	(402,299,699)	(363,607,608)
Gross profit		1,145,500,995	1,081,252,736
Add: Profit from other operations	32	7,245,433	9,374,039
Less: Selling expenses		(595,009,036)	(502,248,381)
General and administrative expenses		(306,936,162)	(305,377,759)
Finance expenses, net	33	(67,001,909)	(73,641,850)
Operating profit		183,799,321	209,358,785
Add: Investment income	34	9,423,557	10,587,691
Subsidy income	35	23,285,609	21,228,045
Non-operating income	36	3,679,454	2,983,192
Less: Non-operating expenses	36	(35,415,864)	(31,259,761)
Profit before tax		184,772,077	212,897,952
Less: Income tax	37	(54,915,143)	(58,407,173)
Minority interests		(13,453,650)	(31,671,540)
Net profit		116,403,284	122,819,239
Add: Unappropriated profits brought forward		108,828,477	179,964,360
Prior year adjustment	39	220,000,000	110,000,000
Unappropriated profits, restated		328,828,477	289,964,360
Unappropriated profits		445,231,761	412,783,599
Less: Transfer to surplus reserve		-	-
Transfer to public welfare fund		-	-
Profit distributable to shareholders		445,231,761	412,783,599
Less: Dividends	38	(220,000,000)	(110,000,000)
Unappropriated profits carried forward		225,231,761	302,783,599

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED
STATEMENT OF INCOME AND PROFIT APPROPRIATION

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)
 FOR THE SIX MONTHS ENDED 30TH JUNE 2003

		For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB (Note 45)
Turnover	30, 40	1,291,348,729	1,116,402,507
Less: Cost of sales	30, 40	(803,176,045)	(669,292,951)
Sales tax and surcharges	31	(65,819,398)	(67,241,967)
Gross profit		422,353,286	379,867,589
Add: Profit from other operations	32	673,915	1,375,329
Less: Selling expenses	40	(165,885,244)	(119,663,855)
General and administrative expenses		(106,062,645)	(125,519,673)
Finance expenses, net	33	(23,682,974)	(29,630,675)
Operating profit		127,396,338	106,428,715
Add: Investment income	34	6,944,508	45,154,672
Non-operating income	36	600,783	175,148
Less: Non-operating expenses	36	(3,540,528)	(8,611,143)
Profit before tax		131,401,101	143,147,392
Less: Income tax	37	(19,511,684)	(25,672,885)
Net profit		111,889,417	117,474,507
Add: Unappropriated profits brought forward, as reported		163,428,623	204,825,341
Prior year adjustment	39	220,000,000	110,000,000
Unappropriated profit, restated		383,428,623	314,825,341
Unappropriated profits		495,318,040	432,299,848
Less: Transfer to surplus reserve		-	-
Transfer to public welfare fund		-	-
Profit distributable to shareholders		495,318,040	432,299,848
Less: Dividends	38	(220,000,000)	(110,000,000)
Unappropriated profits carried forward		275,318,040	322,299,848

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED CASH FLOW STATEMENT

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB (Note 45)
Cash Flow from Operating Activities:		
Cash received from sales of goods and rendering of services	4,211,357,379	4,133,407,277
Refund of taxes	23,643,611	24,760,074
Cash received relating to other operating activities	551,294,288	228,471,426
	4,786,295,278	4,386,638,777
Sub-total of cash inflows	4,786,295,278	4,386,638,777
Cash paid for purchases of goods and services	(2,479,332,534)	(2,153,510,211)
Cash paid for salaries and on behalf of employees	(279,078,079)	(248,563,716)
Cash paid for various taxes	(657,061,753)	(674,433,622)
Cash paid relating to other operating activities	41 (631,232,851)	(595,473,403)
	(4,046,705,217)	(3,671,980,952)
Sub-total of cash outflows	(4,046,705,217)	(3,671,980,952)
Net cash flow from operating activities	(a) 739,590,061	714,657,825
Cash Flow from Investing Activities:		
Proceeds from realisation of investments	550,000	10,000,000
Return on investments	130,945	13,412
Proceeds from disposal of fixed assets	6,019,831	31,266,477
Cash received relating to other investing activities	37,722,176	12,606,587
	44,422,952	53,886,476
Sub-total of cash inflows	44,422,952	53,886,476
Cash paid to acquire fixed assets, construction-in-progress, intangible assets and other long-term assets	(269,496,814)	(367,160,656)
Cash paid for acquisition of investments	(44,044,001)	(7,479,847)
Cash paid relating to other investing activities	(951,724)	(1,885,490)
	(314,492,539)	(376,525,993)
Sub-total of cash outflows	(314,492,539)	(376,525,993)
Net cash used in investing activities	(270,069,587)	(322,639,517)
	(270,069,587)	(322,639,517)
<i>Legal representative:</i> Li Gui Rong	<i>Chief financial officer:</i> Sun Yu Guo	<i>Accounting supervisor:</i> Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

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

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)
 FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	For the six months ended 30th June 2003 <i>(Unaudited)</i> RMB	For the six months ended 30th June 2002 <i>(Unaudited)</i> RMB <i>(Note 45)</i>
Cash Flow from Financing Activities:		
Proceeds from equity investments	4,500,000	8,942,000
Proceeds from issuance of convertible bonds	963,575,496	–
Proceeds from borrowings	1,467,712,873	1,875,416,393
Cash received relating to other financing activities	<u>26,951,694</u>	<u>3,316,331</u>
Sub-total of cash inflows	<u>2,462,740,063</u>	<u>1,887,674,724</u>
Repayment of borrowings	(2,456,615,673)	(1,826,229,274)
Dividends and interest paid	(212,944,044)	(87,409,674)
Cash paid relating to other financing activities	<u>(17,396,421)</u>	<u>(840,663)</u>
Sub-total of cash outflows	<u>(2,686,956,138)</u>	<u>(1,914,479,611)</u>
Net cash flow from financing activities	<u>(224,216,075)</u>	<u>(26,804,887)</u>
Effect of changes in exchange rate on cash	<u>(151,036)</u>	<u>18,616</u>
Net increase in Cash and Cash Equivalents	(c) <u>245,153,363</u>	<u>365,232,037</u>
<i>Legal representative:</i> Li Gui Rong	<i>Chief financial officer:</i> Sun Yu Guo	<i>Accounting supervisor:</i> Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

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

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)
 FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB (Note 45)
(a) Reconciliation of Net Profit to Cash Flow from Operating Activities:		
Net profit	116,403,284	122,819,239
Profit of minority shareholders	13,453,650	31,671,540
Provision for impairment of fixed assets	56,055,123	52,240,904
Depreciation of fixed assets	231,937,215	222,598,253
Amortisation of intangible assets	10,980,709	8,731,092
Amortisation of long-term deferred expenses	881,584	799,280
Increase in accrued expenses	102,887,247	95,746,130
Increase in deferred expenses	(3,871,384)	(9,626,979)
Loss/(gain) on disposal of fixed assets	4,457,218	1,014,066
Finance costs	67,001,909	73,641,850
Investment gain	(9,423,557)	(10,587,691)
Increase in inventories	(150,274,518)	(36,661,089)
Decrease in deferred tax assets	-	2,974,561
Increase in operating receivable items	(72,679,018)	(259,335,738)
Increase in operating payable items	371,780,599	418,632,407
	<u>739,590,061</u>	<u>714,657,825</u>
(b) Non-cash investing and financing activities:		
Exemption from settlement of liabilities	237,500	49,159
(c) Net Increase in Cash and Cash Equivalents:		
Cash on hand and at banks, end of period	981,730,863	867,342,118
Less: Cash on hand and at banks, beginning of period	(708,185,154)	(485,906,341)
Add: Cash equivalents, end of period	25,588,563	-
Less: Cash equivalents, beginning of period	(53,980,909)	(16,203,740)
	<u>245,153,363</u>	<u>365,232,037</u>

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED

CASH FLOW STATEMENT

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)
FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	For the six months ended 30th June 2003 <i>(Unaudited)</i> RMB	For the six months ended 30th June 2002 <i>(Unaudited)</i> RMB <i>(Note 45)</i>
Cash Flow from Operating Activities:		
Cash received from sales and rendering of services	1,356,997,855	1,321,341,055
Cash received relating to other operating activities	153,662,630	39,477,207
	<u>1,510,660,485</u>	<u>1,360,818,262</u>
Sub-total of cash inflows	1,510,660,485	1,360,818,262
Cash paid for purchases of goods and services	(931,849,674)	(633,426,586)
Cash paid for salaries and on behalf of employees	(83,749,929)	(79,426,727)
Cash paid for various taxes	(131,003,282)	(191,211,486)
Cash paid relating to other operating activities	41 (135,149,196)	(352,671,950)
	<u>(1,281,752,081)</u>	<u>(1,256,736,749)</u>
Sub-total of cash outflows	(1,281,752,081)	(1,256,736,749)
Net cash flow from operating activities	(a) 228,908,404	104,081,513
Cash Flow from Investing Activities:		
Proceeds from realisation of investments	-	-
Return on investments	127,065,440	14,370,000
Proceeds from disposal of fixed assets	591,628	10,148,236
Cash received relating to other investing activities	37,684,816	8,929,259
	<u>165,341,884</u>	<u>33,447,495</u>
Sub-total of cash inflows	165,341,884	33,447,495
Cash paid to acquire fixed assets, construction-in-progress, intangible assets and other long-term assets	(37,467,972)	(68,996,472)
Cash paid for acquisition of investments	(44,344,001)	(17,449,847)
Cash paid relating to other investing activities	(494,640,000)	-
	<u>(576,451,973)</u>	<u>(86,446,319)</u>
Sub-total of cash outflows	(576,451,973)	(86,446,319)
Net cash used in investing activities	(411,110,089)	(52,998,824)

Legal representative:
Li Gui Rong

Chief financial officer:
Sun Yu Guo

Accounting supervisor:
Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED**CASH FLOW STATEMENT (Cont'd)***(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)**FOR THE SIX MONTHS ENDED 30TH JUNE 2003*

	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB (Note 45)
Cash Flow from Financing Activities:		
Proceeds from issuance of convertible bonds	963,575,496	–
Proceeds from borrowings	240,000,000	741,605,393
	1,203,575,496	741,605,393
Repayment of borrowings	(913,111,532)	(700,585,997)
Dividends and interest paid	(105,231,769)	(30,155,919)
	(1,018,343,301)	(730,741,916)
Net cash flow from financing activities	185,232,195	10,863,477
Effect of changes in exchange rate on cash	–	36,983
Net increase in Cash and Cash Equivalents	(c) 3,030,510	61,983,149

*Legal representative:***Li Gui Rong***Chief financial officer:***Sun Yu Guo***Accounting supervisor:***Yu Zhu Ming**

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED

CASH FLOW STATEMENT (Cont'd)

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB (Note 45)
(a) Reconciliation of net Profit to Cash Flow from Operating Activities:		
Net profit	111,889,417	117,474,507
Provision for impairment of fixed assets	26,237,947	24,271,270
Depreciation of fixed assets	59,698,823	59,195,206
Amortisation of intangible assets	2,313,199	2,311,809
Amortisation of long-term deferred expenses	200,600	153,799
Increase in accrued expenses	13,515,120	47,464,294
Decrease in deferred expenses	224,180	1,845,112
Loss on disposal of fixed assets	682,208	204,137
Finance costs	23,682,974	29,630,675
Investment income	(6,944,508)	(45,154,672)
(Increase) decrease in inventories	(5,560,411)	37,325,784
Decrease in deferred tax assets	-	2,974,561
Increase in operating receivable items	(34,009,470)	(219,845,594)
Increase in operating payable items	36,978,325	46,230,625
	<u>228,908,404</u>	<u>104,081,513</u>
Net cash flow from operating activities		
(b) The Company was not involved in any non-cash investing and financing activities during the period.		
(c) Net Increase in Cash and Cash Equivalents:		
Cash on hand and at bank, end of period	253,686,716	177,004,288
Less: Cash on hand and at bank, beginning of period	(227,656,206)	(104,803,539)
Add: Cash equivalents, end of period	-	-
Less: Cash equivalents, beginning of period	(23,000,000)	(10,217,600)
	<u>3,030,510</u>	<u>61,983,149</u>
Net increase in Cash and Cash Equivalents		

Legal representative:

Li Gui Rong

Chief financial officer:

Sun Yu Guo

Accounting supervisor:

Yu Zhu Ming

The accompanying notes form an integral part of these accounts.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS

(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.

On 21st October 2002, the Company signed a strategic investment agreement (the “Strategic Investment Agreement”) with Anheuser-Busch Companies, Inc. (“A-B Company”). The Company is obliged to issue several tranches of mandatory convertible bonds (“CB”) to A-B Company, amounting to approximately HKD1,416,195,000 (equivalent to approximately RMB1,503,008,000). Upon full conversion of the CB, the equity holding of A-B Company in the Company will increase to approximately 27%. During the period, approximately HKD907,920,000 (equivalent to approximately RMB963,575,000) of the CB were issued and the related proceeds were received from A-B Company. The CB so issued were converted into ordinary shares of the Company subsequent to the date of this report, and the remaining balance of the CB of approximately HKD508,275,000 (equivalent to approximately RMB539,433,000) is expected to be received in installment during the second half of 2003 and in 2004. The arrangement is expected to reduce the amount of the net current liabilities of the Group. Please refer to Note 20 and Note 25 for the details.

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.

The major acquisitions of the Company and its subsidiaries (the “Group”) during the period are detailed in Note 5.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS

(a) The currently adopted accounting regulations and accounting standards

The accounts have been prepared in accordance with the “Accounting Standards for Business Enterprises” and “the Accounting Regulations for Business Enterprises” and related regulations, promulgated by the Ministry of Finance of the PRC.

(b) Financial year

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

(c) Basis of recording and measurement bases

The books and records are maintained on the accrual basis. Apart from those assets which were recorded at the revalued amount approved by the State-owned Assets Administration Bureau upon the Company’s reorganisation into a joint stock company, all assets are stated at cost.

(d) Reporting currency and foreign currency translation

The Company maintains its books and records in Renminbi (RMB). The amounts of the accounts are expressed in RMB. Foreign currency transactions are translated into RMB at the exchange rates stipulated by the People’s Bank of China prevailing at the beginning of the month of the transaction (or at the transaction date). As of balance sheet date, monetary assets and liabilities denominated in other currencies are translated into RMB at the exchange rate stipulated by the People’s Bank of China prevailing at the balance sheet date. Except for the capitalised exchange gains or losses arising from specific loan for the purchases of assets, all exchange gains or losses are dealt with in the profit and loss account.

All assets and liabilities denominated in foreign currencies on the balance sheets are translated at the exchange rates stipulated by the People’s Bank of China prevailing at the balance sheet date; shareholders’ equity (except unappropriated profit) are translated at exchange rates stipulated by the People’s Bank of China prevailing at the transaction date; unappropriated profit is recorded based on the amount stated on the profit and loss account after translation adjustments; profit and loss account items are translated at the average applicable rates during the period. Exchange differences arising from such translations are dealt with in the cumulative translation adjustment account on the translated balance sheet.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (CONT'D)

(e) Adoption of new accounting standards

In the current period, the Group early adopted the Accounting Standards for Business Enterprises - Caikuai [2003] No. 12 "Events After the Balance Sheet Date (2003 revised)" enacted by the Ministry of Finance. The standard is effective for accounting periods commencing on or after 1st July 2003.

Caikuai [2003] No. 12 "Events After the Balance Sheet Date (2003 revised)" prescribes when an enterprise should adjust its accounts for events after the balance sheet date and the disclosures that an enterprise should give about the date when the accounts were authorised for issue and about events after the balance sheet date. In particular, if dividends are proposed or declared after the balance sheet date, an enterprise should not recognise those dividends as a liability at the balance sheet date. This change in accounting policy has been applied retrospectively. The Group considers that this consequential changes made to the above accounting standard will not have a material impact on the accounts of the Group.

(f) Cash and cash equivalents

Cash represents cash on hand and deposits with banks and 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 that are subject to an insignificant risk of change in value.

(g) Short-term investments

Short-term investments mainly included entrusted loans. Entrusted loans are loans entrusted for lending through financial institutions and are stated at the loan balance advanced. Interest income is accrued and credited to the profit and loss account for the period as incurred. When the accrued interest income are due and not yet received, any further accruals cease to be made and previous accrued interest income is reversed. If there is indication that the principal amount of individual entrusted loan exceeds its recoverable amount, a provision for impairment is made.

(h) Accounts receivable and provision for bad debts

The Group uses "allowance method" in accounting for potential bad debts, pursuant to which provision for bad debts is made based on the collectibility of accounts receivable balances (including accounts receivable balances from related parties) as at period end. The management makes reasonable estimates on provision for bad debts based on aging analysis, previous experience and financial and operating situations of the customers. Provision for bad debts is further classified into specific bad debt provision and general doubtful debt provision.

Specific bad 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 current and subsequent periods, etc., are considered in the analysis before the amount of the provision is determined.

General bad debt provision is made based on individual circumstance. 50% and 100% provision is made for receivable balances aged within 1 to 2 years and over 2 years respectively.

When evidences indicate that the accounts receivable balances become uncollectible, for instance, when the debtors suffer from the liquidation, bankruptcies, net liabilities positions or inadequate cash flow, bad debts are written off in that period and used to offset the corresponding provision for bad debts that has previously been made for that balances.

(i) Inventories

Inventories mainly include 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, the estimated costs and related taxes necessary to make the sale. Low-value consumables and certain packaging materials are amortised into expenses over their estimated useful lives of one to five 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 Group and the Company adopts the perpetual inventory system.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (CONT'D)

(j) 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.

- (i) If the Group holds less than 20% voting share capital, or holds more than 20% voting share capital but has no control, no common control or no significant influence over the financial and operating policies of the investees, the long-term equity investments are accounted for using the cost method. Other than addition or reduction of the investments, the carrying amounts of investments remain unchanged. The Group's share of profit distribution or cash dividends declared by the investees are recognised as investment income for current period. Investment income recognised by the Group is limited to the proportionate share of the accumulated net profit earned by the investees after the Group's investments. The excess portion of the Group's share of profit distribution or cash dividends declared by the investees over the above limit is treated as withdrawal of initial investment cost, and should be offset against the carrying amounts of the investments.
- (ii) If the Group holds 20% or more voting share capital, or holds less than 20% voting share capital but can exercise control, common control or significant influence over the financial and operating policies of the investees, the long-term equity investments are accounted for using the equity method. The carrying amounts of investments and the investment income for the current period are adjusted to recognise the Group's share of the post-acquisition net profits or losses of the investees for the period. The Group's share of profit distribution or cash dividends declared by the investees reduce the carrying amounts of the investments. The share of net loss of investee will cease to be recognised by the Company when the carrying amounts of investees are reduced to zero. If the investees begin to earn a profit in subsequent periods, the Group's share of net profit of the investees, after offsetting previous unrecognised share of losses, is adjusted against the carrying amount of the investment.
- (iii) 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 using the straight-line method into the profit and loss account over 10 years.

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 debt investment. The amount of discount or premium is amortised using the straight-line method against debt interest income recognised over the period from the date of debt acquisition to its maturity. Interest income arising from debt investment is accounted for using the accrual basis, and is recognised as investment income for current period after adjusting the unamortised discount or premium on debt investments.

Provision for impairment on long-term investments

Provision for diminution in value of long-term investments is made when the recoverable amount of the investments is lower than their carrying amounts due to continuing decrease in their market price or deterioration in the operations of the investee and these conditions are expected not to be recovered in the foreseeable future. Provision for impairment of long-term investments is made based on the differences between the recoverable amount and the carrying amount of the long-term investments.

(k) Fixed assets and depreciation

The fixed asset recognition criteria of the Group are:

- (1) buildings (including land use rights), 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 with cost of over RMB2,000.

Fixed assets are stated at cost or revaluation amount less accumulated depreciation and provision for impairment losses. 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 determined based on the asset valuation undertaken upon the Company's reorganisation to a Joint-Stock Limited Company. Daily maintenance, repairs and overhaul expenditures incurred after the fixed assets have been put into operation is charged to the profit and loss account in the period in which they are incurred. Costs incurred for significant improvement and renewals, which have resulted in an increase in future economic benefits, are capitalised as additional costs of the fixed asset.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (CONT'D)

(k) Fixed assets and depreciation (Cont'd)

Except for land use rights which have no estimated residual value, 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:

	Estimated useful lives	Yearly depreciation rate
Buildings (including land use rights)	20-50 years	2% - 5%
Plant and machinery	10-14 years	7.1% - 10%
Motor vehicles	5-12 years	8.3% - 20%
Other equipment	5-10 years	10% - 20%

The estimated residual value of land use rights mainly represents costs arising from the excess estimated useful lives of land use right over buildings. This estimated residual value of land use rights is transferred into the costs of buildings subsequently erected on the land. In the case if no buildings were subsequently erected on the land, the estimated residual value is transferred into intangible asset and amortised accordingly. When the fixed asset is disposed of, the difference between the carrying amount and proceeds from disposal is recognised in the profit and loss account for the current period.

At each balance sheet date, the Group reviews each of the fixed asset items. Provision for impairment losses is made for the excess of the carrying amount of an asset over its recoverable amount, which is caused by continued declining in market value, obsolete technology, damage, or idle usage, etc. When economic benefits can no longer be derived from the fixed assets, these assets are fully provided on an individual item basis and charged into profit and loss account for the current period.

(l) Construction-in-progress

Construction-in-progress represents buildings under construction and machinery and equipment under installation and testing, and is stated at cost. The costs include cost of construction, direct costs and the eligible capitalised borrowing costs from 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 Group conducts full-scale review of their respective construction-in-progress. Provision for impairment losses is made and charged into the profit and loss account for the amount of recoverable amount lower than its book value, for those construction-in-progress which construction is suspended and is expected not to resume in coming 3 years, the specification and technology are obsolete and the economic benefits of which are uncertain, or items which show other evidence for impairment losses.

(m) Borrowing costs

Borrowing costs represent interest expenses, amortisation of discount or premium and auxiliary charges, and expenses incurred in connection with the borrowings of funds and foreign exchange differences arising from foreign currency loans. They are normally directly charged to the current year profit and loss account.

Specific loans are loans borrowed specially for the construction of fixed assets. The related interest expenses, amortisation of discount or premium and exchange differences arising from specific loans are capitalised when: 1) expenditures for the specified construction are incurred; 2) the borrowing costs have incurred; and 3) upon the commencement of 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.

The interest expenses arising from specific loans are capitalised based on the weighted average of accumulated interest expenses and the weighted average of respective loans, subject to the actual interest expenses incurred.

(n) Intangible assets and amortisation

Intangible assets represent land use rights, trademark and technology know-how.

The costs of land use rights purchased or obtained by way of payments of a land use fees are stated at the purchase price and recognised as intangible assets upon the commencement of self-use projects. The costs of land use rights are amortised on a straight-line basis over its estimated useful lives. The carrying values of land use rights will be transferred to construction-in-progress when the lands are developed for self-use projects.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (CONT'D)

(n) Intangible assets and amortisation (Cont'd)

Internally generated technology know-how are recognised at cost when they are properly registered and approved by authorised legal bureau. The costs include registration fee, legal consultant fee and other expenses incurred. All research and development fees incurred before the registration and approval of internally generated intangible assets are charged into the profit and loss account as an expense when incurred. The Group's technology know-how was injected by a minority shareholder of a subsidiary during the reorganisation of that subsidiary and was recorded at a value agreed among all shareholders of the subsidiary and is amortised on a straight-line basis over an expected period of inflow of economic benefits of 10 years.

Trademarks mainly represent the "TSINGTAO BEER" trademark injected by the founding shareholder into the Company on 16th June 1993 as capital injection. The recorded value of the trademark was determined based on a valuation amount 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 lives of 40 years.

Other trademarks were acquired during acquisitions of certain subsidiaries and are amortised over their estimated useful lives ranging from 5-10 years.

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

(o) Long-term deferred expenses

Long-term deferred expenses represent improvement and maintenance expenditures on fixed assets upgrading expenditures on leased fixed assets, and other deferred expenses with amortisation period over 1 year (not including 1 year), and are recognised at cost.

Expenditures on improvement of leased fixed assets are actual repair expenditure incurred and evenly amortised over the shorter of the lease period and the remaining useful lives of the leased assets; other long-term deferred expenses are evenly amortised over the expected beneficial period using straight-line method.

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

When long-term deferred expenses cannot generate probable future economic benefits, the unamortised portion is charged into the profit and loss account as an expense for the current period.

(p) Convertible bonds

Convertible bonds, before conversion, are stated at their carrying value and recognised as liabilities in the balance sheet. The difference between bonds carrying values and their face values is recognised as premium or discount and to be amortised on a straight-line basis to be charged to the profit and loss account as interest expense. When the bond holders exercise their conversion rights, the bonds will be converted at their fair values. The difference between the carrying amount of the convertible bonds and the face value of the shares converted, net of any expenses related to the share issuance, recognised as share premium.

(q) Contingent liabilities

An obligation arising from contingency is recognised as a 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 amounts of the contingent liabilities are recognised based on the best estimate of the required payment. When all or part of the obligation is reimbursed by the third parties or other parties, this reimbursement is recognised as an asset when it is probable of receipt to the extent of the related liability recognised.

(r) Revenue recognition

Revenue is recognised on the following bases:

(i) 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 customer and when the Group does not exert rights of management and control over the goods.

Sales discounts are set off against revenue in the current period.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (CONT'D)

(r) Revenue recognition (Cont'd)

(ii) Interest income

Interest income from bank deposits and other financial institutions is recognised on a time proportion basis on the amounts deposited and effective yield.

(s) Taxation

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

Deferred taxation is provided using the liability method. Deferred taxation is computed based on the current period's timing differences between profit as computed for taxation purposes and profits as stated in the accounts using current tax rates. Deferred taxation is provided for using the liability method. Temporary timing difference is provided at the prevailing tax rates.

A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future. Others are treated as permanent timing difference during the period.

(t) Profit appropriations

The Company's profit appropriation and dividend 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 years' losses;
- (ii) transfer to statutory surplus reserves at 10% of current year net profit;
- (iii) transfer to public welfare fund at 10% of current year net profit;
- (iv) transfer to discretionary surplus reserves; and
- (v) distribution of dividends.

In accordance with the Company's articles of association and Document Caikuai 1995 [31] issued by the State Ministry of Finance, appropriation to statutory surplus reserves, public welfare fund and discretionary surplus reserves should be based on the accounts prepared in accordance with the 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 net 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.

In accordance with the Document Cai Kuai Zi [2003] No. 12 issued by the Ministry of Finance regarding the accounts adjustments on the Company's events after the balance sheet date, authorisation on release of accounts and disclosures on events after the balance sheet date, the Company should not recognise proposed dividends as liability for dividends proposed after the balance sheet date. Besides, if the going concern assumption of the Company is no longer valid as demonstrated by any events occurring after the balance sheet date, the company cannot use the going concern assumption as the basis to prepare its accounts. Such change in accounting policies should be adjusted retrospectively.

(u) Change of principal accounting policies and accounting estimates

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

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

When there are uncertainties in operating activities which cannot be accurately and properly measured but can only be estimated or when there are changes in the basis of accounting estimates or as a result of new information obtained, more experiences 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 incurred in current period and future periods.

2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED ACCOUNTS (CONT'D)

(v) Basis of preparation of consolidated accounts

The consolidated accounts include the Company and subsidiaries, and are prepared based on the requirements of Caikuai [1995] No. 11 "the Interim Articles on issuance of consolidated accounts" and related regulation promulgated by the Ministry of Finance of the PRC.

The subsidiaries' turnover, cost of sales and profit and loss account during the year are included in the consolidated profit and loss account from the effective date of acquisition and up to the effective date of disposal when the control over the subsidiaries is ceased. Significant inter-group balances, transactions and unrealised profits are eliminated on consolidation. Minority interests represent the interests shared by third party shareholders over the operating results and net assets of subsidiaries.

Significant differences arising from various accounting policies adopted by the Company and the subsidiaries that have material impact to the Group's accounts are adjusted in accordance to Company's accounting policies.

3 NON-MONETARY TRANSACTION

During the six months ended 30th June 2003, there was no significant non-monetary transaction for the Group and the Company.

4 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.

5 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES

(a) As at 30th June 2003, particulars of the principal subsidiaries of the Company are as follows:

Subsidiaries established/acquired on or before 31st December 2002.

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	RMB70,000,000	–	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
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

5 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

(a) As at 30th June 2003, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

Subsidiaries established/acquired on or before 31st December 2002. (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 Huadong Shanghai Sales Company Limited	Shanghai, the PRC	RMB3,000,000	–	94.05% (b) (ii)	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	–	90.25%	Manufacturing and 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
Tsingtao Brewery (Xuzhou) Company Limited	Peixian, the PRC	RMB39,336,899	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	RMB45,000,000	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	RMB5,000,000	–	86.20%	Manufacturing and domestic trading of malt
Beijing Three Ring Asia Pacific Beer Company Limited (“Beijing Three Ring”)	Beijing, the PRC	USD28,900,000	54% (d)	–	Manufacturing and domestic trading of beer

5 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

(a) As at 30th June 2003, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

Subsidiaries established/acquired on or before 31st December 2002. (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	
Beijing Five Star Tsingtao Brewery Company Limited	Beijing, the PRC	RMB862,000,000	37.64%	25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Fuzhou) Company Limited	Fuzhou, the PRC	USD26,828,100	75% (b) (i)	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Langfang) Company Limited	Langfang, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Xian Company Limited	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
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	RMB37,500,000	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 Sales Company Limited	Qingdao, the PRC	RMB5,000,000	95%	–	Domestic trading of beer
Tsingtao Brewery No. 5 Company Limited	Qingdao, the PRC	RMB34,610,000	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

5 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

(a) As at 30th June 2003, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

Subsidiaries established/acquired on or before 31st December 2002. (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 (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
Tsingtao Brewery (Hong Kong) Trading Company Limited	Hong Kong	HKD500,000	100%	–	Trading of Tsingtao beer in Hong Kong
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	Zhuhai, 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	Tsingtao, 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	–	90%	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	–	94.05% (b) (ii)	Domestic trading of beer

5 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

(a) As at 30th June 2003, particulars of the principal subsidiaries of the Company are as follows: (Cont'd)

Subsidiaries established/acquired on or before 31st December 2002. (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 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
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
Tsingtao Brewery (Taizhou) Sales Company Limited	Taizhou, the PRC	RMB6,800,000	–	48.45%	Domestic trading of beer
Tsingtao Changhong Shangwu Company Limited	Qingdao, the PRC	RMB1,000,000	95%	–	Car rental services
Tsingtao Brewery Zhaoshang Logistic Company Limited	Qingdao, the PRC	RMB2,000,000	51%	–	Logistic services and management
Tsingtao Brewery Chenzhou Sales Company Limited	Chenzhou, the PRC	RMB1,000,000	–	94.69%	Domestic trading of beer
Tsingtao Brewery Luzhong (Weifang) Sales Company Limited	Weifang, the PRC	RMB2,000,000	–	90.30%	Domestic trading of beer
Tsingtao Brewery (Xiamen) Company Limited	Xiamen, the PRC	RMB10,000,000	80%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xiamen) Sales Company Limited	Xiamen, the PRC	RMB1,000,000	–	40%	Domestic trading of beer

During the six months ended 30th June 2003, the Group established the following new subsidiaries.

Name of new subsidiaries	Date of acquisition/ establishment	Place establishment and principal operation	Registered and paid-in capital	Equity interest held by the Company (%)		Principal activities
				Directly held	Indirectly held	
Tsingtao Brewery Haifeng Warehouse Company Limited	January 2003	Qingdao, the PRC	RMB10,000,000	–	52.25%	Warehousing, packaging and logistics
Tsingtao Brewery Baoji Company Limited (i)	January 2003	Baoji, the PRC	RMB1,000,000	30%	53.27%	Manufacturing and domestic trading of beer

(i) In January 2003, Tsingtao Brewery Company Limited (“the Company”) and Xian Company jointly invested in a new company, namely Tsingtao Brewery Baoji Company Limited (“Tsingtao Baoji Company”), with authorised capital amounting to RMB1,000,000. The Company injected cash capital amounting to RMB300,000, which accounted for 30% of the total authorized capital; Xian Company injected cash capital amounting to RMB700,000, which accounted for 70% for the total authorized capital.

Xian Company and a third party named Baoji Brewery Company Limited (“Baoji Company”) entered into a lease agreement in January 2003, pursuant to which Baoji Company leases all its operating fixed assets to Tsingtao Baoji Company at nil lease rentals. Tsingtao Baoji Company is a subsidiary jointly established by the Company and Xian Company for manufacturing of beers. During the lease term, Tsingtao Baoji Company will bear all the operating costs of Baoji Company.

5 INFORMATION ON SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

(b) In current year, there were changes in equity interests of the following subsidiaries:

- (i) In January 2003, the Company entered into an agreement with Fujian Brewery (Singapore) Pte Limited for acquiring an additional 24% equity interest in Tsingtao Brewery (Fuzhou) Company Limited ("Fuzhou Company") at a consideration of approximately RMB40,040,000. After the transaction, the effective ownership percentage held by the Company in Fuzhou Company increased from 51% to 75%.
- (ii) In January 2003, Tsingtao Brewery (Shanghai) Company Limited, a subsidiary of the Company, transferred 10% of shareholdings in Tsingtao Brewery Huadong Shanghai Sales Company and Tsingtao Brewery Huadong Hangzhou Sales Company to Tsingtao Brewery (Wuhu) Company Limited, another subsidiary of the Company, at a consideration of RMB300,000 and RMB100,000 respectively. Such transactions have changed the indirect shareholding of the Company in Tsingtao Brewery Huadong Shanghai Sales Company and Tsingtao Brewery Huadong Hangzhou Sales Company from 94.53% to 94.05%.

(c) As at 30th June 2003, 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	Ending Net Investment Cost
			directly held	indirectly held		
Tsingtao Brewery (Yangzhou) Company Limited	Yangzhou, the PRC	RMB5,000,000	20%	–	Manufacturing and domestic trading of beer	–
Tsingtao Beverage Company Limited	Qingdao, the PRC	RMB70,000,000	–	37.52%	Manufacturing and domestic trading of beverages	RMB19,736,570
Liaoning Tsingtao Brewery Sales Company Limited	Shenyang, the PRC	RMB2,000,000	30%	–	Domestic trading of beer	RMB657,794

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

- (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 owned by the Company. The Company will continue to own the remaining 29% equity interest in Beijing Three Ring. In 2002, EVG renegotiated with the Company for delaying the payment of the consideration for the 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 the consideration. Up to 30th June 2003, the consideration had not been settled and the Company continued to consolidate Beijing Three Ring in its consolidated accounts based on its 54% equity interest held in the Company.
- (e) In November 2001, Tsingtao Brewery Huanan Holding Company Limited (a subsidiary of the Group) and Tailian Brewery (Cayman Islands) Company Limited 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 from Tailian Brewery at a consideration of RMB96,000,000. The name of Nanning Brewery will also be changed to Tsingtao Beer (Nanning) Company Limited ("Nanning Company") afterwards. As the equity transfer process had not yet been completed as at 30th June 2003, the Group and the Company did not account for this potential investment accordingly.

6 CASH AND BANK DEPOSITS

(a) Group

	30th June 2003 (Unaudited)			31st December 2002		
	Foreign currency balance	Exchange rate	RMB equivalents	Foreign currency balance	Exchange rate	RMB equivalents
Cash - RMB			5,934,943			2,472,224
Bank deposits - RMB			1,038,123,971			825,140,895
Subtotal			1,044,058,914			827,613,119
Foreign currency deposits						
– USD	3,209,850	8.273	26,555,827	3,206,774	8.277	26,544,044
– HKD	201,458	1.061	213,838	201,338	1.061	213,640
Total cash and bank deposits			<u>1,070,828,579</u>			<u>854,370,803</u>

(b) Company

	30th June 2003 (Unaudited)			31st December 2002		
	Foreign currency balance	Exchange rate	RMB equivalents	Foreign currency balance	Exchange rate	RMB equivalents
Cash - RMB			1,648,135			994,212
Bank deposits - RMB			256,420,436			254,467,422
Subtotal			258,068,571			255,461,634
Foreign currency deposits						
– USD	2,855,017	8.273	23,618,145	2,923,001	8.277	24,194,572
Total cash and bank deposits			<u>281,686,716</u>			<u>279,656,206</u>

(c) Cash and cash equivalents shown in the cashflow statements include:

	Group		Company	
	30th June 2003 (Unaudited) RMB	30th June 2002 (Unaudited) RMB	30th June 2003 (Unaudited) RMB	30th June 2002 (Unaudited) RMB
Cash and bank deposits	1,070,828,579	942,642,241	281,686,716	216,004,288
Less: Fixed deposits with maturity more than three months	28,000,000	53,305,123	28,000,000	28,000,000
Restricted bank deposits	35,509,153	21,995,000	–	11,000,000
	<u>1,007,319,426</u>	<u>867,342,118</u>	<u>253,686,716</u>	<u>177,004,288</u>

(d) Restricted bank deposits are pledged deposits required to obtain bills facilities from the banks.

(e) Cash and cash equivalents in the cash flow statements have not included any fixed deposits, restricted bank deposits or bond investments with maturity date more than three months.

7 BILLS RECEIVABLE

	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Commercial bills	–	165,000	–	9,000,000
Bank bills	<u>65,364,120</u>	<u>65,734,125</u>	<u>9,650,237</u>	<u>62,100,000</u>
	<u>65,364,120</u>	<u>65,899,125</u>	<u>9,650,237</u>	<u>71,100,000</u>

The bills receivable are all unsecured and not pledged for any banking facilities.

8 DIVIDENDS RECEIVABLE

	Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB (Note 45)
Tsingtao Brewery Huanan Holding Company Limited	44,650,000	–
Shenzhen Tsingtao Brewery Sales Company Limited	19,000,000	–
Tsingtao Brewery Xian Company Limited	–	10,675,440
Total	<u>63,650,000</u>	<u>10,675,440</u>

9 ACCOUNTS RECEIVABLE

	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Accounts receivable	352,726,335	305,797,788	377,349,430	246,253,400
Less: Provision for doubtful debts	<u>(139,522,462)</u>	<u>(138,076,054)</u>	<u>(76,906,789)</u>	<u>(70,556,695)</u>
	<u>213,203,873</u>	<u>167,721,734</u>	<u>300,442,641</u>	<u>175,696,705</u>

The aging analysis of accounts receivable is as follows:

(a) Group

	30th June 2003 (Unaudited)				31st December 2002			
	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)
Within one year	202,956,455	57.54%	(5,551,413)	2.74%	125,195,693	40.94%	(4,912,193)	3.92%
Within one to two years	37,456,099	10.62%	(25,044,479)	66.86%	56,665,486	18.53%	(12,060,933)	21.28%
Within two to three years	15,734,405	4.46%	(14,642,100)	93.06%	19,219,656	6.29%	(17,325,301)	90.14%
Over three years	96,579,376	27.38%	(94,284,470)	97.62%	104,716,953	34.24%	(103,777,627)	99.10%
Total	<u>352,726,335</u>	<u>100.00%</u>	<u>(139,522,462)</u>	<u>39.56%</u>	<u>305,797,788</u>	<u>100.00%</u>	<u>(138,076,054)</u>	<u>45.15%</u>

As at 30th June 2003, the aggregate amount of the Group's five largest accounts receivable balances was approximately RMB116,153,000 (31st December 2002: RMB126,545,000), being 27% (31st December 2002: 32%) of the total accounts receivable balance and long-term accounts receivable balances.

9 ACCOUNTS RECEIVABLE (CONT'D)

(a) Group (Cont'd)

As at 30th June 2003, the customers of the Group's five largest accounts receivable and long-term accounts receivable balances were as follows:

	Accounts receivable (Unaudited)	Percentage of accounts receivable and long-term receivable (%) (Unaudited)
* Tsingtao Brewery (Guangzhou) General Agency Co., Ltd. (Notes c and 40)	92,560,810	21.15%
* Beijing Tsingtao Brewery General Agency Co., Ltd.	11,245,784	2.57%
* Lichengzhen Jin Ying Fu Shi Operating Unit	5,271,625	1.20%
* Chang Chun Xin Di Trading Company	3,972,318	0.91%
* Guangzhou Shi Bai Hui Qu Long Gui Hung Da Sales Unit	3,102,323	0.71%
Total	<u>116,152,860</u>	<u>26.54%</u>

* Direct translation from the Chinese names

During the period, the Group wrote off uncollectible accounts receivable against the provision for bad debts in the amount of approximately RMB26,588,000 (31st December 2002: RMB63,691,000).

(b) Company

	30th June 2003 (Unaudited)				31st December 2002			
	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)
Within one year	265,388,648	70.33%	(3,200,263)	1.21%	131,063,361	53.22%	(2,595,385)	1.98%
Within one to two years	56,492,207	14.97%	(21,059,809)	37.28%	47,579,232	19.33%	(7,538,671)	15.84%
Within two to three years	4,454,144	1.18%	(3,467,412)	77.85%	6,902,579	2.80%	(6,561,987)	95.07%
Over three years	51,014,431	13.52%	(49,179,305)	96.40%	60,708,228	24.65%	(53,860,652)	88.72%
Total	<u>377,349,430</u>	<u>100.00%</u>	<u>(76,906,789)</u>	<u>20.38%</u>	<u>246,253,400</u>	<u>100.00%</u>	<u>(70,556,695)</u>	<u>28.65%</u>

As at 30th June 2003, the Company's five largest accounts receivable balances amounted to approximately RMB126,245,000 (31st December 2002: RMB121,285,000), being 27% (31st December 2002: 36%) 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 RMB19,225,000 (31st December 2002: RMB33,588,000).

As at 30th June 2003, the customers of the Company with the five largest accounts receivable and long-term accounts receivable balances were as follows:

	Accounts receivable (Unaudited)	Percentage of accounts receivable and long-term receivable (%) (Unaudited)
* Tsingtao Brewery (Guangzhou) General Agency Co., Ltd. (Notes c and 40)	92,560,810	20.02%
* Beijing Tsingtao Brewery General Agency Co., Ltd.	11,245,784	2.43%
* Tsingtao Brewery (Taierzhuang) Malt Company Limited	8,711,942	1.88%
* Tsingtao Brewery Huadong Shanghai Sales Company Limited	6,992,430	1.51%
* Tsingtao Brewery No. 3 Company Limited	6,734,435	1.46%
Total	<u>126,245,401</u>	<u>27.31%</u>

* Direct translation from the Chinese names

9 ACCOUNTS RECEIVABLE (CONT'D)

(b) Company (Cont'd)

The Group and the Company made specific bad debt provisions on some individual accounts receivable balances. In addition, based on past experience and actual circumstances, the Group and the Company made full provision on balances which have been aged for over two years and with evidence indicating that they are uncollectible. For balances with only partial collection expected, provision is made for the expected uncollectible portion. For balances which have been outstanding for one to two years and over two years, a general provision of 50% and 100% is made, respectively, depending on individual circumstances.

The Group and the Company had no receivable balances owed from parties with 5% or above shareholdings in the Company.

- (c) In 2001, the Group and the Company reached an agreement with a customer and a related company in connection with an aggregate outstanding receivable balance totalling RMB105,000,000 aged over three years. 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, a related company, also undertook to guarantee the repayment of the balance. As at 30th June 2003, unsettled amounts of approximately RMB10,000,000 and RMB83,000,000 respectively, were recorded in receivable and long-term accounts receivable on the consolidated balance sheets.

10 OTHER RECEIVABLES

The breakdown of other receivables is as follow:

	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Due from subsidiaries	—	—	223,736,696	494,184,883
Due from associated companies	—	6,544	—	6,544
Due from related companies	40,148,572	47,093,053	24,763,728	42,037,886
Others	292,063,170	246,907,678	57,558,781	40,968,518
Total	332,211,742	294,007,275	306,059,205	577,197,831
Provision for bad debts	(53,204,674)	(52,784,716)	(33,521,789)	(33,697,080)
	<u>279,007,068</u>	<u>241,222,559</u>	<u>272,537,416</u>	<u>543,500,751</u>

The aging analysis of other receivables is as follows:

(a) Group

	30th June 2003 (Unaudited)				31st December 2002			
	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)
Within one year	210,378,201	63.33%	(1,186,944)	0.56%	84,015,583	28.58%	(1,965,365)	2.34%
Within one to two years	43,833,655	13.19%	(7,448,475)	16.99%	134,380,896	45.70%	(8,049,948)	5.99%
Within two to three years	40,546,827	12.21%	(24,257,780)	59.83%	37,797,353	12.86%	(22,963,812)	60.76%
Over three years	37,453,059	11.27%	(20,311,475)	54.23%	37,813,443	12.86%	(19,805,591)	52.38%
Total	<u>332,211,742</u>	<u>100.00%</u>	<u>(53,204,674)</u>	<u>16.02%</u>	<u>294,007,275</u>	<u>100.00%</u>	<u>(52,784,716)</u>	<u>17.95%</u>

As at 30th June 2003, the Group's five largest other receivable balances amounted to approximately RMB114,633,000 (31st December 2002: RMB106,763,000), being 35% (31st December 2002: 36%) of the total other receivables balance.

10 OTHER RECEIVABLES (CONT'D)

(a) Group (Cont'd)

As at 30th June 2003, the five largest other receivables balances of the Group were as follows:

	Other receivable balance (Unaudited)	Percentage of total other receivables balance (%) (Unaudited)
* Tsingtao Beer (Nanning) Company Limited (Note 40(c))	66,201,494	19.93%
* Qingdao State Tax Import Export Management Unit	16,182,410	4.87%
* Qingdao Local Tax Investigation Unit	13,000,000	3.91%
* Tsingtao Brewery (Zhangzhou) Company Limited	11,500,000	3.46%
* Shenzhen You Yi Company	7,748,917	2.33%
Total	<u>114,632,821</u>	<u>34.50%</u>

* Direct translation from the Chinese names

(b) Company

	30th June 2003 (Unaudited)				31st December 2002			
	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)	Amount RMB	Percentage (%)	Provision for bad debts RMB	Provision percentage (%)
Within one year	225,556,324	73.70%	-	-	292,210,659	50.63%	-	-
Within one to two years	39,602,844	12.94%	(4,593,358)	11.60%	152,142,136	26.36%	(5,643,697)	3.70%
Within two to three years	14,855,040	4.85%	(7,420,905)	49.97%	71,557,707	12.40%	(17,609,375)	24.60%
Over three years	26,044,997	8.51%	(21,507,526)	82.58%	61,287,329	10.61%	(10,444,008)	17.04%
Total	<u>306,059,205</u>	<u>100.00%</u>	<u>(33,521,789)</u>	<u>10.95%</u>	<u>577,197,831</u>	<u>100.00%</u>	<u>(33,697,080)</u>	<u>5.84%</u>

As at 30th June 2003, the Company's five largest other receivable balances amounted to approximately RMB224,022,000 (31st December 2002: RMB358,784,000), being 73% (31st December 2002: 62%) of the total other receivable balance.

As at 30th June 2003, the five largest other receivables balances of the Company were as follows:

	Other receivable balance (Unaudited)	Percentage of total other receivables balance (%) (Unaudited)
* Tsingtao Brewery (Xiamen) Company Limited	164,460,000	53.73%
* Tsingtao Brewery Huadong Shanghai Sales Company Limited	18,879,296	6.17%
* Qingdao State Tax Import Export Management Unit	16,182,410	5.29%
* Qingdao Local Tax Investigation Unit	13,000,000	4.25%
* Tsingtao Brewery (Zhangzhou) Company Limited	11,500,000	3.76%
Total	<u>224,021,706</u>	<u>73.20%</u>

* Direct translation from the Chinese names

10 OTHER RECEIVABLES (CONT'D)

(b) Company (Cont'd)

Included in the Company's other receivables, aged from one to three years, were mainly loans receivable for providing working capital loan to the subsidiaries. The Company considered no provision for doubtful debts was necessary, taking into account the operating results of the subsidiaries. Management makes reasonable estimate on provision for doubtful debts based on previous experience and financial and operating results of the customers.

The Group and the Company had no receivable balances due from parties with 5% or above shareholding in the Company

11 PREPAYMENTS AND DEPOSITS

The aging analysis of prepayments and deposits is as follows:

(a) Group

	30th June 2003 (Unaudited)		31st December 2002	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Less than one year	153,925,188	90.28%	168,269,160	98.85%
Within one to two years	15,791,402	9.27%	1,323,969	0.78%
Within two to three years	320,458	0.19%	395,491	0.23%
Over three years	485,264	0.28%	240,876	0.14%
Total	<u>170,522,312</u>	<u>100.00%</u>	<u>170,229,496</u>	<u>100.00%</u>

(b) Company

	30th June 2003 (Unaudited)		31st December 2002	
	Amount RMB	Percentage (%)	Amount RMB	Percentage (%)
Less than one year	4,858,168	23.78%	25,486,723	99.23%
Within one to two years	15,381,310	75.28%	4,846	0.02%
Within two to three years	—	—	—	—
Over three years	192,785	0.94%	192,785	0.75%
Total	<u>20,432,263</u>	<u>100.00%</u>	<u>25,684,354</u>	<u>100.00%</u>

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

Prepayment and deposits balance of the Group and the Company aged over one year was mainly deposits paid for materials purchase.

12 INVENTORIES

	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Raw materials	525,635,313	365,491,380	175,407,623	122,181,491
Packaging materials	313,489,757	327,321,179	7,739,232	16,487,293
Low-value consumables and auxiliary materials	270,247,940	264,275,257	40,103,824	35,280,800
Materials on consignment	18,427,155	9,868,109	–	–
Work-in-progress				
Consigned goods	158,373,226	127,162,892	30,746,907	34,838,876
Finished goods	112,555,047	154,335,103	22,020,161	61,668,876
Total	1,398,728,438	1,248,453,920	276,017,747	270,457,336
Less: Provision for diminution in value of inventories	(25,499,709)	(24,646,812)	(1,022,238)	(1,022,238)
	1,373,228,729	1,223,807,108	274,995,509	269,435,098

Provision for diminution in value of inventories:

	Beginning of year (Unaudited) RMB	Addition (Unaudited) RMB	Write off/ write back (Unaudited) RMB	End of year (Unaudited) RMB
Group				
Raw materials	11,214,355	1,022,240	(66,979)	12,169,616
Finished goods	9,437,342	–	(1,007,422)	8,429,920
Others	3,995,115	1,091,399	(186,341)	4,900,173
Total	24,646,812	2,113,639	(1,260,742)	25,499,709
	Beginning of year (Unaudited) RMB	Addition (Unaudited) RMB	Write off/ write back (Unaudited) RMB	End of year (Unaudited) RMB
Company				
Raw material	1,022,238	–	–	1,022,238
Total	1,022,238	–	–	1,022,238

Provision for diminution in value is made based on the excess of original costs of inventories over their net realisable value when inventories are damaged, becoming wholly or partially obsolete, or when their selling prices are lower than their costs. Net realisable value is the estimated selling price in the ordinary course of business, less the costs of completion and selling expenses. During the six months ended 30th June 2003, the amounts of provision written back was mainly due to the write-back of provision for diminution made in prior years.

13 DEFERRED EXPENSES

Group

	Beginning of year <i>RMB</i>	Addition (Unaudited) <i>RMB</i>	Amortisation for the period (Unaudited) <i>RMB</i>	End of period (Unaudited) <i>RMB</i>	Reasons for balance retained at period end
Insurance	5,749,297	4,552,595	6,958,758	3,343,134	Not yet fully amortised
Advertising	3,542,306	2,963,052	6,166,348	339,010	Not yet fully amortised
Rental	520,252	1,331,763	240,738	1,611,277	Not yet fully amortised
Others	3,937,170	22,233,193	13,843,375	12,326,988	Not yet fully amortised
Total	<u>13,749,025</u>	<u>31,080,603</u>	<u>27,209,219</u>	<u>17,620,409</u>	

Company

	Beginning of year <i>RMB</i>	Addition (Unaudited) <i>RMB</i>	Amortisation for the period (Unaudited) <i>RMB</i>	End of period (Unaudited) <i>RMB</i>	Reasons for balance retained at period end
Insurance	3,479,458	573,872	3,556,376	496,954	Not yet fully amortised
Rental	151,099	162,415	291,373	22,141	Not yet fully amortised
Others	–	8,344,344	5,457,062	2,887,282	Not yet fully amortised
Total	<u>3,630,557</u>	<u>9,080,631</u>	<u>9,304,811</u>	<u>3,406,377</u>	

14 LONG-TERM EQUITY INVESTMENTS

	Group		Company	
	30th June 2003 (Unaudited) <i>RMB</i>	31st December 2002 <i>RMB</i>	30th June 2003 (Unaudited) <i>RMB</i>	31st December 2002 <i>RMB</i> (Note 45)
Investments in subsidiaries (i)	–	–	1,609,324,279	1,722,465,835
Investments in associated companies (ii)	25,134,107	28,452,992	5,395,491	5,319,518
Other equity investments (iii)	25,737,006	25,711,604	17,969,562	17,969,562
Provision for impairment of long-term investment	(4,061,918)	(4,061,918)	–	–
Sub-total	46,809,195	50,102,678	1,632,689,332	1,745,754,915
Investment differences (iv)	(135,085,671)	(170,260,358)	(86,433,321)	(118,247,244)
Total	<u>(88,276,476)</u>	<u>(120,157,680)</u>	<u>1,546,256,011</u>	<u>1,627,507,671</u>

14 LONG-TERM EQUITY INVESTMENTS (CONT'D)

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

Name of investees	Year of commencement and cessation	Initial investment RMB	Additional investment RMB	Total investment as at 31 December 2002 RMB	Prior year adjustment RMB	Total investment as at 31 December 2002	Change in equity during the period (Unaudited) RMB	Dividend received during the period (Unaudited) RMB	Cumulative changes in equity in equity (Unaudited) RMB	Total investment as at 30th June 2003 (Unaudited) RMB
						(Adjusted) RMB (Note 45)				
Tsingtao Brewery Xian Company Limited	1996-2001	116,600,560	63,287,554	216,006,331	76,100,000	292,106,331	27,516,550	(76,100,000)	63,634,767	243,522,881
Shenzhen Tsingtao Brewery Huanan Holding Company Limited	2001	190,000,000	-	179,128,828	44,650,000	223,778,828	11,760,737	(44,650,000)	889,565	190,889,565
Tsingtao Brewery Shanghai Songjiang Company Limited	2000	153,750,000	-	156,292,765	-	156,292,765	756,515	-	3,299,280	157,049,280
Shenzhen Tsingtao Beer Asahi Company Limited	1997-1999	126,746,680	-	134,872,764	40,290,000	175,162,764	17,612,631	(40,290,000)	25,738,715	152,485,395
Tsingtao Brewery (Fuzhou) Company Limited	2001-2003	85,000,000	16,606,992	78,443,952	-	78,443,952	(3,563,272)	-	(26,726,312)	74,880,680
Shenzhen Tsingtao Brewery Sales Company Limited	1999	19,000,000	-	76,315,437	19,000,000	95,315,437	10,049,003	(19,000,000)	67,364,440	86,364,440
Beijing Three Rings Asia Pacific Beer Company Limited	2001	86,847,125	-	67,712,576	-	67,712,576	(2,688,536)	-	(21,823,085)	65,024,040
Tsingtao Brewery (Haerbin) Company Limited	2000	20,900,000	58,000,000	56,222,013	-	56,222,013	(3,181,354)	-	(25,859,341)	53,040,659
Tsingtao Brewery No.5 Company Limited	2000	37,625,391	-	57,220,965	-	57,220,965	3,195,140	-	22,790,714	60,416,105
Tsingtao Brewery (Luzhou) Company Limited	2001	61,110,000	-	48,634,977	-	48,634,977	4,011,744	-	(8,463,279)	52,646,721
Others	1993-2003	161,860,431	414,287,418	471,575,227	-	471,575,227	1,429,286	-	(103,143,336)	473,004,513
Total		1,059,440,187	552,181,964	1,542,425,835	180,040,000	1,722,465,835	66,898,444	(180,040,000)	(2,297,872)	1,609,324,279

The prior year adjustment was the adjustment made on distribution of dividend after financial year as a result of the Accounting Standards for business Enterprises - Caikuai [2003] No. 12 "Events After the Balance Sheet Date (2003 revised)". In addition, there are no material restrictions on realisation of investments held by the Group and the Company.

(ii) The Group's and the Company's main investments in associates are as follows:

Name of investees	Balance as at beginning of period RMB	Decrease in equity during the period (Unaudited) RMB	Equity pick up in current period (Unaudited) RMB	Balance as at period end (Unaudited) RMB
Canada Qinghua Company	2,077,625	-	-	2,077,625
Liaoning Shenqing Tsingtao Brewery Sales Company Limited	581,821	-	75,973	657,794
Others	2,660,072	-	-	2,660,072
Company total	5,319,518	-	75,973	5,395,491
Tsingtao Asahi Beverage Company Limited	23,131,428	-	(3,394,858)	19,736,570
Others	2,046	-	-	2,046
Group total	28,452,992	-	(3,318,885)	25,134,107

14 LONG-TERM EQUITY INVESTMENTS (CONT'D)

(iii) Other equity investments

Name of investees	30th June 2003	
	Investment sum (Unaudited) RMB	Proportion of shares held by the Company to the registered capital of the investees (Unaudited)
Shanghai International Ming Jiu Development Corporation	7,000,000	17.5%
Tianjin Lianying Corporation	4,884,300	60%
Tsingtao Yingxiao Club	3,985,261	25%
Others	2,100,001	
Company total	17,969,562	
Guangxi Bei Hai Real Estate	3,610,000	15%
Others	4,157,444	
Group total	<u>25,737,006</u>	

(iv) The details of equity investment differences are as follows:

Name of Investees	Reason of formation	Initial investment	Beginning Balance	Addition in current period	Amortisation of current period	Unamortised Balance
		RMB	RMB	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) RMB
Tsingtao Brewery Shanghai Songjiang Company Limited	Acquisitions	(133,483,335)	(105,581,641)	–	6,674,167	(98,907,474)
Beijing Five Star Tsingtao Beer Company Limited	Acquisitions	(54,539,713)	(45,449,761)	–	2,726,986	(42,722,775)
Beijing Three Rings Asia Pacific Beer Company Limited	Acquisitions	49,285,564	41,071,303	–	(2,464,278)	38,607,025
Tsingtao Brewery (Fuzhou) Company Limited	Acquisitions	40,755,768	35,321,666	23,437,009	(2,819,022)	55,939,653
Others	Acquisitions	(84,114,799)	(43,608,811)	–	4,259,061	(39,349,750)
Company total		(182,096,515)	(118,247,244)	23,437,009	8,376,914	(86,433,321)
Indirectly held subsidiaries by the Group		(69,565,572)	(52,013,114)	–	3,360,764	(48,652,350)
Group Total		<u>(251,662,087)</u>	<u>(170,260,358)</u>	<u>23,437,009</u>	<u>11,737,678</u>	<u>(135,085,671)</u>

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

15 LONG-TERM DEBT INVESTMENT

(a) Group

Type	Face value RMB	Purchase price RMB	Accumulated amortisation of premium	Balance as at period end	Balance as at beginning of period	Annual interest rate	Maturity date	Current period interest income	Cumulative interest income
			(Unaudited) RMB	(Unaudited) RMB	(Unaudited) RMB			(Unaudited) RMB	(Unaudited) RMB
Government Bonds	32,700,000	39,998,088	(6,050,365)	33,947,723	34,363,631	8.56%	December 2004	1,399,560	15,395,160
Others	3,000	3,000	–	3,000	3,000			–	–
Total	<u>32,703,000</u>	<u>40,001,088</u>	<u>(6,050,365)</u>	<u>33,950,723</u>	<u>34,366,631</u>			<u>1,399,560</u>	<u>15,395,160</u>

15 LONG-TERM DEBT INVESTMENT (CONT'D)

(b) Company

Type	Face value	Purchase price	Accumulated	Balance as at	Balance as at	Annual interest rate	Maturity date	Current period	Cumulative
			amortisation of premium	period end	at beginning of period			interest income	interest income
	RMB	RMB	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) RMB			(Unaudited) RMB	(Unaudited) RMB
Government Bonds	32,700,000	39,998,088	(6,050,365)	33,947,723	34,363,631	8.56%	December 2004	1,399,560	15,395,160

In the opinion of the Company's directors, the underlying value of long-term debt investments is not less than the carrying value of such investments as at 30th June 2003.

16 FIXED ASSETS

The movements of fixed assets are as follows:

(a) Group

	30th June 2003 (Unaudited)					31st December 2002
	Building	Plant and machinery	Motor vehicles	Equipment	Total	Total
Original cost						
Beginning of period	2,650,470,907	5,028,556,782	405,582,268	206,891,452	8,291,501,409	7,784,843,365
Effect of acquisition of subsidiaries (unaudited)	-	-	-	-	-	163,850,701
Transfer in from construction-in-progress (unaudited)	10,088,459	71,302,695	-	17,113,245	98,504,399	333,304,512
Additions (unaudited)	4,085,658	46,256,806	-	12,106,004	62,448,468	147,911,724
Disposals (unaudited)	(6,144,014)	(78,559,031)	(11,952,163)	(1,737,559)	(98,392,767)	(138,408,893)
End of period (unaudited)	<u>2,658,501,010</u>	<u>5,067,557,252</u>	<u>393,630,105</u>	<u>234,373,142</u>	<u>8,354,061,509</u>	<u>8,291,501,409</u>
Accumulated depreciation						
Beginning of period	636,042,220	2,115,890,084	140,395,905	96,455,156	2,988,783,365	2,568,252,253
Effect of acquisition of subsidiaries (unaudited)	-	-	-	-	-	58,792,154
Charge for the period (unaudited)	31,903,069	164,796,682	19,322,985	15,914,479	231,937,215	457,345,228
Write-back on disposal (unaudited)	(602,273)	(30,492,282)	(5,686,551)	(1,273,255)	(38,054,361)	(95,606,270)
End of period (unaudited)	<u>667,343,016</u>	<u>2,250,194,484</u>	<u>154,032,339</u>	<u>111,096,380</u>	<u>3,182,666,219</u>	<u>2,988,783,365</u>
Net book value						
Beginning of period	<u>2,014,428,687</u>	<u>2,912,666,698</u>	<u>265,186,363</u>	<u>110,436,296</u>	<u>5,302,718,044</u>	<u>5,216,591,112</u>
End of period (unaudited)	<u>1,991,157,994</u>	<u>2,817,362,768</u>	<u>239,597,766</u>	<u>123,276,762</u>	<u>5,171,395,290</u>	<u>5,302,718,044</u>
Impairment loss						
Beginning of period	<u>39,937,103</u>	<u>55,699,149</u>	<u>2,690,550</u>	-	<u>98,326,802</u>	<u>57,984,575</u>
End of period (unaudited)	<u>41,669,347</u>	<u>66,695,720</u>	<u>2,943,556</u>	-	<u>111,308,623</u>	<u>98,326,802</u>
Net book value						
Beginning of period	<u>1,974,491,584</u>	<u>2,856,967,549</u>	<u>262,495,813</u>	<u>110,436,296</u>	<u>5,204,391,242</u>	<u>5,158,606,537</u>
End of period (unaudited)	<u>1,949,488,647</u>	<u>2,750,667,048</u>	<u>236,654,210</u>	<u>123,276,762</u>	<u>5,060,086,667</u>	<u>5,204,391,242</u>

16 FIXED ASSETS (CONT'D)

(a) Group (Cont'd)

As at 30th June 2003, approximately RMB22,685,000 of the Group's buildings, plant and machinery and motor vehicles (31st December 2002: RMB194,329,000) had been pledged as security for certain bank loans of the Group.

As at 30th June 2003, the building ownership certificates ("Building Ownership Certificates") for certain buildings of the Group with respective carrying value of approximately RMB362,703,000 (31st December 2002: RMB419,506,000) had not yet been obtained. After consultation made with the Company's legal adviser, the Company's directors consider that there is no legal restriction for the Group and the Company to apply for and obtain the Buildings Ownership Certificates and there will not be any significant adverse impact of such incidence on the daily operations of the Group and of the Company. Accordingly, no provision for fixed assets impairment was considered necessary. For certain buildings located on parcels of allocated lands, please refer to Note 18 for details.

(b) Company

	30th June 2003 (Unaudited)				31st December 2002	
	Building	Plant and machinery	Motor vehicles	Equipment	Total	Total
Original cost						
Beginning of period	554,865,184	1,178,082,975	156,765,322	87,194,036	1,976,907,517	1,948,510,031
Transfer in from construction- in-progress (unaudited)	109,361	30,506,900	–	498,107	31,114,368	84,469,494
Additions (unaudited)	31,042	11,145,219	384,960	6,830,799	18,392,020	26,809,549
Disposals (unaudited)	(5,207,042)	(45,627,124)	(5,192,885)	(696,914)	(56,723,965)	(82,881,557)
End of period (unaudited)	<u>549,798,545</u>	<u>1,174,107,970</u>	<u>151,957,397</u>	<u>93,826,028</u>	<u>1,969,689,940</u>	<u>1,976,907,517</u>
Accumulated depreciation						
Beginning of period	147,827,085	693,524,567	62,683,143	44,440,433	948,475,228	885,989,082
Charge for the period (unaudited)	6,962,108	39,191,889	7,878,297	5,666,529	59,698,823	112,285,137
Write-back on disposals (unaudited)	(150,335)	(11,207,029)	(2,359,590)	(606,880)	(14,323,834)	(49,798,991)
End of period (unaudited)	<u>154,638,858</u>	<u>721,509,427</u>	<u>68,201,850</u>	<u>49,500,082</u>	<u>993,850,217</u>	<u>948,475,228</u>
Net book value						
Beginning of period	<u>407,038,099</u>	<u>484,558,408</u>	<u>94,082,179</u>	<u>42,753,603</u>	<u>1,028,432,289</u>	<u>1,062,520,949</u>
End of period (unaudited)	<u>395,159,687</u>	<u>452,598,543</u>	<u>83,755,547</u>	<u>44,325,946</u>	<u>975,839,723</u>	<u>1,028,432,289</u>
Impairment loss						
Beginning of period	<u>–</u>	<u>8,000,000</u>	<u>–</u>	<u>–</u>	<u>8,000,000</u>	<u>–</u>
End of period (unaudited)	<u>–</u>	<u>2,950,331</u>	<u>–</u>	<u>–</u>	<u>2,950,331</u>	<u>8,000,000</u>
Net book value						
Beginning of period	<u>407,038,099</u>	<u>476,558,408</u>	<u>94,082,179</u>	<u>42,753,603</u>	<u>1,020,432,289</u>	<u>1,062,520,949</u>
End of period (unaudited)	<u>395,159,687</u>	<u>449,648,212</u>	<u>83,755,547</u>	<u>44,325,946</u>	<u>972,889,392</u>	<u>1,020,432,289</u>

17 CONSTRUCTION-IN-PROGRESS

Construction project	Budgeted	Beginning	Addition	Transfer to	Transfer	End of	Source of	Proportion of
	amount	of period		fixed assets	out	period		to budgeted
	RMB	RMB	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	
Plant 1 production line improvement	41,984,000	29,379,746	18,461,300	(21,506,928)	–	26,334,118	Internally generated fund	63%
Plant 2 production line improvement	20,269,500	5,183,971	11,466,370	(3,879,758)	–	12,770,583	Share issuance	63%
Plant 4 production line improvement	5,200,000	593,393	11,066,260	(5,707,542)	(1,215,022)	4,737,089	Internally generated fund	91%
New factory plant	31,925,645	29,055,553	21,851,966	–	(20,850,785)	30,056,734	Internally generated fund	94%
Malt production line improvement	7,000,000	5,764,777	270,518	(20,140)	–	6,015,155	Internally generated fund	86%
Others	25,526,243	31,580	384,000	–	–	415,580	Internally generated fund	2%
Company total	131,905,388	70,009,020	63,500,414	(31,114,368)	(22,065,807)	80,329,259		
Xian Company production line improvement	9,250,000	6,416,751	18,122,020	(15,786,493)	(121,922)	8,630,356	Internally generated fund	93%
Huangshi Company production line improvement	65,656,530	10,484,238	34,242,390	(414,591)	–	44,312,037	Bank loans	67%
Sanshui Company production line improvement	30,000,000	10,167,228	36,255,885	(29,266,677)	–	17,156,436	Share issuance	57%
Heze Company Production line improvement	51,747,850	191,408	36,350,867	–	–	36,542,275	Internally generated fund	71%
Tengzhou Company Production line improvement	4,787,000	1,235,955	4,042,633	(908,803)	–	4,369,785	Internally generated fund	91%
Zhuhai Company Production line improvement	40,391,900	4,170,446	14,190,676	–	–	18,361,122	Internally generated fund	45%
No. 5 Company Production line improvement	18,432,506	8,495,080	10,935,244	(3,755,058)	(757,857)	14,917,409	Internally generated fund	81%
Penglai Company Production line improvement	35,010,000	29,449,135	1,386,421	–	(157,000)	30,678,556	Internally generated fund	88%
Chenzhou Company Production line improvement	6,700,000	1,397,405	5,191,616	(687,462)	(30,852)	5,870,707	Internally generated fund	88%
Xuzhou Pengcheng Company Production line improvement	4,690,000	–	4,067,485	(75,281)	–	3,992,204	Internally generated fund	85%
Chongqing Company Production line improvement	9,123,978	1,503,201	450,461	–	(923,022)	1,030,640	Internally generated fund	11%
Anshan Company Production line improvement	550,000	1,351,658	408,522	(400,000)	(868,500)	491,680	Internally generated fund	89%
Shouguang Company Production line improvement	4,156,880	38,024	2,692,013	–	–	2,730,037	Internally generated fund	66%
Beijing Three Rings Company Production line improvement	4,158,365	782,446	1,442,521	(914,353)	–	1,310,614	Internally generated fund	32%
Beijing Five Stars Company Production line improvement	2,000,000	401,968	1,643,943	(452,805)	–	1,593,106	Internally generated fund	80%
Nanjing Company Production line improvement	1,115,407	13,711,651	3,600,000	–	(16,841,370)	470,281	Internally generated fund	42%
Shenzhen Asahi Company Production line improvement	9,000,000	2,332,445	2,549,020	(70,400)	–	4,811,065	Internally generated fund	53%
Langfang Company Production line improvement	46,482,520	31,116,103	3,937,110	–	–	35,053,213	Internally generated fund	75%
Import/Export Company Production line improvement	10,000,000	–	6,792,251	–	–	6,792,251	Internally generated fund	68%
Other subsidiaries Production line improvement	99,965,756	20,169,111	30,071,932	(14,658,108)	(2,490,496)	33,092,439	Internally generated fund	33%
Group total	<u>585,124,080</u>	<u>213,423,273</u>	<u>281,873,424</u>	<u>(98,504,399)</u>	<u>(44,256,826)</u>	<u>352,535,472</u>		

To the extent that the funds are borrowed specifically 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 the assets range from 3.98% to 5.72% per annum (31st December 2002: from 3.98% to 5.72% per annum). During the period, the Company capitalised approximately RMB587,000 (31st December 2002: RMB818,000) of borrowing costs.

18 INTANGIBLE ASSETS

(a) Group

Nature	Original cost (Unaudited) RMB	Accumulated amortisation (Unaudited) RMB	Beginning of period RMB	Additions (Unaudited) RMB	Transfer out (Unaudited) RMB	Amortisation (Unaudited) RMB	End of period (Unaudited) RMB	Remaining years of amortisation (year)	Source of financing
Trademarks	129,488,196	27,770,226	104,338,751	-	-	2,620,781	101,717,970	3.5-30.5	Injection by shareholders and acquisition of subsidiaries
Land use rights	669,452,612	91,802,865	583,807,874	1,181,300	(563,667)	6,775,760	577,649,747	40.5-47.5	Acquisition of subsidiaries
Technology know-how	18,629,100	7,405,360	12,108,916	-	-	885,176	11,223,740	5.5	Injection by minority shareholder
Others	20,585,313	4,251,812	16,358,743	673,750	-	698,992	16,333,501	0-8.5	Purchase and acquisition of subsidiaries
Total	838,155,221	131,230,263	716,614,284	1,855,050	(563,667)	10,980,709	706,924,958		

The additions of intangible assets of the period were mainly due to the acquisition and establishment of subsidiaries.

(b) Company

Items	Original cost (Unaudited) RMB	Accumulated amortisation (Unaudited) RMB	Beginning of period RMB	Additions (Unaudited) RMB	Transfer out (Unaudited) RMB	Amortisation (Unaudited) RMB	End of period (Unaudited) RMB	Remaining years of amortisation (year)	Source of financing
Trademarks	100,000,000	24,999,967	76,250,033	-	-	1,250,000	75,000,033	30.5	Injection by shareholders
Land use rights	87,975,035	17,953,887	71,371,312	-	(563,667)	786,497	70,021,148	40.5	Acquisition
Others	5,869,049	955,527	4,546,224	644,000	-	276,702	4,913,522	0-8.5	Acquisition
Total	193,844,084	43,909,381	152,167,569	644,000	(563,667)	2,313,199	149,934,703		

As at 30th June 2003, approximately RMB7,800,000 of land use right has to be sold to the original seller at cost if it is sold in the coming year.

As at 30th June 2003, the land use rights certificates ("Land Certificates") for certain lands of the Group with respective carrying value of approximately RMB34,762,000 (31st December 2002: RMB42,484,000) had not yet been obtained. After consultation with the Company's legal adviser, the Company's directors consider that there is no legal restriction for the Group to apply for and obtain the Land Certificates and there will not be significant impact on the daily operation of the Group. Accordingly, no provision for intangible assets impairment was considered necessary.

In addition, as at 30th June 2003, the operating facilities of certain subsidiaries of the Group were located on parcels of allocated land ("Allocated Land") owned by certain local municipal governments. As at 30th June 2003, the carrying values of the associated buildings and facilities constructed thereon were approximately RMB136,587,000 (31st December 2002: RMB121,952,000). The Group is now applying for the transfer of the legal title of these Allocated Land to the Group.

In the opinion of the Company's directors, the underlying value of the intangible assets was not less than its carrying value in the books of the Company as at 30th June 2003.

19 LONG-TERM DEFERRED ASSETS

(a) Group

Items	Original cost	Accumulated	Beginning	Additions	Amortisation	End of period	Remaining
	(Unaudited) RMB	amortisation (Unaudited) RMB	of period RMB	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) RMB	years of amortisation (year)
Xian Company Technological upgrading expenditure	2,127,681	972,659	1,097,026	156,553	(98,557)	1,155,022	3.5
Anqiu Company building use rights	1,570,681	745,769	916,230	–	(91,318)	824,912	9.5
Yingcheng Company technological upgrading expenditure	2,000,000	1,166,690	1,033,314	–	(200,004)	833,310	3.5
Others	5,022,906	1,507,607	3,780,335	226,669	(491,705)	3,515,299	0.5-8.5
Total	10,721,268	4,392,725	6,826,905	383,222	(881,584)	6,328,543	

(b) Company

Items	Original cost	Accumulated	Beginning	Additions	Amortisation	End of period	Remaining
	(Unaudited) RMB	amortisation (Unaudited) RMB	of period RMB	(Unaudited) RMB	(Unaudited) RMB	(Unaudited) RMB	years of amortisation (year)
Advertising expenses	3,000,000	625,000	2,525,000	–	(150,000)	2,375,000	7.5
Others	504,101	99,301	455,400	–	(50,600)	404,800	8.5
Total	3,504,101	724,301	2,980,400	–	(200,600)	2,779,800	

20 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 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Secured loans	48,000,000	68,798,775	–	–
Guaranteed loans				
– by related parties	125,000,000	875,005,661	100,000,000	355,515,661
– by the Company	1,005,578,386	804,990,000	–	–
– by minority shareholders of subsidiaries	125,000,000	125,000,000	–	–
Loans on credit	497,152,757	905,741,287	212,563,485	626,000,000
Total	1,800,731,143	2,779,535,723	312,563,485	981,515,661
Short-term loans	1,724,548,528	2,669,481,347	280,000,000	946,000,000
Current portion of long-term bank loans	76,182,615	110,054,376	32,563,485	35,515,661
Total	1,800,731,143	2,779,535,723	312,563,485	981,515,661

As at 30th June 2003, the Group had no short-term loans which were overdue but had not yet been repaid.

20 LOANS (CONT'D)

(b) Long-term bank loans

Type	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Guaranteed loans	58,594,000	48,218,934	44,094,000	48,218,934
Loans on credit	27,738,902	42,424,586	–	–
	<u>86,332,902</u>	<u>90,643,520</u>	<u>44,094,000</u>	<u>48,218,934</u>

Repayment term analysis:

Loan terms	Group			Company		
	Bank loans			Bank loans		
	Foreign currency balances	Exchange rate	RMB equivalents	Foreign currency balances	Exchange rate	RMB equivalents
Maturity within one to two years						
– Denmark Francs	400,000	1.2754	510,166			–
– Euro	158,618	9.4553	1,499,777			–
– RMB			29,530,000			20,530,000
Maturity within two to three years						
– Denmark Francs	400,000	1.2754	510,166			–
– Euro	158,618	9.4553	1,499,777			–
– RMB			24,520,000			19,220,000
Maturity within three to five years						
– Denmark Francs	800,000	1.2754	1,020,332			–
– Euro	317,235	9.4553	2,999,554			–
– RMB			4,344,000			4,344,000
Maturity over five years						
– Denmark Francs	5,400,000	1.2754	6,887,243			–
– Euro	1,354,995	9.4553	12,811,887			–
– RMB			200,000			–
Total			<u>86,332,902</u>			<u>44,094,000</u>

20 LOANS (CONT'D)

- (c) Pursuant to the debt restructure agreements or acquisition agreements of certain subsidiaries, the interest charge on the Group's and the Company's loans of approximately RMB72,660,000 (31st December 2002: RMB89,368,000) and RMB71,358,000 (31st December 2002: RMB71,368,000) respectively were waived. The remaining loans bear interest at rates ranging from interest-free to 7.25% per annum (31st December 2002: interest-free to 7.25%).

Loans of the Group and the Company amounting to approximately RMB125,000,000 (31st December 2002: RMB875,006,000) and RMB100,000,000 (31st December 2002: RMB355,516,000) were guaranteed by a related company. In addition, loans of the Group amounting to approximately RMB125,000,000 (31st December 2002: RMB125,000,000) are guaranteed by certain minority shareholders of subsidiaries.

Approximately RMB1,005,578,000 (31st December 2002: RMB804,990,000) of the Group's loans are guaranteed by the Company.

Approximately RMB48,000,000 (31st December 2002: RMB68,799,000) of the Group's loans are secured by land use rights, buildings, plant and machinery, motor vehicles and other equipment with an aggregate carrying value of approximately RMB22,685,000 (31st December 2002: RMB194,329,000).

Most of the banking financing of the Group is in the form of short-term bank loans. As a result, the Group had net current liabilities of approximately RMB1,650,822,000 (31st December 2002: RMB2,113,180,000) as at 30th June 2003. The board of directors of the Company is confident that the Group will be able to renew its short-term facilities upon maturity or to identify new sources of financing to replace the existing short-term facilities. Besides, as mentioned in Note 25, the Company had received part of the proceeds from issuance of convertible bonds to A-B Company of approximately HK\$907,920,000 (equivalent to approximately RMB963,575,000) in 2003 and the remaining proceeds of approximately HK\$508,275,000 (equivalent to approximately RMB539,433,000) will be received in the second half of 2003 and in year 2004. The upcoming proceeds can further reduce the net current liabilities of the Group.

21 BILLS PAYABLE

	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Commercial bills	75,680,901	145,316,251	50,310,000	124,375,903
Bank drafts	428,787,104	290,311,976	—	—
Total	<u>504,468,005</u>	<u>435,628,227</u>	<u>50,310,000</u>	<u>124,375,903</u>

22 ACCOUNTS PAYABLE, ADVANCE FROM CUSTOMERS, AND OTHER PAYABLES

The Group and the Company did not have any payable balances which were due to parties with 5% or above shareholdings in the Company. The increase in other payables in the current period was mainly due to outstanding consideration payable for acquisitions as at period end. The accounts payable and other payables aged over 3 years were mainly due to balances purchased upon acquisitions of subsidiaries. Advances from customers aged over 1 year were mainly deposits for purchases.

23 TAXES PAYABLE

Types of tax payable	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
	Value added tax			
Unutilised input VAT credit, end of period/year	(11,575,612)	(13,694,161)	(275,279)	(604,329)
VAT payable, end of period/year	<u>68,997,626</u>	<u>15,820,664</u>	<u>19,905,891</u>	<u>(2,462,560)</u>
VAT payable, net	57,422,014	2,126,503	19,630,612	(3,066,889)
Consumption tax payable	160,757,108	111,163,002	11,086,468	7,078,821
Enterprise income tax payable	8,442,164	2,884,790	(2,046,769)	(4,450,281)
City construction tax payable	10,220,941	2,139,196	2,143,489	29,159
Hong Kong profits tax payable	63,872	275,849	–	–
Others	1,628,552	898,318	44,363	(2,771,324)
Total	<u>238,534,651</u>	<u>119,487,658</u>	<u>30,858,163</u>	<u>(3,180,514)</u>

24 ACCRUALS

Particulars	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
	Selling & transportation expenses	59,697,422	17,893,907	5,612,547
Audit fee	2,915,000	4,960,170	2,915,000	4,960,170
Repairs and maintenance	26,789,559	3,915,188	6,285,258	592,069
Utilities	7,570,336	3,275,586	441,798	–
Interest expense	7,660,877	1,367,031	3,318,695	–
Import duties on materials	916,278	916,278	916,278	916,278
Others	43,531,037	13,865,102	4,409,061	601,108
Total	<u>149,080,509</u>	<u>46,193,262</u>	<u>23,898,637</u>	<u>10,383,517</u>

25 CONVERTIBLE BONDS

(a) Convertible bonds

Type	Face value RMB	Date of issue	Period	30th June 2003 (Unaudited) RMB
Mandatory convertible bonds	963,575,496	1st April 2003	7 years	963,575,496

(b) Bond interests

Type	Interest payable for the period (Unaudited) RMB	Accumulated interest paid (Unaudited) RMB	Interest payable as of period end (Unaudited) RMB
Mandatory convertible bonds	3,318,695	–	3,318,695

On 21st October 2002, the Company and Anheuser-Busch Companies, Inc (“A-B Company”), a shareholder of H Shares, entered into the Strategic Investment Agreement, pursuant to which A-B Company is obliged to subscribe for 3 tranches of mandatory convertible bonds (“CB”) to be issued by the Company in an aggregate principal amount of approximately HK\$1,416,195,000 (equivalent to approximately RMB1,503,008,000), commencing from 2003. The CB were/can be converted into 308,219,178 new H Shares issued by the Company as follows:

25 CONVERTIBLE BONDS (CONT'D)

(b) Refundable bond interests (Cont'd)

Tranche I of the CB ("Tranche I")

The total subscription amount of Tranche I is HK\$280,800,000 (equivalent to approximately RMB298,013,000) which was issued to the order of A-B Company in April 2003. Tranche I was converted into 60,000,000 new H shares issued by the Company at HK\$4.68 (equivalent to approximately RMB4.96) per share on 2nd July 2003. Tranche I is interest-free.

Tranche II of the CB ("Tranche II")

The total subscription amount of Tranche II is HK\$627,120,000 (equivalent to approximately RMB665,562,000) which was issued to A-B Company in April 2003 concurrently with the issuance of Tranche I. Tranche II can be converted into 134,000,000 newly issued H shares at HK\$4.68 (equivalent to approximately RMB4.96) per share within 7 years after the issuance. The CB will be automatically converted at the end of the seven-year conversion period ("Expiry Date") if A-B Company does not trigger the conversion before the Expiry Date. Tranche II is interest-bearing at 2% per annum. A-B Company will refund all the interests received as well as all related deductions or withholdings associated with the interest payments made by the Company upon conversion.

As at the date of approval of the report, A-B Company has not exercised its conversion right.

Tranche III of the CB ("Tranche III")

The total subscription amount of Tranche III is HK\$508,275,000 (equivalent to approximately RMB539,433,000) which will be issued to A-B Company in several instalments in the second half of 2003 and in 2004. Tranche III will be converted into 114,219,178 newly issued H shares at HK\$4.45 (equivalent to approximately RMB4.72) per share within 7 years after the payment of the subscriptions. The CB will be automatically converted at the end of the Expiry Date if A-B Company does not trigger the conversion before the Expiry Date. Tranche III is interest-bearing at 2% per annum. A-B Company will refund all the interests received as well as all related deductions or withholdings associated with the interest payments made by the Company upon conversion.

As at the date of approval of the report, the Company has not issued any part of Tranche III to A-B Company.

Upon the conversion of each of Tranche I, Tranche II and Tranche III, the percentage shareholding of Qingdao State-Owned Assets Administration Bureau ("Qingdao Bureau"), the existing substantial shareholder of the Company, will decrease from approximately 40.0% to approximately 37.7%, 33.5% and 30.6%, respectively, whereas the holding of A-B Company in the Company will increase from approximately 4.5% to 9.9%, 20.0% and 27.0%, respectively. However, the additional 7% of the shareholding held by A-B Company after the conversion of Tranche III will be subject to a voting trust arrangement in favour of Qingdao Bureau whereby A-B Company will enjoy the economic benefits associated with the shares but Qingdao Bureau can exercise the respective voting rights at its sole discretion. Accordingly, Qingdao Bureau, through the trustee, will be entitled to exercise the voting rights attached to such 7% shareholding at general meetings of holders of state shares and PRC legal person shares and PRC public shares (H shares) class meetings of the Company.

26 SHARE CAPITAL

By a special resolution passed on 23rd January 2003, the authorised registered ordinary share capital was increased from RMB1,000,000,000 to RMB1,308,219,178 by the creation of 308,219,178 new H shares of RMB1 each.

The issued and fully paid share capital of the Company is RMB1,000,000,000 (31st December 2002: RMB1,000,000,000) divided into 1,000,000,000 (31st December 2002: 1,000,000,000) ordinary shares of RMB1 each. A summary of the share capital is set out below:

	30th June 2003 (Unaudited)		31st December 2002	
	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>

27 CAPITAL RESERVE

(a) Group

	Beginning balance	Increase	Decrease	Ending balance
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Share premium	1,549,707,662	–	–	1,549,707,662
Surplus on revaluation of fixed assets	6,304,398	–	–	6,304,398
Donations received	4,238,603	–	–	4,238,603
Forfeited payables balances of subsidiaries	10,903,866	237,500	–	11,141,366
Others	4,817,221	–	–	4,817,221
Total	<u>1,575,971,750</u>	<u>237,500</u>	<u>–</u>	<u>1,576,209,250</u>

(b) Company

	Beginning balance	Increase	Decrease	Ending balance
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Share premium	1,549,707,662	–	–	1,549,707,662
Surplus on revaluation of fixed assets	56,043,498	–	–	56,043,498
Donations received	4,238,603	–	–	4,238,603
Forfeited payables balances of subsidiaries	10,903,866	237,500	–	11,141,366
Others	4,817,221	–	–	4,817,221
Total	<u>1,625,710,850</u>	<u>237,500</u>	<u>–</u>	<u>1,625,948,350</u>

28 RESERVES

(a) Group

	Beginning balance	Current period appropriation	Current period reduction	Ending balance
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Surplus reserve	162,654,576	–	–	162,654,576
Public welfare fund	129,569,582	–	–	129,569,582
Total	<u>292,224,158</u>	<u>–</u>	<u>–</u>	<u>292,224,158</u>

(b) Company

	Beginning balance	Current period appropriation	Current period reduction	Ending balance
	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>	<i>(Unaudited)</i>
	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>	<i>RMB</i>
Surplus reserve	126,752,841	–	–	126,752,841
Public welfare fund	97,483,620	–	–	97,483,620
Total	<u>224,236,461</u>	<u>–</u>	<u>–</u>	<u>224,236,461</u>

29 UNAPPROPRIATED PROFITS

	Group		Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB (Note 45)	30th June 2003 (Unaudited) RMB	31st December 2002 RMB (Note 45)
Unappropriated profits, as previously reported	108,828,477	179,964,360	163,428,623	204,825,341
Net income effect of prior year adjustments	220,000,000	110,000,000	220,000,000	110,000,000
Unappropriated profits brought forward, after retrospective prior year adjustments	328,828,477	289,964,360	383,428,623	314,825,341
Add: Net profit for period/year	116,403,284	230,657,385	111,889,417	223,254,102
Less: profit appropriation to surplus reserve	–	(42,804,520)	–	(22,325,410)
Less: profit appropriation to public welfare fund	–	(38,988,748)	–	(22,325,410)
Less: Dividends	(220,000,000)	(110,000,000)	(220,000,000)	(110,000,000)
Unappropriated profits carried forward	<u>225,231,761</u>	<u>328,828,477</u>	<u>275,318,040</u>	<u>383,428,623</u>

30 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.

(b) Geographical segment

	Group	
	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Turnover		
Qingdao region	1,082,293,059	995,417,896
Other Shandong region	607,474,545	522,773,589
Hua Bei China region	922,265,465	811,254,205
Hua Nan China region	1,243,984,922	1,198,595,585
Overseas	229,574,634	129,982,428
Sub-total	4,085,592,625	3,658,023,703
Intra-segment elimination	(250,130,590)	(141,295,560)
Total	<u>3,835,462,035</u>	<u>3,516,728,143</u>
Cost of sales		
Qingdao region	644,834,569	566,702,745
Other Shandong region	405,880,435	350,996,831
Hua Bei China region	599,990,960	509,913,048
Hua Nan China region	749,224,005	709,526,441
Overseas	137,861,962	76,024,294
Sub-total	2,537,791,931	2,213,163,359
Inter-segment elimination	(250,130,590)	(141,295,560)
Total	<u>2,287,661,341</u>	<u>2,071,867,799</u>

30 TURNOVER AND COST OF SALES (CONT'D)

(b) Geographical segment (Cont'd)

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 Qingdao region.

For the six months ended 30th June 2003, sales made to the five largest customers of the Group and the Company amounting to approximately RMB350,842,000 and RMB277,427,000, respectively, being 9.15% and 21.48% of the turnover of the Group and the Company (for the six months ended 30th June 2002: RMB235,467,000 and RMB171,536,000, being 6.7% and 15.7%, respectively).

31 SALES TAXES AND SURCHARGES

Types	Basis of accrual	Group		Company	
		For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Consumption tax	Refer to note 37(iv)	349,860,509	309,470,158	52,785,141	53,066,916
City construction tax	Refer to note 37(iii)	34,850,949	32,281,092	9,144,945	9,799,577
Others		17,588,241	21,856,358	3,889,312	4,375,474
Total		<u>402,299,699</u>	<u>363,607,608</u>	<u>65,819,398</u>	<u>67,241,967</u>

32 PROFIT FROM OTHER OPERATIONS

	Group		Company	
	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Income from other operations				
Sale of materials	1,732,219	4,443,944	196,623,320	44,146,359
Sale of scraps	7,055,163	6,277,491	632,458	582,903
Others	10,607,925	17,270,909	2,285,195	4,536,794
Sub-total	<u>19,395,307</u>	<u>27,992,344</u>	<u>199,540,973</u>	<u>49,266,056</u>
Cost of other operations				
Sale of materials	3,050,581	6,159,558	197,520,028	46,226,836
Sale of scraps	1,477,414	1,201,441	632,458	599,871
Others	7,621,879	11,257,306	714,572	1,064,020
Sub-total	<u>12,149,874</u>	<u>18,618,305</u>	<u>198,867,058</u>	<u>47,890,727</u>
Profit from other operations	<u>7,245,433</u>	<u>9,374,039</u>	<u>673,915</u>	<u>1,375,329</u>

33 FINANCE EXPENSES, NET

	Group		Company	
	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Interest expense	(67,848,827)	(77,310,179)	(20,768,265)	(30,583,159)
Interest income - subsidiaries	–	–	–	1,005,194
Interest income - others	6,055,230	6,433,640	1,400,634	1,612,630
Exchange differences, net	(3,276,186)	(1,490,626)	(1,478,440)	(1,470,939)
Others	(1,932,126)	(1,274,685)	(2,836,903)	(194,401)
Total	<u>(67,001,909)</u>	<u>(73,641,850)</u>	<u>(23,682,974)</u>	<u>(29,630,675)</u>

The capitalised borrowing costs for the Group amounted to approximately RMB587,000 in the current period (for the six months ended 30th June 2002: RMB2,260,000) (Note 17). The Company has no capitalised borrowing costs in the current period (for the six months ended 30th June 2002: Nil).

34 INVESTMENT INCOME

	Group		Company	
	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Equity share in profits of subsidiaries	–	–	(2,492,031)	36,717,082
Equity share in (losses) profits of associated companies	(3,318,885)	(2,842,713)	75,973	(1,733,200)
Income from debt investments	983,652	983,652	983,652	983,652
Amortisation of investment differences	11,737,678	12,547,908	8,376,914	9,187,138
Others	21,112	(101,156)	–	–
Total	<u>9,423,557</u>	<u>10,587,691</u>	<u>6,944,508</u>	<u>45,154,672</u>

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

35 SUBSIDY INCOME

During the process of the acquisitions of certain subsidiaries of the Group in the current period and prior years, the Group entered into various agreements with the relevant municipal governments. Under the terms of these agreements, these subsidiaries can enjoy various financial incentives granted by the relevant municipal governments, including financial subsidies determined based on the amounts of various taxes paid by the subsidiaries.

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.

36 NON-OPERATING INCOME AND EXPENSES

	Group		Company	
	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Non-operating income				
Gain on disposal of fixed assets	1,491,424	426,750	187,106	20,000
Others	2,188,030	2,556,442	413,677	155,148
Total	3,679,454	2,983,192	600,783	175,148
Non-operating expenses				
Loss on disposal of fixed assets	5,948,642	1,440,816	869,314	224,137
Provision for impairment of fixed assets	24,001,718	26,871,725	–	8,000,000
Others	5,465,504	2,947,220	2,671,214	387,006
Total	35,415,864	31,259,761	3,540,528	8,611,143

37 TAXATION

	Group		Company	
	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
PRC Enterprise Income Tax (i)	54,437,013	54,937,992	19,511,684	22,698,323
Hong Kong profits tax (ii)	478,130	494,619	–	–
Write-off of deferred tax assets	–	2,974,562	–	2,974,562
Total	54,915,143	58,407,173	19,511,684	25,672,885

(i) PRC Enterprise Income Tax

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

In accordance with an approval document dated 18th April 1994 issued by the State Administration for Taxation, 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 (“Sanshui Company”), Tsingtao Brewery (Chenzhou) Company Limited and Shenzhen Tsingtao Beer Asahi Company Limited (“Shenzhen Company”) are 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.

Shenzhen Tsingtao Brewery Sales Company Limited is exempted from EIT for the first year starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction for the next two years.

Tsingtao Brewery (Zhuhai) Company Limited and Tsingtao Brewery (Xiamen) Company Limited are established and operated in the Zhuhai and Xiamen Special Economic Zones, respectively, accordingly, they are subject to EIT at a rate of 15%.

Sanshui Company, which is approved as a foreign invested enterprise and operated in Sanshui, is subject to EIT at a rate of 24%.

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

37 TAXATION (CONT'D)

(ii) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (30th June 2002: 16%) on the estimated assessable profit for the period.

(iii) Value-added tax ("VAT")

According to the PRC value-added tax temporary 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 for city construction tax ("CCT") and educational surcharge ("ES") based on 7% and 3% of net VAT amount payable, respectively.

(iv) Consumption tax

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, the consumption tax remains at RMB220 per ton.

38 DIVIDENDS

During the period, the company's shareholders approved the payment of a final dividend of RMB220,000,000 for 2002 at the annual general meeting (RMB0.22 per share). The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2003 (six months ended 30th June 2002: Nil).

	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Dividend paid	<u>87,782,000</u>	—
Dividends proposed and declared 2002 final: RMB0.22 per share (2001 final: RMB0.11 per share)	<u>220,000,000</u>	<u>110,000,000</u>

The final dividends for 2002 of RMB0.22 per share was proposed on 2nd April 2003. As at 30th June 2003, the dividend distribution progress has not been completed.

39 PRIOR YEAR ADJUSTMENTS

Prior to 1st January 2003, the Group recognised the proposed dividend declared after the balance sheet date as a liability. According to the Accounting Standards for Business Enterprises "Event After the Balance Sheet Date (2003 revised)"- Caikuai [2003]. No. 12 issued by the Ministry of Finance of the PRC, dividends payable to holders of equity instruments which are proposed or declared after the balance sheet date should not be recognised as a liability of an enterprise as at the balance sheet date. This change in accounting policy has been applied retrospectively.

40 RELATED PARTY TRANSACTIONS

Related party relationship mainly refers to:

- a. 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;
- b. Joint ventures;
- c. Associated companies;
- d. Major investors, key management or their close family members;
- e. 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 5.

40 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.	Certain common directors and common major shareholder
Tsingtao Brewery Shi Ye Co., Ltd.	Certain common directors and common major shareholder
Tsingtao Brewery Real Estate Co., Ltd.	Certain common directors and common major shareholder
Tsingtao Brewery Engineering Co., Ltd.	Certain common directors and common major shareholder
Tsingtao Brewery Advertising Co., Ltd.	Certain common directors and common major shareholder
Tsingtao Brewery Trading Co., Ltd.	Certain common directors and common major shareholder
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
Jiangsu Pexian State Owned Operations Centre	Minority shareholder of a subsidiary
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
Zhuhai Doumen Huang Mei Enterprise Group Company	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
Liaoling Shenqing Tsingtao Brewery Sales Company Limited	Associated company
Tsingtao Brewery (Nanning) Company Limited	Associated company
Tsingtao Brewery (Zhangzhou) Company Limited	Same directors
None of the above related companies own shares in the Company during the period.	

40 RELATED PARTY TRANSACTIONS (CONT'D)

- (a) For the six months ended 30th June 2003, the Group had the following material transactions with related and associated companies:

	For the six months ended 30th June 2003 <i>(Unaudited)</i> RMB	For the six months ended 30th June 2002 <i>(Unaudited)</i> RMB
Included in turnover:		
Tsingtao Brewery (Yangzhou) Company Limited	47,768	621,920
Liaoling Shenqing Tsingtao Brewery Sales Company Limited	<u>40,582,785</u>	<u>-</u>
Total	<u><u>40,630,553</u></u>	<u><u>621,920</u></u>
Included in cost of sales:		
Tsingtao Brewery Trading Co., Ltd.	6,281,831	8,317,851
Shandong Weifang Lanzai Brewery Company Limited	<u>180,975</u>	<u>1,660,344</u>
Total	<u><u>6,462,806</u></u>	<u><u>9,978,195</u></u>
Advertising services provided by a related company:		
Tsingtao Brewery Advertising Co., Ltd.	<u>470,633</u>	<u>-</u>
Equipment installation services provided by a related company:		
Tsingtao Brewery Engineering Co., Ltd.	<u>79,800</u>	<u>155,794</u>
Guarantees provided by related companies for the Group's bank loans:		
Asahi Breweries Limited, Itochu Corporation, Sumikin Bussan Corporation	125,000,000	125,000,000
Tsingtao Brewery Group Co., Ltd.	<u>125,000,000</u>	<u>912,080,000</u>
Total	<u><u>250,000,000</u></u>	<u><u>1,037,080,000</u></u>

Tsingtao Brewery Group Co., Ltd., has provided a guarantee for the accounts receivable repayment plan of RMB105,000,000 due from a customer and a related company. As at 30th June 2003, approximately RMB92,561,000 was still outstanding, please refer to Notes 9 and 40(b).

40 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 30th June 2003, the Group had the following significant current balances with related and associated companies:

	Group			Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	Maximum balance for the period RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Included in short-term investment (entrusted loans) (Note (i)):					
Amounts due from subsidiaries	–	–	–	892,219,041	230,835,817
Tsingtao Brewery (Yangzhou) Company Limited	66,450,000	76,490,000	76,490,000	66,450,000	76,490,000
Total	66,450,000	76,490,000	76,490,000	958,669,041	307,325,817
Included in accounts receivable and long-term accounts receivable:					
Amounts due from subsidiaries	–	–	–	202,360,187	96,231,163
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd. (Note (a))	92,560,810	92,560,810	92,560,810	92,560,810	92,560,810
Beijing Tsingtao Brewery General Agency Co., Ltd.	11,245,784	11,245,784	11,245,784	11,245,784	11,245,784
Tsingtao Brewery Shi Ye Co., Ltd. Tsingtao Brewery (Yangzhou) Company Limited	386,973	156,652	386,973	386,973	156,652
Total	105,280,417	105,050,096	105,349,451	307,640,604	201,281,259
Included in other receivables:					
Amounts due from subsidiaries	–	–	–	223,736,696	494,184,883
Ou Mei Investment Holding Co., Ltd.	2,000,000	2,000,000	2,000,000	–	2,000,000
Tsingtao Brewery Shi Ye Co., Ltd.	208,373	19,061,291	19,061,291	208,373	19,061,291
Xian Hans Beverages Co., Ltd.	66,104	55,167	66,104	–	–
Tsingtao Brewery (Yangzhou) Co., Limited	–	6,544	6,544	–	6,544
Tsingtao Brewery Advertising Co., Ltd.	3,329,517	–	3,329,517	10,777	–
Tsingtao Brewery Group Company Limited	5,000,000	–	5,000,000	–	–
Tsingtao Brewery Engineering Co., Ltd.	100,374	1,538,070	1,635,451	100,374	1,538,070
Tsingtao Brewery Trading Co., Ltd.	2,938,525	2,938,525	2,938,525	2,938,525	2,938,525
Fuzhou Brewery (Singapore) Private Company Ltd.	5,679	–	5,679	5,679	–
Tsingtao Brewery (Zhangzhou) Company Limited	11,500,000	11,500,000	11,500,000	11,500,000	11,500,000
Zhuhai Doumen Huang Mei Enterprise Group Company	5,000,000	5,000,000	5,000,000	–	–
Tsingtao Brewery Real Estate Co., Ltd.	10,000,000	5,000,000	10,000,000	10,000,000	5,000,000
Total	40,148,572	47,099,597	60,543,111	248,500,424	536,229,313

40 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 30th June 2003, the Group had the following significant current balances with related and associated companies: (Cont'd)

	Group			Company	
	30th June 2003 (Unaudited) RMB	31st December 2002 RMB	Maximum balance for the period RMB	30th June 2003 (Unaudited) RMB	31st December 2002 RMB
Included in prepayments and deposits:					
Tsingtao Brewery (Zhangzhou) Company Limited	259,078	–	1,114,801	–	–
Included in advances from customers:					
Advances from subsidiaries	–	–	–	226,526	2,460,198
Liaoling Shenqing Tsingtao Brewery Sales Company Limited	148,577	–	4,478,939	148,577	–
Total	148,577	–	4,478,939	375,103	2,460,198
Included in other payables:					
Amounts due to subsidiaries	–	–	–	17,695,651	21,726,457
Tsingtao Brewery Engineering Co., Ltd	656,498	967,023	967,023	–	–
Tsingtao Brewery Group Co., Ltd.	39,577	2,580,320	2,580,320	39,577	2,580,320
Tsingtao Brewery Real Estate Co., Ltd.	–	8,930	8,930	–	8,930
Jiangsu Peixian State Owned Operations Centre	1,028,000	1,028,000	1,028,000	–	–
Beijing Asia Shuang He Sheng Five Star Beer Co., Ltd.	25,972,083	26,472,083	26,472,083	–	–
Total	27,696,158	31,056,356	31,056,356	17,735,228	24,315,707
Included in accounts payable:					
Amounts due to subsidiaries	–	–	–	59,372,598	6,107,784
Tsingtao Brewery Trading Co., Ltd.	978,603	591,650	3,187,751	978,603	591,650
Tsingtao Brewery Shi Ye Co., Ltd.	1,228,548	89,686	1,228,548	1,218,048	40,886
Sichuan Huo Ju Hua Gong Co., Ltd.	702,446	282,904	704,446	–	–
Tsingtao Brewery Engineering Co., Ltd.	943,071	271,265	943,071	–	–
Total	3,852,668	1,235,505	6,063,816	61,569,249	6,740,320

Except for the amount mentioned in (a), the Group's and the Company's current balances with related parties are unsecured, non-interest bearing and have no fixed repayment term.

(i) As at 30th June 2003, the Company had provided approximately RMB892,219,000 (31st December 2002: RMB230,836,000) and RMB66,450,000 (31st December 2002: RMB76,490,000) entrusted loans to the subsidiaries and an associated company, respectively, through the Bank of Communications and The Industrial and Commercial Bank of China. All the entrusted loans are unsecured and they will mature within one year.

40 RELATED PARTY TRANSACTIONS (CONT'D)

- (c) As detailed in Note 5, the equity transfer process of Tsingtao Brewery (Nanning) Company Limited ("Nanning Company") was still in progress as at 30th June 2003. For the period ended 30th June 2003, the Group had the following material transactions with Nanning Company:

	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Included in Turnover	4,828,100	2,992,458
Included in Cost of sales	119,355,088	60,228,326

As at 30th June 2003, the current balances between the Group and Nanning Company were as follows:

	Maximum balance for the period	30th June 2003 (Unaudited)	31st December 2002 (Unaudited)
Included in accounts receivables	4,065,600	3,150,600	2,148,310
Included in accounts payables	4,611,675	-	4,611,675
Included in other receivables	66,201,494	66,201,494	66,201,494

41 NOTES TO CASH FLOW STATEMENTS

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

Type of payment	Group		Company	
	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB	For the six months ended 30th June 2003 (Unaudited) RMB	For the six months ended 30th June 2002 (Unaudited) RMB
Advertising expenses	217,983,277	151,590,045	23,360,281	22,743,166
Transportation expenses	42,740,357	63,695,756	1,927,522	9,800,177
Payments for manufacturing expenses, selling expenses and others	370,509,217	380,187,602	109,861,393	320,128,607
Total	<u>631,232,851</u>	<u>595,473,403</u>	<u>135,149,196</u>	<u>352,671,950</u>

42 CONTINGENT LIABILITIES

- (a) Pursuant to the related policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, the policy of allocating staff quarters as a staff welfare was terminated. In replacement, qualified employees are to be compensated in the form of monetary housing subsidies ("Housing Reform"). As at 31st December 2002, no formal plan has yet been developed by the Group and the Company have not announced any plans to their employees in respect of the arrangements. After seeking legal advice, the Company's board of 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 2003.

The Ministry of Finance issued Document Caikuai [2000] No. 295 on 6th September 2000 which became effective on the same date. The document prescribes the accounting treatments in relation to the Housing Reform. The Company's board of directors have studied the document and believe that such stipulations do not have any, material adverse impact on the Group and the Company, except for the potential impact of the housing subsidies mentioned above which could not be reasonably estimated.

- (b) In November 2001, a distributor of the products of the Company ("the Claimant") filed a lawsuit with the 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 RMB 134,870,000. The Company denied the claim and it also filed a counter claim against the Claimant for delayed settlement of the outstanding receivable balances arising from sale of goods to the Claimant. In addition, the Company also demanded for a termination of the Contract, repayment of the outstanding receivable balance, as well as return of certain motor vehicles and beer-selling machinery provided to the Claimant by the Company before. As of the date of approval of these accounts 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 it is pre-mature to conclude on the final outcome at this stage. However, they are confident that it is not expected to lead to any material negative impact on the operating results of the Group and the Company.

43 COMMITMENTS

As at 30th June 2003, the Group and the Company had no capital commitments which were authorised but not contracted and provided for:

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

	Group		Company	
	30th June 2003 (Unaudited) RMB'000	31st December 2002 RMB'000	30th June 2003 (Unaudited) RMB'000	31st December 2002 RMB'000
Capital commitments				
– Construction projects	83,782	94,561	24,654	28,739
– Investments and acquisitions	48,000	98,000	48,000	98,000
	<hr/>	<hr/>	<hr/>	<hr/>
Sub-total	131,782	192,561	72,654	126,739
Expense commitments				
(Advertising expense)	4,300	–	4,300	–
Operating lease commitments payable less than one year	470	151	–	151
	<hr/>	<hr/>	<hr/>	<hr/>
Total	<u>136,552</u>	<u>192,712</u>	<u>76,954</u>	<u>126,890</u>

44 SIGNIFICANT SUBSEQUENT EVENTS

As detailed in Note 25, in July 2003, A-B Company exercised its right to convert the Tranche I of the CB and the Company issued 60,000,000 new H shares to the order of A-B Company in accordance with the Strategic Investment Agreement signed on October 2002. The conversion price for the Tranche I was fixed at HK\$4.68 (equivalent to approximately RMB4.96) per H Share.

45 COMPARATIVE FIGURES

The Group has prepared the accounts in accordance with the Accounting Standards for Business Enterprises “Events After the Balance Sheet Date” (2003 revised) (Caikuai [2003] No. 12) issued by the Ministry of Finance of the PRC. This has resulted in changes in the presentation of certain items and comparative financial information has been restated accordingly.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
SUPPLEMENTARY INFORMATIONS (UNAUDITED)

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

(1) RETURN ON EQUITY AND EARNINGS PER SHARE INDEX

For the six months ended 30th June 2003

Profit for the period	Group				Company			
	Return on Equity		Earnings Per Share		Return on Equity		Earnings Per Share	
	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average
a. For the six months ended 30th June 2003 (Unaudited)								
Gross profit	37.02%	35.19%	1.1455	1.1455	13.51%	12.84%	0.4224	0.4224
Operating profit	5.94%	5.65%	0.1838	0.1838	4.08%	3.87%	0.1274	0.1274
Net profit	3.76%	3.58%	0.1164	0.1164	3.58%	3.40%	0.1119	0.1119
Net profit before extraordinary items	4.04%	3.84%	0.1249	0.1249	3.67%	3.49%	0.1148	0.1148
b. For the six months ended 30th June 2002 (Unaudited)								
Gross profit	35.02%	37.08%	1.0813	1.0813	12.15%	12.84%	0.3799	0.3799
Operating profit	6.78%	7.18%	0.2094	0.2094	3.40%	3.60%	0.1064	0.1064
Net profit	3.98%	4.21%	0.1228	0.1228	3.76%	3.97%	0.1175	0.1175
Net profit before extraordinary items	4.21%	4.45%	0.1299	0.1299	4.03%	4.26%	0.1259	0.1259

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

(2) ANALYSIS OF ASSET IMPAIRMENT LOSSES

(a) Group

Item	Beginning of period RMB	Additions (Unaudited) RMB	Write back/ set off (Unaudited) RMB	End of period (Unaudited) RMB
Accounts receivables	138,076,054	28,034,826	(26,588,418)	139,522,462
Other receivables	52,784,716	1,904,940	(1,484,982)	53,204,674
Long-term receivables	21,191,858	—	—	21,191,858
Total provision for bad debts	<u>212,052,628</u>	<u>29,939,766</u>	<u>(28,073,400)</u>	<u>213,918,994</u>
Raw materials	11,214,355	1,022,240	(66,979)	12,169,616
Finished goods	9,437,342	—	(1,007,422)	8,429,920
Other inventories	3,995,115	1,091,399	(186,341)	4,900,173
Total provision for diminution in value of inventories	<u>24,646,812</u>	<u>2,113,639</u>	<u>(1,260,742)</u>	<u>25,499,709</u>
Provision for diminution in value of long-term investments	<u>4,061,918</u>	—	—	<u>4,061,918</u>
Land and buildings	39,937,103	1,732,244	—	41,669,347
Plant and machinery	55,699,149	22,016,468	(11,019,897)	66,695,720
Motor vehicles	2,690,550	253,006	—	2,943,556
Total provision for impairment of fixed assets	<u>98,326,802</u>	<u>24,001,718</u>	<u>(11,019,897)</u>	<u>111,308,623</u>

(2) ANALYSIS OF ASSET IMPAIRMENT LOSSES (CONT'D)

(b) Company

Item	Beginning of period RMB	Additions (Unaudited) RMB	Write back/ set off (Unaudited) RMB	End of period (Unaudited) RMB
Accounts receivables	70,556,695	25,575,431	(19,225,337)	76,906,789
Other receivables	33,697,080	662,516	(837,807)	33,521,789
Long-term receivables	21,191,868	—	—	21,191,868
Total provision for bad debts	<u>125,445,643</u>	<u>26,237,947</u>	<u>(20,063,144)</u>	<u>131,620,446</u>
Raw materials	1,022,238	—	—	1,022,238
Total provision for diminution of inventories	<u>1,022,238</u>	<u>—</u>	<u>—</u>	<u>1,022,238</u>
Plant and machinery	8,000,000	—	(5,049,669)	2,950,331
Total provision for impairment of fixed assets	<u>8,000,000</u>	<u>—</u>	<u>(5,049,669)</u>	<u>2,950,331</u>

(3) RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HK GAAP

The Group has prepared a separate set of statutory accounts for the period ended 30th June 2003 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 2003 (Unaudited) RMB'000	31st December 2002 RMB'000
Net assets as per accounts prepared under PRC GAAP	3,094,128	3,197,354
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)
Additional depreciation charges under HK GAAP (b)	(95,664)	(89,924)
Amortisation of investment differences under PRC GAAP (c)	(52,221)	(46,153)
Other swap rate adjustments in 1993 (d)	(37,878)	(37,878)
Amortisation of deferred taxation and goodwill under HK GAAP (f)	(1,609)	(1,216)
Issuance of convertible bonds (g)	939,360	—
Others	(16,326)	(17,108)
Net assets as per accounts prepared under HK GAAP	<u>4,008,921</u>	<u>3,184,206</u>

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

Impact on the consolidated income statement:

	For the six months end 30th June 2003 (Unaudited) RMB'000	For the six months end 30th June 2002 (Unaudited) RMB'000
Profit attributable to shareholders under PRC GAAP	116,403	122,819
HK GAAP adjustments:		
Additional depreciation charges under HK GAAP (b)	(5,740)	(5,740)
Amortisation of investment differences under PRC GAAP (c)	(6,068)	(5,582)
Forfeited payable balances of subsidiaries (e)	238	—
Amortisation of deferred taxation and goodwill under HK GAAP (f)	(393)	(286)
Issuance of convertible bonds (g)	3,549	—
Others	780	1,820
	<u>108,769</u>	<u>113,031</u>
Profit attributable to shareholders under HK GAAP		

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

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

- (b) As a result of the different foreign exchange rates adopted in preparing the accounts of 1993 under HK GAAP and PRC GAAP, the cost of fixed assets denominated in foreign currencies acquired up to 31st December 1993 was different between the two sets of accounts. This has resulted in additional depreciation charge of RMB5,740,000 in the accounts prepared in accordance with HK GAAP in current period (For the six months ended 30th June 2002: RMB5,740,000).
- (c) Under PRC GAAP, the negative goodwill arising from the excess of the Group’s share of the net assets of the subsidiaries acquired over the acquisition costs is amortised into the profit and loss accounts over 10 years. Under HK GAAP, the negative goodwill recognised is amortised on a straight-line basis over the weighted average remaining useful lives of the identifiable depreciable assets acquired. As a result of the difference in accounting treatment, net income was reduced by approximately RMB6,068,000 (For the six months ended 30th June 2002: RMB5,582,000) under HK GAAP.
- (d) In 1993, foreign currencies transactions were translated into RMB at average official exchange rates 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 profit and loss accounts of the year. However, under HK GAAP, foreign currencies transactions are translated into RMB at the applicable Swap Center exchange rate prevailing on 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, exchange differences of RMB37,878,000 in 1993.
- (e) During the period, a subsidiary of the Company obtained waivers from creditors on certain payable balances of approximately RMB238,000 (For the six months ended 30th June 2002: Nil). Pursuant to the requirements under PRC GAAP, such amount was credited directly to reserves while the amount waived was recognised as other income under HK GAAP.

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

- (f) As a result of the implementation of the new HK SSAP 12 "Income Taxes", effective on accounting periods beginning on or after 1st January 2003, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The major impact of the adoption of SSAP 12 to the Group and the Company is the temporary differences on different fair values of fixed assets recognised during acquisitions of subsidiaries in the A Share and H Share accounts, and the related amounts of the deferred taxation and goodwill balances. Comparatives presented have been restated to conform to the change in accounting policy.

Due to the changes in the goodwill balance, the related amortisation charge recorded is different from the A Share accounts.

- (g) As noted in Note 25, on 21st October 2002, the Company and A-B Company, a shareholder of H shares, entered into a Strategic Investment Agreement, pursuant to which A-B is obliged to subscribe for 3 tranches of mandatory convertible bond ("CB") in an aggregate principal amount of HK\$1,416,195,000 (equivalent to approximately RMB1,503,008,000), commencing from 2003. The CB will be convertible into 308,219,178 new H Shares issued by the Company. A-B Company will refund all interest payment, computed based on face value of the CB, to the Company upon conversion.

On 1st April 2003, Tranche I and Tranche II of the CB had been issued to A-B Company with an aggregate principal amount of HK\$907,920,000 (equivalent to approximately RMB963,575,000), after deducting the net present value of the expected cash flow of refundable interests and related bond issuance transaction costs under HK GAAP. Pursuant to PRC GAAP requirements, the net principal amount of CB was recorded as a liability and the related interest paid/payable were expensed off when incurred which have reduced the net income of our A Share report. Under HK GAAP, the CB were recognised as shareholders' equity of the Group and the Company and the refundable interest paid/payable in each accounting period was recorded as a long-term receivable balance from A-B Company. As a result of the difference in the accounting treatments, net income was increased by approximately RMB3,549,000 (30th June 2002: Nil) under HK GAAP; and net assets were increased by approximately RMB939,360,000 (31st December 2002: Nil) under HK GAAP.

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONSOLIDATED PROFIT AND LOSS ACCOUNTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

(PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG)

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

	<i>Note(s)</i>	For the six months ended 30th June 2003 (Unaudited)	For the six months ended 30th June 2002 (Unaudited) (Note 31)
Turnover	3, 9, 27	3,433,162	3,162,548
Cost of sales	27	<u>(2,287,661)</u>	<u>(2,071,868)</u>
Gross profit		1,145,501	1,090,680
Other expenses, net		(2,420)	(4,015)
Distribution and selling expenses	27	(595,009)	(502,248)
General and administrative expenses		<u>(303,282)</u>	<u>(301,240)</u>
Operating profit	4	244,790	283,177
Finance costs	7	(64,530)	(77,310)
Share of losses of associated companies		<u>(3,319)</u>	<u>(2,843)</u>
Profit before taxation		176,941	203,024
Taxation	8	<u>(54,616)</u>	<u>(58,109)</u>
Profit after taxation		122,325	144,915
Minority interests		<u>(13,556)</u>	<u>(31,884)</u>
Profit attributable to shareholders	11	<u><u>108,769</u></u>	<u><u>113,031</u></u>
Dividends	10	<u><u>(220,000)</u></u>	<u><u>(110,000)</u></u>
Basic earnings per share	12	<u><u>RMB0.1088</u></u>	<u><u>RMB0.1130</u></u>
Fully diluted earnings per share	12	<u><u>RMB0.0991</u></u>	<u><u>N/A</u></u>

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2003

(PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG)

(EXPRESSED IN THOUSANDS OF RMB)

	<i>Note(s)</i>	30th June 2003 <i>(Unaudited)</i>	31st December 2002 <i>(Note 31)</i>
Assets			
Non-current assets			
Fixed assets, net	13	5,425,131	5,571,972
Construction-in-progress		347,687	208,575
Intangible assets, net	14	105,554	107,778
Long-term investments, net	26	54,771	55,163
Investments in associated companies	26	25,131	28,448
Goodwill	15	145,050	139,594
Negative goodwill	16	(103,313)	(108,435)
Deferred tax assets	22	12,420	12,628
Other long-term assets	17, 27	72,308	69,397
		6,084,739	6,085,120
		6,084,739	6,085,120
Current assets			
Cash and cash equivalents		1,007,320	762,166
Short-term bank deposits		28,000	29,000
Pledged bank deposits		35,509	63,205
Short-term investment		-	150
Bills receivable		65,364	65,899
Accounts receivable, net	17, 27	213,204	167,722
Deposits, prepayments and other receivables	27	509,638	491,121
Subsidies receivable		1,697	4,266
Inventories, net	18	1,373,229	1,223,807
		3,233,961	2,807,336
		3,233,961	2,807,336

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

AS AT 30TH JUNE 2003

(PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG)

(EXPRESSED IN THOUSANDS OF RMB)

	Note(s)	30th June 2003 (Unaudited)	31st December 2002 (Note 31)
Current liabilities			
Short-term bank loans	19, 27	1,724,549	2,669,481
Current portion of long-term bank loans	19, 27	76,182	110,054
Accounts payable	21, 27	788,633	651,513
Bills payable		504,468	435,628
Advances from customers	27	158,751	147,983
Accruals		169,081	46,193
Taxes payable		238,535	119,488
Dividends payable to minority shareholders of subsidiaries		16,983	–
Other payables	27	802,553	749,384
Dividends payable		132,218	–
		<u>4,611,953</u>	<u>4,929,724</u>
Net current liabilities	19	<u>(1,377,992)</u>	<u>(2,122,388)</u>
Total assets less current liabilities	19	<u>4,706,747</u>	<u>3,962,732</u>
Long-term liabilities			
Long-term bank loans	19, 27	86,333	90,644
Other long-term liabilities		11,575	–
Deferred tax liabilities	22	17,591	18,098
		<u>115,499</u>	<u>108,742</u>
Minority interests		<u>582,327</u>	<u>669,784</u>
Net assets		<u>4,008,921</u>	<u>3,184,206</u>
Shareholders' equity			
Share capital	23	1,000,000	1,000,000
Convertible bonds	20	935,811	–
Reserves	24	2,073,110	1,964,206
Proposed dividends	24	–	220,000
		<u>4,008,921</u>	<u>3,184,206</u>

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2003

(PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG)

(EXPRESSED IN THOUSANDS OF RMB)

	For the six months ended 30th June 2003 (Unaudited)	For the six months ended 30th June 2002 (Unaudited)
Net cash inflow from operating activities	686,249	678,536
Net cash outflow from investing activities	(275,797)	(280,003)
Net cash outflow from financing activities	(165,432)	(33,173)
Increase in cash and cash equivalents	245,020	365,360
Cash and cash equivalents at 1st January	762,166	502,110
Effect of foreign exchange rate changes	134	(128)
Cash and cash equivalents at 30th June	<u>1,007,320</u>	<u>867,342</u>

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 2003, the short-term bank deposits and other cash and bank deposits were approximately RMB28,000,000 (30th June 2002: RMB21,995,000) and RMB35,509,000 (30th June 2002: RMB53,305,000), respectively.

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

(PREPARED IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES IN HONG KONG)
 FOR THE SIX MONTHS ENDED 30TH JUNE 2003

	Share capital RMB'000	Share premium RMB'000	Convertible bonds RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Cumulative translation adjustment RMB'000	Unappropriated profits (Accumulated deficit) RMB'000 (Note 31)	Proposed dividends RMB'000	Total RMB'000 (Note 31)
As at 1st January 2003	1,000,000	1,893,826	-	162,654	129,569	339	(220,965)	220,000	3,185,423
Cumulative effect of change in accounting policy (Note 2)	-	-	-	-	-	-	(1,217)	-	(1,217)
As at 1st January 2003, restated	1,000,000	1,893,826	-	162,654	129,569	339	(222,182)	220,000	3,184,206
Dividends declared (Note 10)	-	-	-	-	-	-	-	(220,000)	(220,000)
Profit attributable to shareholders	-	-	-	-	-	-	108,769	-	108,769
Cumulative translation difference	-	-	-	-	-	135	-	-	135
Issuance of convertible bonds, net (Note 20)	-	-	935,811	-	-	-	-	-	935,811
As at 30th June 2003 (unaudited)	<u>1,000,000</u>	<u>1,893,826</u>	<u>935,811</u>	<u>162,654</u>	<u>129,569</u>	<u>474</u>	<u>(113,413)</u>	<u>-</u>	<u>4,008,921</u>
As at 1st January 2002	1,000,000	1,893,826	-	119,851	90,581	12	(141,719)	110,000	3,072,551
Cumulative effect of change in accounting policy (Note 2)	-	-	-	-	-	-	(646)	-	(646)
As at 1st January 2002, restated	1,000,000	1,893,826	-	119,851	90,581	12	(142,365)	110,000	3,071,905
Dividends declared (Note 10)	-	-	-	-	-	-	-	(110,000)	(110,000)
Profit attributable to shareholders	-	-	-	-	-	-	113,031	-	113,031
Cumulative translation difference	-	-	-	-	-	(128)	-	-	(128)
As at 30th June 2002, restated (unaudited)	<u>1,000,000</u>	<u>1,893,826</u>	<u>-</u>	<u>119,851</u>	<u>90,581</u>	<u>(116)</u>	<u>(29,334)</u>	<u>-</u>	<u>3,074,808</u>

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

NOTES TO THE ACCOUNTS

*(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 (the “Company”) was established in the People’s Republic of China (the “PRC”) on 16th June 1993 as a joint stock company with limited liability. It 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.

On 21st October 2002, the Company signed a strategic investment agreement (the “Strategic Investment Agreement”) with Anheuser-Busch Companies, Inc. (“A-B Company”). The Company is obliged to issue several tranches of mandatory convertible bonds (“CB”) to A-B Company, amounting to approximately HKD1,416,195,000 (equivalent to approximately RMB1,503,008,000). Upon full conversion of the CB, the equity holding of A-B Company in the Company will increase to approximately 27%. During the period, approximately HKD907,920,000 (equivalent to approximately RMB963,575,000) of the CB were issued and the related proceeds were received from A-B Company. The CB so issued were converted into ordinary shares of the Company subsequent to the date of this report, and the remaining balance of the CB of approximately HKD508,275,342 (equivalent to approximately RMB539,433,000) is expected to be received in installment during the second half of 2003 and in 2004. The arrangement is expected to reduce the amount of the net current liabilities of the Group. Please refer to Note 19 and Note 20 for details.

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 26 for details of the Group and the Company’s major acquisitions during the period.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

The interim consolidated accounts of the Company and its subsidiaries (collectively referred to as the “Group” below) are prepared in accordance with Statement of Standard Accounting Practice (“SSAP”) No. 25 “Interim Financial Reporting” issued by the Hong Kong Society of Accountants (“HKSA”).

These accounts are unaudited, but they have been reviewed by the audit committee of the Company.

These accounts should be read in conjunction with the 2002 annual accounts.

The accounting policies and methods of computation used in the preparation of these accounts are consistent with those used in the annual accounts for the year ended 31st December 2002 except that the Group has adopted the SSAP 12 “Income Taxes” (revised) which are effective for accounting periods commencing on or after 1st January 2003.

The change to the Group’s accounting policy and the effect of adopting this new policy is set out below:

Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The principal temporary differences arise from depreciation on fixed assets, revaluations of certain non-current assets and investments, provisions for pensions and other post retirement benefits and tax losses carried forward; and, in relation to acquisitions, on the difference between the fair values of the net assets acquired and their tax bases. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries, associates and joint ventures, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

In prior year, deferred taxation was accounted for at the current taxation rate in respect of timing differences between profit as computed for taxation purposes and profit as stated in the accounts to the extent that a liability or an asset was expected to be payable or recoverable in the foreseeable future. The adoption of the new SSAP 12 represents a change in accounting policy, which has been applied retrospectively so that the comparatives presented have been restated to conform to the changed policy.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES (CONT'D)

Deferred taxation (Cont'd)

As detailed in the Consolidated Statement of Changes in Equity, opening accumulated deficit at 1st January 2002 and 2003 have been reduced by approximately RMB646,000 and RMB1,217,000, respectively, which represent the increase in unprovided net deferred tax liabilities and goodwill as a result of the revised SSAP. As mentioned in Note 22, this change has resulted in an increase in deferred tax assets and deferred tax liabilities at 31st December 2002 by approximately RMB7,527,000 (1st January 2002: RMB7,944,000) and RMB18,098,000 (1st January 2002: RMB19,114,000), respectively. In addition, as mentioned in Note 15 and 16, the goodwill and negative goodwill at 1st January 2003 have also been increased by approximately RMB8,213,000 and RMB6,423,000, respectively.

(a) Convertible bonds

The principal amount of the mandatory convertible bonds, net of related issuance transaction costs, is recorded as equity in the balance sheet. The estimated cash flows of the expected annual interest payments payable by the Company to the bondholder and the expected refunds from the bondholder receivable by the Company upon conversion of the bonds (assuming mandatory conversion occurs upon the expiry of the contracted conversion period) are discounted into their net present values using the average borrowing rate of the Company. The difference between the two net present values ("Discounted Net Present Value") has been offset against the principal amount of the bonds issued and is presented as a deferred gain under long-term liability in the balance sheet. The deferred gain is amortised on a straight-line basis and recognised as income of the Company throughout the expected conversion period. Actual bond interests paid and payable by the Company before conversion are presented as a long-term receivable balance in the balance sheet.

3 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 2003 (Unaudited)						
	Qingdao Region RMB'000	Other Shandong Region RMB'000	Hua Bei Region RMB'000	Hua Nan Region RMB'000	Overseas RMB'000	Eliminations RMB'000	Consolidated RMB'000
Turnover							
External sales	906,244	515,752	762,219	1,020,861	228,086	–	3,433,162
Inter-segment sales	98,182	–	48,361	103,588	–	(250,131)	–
Total revenue	1,004,426	515,752	810,580	1,124,449	228,086	(250,131)	3,433,162
Results							
Segment results	116,192	12,646	35,659	55,346	85,930	–	305,773
Unallocated expenses, net							(60,983)
Operating profit							244,790
Finance costs							(64,530)
Share of losses of associated companies	(3,319)	–	–	–	–	–	(3,319)
Profit before taxation							176,941
Taxation							(54,616)
Profit after taxation							122,325
Minority interests							(13,556)
Profit attributable to shareholders							108,769

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

	For the six months ended 30th June 2002 (Unaudited)						Consolidated RMB'000 (Note 31)
	Qingdao Region RMB'000	Other Shandong Region RMB'000	Hau Bei Region RMB'000	Hua Nan Region RMB'000	Overseas RMB'000	Eliminations RMB'000	
Turnover							
External sales	889,540	450,793	685,639	1,006,594	129,982	–	3,162,548
Inter-segment sales	25,932	254	27,852	87,257	–	(141,295)	–
Total revenue	915,472	451,047	713,491	1,093,851	129,982	(141,295)	3,162,548
Results							
Segment results	150,467	89	23,015	112,957	49,395	–	335,923
Unallocated expenses, net							(52,746)
Operating profit							283,177
Finance costs							(77,310)
Share of losses of associated companies	(2,843)	–	–	–	–	–	(2,843)
Profit before taxation							203,024
Taxation							(58,109)
Profit after taxation							144,915
Minority interests							(31,884)
Profit attributable to shareholders							113,031

4 OPERATING PROFIT

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

	For the six months ended 30th June, 2003 (Unaudited) RMB'000	For the six months ended 30th June, 2002 (Unaudited) RMB'000
Costs of inventories (including depreciation, amortisation and staff costs)	2,287,661	2,071,868
Depreciation of owned fixed assets	243,169	225,576
Provision for impairment losses of fixed assets	24,002	26,872
Amortisation of intangible assets (including in general and administrative expenses)		
– Trademark	1,314	1,441
– Technology know-how	885	87
– Others	699	543
Amortisation of goodwill (included in other expenses, net)	8,667	4,320
Amortisation of negative goodwill (included in other expenses, net)	(5,122)	(4,981)
Loss on disposal of fixed assets, net	4,457	1,014
Auditors' remuneration	2,915	2,544
Operating lease rentals on land and buildings	6,941	7,341
Provision for doubtful debts	28,035	27,861
Write-down of inventories to net realisable value	2,114	1,266
Write-back of provision for inventories	(1,261)	(3,913)
Provision for impairment of long-term equity investment	–	155
Research and development costs	842	1,633

5 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	For the six months ended 30th June, 2003 <i>(Unaudited)</i> RMB'000	For the six months ended 30th June, 2002 <i>(Unaudited)</i> RMB'000
Wages and salaries	189,089	157,783
Social security costs	22,278	16,844
Pension costs – defined contribution plans	50,596	44,736
Staff employment medical benefits	2,803	1,086
Total	<u>264,766</u>	<u>220,449</u>

6 EMOLUMENTS OF DIRECTORS, SUPERVISORY COMMITTEE MEMBERS AND THE FIVE HIGHEST PAID INDIVIDUALS

	For the six months ended 30th June, 2003 <i>(Unaudited)</i> RMB'000	For the six months ended 30th June, 2002 <i>(Unaudited)</i> RMB'000
Directors' emoluments		
Non-executive directors		
– Directors' fee	–	–
– Other emoluments	–	–
Executive directors		
– Directors' fee	–	–
– Salaries, allowances and benefits-in-kind	142	173
– Performance related bonuses	–	–
– Retirement fund contributions	14	12
– Compensation paid for loss of office	–	–
Total	<u>156</u>	<u>185</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, 2003 <i>(Unaudited)</i> RMB'000	For the six months ended 30th June, 2002 <i>(Unaudited)</i> RMB'000
Salaries, allowances and benefits-in-kind	349	417
Performance related bonuses	–	–
Retirement fund contributions	14	12
Compensation paid for loss of office	–	–
Total	<u>363</u>	<u>429</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, 2003 <i>(Unaudited)</i> RMB'000	For the six months ended 30th June, 2002 <i>(Unaudited)</i> RMB'000
Salaries, allowances and benefits-in-kind	75	81
Performance related bonuses	–	–
Retirement fund contributions	14	12
Compensation paid for loss of office	–	–
Total	<u>89</u>	<u>93</u>

6 EMOLUMENTS OF DIRECTORS, SUPERVISORY COMMITTEE MEMBERS AND THE FIVE HIGHEST PAID INDIVIDUALS (CONT'D)

Out of the five highest paid individuals, none (for the period ended 30th June 2002: none) are directors of the Company. For the period ended 30th June 2003, 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) (for the period ended 30th June 2002: same) and no director has waived or agreed to waive any emoluments. During the period, no (for the period ended 30th June 2002: 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 (for the period ended 30th June 2002: No) emoluments were paid to non-executive directors.

7 FINANCE COSTS

	For the six months ended 30th June, 2003 (Unaudited) RMB'000	For the six months ended 30th June, 2002 (Unaudited) RMB'000
Interest on bank loans and overdrafts wholly repayable within 5 years	65,117	79,570
Less: amounts capitalised in construction-in-progress	(587)	(2,260)
Total	<u>64,530</u>	<u>77,310</u>

8 TAXATION

(a) Profits tax

	For the six months ended 30th June, 2003 (Unaudited) RMB'000	For the six months ended 30th June, 2002 (Unaudited) RMB'000 (Note 31)
Hong Kong profits tax (i)	478	495
PRC Enterprise Income Tax ("EIT") (ii)	54,437	54,938
Write-back of deferred tax assets	-	2,975
Less: Deferred taxation relating to reversal of temporary differences (iii)	(299)	(299)
	<u>54,616</u>	<u>58,109</u>

The taxation on the Group's profit before taxation differ from the theoretical rate as follows:

	For the six months ended 30th June, 2003 (Unaudited)	For the six months ended 30th June, 2002 (Unaudited)
Statutory tax rate	33%	33%
Tax effect of income or expense that is not taxable/deductible in determining taxable profit	9%	13%
Loss sustained by subsidiaries	9%	3%
Effect of different taxation rate of different subsidiaries of the Group	(17)%	(18)%
Others	(3)%	(2)%
Effective tax rate	<u>31%</u>	<u>29%</u>

(i) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2002: 16%) on the estimated assessable profit for the period. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004.

8 TAXATION (CONT'D)

(a) Profits tax (Cont'd)

(ii) EIT

EIT 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 EIT at 15% effective from the date of establishment of the Company. This rate will remain effective until and unless the EIT 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 ("Sanshui Company"), Tsingtao Brewery (Chenzhou) Company Limited and Shenzhen Tsingtao Beer Asahi 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.

Shenzhen Tsingtao Brewery Sales Company Limited is exempted from EIT for the first year starting from the first year of profitable operations after offsetting prior year tax losses, followed by a 50% reduction for the next two years.

Tsingtao Brewery (Zhuhai) Company Limited and Tsingtao Brewery (Xiamen) Co., Ltd. were established in the Zhuhai and Xiamen Special Economic Zones, respectively where they conduct their operations. Accordingly, they are subject to EIT at a reduced rate of 15%.

Sanshui Company, which was approved as a foreign invested enterprise and operates in Sanshui, is subject to EIT at a rate of 24%.

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 period.

- (iii) In current period, the Group adopted, for the first time, SSAP 12 "Income Taxes" (revised) issued by the HKSA. The details of the effect on the accounts of the Group has been mentioned in Note 2 to the accounts.

(b) Value-added tax ("VAT")

According to the PRC VAT temporary 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 and educational surcharge based on 7% and 3% of net VAT amount payable, respectively.

(c) Consumption tax

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 beer with an ex-factory price (including packaging materials and related deposits) of RMB3,000 or above per ton, the consumption tax is RMB250 per ton. For all other beer sold below that price, the consumption tax is RMB220 per ton.

9 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).

10 DIVIDENDS

During the period, dividends appropriation of RMB220,000,000 (dividend per share: RMB0.22) for 2002 was approved in the shareholders' meeting. The board of directors do not recommend the payment of an interim dividend for the six months ended 30th June 2003 (30th June 2002: nil).

	For the six months ended 30th June, 2003 RMB'000 (Unaudited)	For the six months ended 30th June, 2002 RMB'000 (Unaudited)
Dividends paid:	<u>87,782</u>	—
Dividends proposed:		
Final dividend for 2002 of RMB0.22 per share (2001 final dividends: RMB0.11 per share)	<u><u>220,000</u></u>	<u><u>110,000</u></u>

The final dividend for 2002 of RMB0.22 per share was proposed on 2nd April 2003. As at 30th June 2003, the respective distribution had not been completed. The final dividend of RMB0.11 per share for 2001 was proposed on 2nd April 2002 and was paid in August 2002.

11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes profit of approximately RMB105,376,000 (30th June 2002: RMB69,301,000) which has been dealt with in the accounts of the Company.

12 EARNINGS PER SHARE

The calculations of basic and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately RMB108,769,000 (30th June 2002: RMB113,031,000).

The basic earnings per share is based on the weighted average number of 1,000,000,000 (30th June 2002: 1,000,000,000 ordinary shares) ordinary shares in issue during the period. The diluted earnings per share is based on 1,097,535,912 (30th June 2002: 1,000,000,000) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 97,535,912 (30th June 2002: Nil) ordinary shares deemed to be issued if all outstanding convertible bonds had been exercised.

13 FIXED ASSETS, NET

	For the six months ended 30th June 2003 RMB'000 (Unaudited)
Cost or valuation	
Beginning of period	7,937,966
Transfer in from construction-in-progress	98,504
Additions	63,629
Disposal	<u>(72,034)</u>
End of period	<u><u>8,028,065</u></u>
Accumulated depreciation/amortisation and impairment loss	
Beginning of period	2,365,994
Charge for the period	243,169
Write-back on disposal	(30,231)
Impairment losses provision	<u>24,002</u>
End of period	<u><u>2,602,934</u></u>
Net book value	
End of period	<u><u>5,425,131</u></u>
Beginning of period	<u><u>5,571,972</u></u>

13 FIXED ASSETS, NET (CONT'D)

All the land and buildings of the Group are located in the PRC. The useful lives of the land use rights of the Group and of the Company are 50 years.

As at 30th June 2003, fixed assets amounting to approximately RMB22,685,000 (31st December 2002: RMB194,329,000) were pledged as security for certain bank loans of the Group (Note 19).

As at 30th June 2003, the building ownership certificates ("Building Ownership Certificates") for certain buildings of the Group with respective carrying value of approximately RMB362,703,000 (31st December 2002: RMB419,506,000) had not yet been obtained. As at 30th June 2003, the land use rights certificates ("Land Certificates") for certain land of the Group with respective carrying value of approximately RMB34,762,000 (31st December 2002: RMB42,484,000) had not yet been obtained. After consultation made with the Company's legal adviser, the Company's directors consider that there is no legal restriction for the Group and the Company to apply for and obtain the Land Certificates and Buildings Ownership Certificates and there will not be any significant adverse impact of such incidence on the daily operations of the Group and of the Company. Accordingly, no provision for fixed assets impairment was considered necessary.

In addition, as at 30th June 2003, the operating facilities of certain subsidiaries of the Group were located on parcels of allocated land ("Allocated Land") owned by certain local municipal governments. As at 30th June 2003, the carrying values of the associated buildings and facilities constructed thereon were approximately RMB136,587,000 (31st December 2002: RMB121,952,000). The Group is now applying for the transfer of the legal title of these Allocated Land to the Group.

14 INTANGIBLE ASSETS, NET

	For the six months ended 30th June, 2003 (Unaudited)			
	Trademarks (i) RMB'000	Technology know-how (ii) RMB'000	Others RMB'000	Total RMB'000
Cost				
Beginning of period	103,346	18,629	19,966	141,941
Additions	—	—	674	674
End of period	103,346	18,629	20,640	142,615
Accumulated amortisation				
Beginning of period	24,036	6,520	3,607	34,163
Charge for the period	1,314	885	699	2,898
End of period	25,350	7,405	4,306	37,061
Net book value				
End of period	77,996	11,224	16,334	105,554
Beginning of period	79,310	12,109	16,359	107,778

(i) Trademarks

Trademarks mainly include the "TSINGTAO BEER" trademark which was injected by the founding shareholders into the Company on 16th June 1993 as their capital contributions. The recorded value of the trademark was assessed based on the results of a valuation 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 amortise the revalued amount of the trademark over its estimated useful life of 40 years.

In the opinion of the Company's board of directors, the above trademark is essential to the operations of the Group and the Company and it is expected to bring enduring economic benefits to the Group and the Company continuously. Therefore, 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 acquisitions of certain subsidiaries. They are amortised over their estimated useful lives ranging from 5 to 10 years. The cost of these intangible assets were determined based on their fair value at the respective dates of acquisition.

14 INTANGIBLE ASSETS, NET (CONT'D)

(ii) Technology know-how

Technology know-how was injected by a minority shareholder of a subsidiary into that subsidiary during its reorganisation. It was recorded at a value agreed among all the shareholders of that subsidiary and is amortised over an expected period of inflow of economic benefits of 10 years.

In the opinion of the Company's board of directors, the underlying value of intangible assets as at 30th June 2003 were not less than their carrying values in the books of the Company and of the Group as at that date.

15 GOODWILL

	For the six months ended 30th June 2003 (Unaudited) RMB'000 (Note 31)
Cost	
Beginning of period	155,048
Prior year adjustment (Note 2)	10,266
	<hr/>
Beginning of period, restated	165,314
Additions	14,123
	<hr/>
End of period	179,437
	<hr style="border-top: 1px dashed black;"/>
Accumulated Amortisation	
Beginning of period	(23,667)
Prior year adjustment (Note 2)	(2,053)
	<hr/>
Beginning of period, restated	(25,720)
Charge for the period	(8,667)
	<hr/>
End of period	(34,387)
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Net Book Value	
End of period	145,050
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Beginning of period, restated	139,594
	<hr style="border-top: 3px double black;"/>

In the opinion of the Company's board of directors, the underlying value of goodwill as at 30th June 2003 was not less than its carrying value in the book of the Group or at that date.

16 NEGATIVE GOODWILL

	For the six months ended 30th June 2003 (Unaudited) RMB'000 (Note 31)
Cost	
Beginning of period	(124,001)
Prior year adjustment (Note 2)	(7,389)
	<hr/>
Beginning of period, restated	(131,390)
Additions	—
	<hr/>
End of period	(131,390)
	<hr style="border-top: 1px dashed black;"/>
Accumulated Amortisation	
Beginning of period	21,989
Prior year adjustment (Note 2)	966
	<hr/>
Beginning of period, restated	22,955
Charge for the period	5,122
	<hr/>
End of period	28,077
	<hr style="border-top: 1px dashed black;"/>
Net Book Value	
End of period	(103,313)
	<hr style="border-top: 3px double black;"/>
Beginning of period, restated	(108,435)
	<hr style="border-top: 3px double black;"/>

The amortisation of negative goodwill is recognised as other revenues over the remaining weighted average useful life of the identifiable depreciable fixed assets to the subsidiaries acquired.

17 ACCOUNTS RECEIVABLES, NET

The aging analysis of accounts receivable is as follows:

	30th June 2003 (unaudited)			31st December 2002		
	Amount RMB'000	Provision for bad debts RMB'000	Balance after provision RMB'000	Amount RMB'000	Provision for bad debts RMB'000	Balance after provision RMB'000
Less than one year	202,957	(5,551)	197,406	125,196	(4,912)	120,284
One to less than two years	37,456	(25,044)	12,412	56,665	(12,061)	44,604
Two to less than three years	15,734	(14,642)	1,092	19,220	(17,325)	1,895
Over three years	96,579	(94,285)	2,294	104,717	(103,778)	939
Total	<u>352,726</u>	<u>(139,522)</u>	<u>213,204</u>	<u>305,798</u>	<u>(138,076)</u>	<u>167,722</u>

Credit is granted to customers based on specific assessment made by management on the circumstances of each customer. Credit period granted will not be longer than one year.

The Group and the Company make 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 balances with outstanding balances aged over two years, and with clear evidence indicating that they are uncollectible. For balances expecting partial settlement, provision is made for the uncollectible portion.

In 2001, the Group and the Company reached an agreement with a customer and a related company in connection with an aggregate outstanding receivable balance of RMB105,000,000 aged over three years. Pursuant to the agreement, the entire balance will be repayable in eight annual installments commencing 1st January 2002. The first installment of RMB10,000,000 was received according to the respective agreement in 2001. In addition, Tsingtao Brewery Group Company ("TB Group Company") also undertook to guarantee the repayment of the balance. As at 30th June 2003, approximately RMB10,000,000 and RMB83,000,000 of the remaining unsettled balances were recorded in accounts receivable and other long-term assets on the consolidated balance sheet, respectively.

18 INVENTORIES, NET

	30th June 2003 RMB'000 (Unaudited)	31st December 2002 RMB'000
Raw materials, packaging materials and auxiliary materials	1,127,800	966,956
Work-in-progress	158,373	127,163
Finished goods	112,556	154,335
	1,398,729	1,248,454
Less: Write-down of inventories to net realisable value	(25,500)	(24,647)
Inventories, net	<u>1,373,229</u>	<u>1,223,807</u>

Approximately RMB25,500,000 (31st December 2002: RMB24,647,000) of the gross value of inventories of the Group were covered by full provision and were stated at no net realisable value.

19 LOANS

	30th June 2003 (Unaudited)			31st December 2002		
	Short-term bank loans RMB'000	Long-term bank loans RMB'000	Total RMB'000	Short-term bank loans RMB'000	Long-term bank loans RMB'000	Total RMB'000
Repayable :						
– within 1 year	1,724,549	76,182	1,800,731	2,669,481	110,054	2,779,535
– in the second to fifth years inclusive	–	66,434	66,434	–	72,190	72,190
– over 5 years	–	19,899	19,899	–	18,454	18,454
Total	1,724,549	162,515	1,887,064	2,669,481	200,698	2,870,179
Less: Portion due within one year	(1,724,549)	(76,182)	(1,800,731)	(2,669,481)	(110,054)	(2,779,535)
Long-term portion	–	<u>86,333</u>	<u>86,333</u>	–	<u>90,644</u>	<u>90,644</u>

Pursuant to the debt restructuring agreements or acquisition agreements of certain subsidiaries, the interest charge of the loans with balance amounting to approximately RMB72,660,000 (31st December 2002: RMB89,368,000) of the Group were waived by lenders at no consideration. The remaining outstanding loan balances are interest-bearing at rates ranging from 0% to 7.25% per annum (31st December 2002: 0% to 7.25% per annum).

Loans of the Group amounting to approximately RMB125,000,000 (31st December 2002: RMB875,006,000) are guaranteed by TB Group Company Limited. In addition, loans of the Group amounting to approximately RMB125,000,000 (31st December 2002: RMB125,000,000) are guaranteed by the minority shareholders of a subsidiary.

Approximately RMB48,000,000 (31st December 2002: RMB68,799,000) of the Group's loans are secured by buildings, plant and machinery, motor vehicles and other equipment with an aggregate carrying value of approximately RMB22,685,000 (31st December 2002: RMB194,329,000).

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 RMB1,377,992,000 as at 30th June 2003 (31st December 2002: RMB2,122,388,000). The board of directors of the Company is confident that the Group will be able to renew its short-term bank loan facilities upon maturities or to identify new sources of financing to replace the existing short-term bank loan facilities. Besides, as mentioned in Note 20, the Company received proceeds from issuance of convertible bonds to A-B Company of approximately HK\$907,920,000 (equivalent to approximately RMB963,575,000) on 1st April 2003. The remaining proceeds of approximately HK\$508,275,000 (equivalent to approximately RMB539,433,000) will be received, in the second half of 2003 and in 2004, respectively. The upcoming proceeds can further reduce the net current liabilities of the Group.

As at 30th June 2003, the Group had unutilised balance of approximately RMB2,020,000,000 (31st December 2002: RMB1,674,400,000) out of the available banking facilities granted from the banks.

20 CONVERTIBLE BONDS

(a) Convertible bonds

Type	Date of issue	Period	Face value <i>RMB'000</i>	Issuance costs <i>RMB'000</i>	Discounted Net Present Value <i>(Note 2)</i> <i>RMB'000</i>	30th June 2003 <i>(Unaudited)</i> <i>RMB'000</i>
Mandatory convertible bonds	1st April 2003	7 years	963,575	(15,960)	(11,804)	935,811

(b) Bond interests

Type	Interest payable for the period <i>(Unaudited)</i> <i>RMB'000</i>	Accumulated interest paid <i>(Unaudited)</i> <i>RMB'000</i>	Interest payable as of period end <i>(Unaudited)</i> <i>RMB'000</i>
Mandatory convertible bonds	3,319	—	3,319

On 21st October 2002, the Company and Anheuser-Busch Companies, Inc (“A-B Company”), a shareholder of H Shares, entered into the Strategic Investment Agreement, pursuant to which A-B Company is obliged to subscribe for 3 tranches of mandatory convertible bonds (“CB”) to be issued by the Company in an aggregate principal amount of approximately HK\$1,416,195,000 (RMB1,503,008,000), commencing from 2003. The CB were/can be converted into 308,219,178 new H Shares issued by the Company as follows:

Tranche I of the CB (“Tranche I”)

The total subscription amount of Tranche I is HK\$280,800,000 (equivalent to approximately RMB298,013,000) which was issued to the order of A-B Company in April 2003. Tranche I was converted into 60,000,000 new H shares issued by the Company at HK\$4.68 (equivalent to approximately RMB4.96) per share on 2nd July 2003. Tranche I is interest-free.

Tranche II of the CB (“Tranche II”)

The total subscription amount of Tranche II is HK\$627,120,000 (equivalent to approximately RMB665,562,000) which was issued to A-B Company in April 2003 concurrently with the issuance of Tranche I. Tranche II can be converted into 134,000,000 newly issued H shares at HK\$4.68 (equivalent to approximately RMB4.72) per share within 7 years after the issuance. The CB will be automatically converted at the end of the seven-year conversion period (“Expiry Date”) if A-B Company does not trigger the conversion before the Expiry Date. Tranche II is interest-bearing at 2% per annum. A-B Company will refund all the interests received as well as all related deductions or withholdings associated with the interest payments made by the Company upon conversion.

As at the date of approval of the accounts, A-B Company has not exercised its conversion right.

Tranche III of the CB (“Tranche III”)

The total subscription amount of Tranche III is HK\$508,275,000 (equivalent to approximately RMB539,433,000) which will be issued to A-B Company in several instalments in the second half of 2003 and in 2004. Tranche III will be converted into 114,219,178 newly issued H shares at HK\$4.45 (equivalent to approximately RMB4.72) per share within 7 years after the payment of the subscriptions. The CB will be automatically converted at the end of the Expiry Date if A-B Company does not trigger the conversion before the Expiry Date. Tranche III is interest-bearing at 2% per annum. A-B Company will refund all the interests received as well as all related deductions or withholdings associated with the interest payments made by the Company upon conversion.

As at the date of approval of the accounts, the Company has not issued any part of Tranche III to A-B Company.

Upon the conversion of each of Tranche I, Tranche II and Tranche III, the percentage shareholding of Qingdao State-Owned Assets Administration Bureau (“Qingdao Bureau”), the existing substantial shareholder of the Company, will decrease from approximately 40.0% to approximately 37.7%, 33.5% and 30.6%, respectively, whereas the holding of A-B Company in the Company will increase from approximately 4.5% to 9.9%, 20.0% and 27.0%, respectively. However, the additional 7% of the shareholding held by A-B Company after the conversion of Tranche III will be subject to a voting trust arrangement in favour of Qingdao Bureau whereby A-B Company will enjoy the economic benefits associated with the shares but Qingdao Bureau can exercise the respective voting rights at its sole discretion. Accordingly, Qingdao Bureau, through the trustee, will be entitled to exercise the voting rights attached to such 7% shareholding at general meetings of holders of state shares and PRC legal person shares and PRC public shares (H shares) class meetings of the Company.

21 ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	30th June 2003 (Unaudited) RMB'000	31st December 2002 RMB'000
Less than 1 year	735,783	580,101
One to less than two years	21,012	26,803
Two to less than three years	3,022	14,997
Over three years	28,816	29,612
Total	<u><u>788,633</u></u>	<u><u>651,513</u></u>

22 DEFERRED TAXATION

Deferred taxation is calculated in full on temporary differences under the liability method using a principal taxation rate of 15% to 33% (2002: same).

As at 30th June 2003, deferred tax assets were recognised for temporary difference arising from fair value adjustment on depreciation of fixed assets acquired in business combination to the extent that realisation of such tax benefit through the future taxable profits is probable. In addition, as at 30th June 2003, the Group also had unrecognised deferred tax assets associated with tax losses carried forward of approximately RMB1,781,279,000 (31st December 2002: RMB1,791,394,000) which will expire in the period of 2003-2008, and fair value adjustment on depreciation of fixed assets of approximately RMB301,217,000 (31st December 2002: RMB310,666,000) due to the fact that there is no certainty of realisation.

The movement on deferred tax assets and liabilities is as follows:

(i) Deferred tax assets

	Provisions		Fair value adjustment on depreciation		Others		Total	
	Period ended 30th June 2003 RMB'000 (Unaudited)	Year ended 31st December 2002 RMB'000 (Note 31)	Period ended 30th June 2003 RMB'000 (Unaudited)	Year ended 31st December 2002 RMB'000 (Note 31)	Period ended 30th June 2003 RMB'000 (Unaudited)	Year ended 31st December 2002 RMB'000 (Note 31)	Period ended 30th June 2003 RMB'000 (Unaudited)	Year ended 31st December 2002 RMB'000 (Note 31)
At the beginning of the period/year	-	2,975	-	-	5,101	5,421	5,101	8,396
Prior year adjustments (Note 2)	-	-	7,527	7,944	-	-	7,527	7,944
At the beginning of the period/year, restated	-	2,975	7,527	7,944	5,101	5,421	12,628	16,340
Credited to profit and loss account	-	(2,975)	(208)	(417)	-	(320)	(208)	(3,712)
At the end of the period/year	<u><u>-</u></u>	<u><u>-</u></u>	<u><u>7,319</u></u>	<u><u>7,527</u></u>	<u><u>5,101</u></u>	<u><u>5,101</u></u>	<u><u>12,420</u></u>	<u><u>12,628</u></u>

(ii) Deferred tax liabilities

	Period ended 30th June 2003 RMB'000 (Unaudited)	Year ended 31st December 2002 RMB'000 (Note 31)
At the beginning of period/year	-	-
Prior year adjustments (Note 2)	<u><u>18,098</u></u>	<u><u>19,114</u></u>
At the beginning of period/year, restated	<u><u>18,098</u></u>	<u><u>19,114</u></u>
Credited to profit and loss account	<u><u>(507)</u></u>	<u><u>(1,016)</u></u>
At the end of period/year	<u><u>17,591</u></u>	<u><u>18,098</u></u>
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered after more than 12 months	<u><u>12,004</u></u>	<u><u>12,212</u></u>
Deferred tax liabilities to be settled after more than 12 months	<u><u>(16,575)</u></u>	<u><u>(17,082)</u></u>

23 SHARE CAPITAL

By a special resolution passed on 23rd January 2003, the authorised ordinary share capital was increased from RMB1,000,000,000 to RMB1,308,219,178 by the creation of 308,219,178 H shares at RMB1 each.

The issued and fully paid share capital of the Company is RMB1,000,000 (31st December 2002: RMB1,000,000,000), divided into 1,000,000,000 (31st December 2002: 1,000,000,000) shares at RMB1 each. A summary of the share capital is set out below:

	30th June 2003 (Unaudited)		31st December 2002	
	RMB'000	Percentage (%)	RMB'000	Percentage (%)
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>

24 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 board of directors of the Company 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. However, the fund cannot be used to pay for staff welfare expenses. Legal title to these capital items remains with the Company.

(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 accounts 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 accounts 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 2003 was approximately RMB334,277,000 (31st December 2002: RMB48,861,000).

25 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 2003, the Group's contributions were approximately RMB50,596,000 (30th June 2002: RMB44,736,000).

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 2003, the subsidiary made contributions of approximately HKD74,000 (equivalent to RMB78,000) (30th June 2002: HKD118,000) (equivalent to RMB125,000). The assets of the fund are held separately from that of the subsidiary and are managed by independent professional fund managers.

26 SUBSIDIARIES AND ASSOCIATED COMPANIES

- (a) Comparing the accounts in the current period with that of 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	
SITC Tsingtao Beer Warehouse Company Limited	SITC Overseas (Holding) Co., Limited	2003 January	Qingdao, The PRC	RMB10,000,000	-	52.25%	Warehousing, packaging and logistics
Tsingtao Brewery Baoji Company Limited (i)	Huazhong (Asia) Company Limited	2003 January	Baoji, The PRC	RMB1,000,000	30%	53.27%	Manufacturing and domestic trading of beer

- (i) In January 2003, the Company and Tsingtao Brewery Xian Company Limited (“Xian Company”) jointly invested in a newly incorporated company, namely Tsingtao Brewery Baoji Company Limited (“Tsingtao Baoji Company”), with an authorised capital amounting to RMB1,000,000. The Company injected cash capital of RMB300,000, which accounted for 30% of the total authorised capital which Xian Company injected cash capital of RMB700,000, which accounted for 70% of the total authorised capital.

Xian Company and a third party named Baoji Brewery Company Limited (“Baoji Company”) entered into a lease agreement in January 2003, pursuant to which Baoji Company leases all its operating fixed assets to Tsingtao Baoji Company without any lease rental consideration. Tsingtao Baoji Company is a subsidiary jointly established by the Company and Xian Company for manufacturing of beer. During the lease term, Tsingtao Baoji Company will bear all the operating costs of Baoji Company.

- (b) In current period, there were changes in equity interests of the following subsidiaries:

- (i) In January 2003, the Company entered into an agreement with Fujian Brewery (Singapore) Pte Limited to acquire an additional 24% equity interest in Tsingtao Brewery (Fuzhou) Company Limited (“Fuzhou Company”) at a cash consideration of approximately RMB40,040,000. After the transaction, the effective ownership percentage held by the Company in Fuzhou Company increased from 51% to 75%.
- (ii) In January 2003, Tsingtao Brewery (Shanghai) Company Limited, a subsidiary of the Company, transferred 10% of its shareholdings in both Tsingtao Brewery Huadong Shanghai Sales Company and Tsingtao Brewery Huadong Hangzhou Sales Company to Tsingtao Brewery (Wuhu) Company Limited, a subsidiary of the Company, at a cash consideration of RMB300,000 and RMB100,000, respectively. Such transactions have changed the indirect shareholdings of the Company in Tsingtao Brewery Huadong Shanghai Sales Company and Tsingtao Brewery Huadong Hangzhou Sales Company from 94.53% to 94.05%.
- (c) 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. In 2002, EVG renegotiated with the Company for delaying the payment of the consideration for the 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 the consideration. Up to 30th June 2003, the consideration had not been settled and the Company continues to consolidate Beijing Three Ring in its consolidated accounts based on its 54% equity interest held by the Company.
- (d) In November 2001, Tsingtao Brewery Huanan Holding Company Limited (a subsidiary of the Company) and Tailian Brewery (Cayman Islands) Company Limited (“Tailian Brewery”) signed an equity transfer agreement, pursuant to which the Company will purchase Tailian Brewery’s 30% equity interest in Guangxi Nanning Wan Tai Brewery Company Limited (“Nanning Brewery”) at a consideration of RMB96,000,000. The name of Nanning Brewery will also be changed to Tsingtao Beer (Nanning) Company Limited (“Nanning Company”) afterwards. As the equity transfer process had not yet been completed as at 30th June 2003, the Group and the Company did not account for this potential investment accordingly.

27 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 2003, the Group had the following material transactions with related parties:

	For the six months ended 30th June, 2003 (Unaudited) RMB'000	For the six months ended 30th June, 2002 (Unaudited) RMB'000
Sales to associated companies	40,631	622
Purchases from related companies (minority shareholders of a subsidiary or companies with the same ultimate shareholder)	6,463	8,318
Advertising services provided by a related company (company with the same ultimate shareholder)	471	-
Equipment installation services provided by a related company (company with the same ultimate shareholder)	<u>80</u>	<u>156</u>

The directors of the Company considered that all transactions with related parties were made in the ordinary course of business and were transacted based on terms agreed by both parties.

- (b) As at 30th June 2003, the Group had the following significant current account balances with related parties:

	Maximum balance outstanding during the period ended 30th June 2003 (Unaudited) RMB'000	30th June 2003 (Unaudited) RMB'000	31st December 2002 RMB'000
Included in:			
Accounts receivable and other long-term assets accounts (e)			
- Related companies	105,349	105,280	105,050
Deposits and prepayments			
- Related companies	1,115	259	-
Other receivables			
- TB Group Company (i)	5,000	5,000	-
- Subsidiaries of TB Group Company	48,465	28,077	40,038
- Other related parties	77,264	67,218	77,247
Included in:			
Advances from customers			
- Related companies	4,479	149	-
Other payables			
- TB Group Company (i)	2,580	40	2,580
- Subsidiaries of TB Group Company	976	656	976
- Other related parties	27,500	27,000	27,500
Accounts payable			
- Subsidiaries of TB Group Company	5,360	3,150	953
- Other related parties	<u>702</u>	<u>702</u>	<u>283</u>

Except for those mentioned in (e) and (f) below, the Group's and the Company's balances with related parties are unsecured, non-interest bearing and have no fixed repayment terms.

- (i) TB Group Company is a related party of the Company with certain common directors and the same ultimate shareholder.
- (c) Loans of the Group and the Company amounting to approximately RMB125,000,000 (31st December 2002: RMB875,006,000) and RMB100,000,000 (31st December 2002: RMB355,516,500) are guaranteed by TB Group Company.
- (d) Loans of the Group amounting to RMB125,000,000 (31st December 2002: RMB125,000,000) are guaranteed by the minority shareholders of a subsidiary.

27 RELATED PARTY TRANSACTIONS (CONT'D)

- (e) The Group and the Company reached an agreement with a customer and a related company in connection with an aggregate outstanding receivable balance aged over three years due from them, totalling RMB105,000,000 as at 31st December 2001. Pursuant to the agreement, the entire outstanding balances will be repayable in eight annual instalments, starting from 1st January 2002. In addition, TB Group Company also undertook to guarantee the repayment of the balance. As at 30th June 2003, amounts of approximately RMB10,000,000 and RMB83,000,000 were recorded as accounts receivable and other long-term assets in the consolidated balance sheets, respectively (see also Note 17).
- (f) As at 30th June 2003, the Company had arranged advances and loans to subsidiaries and an associated company of approximately RMB892,219,000 (31st December 2002: RMB230,836,000) and RMB66,450,000 (31st December 2002: RMB70,186,000), respectively, through entrustment loan arrangements made with banks in the PRC. All these entrusted loans are unsecured, non-interest bearing and with maturities within one year.
- (g) The equity transfer legal procedures of Nanning Company had not been completed as at 30th June 2003 and Nanning Company was not accounted for as an associated company of the Company. For the six months ended 30th June 2003, the Group had the following material transactions with Nanning Company:

	For the six months ended 30th June, 2003 RMB'000 (Unaudited)	For the six months ended 30th June, 2002 RMB'000 (Unaudited)
Sales to Nanning Company	4,828	2,992
Purchases from Nanning Company	<u>119,355</u>	<u>60,228</u>

As at 30th June 2003, the significant current account balances between the Group and Nanning Company were as follows:

	30th June 2003 RMB'000 (Unaudited)	31st December 2002 RMB'000
Included in accounts receivables	3,151	2,148
Included in other receivables	66,201	66,201
Included in accounts payable	<u>-</u>	<u>4,612</u>

28 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 has been 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 accounts 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 plan 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 2003.

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 the 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 it also filed a counter claim against the Claimant for delayed settlement of the outstanding receivable balances arising from sale of goods to the Claimant. In addition, the Company also demanded for a termination of the Contract, repayment of the outstanding receivable balance, as well as return of certain motor vehicles and beer-selling machinery provided to the Claimant by the Company before. As of the date of approval of these accounts 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 it is pre-mature to conclude on the final outcome at this stage. However, they are confident that it is not expected to lead to any material negative impact on the operating results of the Group and the Company.

29 COMMITMENTS

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

(a) Capital commitments

The Group had no capital commitments which were authorised but not contracted and provided for as at 30th June 2003.

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

	30th June 2003 RMB'000 (Unaudited)	31st December 2002 RMB'000
Construction projects	83,782	94,561
Investments and acquisitions	48,000	98,000
Total	<u>131,782</u>	<u>192,561</u>

(b) Operating lease commitments

As at 30th June 2003, the Group had future aggregate minimum lease payments under non-cancellable operating leases of land and buildings as follows:

	30th June 2003 RMB'000 (Unaudited)	31st December 2002 RMB'000
Not later than one year	470	151
Later than one year and no later than five years	-	-
Later than five years	-	-
	<u>470</u>	<u>151</u>

(c) As at 30th June 2003, the Group had outstanding commitment in relation to advertising and marketing campaigns undertaken amounting to approximately RMB4,300,000 (31st December 2002: Nil).

30 SIGNIFICANT SUBSEQUENT EVENTS

As mentioned in Note 20, in July 2003, A-B Company exercised its right to convert the Tranche I of CB and the Company issued 60,000,000 new H shares to the order of A-B Company in accordance with the Strategic Investment Agreement signed in October 2002. The conversion price for the Tranche I of CB was fixed at HK\$4.68 (equivalent to approximately RMB4.96) per H Share.

31 COMPARATIVE FIGURES

The Group has adopted the SSAP 12 (revised) "Income taxes" recently issued by the Hong Kong Society of Accountants. As mentioned in Note 2, this has resulted in changes to the presentation of certain items and comparative financial information has been restated accordingly.

In addition, certain comparative figures have been reclassified to conform with the current period's presentation.

On behalf of the Board of directors

Li Gui Rong

Director

Tsingtao, the PRC

TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

SUPPLEMENTARY INFORMATION

FOR THE SIX MONTHS ENDED
30TH JUNE 2003

COMPARISON OF PRC GAAP AND HK GAAP

The Group has prepared a separate set of statutory accounts for the period ended 30th June 2003 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:

RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HK GAAP

Impact on the consolidated balance sheet:

	30th June 2003 (Unaudited) RMB'000	31st December 2002 RMB'000
Net assets as per accounts prepared under PRC GAAP	3,094,128	3,197,354
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)
Additional depreciation charges under HK GAAP (b)	(95,664)	(89,924)
Amortisation of investment differences under PRC GAAP (c)	(52,221)	(46,153)
Other swap rate adjustments in 1993 (d)	(37,878)	(37,878)
Amortisation of deferred taxation and goodwill under HK GAAP (f)	(1,609)	(1,216)
Issuance of convertible bonds (g)	939,360	-
Others	(16,326)	(17,108)
Net assets per accounts prepared under HK GAAP	<u>4,008,921</u>	<u>3,184,206</u>

Impact on the consolidated profit and loss account:

	For the six months ended 30th June 2003 (Unaudited) RMB'000	For the six months ended 30th June 2002 (Unaudited) RMB'000
Profit attributable to shareholders under PRC GAAP	116,403	122,819
HK GAAP adjustments:		
Additional depreciation charges under HK GAAP (b)	(5,740)	(5,740)
Amortisation of investment differences under PRC GAAP (c)	(6,068)	(5,582)
Forfeiture of payable balances of subsidiaries (e)	238	-
Amortisation of deferred taxation and goodwill under HK GAAP (f)	(393)	(286)
Issuance of convertible bonds (g)	3,549	-
Others	780	1,820
Profit attributable to shareholders under HKGAAP	<u>108,769</u>	<u>113,031</u>

- (a) Due to 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, the Foreign Currency Exchange Swap Center ("Swap Centre") rates were used for translation of transactions denominated in foreign currencies instead of the official exchange rate adopted under the PRC GAAP. The proceeds from issuance of "H" shares that the Company collected in Hong Kong Dollar from investors were translated at the historical swap rate applicable at the time of the transaction. This has resulted in a RMB361,173,000 exchange differences.

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

- (b) As a result of the different foreign exchange rates adopted in preparing the accounts of 1993 under HK GAAP and PRC GAAP, the cost of fixed assets denominated in foreign currencies acquired up to 31st December 1993 was different between the two sets of accounts. This has resulted in additional depreciation charge of RMB5,740,000 in the accounts prepared in accordance with HK GAAP in current period (For the six months ended 30th June 2002: RMB5,740,000).
- (c) Under PRC GAAP, the negative goodwill arising from the excess of the Group's share of the net assets of the subsidiaries acquired over the acquisition costs is amortised into the profit and loss account over 10 years. Under HK GAAP, the negative goodwill recognised is amortised on a straight-line basis over the weighted average remaining useful lives of the identifiable depreciable assets acquired. As a result of the difference in accounting treatment, net income was reduced by approximately RMB6,068,000 (For the six months ended 30th June 2002: RMB5,582,000) under HK GAAP.
- (d) In 1993, foreign currencies transactions were translated into RMB at average official exchange rates 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 profit and loss account of the year. However, under HK GAAP, foreign currencies transactions are translated into RMB at the applicable Swap Center exchange rate prevailing on 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, exchange differences of RMB37,878,000 were recognised in 1993.
- (e) During the period, a subsidiary of the Company obtained waivers from creditors on certain payable balances of approximately RMB238,000 (For the six months ended 30th June 2002: Nil). Pursuant to the requirements under PRC GAAP, such amount was credited directly to reserves while the amount waived was recognised as other income under HK GAAP.
- (f) As a result of the implementation of the new HK SSAP 12 "Income Tax", effective on periods beginning on or after 1st January 2003, deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. The major impact of the adoption of SSAP 12 to the Group and the Company arose from the temporary differences on fair value of fixed assets recognised during acquisitions of subsidiaries in the A Share and H Share accounts, and the related deferred taxation and goodwill balances. Comparatives presented have been restated to conform to the change in accounting policy. Due to the changes on the goodwill balance, the related amortisation charge recorded is different from the A Share accounts.
- (g) As noted in Note 20, on 21st October 2002, the Company and A-B Company entered into the Strategic Investment Agreement, pursuant to which A-B Company is obliged to subscribe for 3 tranches of mandatory convertible bond ("CB") in an aggregate principal amount of HK\$1,416,195,000 (equivalent to approximately RMB1,503,008,000), commencing from 2003. The CB will be converted into 308,219,178 new H Shares issued by the Company. A-B Company will refund all the interest payment to be paid by the Company, computed based on face value of the CB, to the Company upon conversion.

On 1st April 2003, Tranche I and Tranche II of the CB had been issued to A-B Company with an aggregate net principal amount of HK\$907,920,000 (equivalent to approximately RMB963,575,000), after deducting the net present value of the expected cash flow of refundable interests and related bond issuance transaction costs under HK GAAP. Pursuant to PRC GAAP requirements, the net principal amount of CB was recorded as a liability and the related interests paid/payable were expensed off when incurred which have reduced the net income of the A Share accounts. Under HK GAAP, the CB were recognised as shareholders' equity of the Group and the Company and the refundable interests paid/payable in each accounting period was recorded as a long-term receivable from A-B Company. As a result of the difference in the accounting treatments, net income was increased by approximately RMB3,549,000 (30th June 2002: Nil) under HK GAAP; and net assets were increased by approximately RMB939,360,000 (31st December 2002: Nil) under HK GAAP.

MANAGEMENT DISCUSSION AND ANALYSIS

1. OPERATIONS REVIEW FOR THE FIRST HALF OF THE YEAR

In the first half of 2003, the Company adhered to the guiding principle of “striving for further success in the new millennium by structural adjustment with target for market dominance through system integration, mechanism innovation, enhanced competitiveness. The Company overcame the impact of SARS on its sales. As a result, despite harsh market conditions, the Company saw sustainable growths in production and sales, sales income and foreign exchange earnings from export, and maintained its leading position as the largest beer manufacturer and distributor in the domestic market.

In the face of SARS, the beer market in the PRC was able to achieve a nationwide production volume of 11,960,000 kilolitres, representing a slight growth of 0.6% over the same period last year. By actively integrating its markets, brand names and product mix and improving its marketing strategy, the Company widened its sales markets from catering establishments to such retail markets as communities, supermarkets and convenience stores. For the first half-year, the Company attained a volume of 1,650,000 kilolitres for beer production and sales, a 8% growth over the same period last year. The medium and high-end beers under the primary brand name of Tsingtao also recorded a sales volume of 510,000 kilolitres, up 14% on the same period the previous year. The impact of SARS on our high-end market which has higher gross profit margin has been more significant than on those in the medium and low end. Coupled with the increases in the prices of barley that led to higher costs, the Company recorded a decrease in net profits of 3.77% over the same period last year.

For export business, the Company weathered numerous difficulties and achieved a quantum leap. The volume of exported beers reached 47,000 kilolitres, surging 90% over the same period last year, of which the continuous sales growth in Taiwan market accounted for 29,000 kilolitres, which has made a new growth point for the Company.

Since the strategic alliance was entered into between the Company and Anheuser-Busch, both parties have been exchanging the “best practice programme” proactively. There were a number of relevant activities held during the period, including aspects such as brand name management, financial management, quality management and human resources management. It will certainly improve the level of our management capability and the globalisation of the Company substantially.

2. USE OF PROCEEDS

In 2001, the Company raised RMB787 million by issuing additional A Shares. After deduction of issue expenses, the net proceeds from the issue was RMB757,728,570. The use of proceeds during the reporting period is as follows: (in RMB ten thousand)

Description of Application of Proceeds	Investment amount committed	Actual investment	Amount invested (%)
Acquisition of 75% equity interest from foreign investors of Carlsberg 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	6,800	5,720	84
Technological renovation of draught beer production lines of Xi'an Company for an annual production of 50,000 tonnes	12,000	0	—

2. USE OF PROCEEDS (CONT'D)

Description of Application of Proceeds	Investment amount committed	Actual investment	Amount invested (%)
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 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 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 (completed)
Total	<u>76,299</u>	<u>63,054</u>	<u>82.6</u>

As at the close of the reporting period, the balance of the proceeds of the Company stood at RMB127,190,000, which was temporarily used as working capital of the Company. In light of the uncertain prospects of the local market, the draft beer project of Xian Company has not yet been put into operation. Regarding to the remaining projects, all have been completed and commenced operation.

3. BUSINESS OUTLOOK FOR THE SECOND HALF OF THE YEAR

The Directors believe that the beer market development in the PRC for recent years has shown a clear tendency: integration of market leaders and sino-foreign alliance. Such globalisation and centralisation will inspire new opportunities and a great leap in essence for the beer industry. The Company has forestalled its competitors by allying with Anheuser-Busch. Along with economic trends, the Company will leverage on the parties' advantages in resources to develop Tsingtao beers continuously, and keep it in the forefront of the PRC market with the view to expanding market presence.

SARS has undoubtedly created huge difficulties for the Company in achieving its annual operation objective. However, with great confidence and determination, our management and staff will try to achieve the annual operation objective by constant dedication and concerted efforts on celebration of the first centenary of Tsingtao beers.

SIGNIFICANT EVENTS

1. DIVIDENDS

Pursuant to the provisions of the Company's Articles of Association, the Company does not recommend the payment of interim dividends for the six months ended 30th June, 2003.

2. MATERIAL LITIGATION OR ARBITRATION DURING THE PERIOD UNDER REVIEW

- (1) No significant progress has been achieved recently for the case of Guangming General Company suing the Company for the breach of distribution contract as disclosed in the Company's 2001 Annual Report.
- (2) The Intermediate People's Court of Qingdao has made a ruling on the Company's claim against Tsingdao Honglong Trading Company Limited ("Honglong Company") over the disputed purchase orders. It was ruled that Honglong Company and its shareholders shall pay the outstanding amount of RMB15,105,047 for the beer purchased. The case is in the appeal stage and recently there has not been any significant development yet.

3. ACQUISITIONS AND MERGERS BY THE COMPANY AND ASSET REORGANIZATION DURING THE REPORTING PERIOD

- (1) On 13th January, 2003, the Company and Fujian Brewery (Singapore) Private Company Limited ("Fuzhou Foreign Shareholder") entered into an Equity Transfer Supplementary Agreement, by which, the Company was transferred with the 24% interests in Tsingtao Brewery (Fuzhou) Company Limited held by the Fuzhou Foreign Shareholder at a price of RMB40 million.
- (2) On 20 January, 2003, Tsingtao Brewery Xi'an Company Limited ("Tsingtao Xi'an Company"), a subsidiary of the Company, and Baoji Brewery Company Limited (陝西寶雞啤酒股份有限公司) ("Baoji Company") entered into a Tenancy Contract, pursuant to which, Tsingtao Brewery Baoji Company Limited (青島啤酒寶雞有限責任公司) ("Tsingtao Baoji"), jointly established by the Company and Tsingtao Xi'an Company, leased all the assets other than the current assets of Baoji Company for operation at nil consideration. At present, Baoji Company has an annual production capacity for brewery of 300,000 kilolitres. The Company's share of the brewery market in Northwest China is further expanded by the leasing of Baoji Company for operation.

Tsingtao Baoji has a registered capital of RMB1 million, of which the Company contributed RMB300,000 in cash, accounting for 30%, and Tsingtao Xi'an Company contributed RMB700,000 in cash, accounting for 70% of its registered capital.

- (3) On 28 January, 2003, the Company and Tsingtao Brewery Group Limited (青島啤酒集團有限公司) (the "Group Co.") entered into the Operation and Management Entrustment Agreement, whereby, management of the 80% interests in Tsingtao Brewery (Yangzhou) Company Limited ("Yangzhou Company") held by the Group Co. was entrusted to the Company. The Group Co. undertook that it would transfer the entire 80% interests in Yangzhou Company it held to the Company upon its request. Yangzhou Company, jointly established by the Company and Tsingtao Jinlun Foods & Beverages Company Limited (青島金聯飲料食品有限公司) ("Jinlun Company") in November 1998, has a registered capital of RMB5 million of which the Company owns 20%. The Group Co. acquired from Jinlun Company its 80% interests in Yangzhou Company in November 2002.
4. Pursuant to the Strategic Investment Agreement entered into between the Company and Anheuser-Busch, as at 1st April, 2003, the Company issued the first two tranches of convertible bonds with three tranches in aggregate to the order of Anheuser-Busch. Anheuser-Busch made a payment of HK\$908 million (equivalent to approximately USD116.4 million) in cash for these two tranches to the Company's account. As at 2nd July, 2003, Anheuser-Busch converted a value of HK\$280,800,000 under Tranche I of the Convertible Bonds into 60 million new H shares at a conversion price of HK\$4.68 per share in Hong Kong. At the same time, the total share capital of the Company was increased to 1.06 billion shares. Taking into account its 45 million H shares in the Company originally held, Anheuser-Busch holds an aggregate 9.9% shareholdings in the Company.
 5. During the reporting period, no redemption and cancellation of listed shares was made by the Company. Nor did the Company and its subsidiaries purchase or re-sell any listed shares of the Company.

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

Changes in Shareholdings of Directors, Supervisors and Senior Management.

(i) A Shares

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		
Sun Ming Bo	1,261	1,261
Teng An Gong	0	0
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.

(ii) H Shares

As at 30 June 2003, none of the Directors, Supervisors or senior management of the Company has any interests and short positions in the H shares, underlying H shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance) which was recorded on the register required to be kept under section 352 of the SFO or otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

For the latest disclosure of interests filings for the Directors, Supervisors and senior management of the Company, please refer to the "Disclosure of Interests" section at the Stock Exchange's web-site at www.hkex.com.hk.

3. SUBSTANTIAL SHAREHOLDERS

Save as disclosed below, the Directors of the Company are not aware of any persons (other than a Director or Supervisor or Senior Management of the Company or his/her respective associate(s)) who, as at 30 June 2000, had an interest or short position in the shares or underlying shares of the Company which was recorded in the register to be kept under section 336 of the SFO:-

Name	Nature	Class of Shares	Capacity	Note	Number of shares/underlying shares	% to	
						entire issued capital	all issued H shares
Qingdao State-Owned Assets Administration Office	Long Position	A shares	Beneficial	1	399,820,000 A shares	39.98%	N/A
	Long Position	H shares	Interests of persons acting in concert	1	45,000,000 H shares	4.50%	12.97%
	Unlisted, physically settled derivatives (mandatory convertible bonds)	H shares	Interests of persons acting in concert	1	308,219,178 underlying H shares	30.82%	88.86%
Anheuser-Busch Companies, Inc.	Long Position	H shares	Corporate	1,2	45,000,000 H shares	4.50%	12.97%
	Unlisted, physically settled derivatives (mandatory convertible bond)	H shares	Corporate	1,2	308,219,178 underlying H shares	30.82%	88.86%
	Long Position	A shares	Interests of persons acting in concert	1,2	399,820,000 A shares	39.98%	N/A
Franklin Resources, Inc.	Long Position	H shares	Corporate/ Investment Manager	3	24,238,000 H shares	2.42%	6.99%
Templeton Worldwide, Inc.	Long Position	H shares	Corporate/ Investment Manager	3	23,388,000 H shares	2.34%	6.74%
Government of Singapore Investment Corporation Pte Ltd	Listed, physically settled derivatives	H shares	Investment Manager	N/A	17,557,000 underlying H shares	1.76%	5.06%

Notes:

- (1) *Qingdao State-Owned Assets Administration Office (“QSOAAO”) was interested in the above 399,820,000 A shares. Pursuant to an undertaking agreement between QSOAAO and Anheuser-Busch Companies, Inc. (“A-B”) dated 21 October 2002, which constitutes a section 317 agreement under the SFO, QSOAAO was deemed to be interested in the H shares and the relevant underlying H shares in which A-B was interested, and A-B was deemed to be interested in the A shares in which QSOAAO was interested.*
- (2) *Pursuant to the Strategic Investment Agreement between the Company and A-B, A-B will directly or through a nominee subscribe 3 tranches of mandatory convertible bonds convertible into 308,219,178 H shares. The first tranche of the convertible bonds was converted into 60,000,000 shares on 2 July 2003 subsequent to the period to which the above table relates.*
- (3) *The 23,388,000 H shares which were deemed to be interested by Templeton Worldwide, Inc were held by Templeton Asset Management Ltd in the capacity of investment manager. The said 23,388,000 H shares also formed part of the 24,238,000 H Shares which were deemed to be held by Franklin Resources, Inc.*
- (4) *For the latest disclosure of interests filings for the Company’s substantial shareholders, please refer to the “Disclosure of Interests” section at the Stock Exchange’s web-site at www.hkex.com.hk.*

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 2003 unaudited 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 2003

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. Secretary 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, The Standard
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)