

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

ASSETS	Notes	(Unaudited) 30th June 2004	31st December 2003
<b>Current assets</b>			
Cash at bank and in hand	6	1,632,394,367	932,900,408
Short-term investments	38	60,980,000	66,450,000
Notes receivable	7	98,054,616	50,883,184
Accounts receivable	8, 38	228,049,915	165,204,439
Other receivables	9, 38	297,431,119	307,667,155
Advances to suppliers	10, 38	241,768,470	134,349,330
Inventories	11	1,276,504,057	1,305,503,104
Prepaid expenses	12	27,018,332	14,123,395
<b>Total current assets</b>		<b>3,862,200,876</b>	<b>2,977,081,015</b>
<b>Long-term investments</b>			
Long-term equity investments	5, 13	78,810,652	(59,435,258)
<b>Total long-term investments</b>		<b>78,810,652</b>	<b>(59,435,258)</b>
<b>Fixed assets</b>			
Fixed assets-cost	14	8,850,172,955	8,639,564,734
Less: Accumulated depreciation	14	(3,601,292,040)	(3,390,796,250)
Fixed assets-net	14	5,248,880,915	5,248,768,484
Less: Provision for impairment of fixed assets	14	(162,426,271)	(124,758,450)
Fixed assets-net book value		5,086,454,644	5,124,010,034
Construction materials		29,817,310	—
Construction in progress	15	151,251,874	214,991,772
Fixed assets pending disposal		938,787	527,005
<b>Total fixed assets</b>		<b>5,268,462,615</b>	<b>5,339,528,811</b>
<b>Intangible assets and other assets</b>			
Intangible assets	16	684,760,600	685,135,590
Long-term prepaid expenses	17	5,852,176	6,084,362
Long-term accounts receivable	8, 38	53,808,142	53,808,142
<b>Total intangible assets and other assets</b>		<b>744,420,918</b>	<b>745,028,094</b>
<b>Total assets</b>		<b>9,953,895,061</b>	<b>9,002,202,662</b>

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

Legal representative:  
Li Gui Rong

Person in charge of  
accounting function:  
Sun Yu Guo

Person in charge of  
accounting department:  
Yu Zhu Ming

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

AS AT 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<i>Notes</i>	<b>(Unaudited) 30th June 2004</b>	31st December 2003
<b>Current liabilities</b>			
Short-term loans	18	<b>1,246,664,700</b>	1,302,612,990
Notes payable	19, 38	<b>496,297,540</b>	525,449,509
Accounts payable	20, 38	<b>786,619,283</b>	646,912,821
Advances from customers	20, 38	<b>146,121,518</b>	129,067,846
Accrued payroll		<b>12,250,844</b>	13,855,730
Welfare benefits payables		<b>32,236,489</b>	27,733,911
Dividends payable	37	<b>214,876,000</b>	1,100,000
Taxes payable	21	<b>257,858,322</b>	180,729,827
Other payables	20, 38	<b>940,529,539</b>	759,215,114
Other levies payable		<b>11,323,466</b>	4,083,608
Accrued expenses	22	<b>237,673,157</b>	62,851,607
Provisions	23	<b>51,068,422</b>	—
Current portion of long-term loans	18	<b>47,020,329</b>	61,385,555
Current portion of convertible bonds	24	<b>6,160,630</b>	4,513,880
<b>Total current liabilities</b>		<b><u>4,486,700,239</u></b>	<u>3,719,512,398</u>
<b>Long-term liabilities</b>			
Long-term loans	18	<b>46,514,815</b>	53,783,722
Convertible bonds	24	<b>1,205,449,234</b>	939,156,300
Long-term payables	38	<b>124,150,500</b>	124,047,480
<b>Total long-term liabilities</b>		<b><u>1,376,114,549</u></b>	<u>1,116,987,502</u>
<b>Total liabilities</b>		<b><u>5,862,814,788</u></b>	<u>4,836,499,900</u>
<b>Minority interests</b>		<b><u>613,479,038</u></b>	<u>651,800,241</u>
<b>Shareholders' equity</b>			
Share capital	25	<b>1,060,000,000</b>	1,060,000,000
Capital surplus	26	<b>1,825,994,450</b>	1,798,876,982
Surplus reserve	27	<b>395,164,057</b>	395,164,057
Including: public welfare fund	27	<b>176,978,672</b>	176,978,672
Undistributed profits	28	<b>196,010,800</b>	259,760,239
Foreign currency translation differences		<b>431,928</b>	101,243
<b>Total shareholders' equity</b>		<b><u>3,477,601,235</u></b>	<u>3,513,902,521</u>
<b>Total liabilities and shareholders' equity</b>		<b><u><u>9,953,895,061</u></u></b>	<u><u>9,002,202,662</u></u>

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

*Legal representative:*  
**Li Gui Rong**

*Person in charge of  
accounting function:*  
**Sun Yu Guo**

*Person in charge of  
accounting department:*  
**Yu Zhu Ming**

# TSINGTAO BREWERY COMPANY LIMITED

## BALANCE SHEET

AS AT 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

ASSETS	Notes	(Unaudited) 30th June 2004	31st December 2003
<b>Current assets</b>			
Cash at bank and in hand	6	717,417,924	257,825,760
Short-term investments	38	1,952,059,671	1,693,587,616
Notes receivable	7	19,119,400	5,454,500
Accounts receivable	8, 38	149,746,133	173,908,573
Other receivables	9, 38	334,189,007	250,308,891
Advances to suppliers	10, 38	5,988,227	16,793,506
Inventories	11	224,786,947	277,753,489
Prepaid expenses	12	13,946,042	5,662,480
<b>Total current assets</b>		<b>3,417,253,351</b>	<b>2,681,294,815</b>
<b>Long-term investments</b>			
Long-term equity investments	5, 13	1,837,215,697	1,629,446,381
<b>Total long-term investments</b>		<b>1,837,215,697</b>	<b>1,629,446,381</b>
<b>Fixed assets</b>			
Fixed assets-cost	14	2,018,186,850	1,991,468,752
Less: Accumulated depreciation	14	(1,066,688,381)	(1,026,501,139)
Fixed assets-net	14	951,498,469	964,967,613
Less: Provision for impairment of fixed assets	14	(6,879,712)	(6,890,750)
Fixed assets-net book value		944,618,757	958,076,863
Construction in progress	15	67,982,326	68,347,365
Fixed assets pending disposal		346,544	—
<b>Total fixed assets</b>		<b>1,012,947,627</b>	<b>1,026,424,228</b>
<b>Intangible assets and other assets</b>			
Intangible assets	16	147,994,225	150,514,709
Long-term prepaid expenses	17	2,378,600	2,579,200
Long-term accounts receivable	8, 38	53,808,142	53,808,142
<b>Total intangible assets and other assets</b>		<b>204,180,967</b>	<b>206,902,051</b>
<b>Total assets</b>		<b>6,471,597,642</b>	<b>5,544,067,475</b>

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

Legal representative:  
Li Gui Rong

Person in charge of  
accounting function:  
Sun Yu Guo

Person in charge of  
accounting department:  
Yu Zhu Ming

# TSINGTAO BREWERY COMPANY LIMITED

## BALANCE SHEET (Cont'd)

AS AT 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

LIABILITIES AND SHAREHOLDERS' EQUITY	Notes	(Unaudited) 30th June 2004	31st December 2003
<b>Current liabilities</b>			
Short-term loans	18	827,670,000	579,369,000
Notes payable	19, 38	82,543,600	99,384,500
Accounts payable	20, 38	135,408,376	105,475,575
Advances from customers	20, 38	36,217,295	52,082,206
Accrued payroll		(125,675)	—
Welfare benefits payables		(3,126,764)	(7,687,456)
Dividends payable	37	213,100,000	1,100,000
Taxes payable	21	64,256,321	45,168,436
Other payables	20, 38	203,181,619	115,926,175
Other levies payable		6,322,122	949,758
Accrued expenses	22	98,015,618	18,356,098
Provisions	23	51,068,422	—
Current portion of long-term loans	18	20,530,000	25,147,237
Current portion of convertible bonds	24	6,160,630	4,513,880
<b>Total current liabilities</b>		<b>1,741,221,564</b>	<b>1,039,785,409</b>
<b>Long-term liabilities</b>			
Long-term loans	18	19,234,000	23,564,000
Convertible bonds	24	1,205,449,234	939,156,300
<b>Total long-term liabilities</b>		<b>1,224,683,234</b>	<b>962,720,300</b>
<b>Total liabilities</b>		<b>2,965,904,798</b>	<b>2,002,505,709</b>
<b>Shareholders' equity</b>			
Share capital	25	1,060,000,000	1,060,000,000
Capital surplus	26	1,875,733,550	1,848,616,082
Surplus reserve	27	273,292,581	273,292,581
Including: public welfare fund	27	122,011,680	122,011,680
Undistributed profits	28	296,666,713	359,653,103
<b>Total shareholders' equity</b>		<b>3,505,692,844</b>	<b>3,541,561,766</b>
<b>Total liabilities and shareholders' equity</b>		<b>6,471,597,642</b>	<b>5,544,067,475</b>

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

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Sun Yu Guo

Person in charge of  
accounting department:  
Yu Zhu Ming

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

FOR THE SIXTH MONTHS ENDED 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

	<i>Notes</i>	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003 <i>(Note 43)</i>
<b>Revenue from main operations</b>	29, 38	<b>4,337,694,920</b>	3,835,462,035
Less: Cost of main operations	29, 38	<b>(2,512,000,267)</b>	(2,258,495,172)
Tax and levies on main operations	30	<b>(465,105,083)</b>	(402,299,699)
<b>Profit from main operations</b>		<b>1,360,589,570</b>	1,174,667,164
Add: Profit from other operations	31	<b>15,780,359</b>	7,245,433
Less: Selling and distribution expenses		<b>(710,465,123)</b>	(624,175,205)
General and administrative expenses		<b>(324,382,325)</b>	(306,936,162)
Finance expenses-net	32	<b>(27,051,918)</b>	(67,001,909)
<b>Operating profit</b>		<b>314,470,563</b>	183,799,321
Add: Investment income	33	<b>4,486,996</b>	9,423,557
Subsidy income	34	<b>29,485,149</b>	23,285,609
Non-operating income	35	<b>5,468,596</b>	3,679,454
Less: Non-operating expenses	35	<b>(108,612,357)</b>	(35,415,864)
<b>Total profit</b>		<b>245,298,947</b>	184,772,077
Less: Income taxes	36	<b>(75,936,610)</b>	(54,915,143)
Less: Minority interests		<b>(21,111,776)</b>	(13,453,650)
<b>Net profit</b>		<b>148,250,561</b>	116,403,284
Add: Undistributed profits at the beginning of period		<b>259,760,239</b>	108,828,477
Retrospective adjustments		<b>—</b>	220,000,000
Undistributed profits at beginning of period restated after retrospective adjustments		<b>259,760,239</b>	328,828,477
<b>Undistributed profits</b>		<b>408,010,800</b>	445,231,761
Less: Appropriation to surplus reserve fund		<b>—</b>	—
Appropriation to welfare fund		<b>—</b>	—
<b>Profit distributable to shareholders</b>		<b>408,010,800</b>	445,231,761
Less: Dividends	37	<b>(212,000,000)</b>	(220,000,000)
<b>Undistributed profits carried forward</b>		<b>196,010,800</b>	225,231,761
		(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003

**Supplementary information:**

1. Gain on disposal of business units or investments	—	—
2. Loss arising from natural disasters	—	—
3. Increase in total profit as a result of changes in accounting policies	—	—
4. Increase in total profit as a result of changes in accounting estimates	—	—
5. Losses from debt restructuring	—	—
6. Other — Provision for litigation ( <i>Note 23</i> )	<b>51,068,422</b>	—

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

*Legal representative:*  
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*Person in charge of  
accounting function:*  
**Sun Yu Guo**

*Person in charge of  
accounting department:*  
**Yu Zhu Ming**

**TSINGTAO BREWERY COMPANY LIMITED**  
**STATEMENT OF INCOME AND PROFIT APPROPRIATION**

FOR THE SIXTH MONTHS ENDED 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

	Notes	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003 <i>(Note 43)</i>
<b>Revenue from main operations</b>	38	<b>1,405,044,107</b>	1,291,348,729
Less: Cost of main operations	38	<b>(782,667,563)</b>	(774,009,876)
Tax and levies on main operations	30	<b>(81,763,401)</b>	(65,819,398)
<b>Profit from main operations</b>		<b>540,613,143</b>	451,519,455
Add: Profit from other operations	31	<b>1,061,073</b>	673,915
Less: Selling and distribution expenses		<b>(257,909,945)</b>	(195,051,413)
General and administrative expenses		<b>(75,602,737)</b>	(106,062,645)
Finance expenses-net	32	<b>(16,381,243)</b>	(23,682,974)
<b>Operating profit</b>		<b>191,780,291</b>	127,396,338
Add: Investment income	33	<b>45,840,317</b>	6,944,508
Non-operating income	35	<b>143,633</b>	600,783
Less: Non-operating expenses	35	<b>(58,072,075)</b>	(3,540,528)
<b>Total profit</b>		<b>179,692,166</b>	131,401,101
Less: Income taxes	36	<b>(30,678,556)</b>	(19,511,684)
<b>Net profit</b>		<b>149,013,610</b>	111,889,417
Add: Undistributed profits at the beginning of period		<b>359,653,103</b>	163,428,623
Retrospective adjustments		<b>—</b>	220,000,000
Undistributed profits at beginning of period restated after retrospective adjustments		<b>359,653,103</b>	383,428,623
<b>Undistributed profits</b>		<b>508,666,713</b>	495,318,040
Less: Appropriation to surplus reserve fund		<b>—</b>	—
Appropriation to welfare fund		<b>—</b>	—
<b>Profit distributable to shareholders</b>		<b>508,666,713</b>	495,318,040
Less: Dividends	37	<b>(212,000,000)</b>	(220,000,000)
<b>Undistributed profits carried forward</b>		<b>296,666,713</b>	275,318,040
		(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003
<b>Supplementary information:</b>			
1. Gain on disposal of business units or investments		<b>1,712,537</b>	—
2. Loss arising from natural disasters		<b>—</b>	—
3. Increase in total profit as a result of changes in accounting policies		<b>—</b>	—
4. Increase in total profit as a result of changes in accounting estimates		<b>—</b>	—
5. Losses from debt restructuring		<b>—</b>	—
6. Other — Provision for litigation <i>(Note 23)</i>		<b>51,068,422</b>	—

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

Legal representative:  
**Li Gui Rong**

Person in charge of  
accounting function:  
**Sun Yu Guo**

Person in charge of  
accounting department:  
**Yu Zhu Ming**

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

	<i>Notes</i>	<b>(Unaudited) Group</b>	<b>(Unaudited) Company</b>
<b>1. Cash flows from operating activities</b>			
Cash received from sale of goods or rendering of services		5,193,917,622	1,921,342,681
Refund of taxes and levies		33,073,563	—
Cash received relating to other operating activities		623,789,580	61,897,348
<b>Sub-total of cash inflows</b>		<u>5,850,780,765</u>	<u>1,983,240,029</u>
Cash paid for goods and services		(2,818,234,918)	(1,123,315,912)
Cash paid to and on behalf of employees		(313,009,854)	(72,966,138)
Payments of taxes and levies		(863,250,125)	(217,020,978)
Cash paid relating to other operating activities		(992,924,533)	(174,341,131)
<b>Sub-total of cash outflows</b>		<u>(4,987,419,430)</u>	<u>(1,587,644,159)</u>
<b>Net cash flows from operating activities</b>	1	<u>863,361,335</u>	<u>395,595,870</u>
<b>2. Cash flows from investing activities</b>			
Cash received from disposal of investments, other than subsidiaries		41,768,527	41,723,536
Cash received from returns on investments		4,794,762	35,394,762
Net cash received from disposal of fixed assets		2,980,503	70,810
Cash received relating to other investing activities		15,286,863	31,000,000
<b>Sub-total of cash inflows</b>		<u>64,830,655</u>	<u>108,189,108</u>
Cash paid to acquire fixed assets, construction in progress, intangible assets and other long-term assets		(198,409,261)	(43,169,036)
Cash paid to acquire investments, other than subsidiaries		(94,348,924)	—
Cash paid to acquire subsidiaries		(42,951,120)	(201,876,842)
Cash paid relating to other investing activities		(6,259,108)	(294,530,000)
<b>Sub-total of cash outflows</b>		<u>(341,968,413)</u>	<u>(539,575,878)</u>
<b>Net cash flows from investing activities</b>		<u>(277,137,758)</u>	<u>(431,386,770)</u>
<b>3. Cash flows from financing activities</b>			
Cash received from issuance of convertible bonds		270,275,413	270,275,413
Cash received from borrowings		705,531,080	265,644,000
Cash received relating to other financing activities		57,651,622	500,000
<b>Sub-total of cash inflows</b>		<u>1,033,458,115</u>	<u>536,419,413</u>
Cash repayments of amounts borrowed		(764,940,154)	(26,339,197)
Cash payments for distribution of dividends or profits and interest expenses		(59,400,724)	(14,638,498)
Including: dividends paid to minority interests by subsidiaries		(29,624,000)	—
Cash payments relating to other financing activities		(54,012,796)	—
<b>Sub-total of cash outflows</b>		<u>(878,353,674)</u>	<u>(40,977,695)</u>
<b>Net cash flows from financing activities</b>		<u>155,104,441</u>	<u>495,441,718</u>
<b>4. Effect of foreign exchange rate changes on cash</b>		<u>241,878</u>	<u>(58,654)</u>
<b>5. Net increase in cash</b>	3	<u>741,569,896</u>	<u>459,592,164</u>

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

Legal representative:  
Li Gui Rong

Person in charge of  
accounting function:  
Sun Yu Guo

Person in charge of  
accounting department:  
Yu Zhu Ming

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## CASH FLOW STATEMENT (Cont'd)

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

Supplementary Information	(Unaudited) Group	(Unaudited) Company
<b>1 Reconciliation of net profit to cash flows from operating activities:</b>		
Net profit	148,250,561	149,013,610
Adjust for: Profit of minority interests	21,111,776	—
Provision for assets impairment	73,030,316	3,223,715
Depreciation of fixed assets	234,788,240	49,543,737
Amortisation of intangible assets	11,376,830	2,571,484
Amortisation of long-term prepaid expenses	934,156	200,600
Increase in prepaid expenses	(12,894,937)	(8,283,562)
Increase in accrued expenses	174,821,550	79,659,520
Loss on disposal of fixed assets	6,620,743	6,987,195
Finance expenses	27,611,222	17,208,923
Investment income	(4,486,996)	(45,840,317)
Decrease in inventories	15,072,061	52,966,542
(Increase)/decrease in operating receivables	(259,015,385)	3,551,274
Increase in operating payables	426,141,198	84,793,149
	<u>863,361,335</u>	<u>395,595,870</u>
<b>2 Investing and financing activities that do not involve cash receipts and payments</b>		
Exemption of debt	<u>1,258,584</u>	<u>1,258,584</u>
<b>3 Net Increase in cash</b>		
Cash at end of period	1,579,319,523	689,417,924
Less: cash at beginning of period	<u>(837,749,627)</u>	<u>(229,825,760)</u>
<b>Net increase in cash</b>	<u>741,569,896</u>	<u>459,592,164</u>

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

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# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS

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FOR THE SIX MONTHS ENDED 30TH JUNE 2004

(PREPARED IN ACCORDANCE WITH PRC ACCOUNTING STANDARDS)

(ALL AMOUNTS IN RMB YUAN UNLESS OTHERWISE STATED)

### 1 COMPANY BACKGROUND AND OPERATIONS

Tsingtao Brewery Company Limited (the “Company”) was established in the People’s Republic of China (the “PRC”) on 16th June 1993 and it obtained the business license of a Sino-foreign Joint Stock Company on 27th December 1995. The H shares of the Company were listed on the main board of The Stock Exchange of Hong Kong Limited on 15th July 1993 and its 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 International Holdings, Inc. (“A-B Company”), pursuant to which the Company issued several tranches of mandatory convertible bonds (“CB”) to A-B Company amounting to approximately HK\$1,416,195,000 (equivalent to approximately RMB1,503,448,000). Upon full conversion of the CB, the equity holding of A-B Company in the Company will increase to approximately 27%. In 2003, approximately HK\$1,162,057,000 (equivalent to approximately RMB1,233,630,000) of the CB were issued and the related proceeds were received from A-B Company, out of which approximately HK\$280,800,000 (equivalent to approximately RMB297,999,000) of the CB had been converted into 60,000,000 new H-shares in 2003. The remaining balance of the CB of approximately HK\$254,138,000 (equivalent to approximately RMB269,818,000) was received on 31st March 2004. More details are set out in Note 24. For the six months ended 30th June 2004 (“the Period”) all the CB has been issued without any conversion of new H shares occurred.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the production and distribution of beer products.

The major acquisitions of the Group and the Company during the Period are detailed in Note 5.

### 2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

#### (a) Basis of preparation

The financial statements have been prepared in accordance with the Accounting Standards for Business Enterprises and “the Accounting Regulations for Business Enterprises” and related regulations, as promulgated by the Central Government of the PRC.

#### (b) Accounting Period

The Group’s accounting year starts on 1st January and ends on 31st December.

#### (c) Basis of accounting and measurement bases

The Group follows the accrual basis of accounting. Apart from those assets which were recorded at the revalued amount approved by the State-owned Assets Administration Bureau upon the reorganisation of the Company into a Joint Stock Company, all assets are initially recorded at actual costs and subsequently adjusted for impairment, if any.

## **2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

### **(d) Recording currency, foreign currency translation and foreign currency financial statement translation**

The recording currency of the Company is the Renminbi (RMB). The amounts of the financial statements are expressed in RMB.

Foreign currency transactions are translated into RMB at the exchange rates stipulated by the People's Bank of China ("the stipulated exchange rates") at the transaction dates. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated into RMB at the stipulated exchange rates at the balance sheet date. Exchange differences arising from these translations are expensed, except for those attributable to foreign currency borrowings that have been taken out specifically for the construction of fixed assets, which are capitalised as part of the fixed assets costs.

All assets and liabilities in foreign currencies financial statement are translated into RMB using the stipulated exchange rates at the balance sheet date; shareholders' equity, excluding undistributed profit, is translated using the stipulated exchange rates on the day when the transaction took place, undistributed profit represents the sum of translated balance of profit appropriation statement, the income statement is translated using the average stipulated exchange rate for the year. Any exchange differences arising from the translation of the financial statements are accounted for separately as Foreign Currency Translation Differences in the balance sheet. The cash flow statement is translated using the stipulated exchange rate at the balance sheet date.

### **(e) Cash and cash equivalents**

For the purposes of the cash flow statement, cash comprises all cash in hand and call deposits. Cash equivalents comprise investment with a maturity of three months or less and highly-liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the cash flow statement, restricted bank balances, including time deposits with maturity in excess of three months, are not included as cash and cash equivalents.

### **(f) Short-term investments**

Short-term investments mainly represent entrusted lending. Entrusted lending refers to loans that has provided to other parties via intermediary financial institutions. All balances are due for repayment within one year. Interest income that has been accrued but cannot be collected when due, is reversed and further accrual for interest income is suspended.

### **(g) Receivable and provision for bad debts**

Receivables represent accounts receivable and other receivables. The Group adopts the "allowance method" in accounting for potential bad debts. The net receivables are presented in the financial statements based on the actual receivable balance net of the provision balance. The accounts receivable balances include balances due from both related parties and non-related parties.

The Group determines the amount of bad debt losses on ending receivable balances as at year end (including balances due from related parties). Management determines the needs of such provision based on ageing analysis, past experience and financial and operating situations of the customers. Excluding the receivable balances which management considers with no collectibility problem, general bad debt provision of 50% and 100% are made for receivable balances aged within 1 to 2 years and over 2 years, respectively.

When there is any evidence indicating that the accounts receivable balances become uncollectible, for instance, when the debtors suffer from liquidation, bankruptcy, having net liabilities or inadequate cash flow, bad debts are recognised and the balances are written off against the corresponding provision for bad debts.

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

### (h) Inventories

Inventories include raw materials, work-in-progress, finished goods, low cost consumables and packaging materials, and are stated at the lower of cost and net realisable value.

Inventories acquired are accounted for at actual cost. The costs of raw materials and finished goods are calculated on weighted average method, while the cost of consumables and certain packaging materials are amortised into expenses over their estimated useful lives of 1-5 years using straight-line method. The cost of finished goods and work-in-process include the costs of raw material, direct labour and indirect production costs allocated based on appropriate percentages of total indirect production costs under normal production capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated selling and distribution expenses and related taxation expenses necessary to conclude the sale.

When inventories are sold, the carrying amount of those inventories is recognised as cost 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.

### (i) Long-term investments

Long-term investments comprise equity investments in subsidiaries, joint ventures and associated and other investments in companies, which are expected to be held for a period over one year, and bonds or other debt investments which could or are not readily realised.

#### *(1) Long-term equity investments*

Subsidiaries are investees in which the Company has, directly or indirectly, an interest of more than 50% (50% exclusive) of the voting share capital, or otherwise has power to govern the investees' financial and operating policies. Joint ventures are investees that are under the joint control of the Company and other venturers. Associates generally represent investees in which the Company has an interest of between 20% (20% exclusive) to 50% (50% exclusive) of the voting share capital or otherwise has significant influence over the financial and operating policies.

Long-term equity investments are recorded at the actual cost of acquisition or based on the carrying amount of non-monetary assets contributed and any related taxes and charges. The Company accounts for long-term equity investments in subsidiaries, joint ventures and associates using the equity method of accounting. Other equity investments, which the Company intends to hold for more than one year, are accounted for using the cost method of accounting.

When long-term equity investments acquired prior to 17th March 2003 are accounted for using the equity method of accounting, the difference between the initial cost of investment and the proportionate share of the net assets of the investee is amortized using the straight-line method over 10 years. Where long-term equity investments acquired after 17th March 2003 are accounted for using the equity method of accounting, if the initial cost of investment is less than the proportionate share of the net assets of the investee, the difference is accounted for as capital surplus. If there is an excess of the initial cost of investment over the proportionate share of net assets of the investee, the excess is amortized using the straight-line method over 10 years.

Under the equity method of accounting, the attributable share of the investees' net profit or loss for the period is recognized as an investment income or loss. When the investees declare dividends, the carrying amount of the investment is reduced accordingly. Under the cost method of accounting, investment income is recognized when the investees declare dividends.

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

### (i) Long-term investments (Cont'd)

#### (2) Long-term debt investments

Long-term debt investments are recorded at the actual cost of acquisition less interest accrued but can not be collected when due.

### (j) Fixed assets and depreciation

Fixed assets include buildings, machinery and equipment used in production or held for management purposes, which have useful lives of more than one year. Effective 1st January 2001, when construction takes place upon the Company's land and the construction is for the Company's own use, the carrying value of the land use rights is capitalised as part of the building costs within fixed assets.

Fixed assets purchased or constructed are recorded at actual cost. The revalued amount is determined based on the asset valuation undertaken by the Company upon its reorganisation into a joint stock company subject to the approval by the shareholders of the Company and confirmation from the State-Owned Assets Administration Bureau of the PRC.

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. For those assets which have been provided for impairment, depreciation rate and the depreciation amount are re-determined based on the restated net book values.

The estimated useful lives, residual value and annual depreciation rate of fixed assets are as follows:

	<b>Estimated useful lives</b>	<b>Estimated residual value</b>	<b>Annual depreciation rate</b>
Land and buildings			
— at cost	20-40 years	3%	2.4% — 4.9%
— Land use rights	50 years	0%	2%
Plant and machinery	5-14 years	3%	6.9% — 19.4%
Motor vehicles	5-12 years	3%	8.1% — 19.4%
Other equipment	5-10 years	3%	9.7% — 19.4%

When fixed assets are sold, transferred, disposed of or destroyed, gains and losses on disposal are determined by comparing the proceeds with the carrying amount of the assets, reduced by related taxes and expenses, and are included in non-operating income/expenses.

Repairs and maintenance of fixed assets are expensed as incurred. Subsequent expenditures for major reconstruction, expansion, improvement and renovation are capitalised when it is probable that future economic benefits in excess of the original assessment of performance will flow to the Company. Capitalised expenditures arising from major reconstruction, expansion and improvement are depreciated using the straight-line method over the remaining useful lives of the fixed assets. Capitalised expenditures arising from the renovation of fixed assets are depreciated over the expected beneficial period.

At each balance sheet date, the Group reviews each of the fixed asset items. Provision for impairment losses are made for the excess of the carrying amount of an asset over its recoverable amount, which is caused by continuous decline in market value, out-dated technology, damage, or idle usage, etc.. When economic benefits can no longer be derived from the fixed assets, these assets are fully provided for impairment loss individually and the corresponding charges are recognised in the profit and loss account of the year.

## **2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

### **(k) Construction in progress**

Construction in progress represents fixed assets under construction or installation and is stated at cost incurred. Cost comprises the construction costs and other direct costs, original cost of machinery and equipment, installation costs and borrowing costs on specific borrowings for financing the construction or acquisition of fixed assets until the assets are ready for their intended use. Construction in progress is transferred to fixed assets and depreciation commences when the assets are ready for their intended use.

At each balance sheet date, the Group conducts a full-scale review of its construction in progress. Provision for impairment losses is made and charged to the profit and loss account when the recoverable amount is lower than its carrying amount, when constructions is suspended and expected not to resume in coming 3 years, the specification and technology are obsolete and the economic benefits of which are uncertain, or when other evidences for impairment losses.

### **(l) Intangible assets and amortisation**

Intangible assets comprise land use rights, trademark, computer software and technology know-how. The net carrying amount is stated at cost less accumulated amortisation.

The costs of land use rights purchased or obtained by way of payments of land use right fees are stated at the respective costs of purchase and recognised as intangible assets upon the commencement of construction of the related projects. The costs of land use rights are amortised on a straight-line basis over their estimated useful lives. From 1st January 2001 onwards, the carrying values of land use rights are transferred to construction in progress when the land involved is developed for self-use projects.

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.

All research and development fees for internally generated intangible assets are charged to the profit and loss account as expenses when incurred. The Group's technology know-how was injected by a minority shareholder of a subsidiary during the reorganisation of that subsidiary. It was recorded at a value agreed among all the shareholders of that subsidiary and is amortised on a straight-line basis over an expected period of inflow of economic benefits of 10 years.

The Group regularly reviews the estimated future economic benefits of each intangible asset item. When there is evidence indicating that the value of the intangible asset has been impaired, provision for impairment loss are made for the excess of carrying amount over its recoverable amount.

### **(m) Long-term prepaid expenses**

Long-term prepaid expenses include advertising expenses, building usage right, greenery expenses and expenditures on improvement projects incurred which should be amortised for more than one year. Long-term prepaid expenses are amortized on the straight-line basis over the expected beneficial period and are presented at cost net of accumulated amortization.

All expenses incurred during the pre-operating period are first aggregated as long-term prepaid expenses and were expensed in the first month of commercial operation.

## **2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

### **(n) Borrowing**

Borrowing are initially recognised at the amounts of the proceeds received. Ancillary costs incurred in connection with the borrowing arrangement are expensed as incurred.

Borrowing costs, including interests, ancillary costs and exchange differences, incurred in connection with specific borrowings obtained for the acquisition or construction of fixed assets are capitalised as costs of the fixed assets when capital expenditures and borrowing costs are incurred and the activities have commenced to enable the assets to be ready for their intended use. The capitalisation of borrowing costs ceases when the assets are ready for their intended use.

The interest expenses arising from specific loans are capitalised based on the weighted average of capital expenditures and the weighted average rate of these specific loans, subject to a cap of the actual interest expenses incurred.

### **(o) Convertible bonds**

Convertible bonds are recognised as liabilities at issue price upon its issuance and before their conversion into shares. The difference between the issue price and the face value is recognised as premium or discount, which is to be amortised on a straight-line basis over the term of the bond. The amortisation is charged together with the bond interest based on the principle of accounting for borrowing costs. When the bonds are converted into shares, they are converted at their carrying amounts. The difference between the carrying amount of the convertible bonds and the face value of the shares so converted, net of any related expenses paid, is recognised as share premium.

### **(p) Provisions**

Provisions are recognized when the Company has a present obligation as a result of past transactions or events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made.

### **(q) Profit distribution**

Profit distribution is transferred out of shareholders equity in the period when the distribution plan is approved by the general meeting of the shareholders.

### **(r) Revenue recognition**

#### **(i) Sales of good**

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 have the rights to manage and control the goods.

Sales discounts are net off against revenue in the current Period.

#### **(ii) Other revenue**

Interest income is recognised on a time proportion basis taking into account deposit balances or entrusted lending and the effective yield.

Subsidy income is recognised when received.

## **2 PRINCIPAL ACCOUNTING POLICIES, ACCOUNTING ESTIMATES AND BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS (CONT'D)**

### **(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 as well as all the available tax benefits, using the applicable tax rates.

The accounting treatment adopted by the Group for its enterprise income tax is based on the tax effects on accounting, using the liability method. Deferred taxation is provided for using the liability method. Timing differences are differences in the timing of recognition of income, expenses and profit and loss as a result of the tax regulations and accounting system. The effects of timing differences on the cumulative amount of income tax as at year end are adjusted based on the current tax rate.

Deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

### **(t) Basis of preparation of consolidated financial statements**

The consolidated financial statements include the Company and subsidiaries, and are prepared based on the requirements of Cai Kuai Zi [1995] No. 11 “the Articles on issuance of consolidated financial statements” and related regulation promulgated by the Ministry of Finance of the PRC.

The turnover, cost of sales and profit and loss account of the subsidiaries 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 Peirod, 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 31st December 2003, the information of the Company's principle subsidiaries are as follows:

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 ("Huanan Holding")	Shenzhen, the PRC	RMB200,000,000	95%	—	Investment holding
Tsingtao Brewery (Zhuhai) Company Limited ("Zhuhai Company")	Zhuhai, the PRC	RMB60,000,000	—	72.83%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Sanshui) Company Limited ("Sanshui Company")	Sanshui, the PRC	RMB41,335,505	—	71.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Chenzhou) Company Limited ("Chenzhou Company")	Chenzhou, the PRC	RMB70,000,000	—	84.36%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Huangshi) Company Limited ("Huangshi Company")	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 Brewery Asahi Company Limited ("Shenzhen Asahi")	Shenzhen, the PRC	US\$30,000,000	51%	—	Manufacturing and trading of beer
Shenzhen Tsingtao Brewery Sales Company Limited ("Shenzhen Sales")	Shenzhen, the PRC	RMB20,000,000	95%	—	Domestic trading of beer
Tsingtao Brewery Huadong Holding Company Limited	Shanghai, the PRC	RMB100,000,000	95%	—	Investment holding
Tsingtao Brewery Huadong Shanghai Sales Company Limited	Shanghai, the PRC	RMB3,000,000	—	94.05%	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

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

(a) As at 31st December 2003, the information of the Company's principle subsidiaries are as follows: (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 (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 Songjiang")	Shanghai, the PRC	US\$36,640,000	75%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Shouguang) Company Limited ("Shouguang Company")	Shouguang, the PRC	RMB60,606,060	99%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Weifang) Company Limited ("Weifang Company")	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 Company")	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

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

(a) As at 31st December 2003, the information of the Company's principle subsidiaries are as follows:  
(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 Tsingtao Brewery Three Ring Company Limited ("Three Ring Company")	Beijing, the PRC	US\$28,900,000	29% (Note 41(a))	25% (Note 41(a))	Manufacturing and domestic trading of beer
Beijing Five Star Tsingtao Brewery Company Limited ("Five Star Company")	Beijing, the PRC	RMB862,000,000	37.64%	25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Fuzhou) Company Limited ("Fuzhou Company")	Fuzhou, the PRC	US\$26,828,100	75%	25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Langfang) Company Limited ("Langfang Company")	Langfang, the PRC	RMB10,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Xian Company Limited ("Xian Company")	Xian, the PRC	RMB222,200,000	76.10%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Weinan Company Limited	Weinan, 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 ("Xingkaihu Company")	Jixi, the PRC	RMB20,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Mishan) Company Limited ("Mishan Company")	Mishan, the PRC	RMB20,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Haerbin) Company Limited ("Haerbin Company")	Haerbin, the PRC	RMB22,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Penglai) Company Limited ("Penglai Company")	Penglai, the PRC	RMB37,500,000	80%	—	Manufacturing and domestic trading of beer

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

(a) As at 31st December 2003, the information of the Company's principle subsidiaries are as follows: (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 (Rongcheng) Company Limited ("Rongcheng Company")	Rongcheng, the PRC	RMB20,000,000	70%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Import/Export Company Limited	Qingdao, the PRC	RMB11,000,000	97.73%	—	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 ("No. 5 Company")	Qingdao, the PRC	RMB34,610,000	93.79%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Development Company Limited	Qingdao, the PRC	RMB1,320,000	100%	—	Domestic trading of beer
Tsingtao Brewery (Pingyuan) Company Limited	Pingyuan, the PRC	RMB5,000,000	90%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Rizhao) Company Limited	Rizhao, the PRC	RMB10,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Heze) Company Limited	Heze, the PRC	RMB10,000,000	90%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (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 Company")	Hong Kong, the PRC	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

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

(a) As at 31st December 2003, the information of the Company's principle subsidiaries are as follows: (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 (Doumen) Malt Company Limited ("Doumen Company")	Zhuhai , the PRC	RMB10,000,000	—	85.82% (Note 41(c))	Manufacturing and domestic trading of malt
Tsingtao Brewery (Luzhou) Company Limited ("Luzhou Company")	Luzhou, the PRC	RMB111,110,000	95%(b(i))	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Nanjing) Company Limited	Nanjing, the PRC	US\$5,000,000	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	Qingdao, 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%	Domestic trading of beer
Tsingtao Brewery Huadong Suzhou Sales Company Limited	Suzhou, the PRC	RMB3,000,000	—	76.10%	Domestic trading of beer
Tsingtao Brewery Xinan Sales Company Limited	Chengdu, the PRC	RMB2,000,000	60%	30%	Domestic trading of beer

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

(a) As at 31st December 2003, the information of the Company's principle subsidiaries are as follows: (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 (Suizhou) Company Limited ("Suizhou Company")	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 Xianghong Trading 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 Company")	Xiamen, the PRC	RMB10,000,000	75%(b(ii))	25%(b(ii))	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xiamen) Sales Company Limited	Xiamen, the PRC	RMB1,000,000	—	40%	Domestic trading of beer
Tsingtao Brewery Haifeng Warehouse Company Limited	Qingdao, the PRC	RMB1,000,000	—	53.75%	Warehousing, packaging and logistics
Tsingtao Brewery Baoji Company Limited ("TB Baoji")	Baoji, the PRC	RMB1,000,000	30%(d)	53.27%(d)	Manufacturing and domestic trading of beer

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

(a) As at 31st December 2003, the information of the Company's principle subsidiaries are as follows: (Cont'd)

During the Period, information of the subsidiaries newly acquired/established by the Group are as follows:

Name of new subsidiaries	Date of establishment acquisition	Place of establishment and principal operation	Registered and paid-in capital	Equity interest held by the Company (%)		Principal activities
				Directly held	Indirectly held	
Xuzhou Pengcheng Sales Company Limited	January 2004	Xuzhou, the PRC	RMB5,000,000	—	83.80%	Trading of beer
Tsingtao Brewery (Changsha) Company Limited (i)	January 2004	Changsha, the PRC	RMB68,000,000	70%	28.50%	Manufacturing and domestic trading of beer

- (i) In January 2004, the Company and Huanan Holding, a subsidiary of the Company, jointly invested in a newly incorporated company, namely Tsingtao Brewery (Changsha) Company Limited ("Changsha Company"), with registered capital amounting to 10,000,000. The Company injected cash capital of 7,000,000, which accounted for 70% of the total registered capital while Huanan Holding injected cash capital of 3,000,000, which accounted for the remaining 30% for the total registered capital. In March 2004, the Company and Huanan Holding injected additional capital to Changsha Company after approved by the Board of Directors meeting. The Company and Huanan Holding injected cash capital of 40,600,000 and 17,400,000 respectively. After the injection of capital, the registered capital of Changsha Company increase from 10,000,000 to 68,000,000 and equity interest of Changsha Company held by the Company and Huanan Holding remains unchanged.

(b) During the Period, changes in the equity interests of the following subsidiaries held by the Company are as follows:

- (i) In May 2004, the Company entered into an equity transfer agreement with Sichuan Huo Ju Hua Gong Company Limited (Sichuan Huo Ju) to acquire 40% equity interest of Luzhou Company at consideration approximately 34,296,000. After the transaction, the effective ownership percentage held by the Company in Luzhou Company increases from 55% to 95%.
- (ii) In May 2004, the relevant procedures, of which Hong Kong Company acquired 5% and 20% interests of Xiamen Company held by the Company and Ou Mei Investment Company respectively, have been completed. In addition, the Company and Hong Kong Company injected additional capital of 60,000,000 and 20,000,000 respectively into Xiamen Company, which has been approved by Xiamen Foreign Investment Bureau and the renewal of business registration procedures have been completed in July 2004. After the additional capital injection, the registered capital of Xiamen Company increased from 10,000,000 to 90,000,000 with the equity interests of Xiamen Company held by the Company and Hong Kong Company unchanged.

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

- (c) As at 30th June 2004, information 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	—
Qinghua International Trade Development Company Limited ("Qinghua International")	Canada	US\$500,000	50%	—	International trading and distribution of beer	2,077,625
Tsingtao Beer and Asahi Beverage Company Limited	Qingdao, the PRC	RMB70,000,000	—	37.52%	Manufacturing and domestic trading of beer	21,291,514
Nanning Tsingtao Brewery Company Limited ("Nanning Company") (i)	Nanning, the PRC	RMB730,000,000	—	30%	Manufacturing and domestic trading of beer	115,332,220

- (i) Huanan Holding, a subsidiary of the Company, purchased 30% equity interest of Naning Company from Tailian Brewery (Cayman Islands) Company Limited ("Tailian Brewery") and the relevant equity transfer procedure have been completed in June 2004, the difference from the initial cost of investment less than the proportionate share of the net assets of the investee has been recorded in capital surplus (Note 26(i)). In May 2004, Huanan Holding signed an equity transfer agreement with Tailian Brewery, pursuant to which Huanan Holding will purchase 45% equity interest of Nanning Company from Tailian Brewery at a consideration of 200,880,000. As at the reporting date, the approval procedure of the equity transfer by Ministry of Commerce of the PRC is still in progress. After the completion of the above equity transfer, the effective percentage of equity interest indirectly held by the Company in Nanning Company increases from 30% to 75%.
- (d) In 2003, Xian Company, a subsidiary of the Company, and Shanxi Baoji Brewery Company Limited ("Baoji Brewery Company") entered into a lease agreement, pursuant to which Baoji Brewery Company leases all its operating assets except for current assets and seconds its employees to TB Baoji, which was jointly set up by the Company and Xian Company, for beer production business, and TB Baoji bears all the operating costs relating to the leased assets and employees.

In May 2004, TB Baoji and Shanxi Baoji Alcohol Factory ("Baoji Alcohol"), the biggest shareholder of Baoji Brewery Company, entered into a lease agreement, pursuant to which Baoji Alcohol leases its buildings, lands and equipments to TB Baoji at the consideration that TB Baoji will utilise Baoji Alcohol's staff and afford relevant staff cost.

## 6 CASH AT BANK AND IN HAND

### (a) Group

	(Unaudited) 30th June 2004			31st December 2003		
	Foreign currency balance	Exchange rate	RMB equivalents	Foreign currency balance	Exchange rate	RMB equivalents
Cash in hand						
— RMB			1,872,457			1,953,642
Cash at bank						
— RMB			1,532,062,679			889,531,221
Subtotal			1,533,935,136			891,484,863
Foreign currency deposits						
— US\$	5,305,615	8.2767	43,913,198	4,965,005	8.2770	41,094,545
— HKD	51,375,783	1.0617	54,546,033	301,212	1.0660	321,000
Total cash at bank and in hand			<u>1,632,394,367</u>			<u>932,900,408</u>

### (b) Company

	(Unaudited) 30th June 2004			31st December 2003		
	Foreign currency balance	Exchange rate	RMB equivalents	Foreign currency balance	Exchange rate	RMB equivalents
Cash in hand						
— RMB			704,392			815,229
Cash at bank						
— RMB			695,418,452			217,644,766
Subtotal			696,122,844			218,459,995
Foreign currency deposit						
— US\$	2,572,893	8.2767	21,295,080	4,751,007	8.2770	39,323,257
— HKD	—	—	—	39,888	1.0660	42,508
Total cash at bank and in hand			<u>717,417,924</u>			<u>257,825,760</u>

## 6 CASH AT BANK AND IN HAND (CONT'D)

(c) For the purposes of the cash flow statement, cash and cash equivalents comprises the following:

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Cash at bank and in hand	<b>1,632,394,367</b>	932,900,408	<b>717,417,924</b>	257,825,760
Less: Time deposits with original maturity of more than 3 months	<b>(31,024,144)</b>	(12,015,816)	<b>(28,000,000)</b>	—
Restricted cash at bank (i)	<b>(22,050,700)</b>	(83,134,965)	—	(28,000,000)
Total	<b><u>1,579,319,523</u></b>	<u>837,749,627</u>	<b><u>689,417,924</u></b>	<u>229,825,760</u>

(i) Restricted cash at bank are pledged deposits required to obtain trade finance facilities from the banks.

## 7 NOTES RECEIVABLE

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Bank drafts	<b><u>98,054,616</u></b>	<u>50,883,184</u>	<b><u>19,119,400</u></b>	<u>5,454,500</u>

All above are all unsecured and not pledged for any banking facilities.

## 8 ACCOUNTS RECEIVABLE AND LONG-TERM ACCOUNTS RECEIVABLE

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Accounts receivable and long-term accounts receivable	<b>436,605,755</b>	363,651,899	<b>287,242,130</b>	308,783,195
Less: Provision for bad debts	<b>(154,747,698)</b>	(144,639,318)	<b>(83,687,855)</b>	(81,066,480)
Total	<b><u>281,858,057</u></b>	<u>219,012,581</u>	<b><u>203,554,275</u></b>	<u>227,716,715</u>

## 8 ACCOUNTS RECEIVABLE AND LONG-TERM ACCOUNTS RECEIVABLE (CONT'D)

The aging analysis of accounts receivable and long-term accounts receivable and related provision for bad debts is analysed below:

### (a) Group

	(Unaudited) 30th June 2004				31st December 2003			
	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)
Within one year	199,103,037	45.60%	(7,933,437)	3.98%	128,795,973	35.42%	(2,599,211)	2.02%
Between one and two years	33,447,490	7.66%	(8,745,458)	26.15%	42,273,098	11.62%	(12,591,434)	29.79%
Between two and three years	36,003,967	8.25%	(33,937,319)	94.26%	28,272,347	7.77%	(19,311,432)	68.31%
Over three years	168,051,261	38.49%	(104,131,484)	61.96%	164,310,481	45.19%	(110,137,241)	67.03%
<b>Total</b>	<b>436,605,755</b>	<b>100.00%</b>	<b>(154,747,698)</b>	<b>35.44%</b>	<b>363,651,899</b>	<b>100.00%</b>	<b>(144,639,318)</b>	<b>39.77%</b>

As at 30th June 2004, the aggregate amount of the Group's five largest accounts receivable and long-term accounts receivable balances was approximately 130,319,000 (31st December 2003: 123,213,000), being 30% (31st December 2003: 34%) of the total accounts receivable and long-term accounts receivable balances.

During the Period, the Group wrote off uncollectible accounts receivable and long-term accounts receivable against the provision for bad debts in the amount of approximately 641,000 (31st December 2003: 27,131,000).

### (b) Company

	(Unaudited) 30th June 2004				31st December 2003			
	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)
Within one year	128,788,683	44.84%	(15,540)	0.01%	144,130,872	46.68%	(1,400,839)	0.97%
Between one and two years	12,566,053	4.37%	(1,298,214)	10.33%	29,827,429	9.66%	(6,378,960)	21.39%
Between two and three years	27,620,687	9.62%	(26,837,124)	97.16%	18,646,014	6.04%	(11,010,959)	59.05%
Over three years	118,266,707	41.17%	(55,536,977)	46.96%	116,178,880	37.62%	(62,275,722)	53.60%
<b>Total</b>	<b>287,242,130</b>	<b>100.00%</b>	<b>(83,687,855)</b>	<b>29.13%</b>	<b>308,783,195</b>	<b>100.00%</b>	<b>(81,066,480)</b>	<b>26.25%</b>

As at 30th June 2004, the aggregate amount of Company's five largest accounts receivable and long-term accounts receivable balances was approximately 130,319,000 (31st December 2003: 185,203,000), being 45% (31st December 2003: 60%) of the total accounts receivable and long-term accounts receivable balances.

During the Period, the Company did not write off any uncollectible accounts receivable and long-term accounts receivable against the provision for bad debts (31st December 2003: 18,246,000).

As at 30th June 2004, the Group and the Company had no accounts receivable and long-term accounts receivable balances owed from parties who own 5% or above shareholdings in the Company.

## 8 ACCOUNTS RECEIVABLE AND LONG-TERM ACCOUNTS RECEIVABLE (CONT'D)

(c) In 2001, the Group and the Company reached a settlement agreement with a customer and a related company (collectively "the Debtors") in connection with an aggregate outstanding receivable balance of 105,000,000 ("the Debts"). Pursuant to the agreement, the Debts are repayable in eight annual installments, commencing from 1st January 2002. In addition, Tsingtao Brewery Group Company Limited, a related company, has undertaken to guarantee the repayment of the outstanding balance. As at 30th June 2004, provision for doubtful debts had been provided for part of the balance. The remaining outstanding balance of the Debts of approximately 10,000,000 and 53,808,000 were recorded as accounts receivable and long-term accounts receivable balance in both the balance sheets of the Company and the Group (Note 38(a)(ii)).

## 9 OTHER RECEIVABLES

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Due from subsidiaries	—	—	<b>214,182,943</b>	219,590,544
Due from related companies	<b>54,548,889</b>	43,107,633	<b>19,253,001</b>	25,145,973
Others	<b>297,545,121</b>	318,879,075	<b>131,090,115</b>	37,986,461
	<b>352,094,010</b>	361,986,708	<b>364,526,059</b>	282,722,978
Provision for bad debts	<b>(54,662,891)</b>	(54,319,553)	<b>(30,337,052)</b>	(32,414,087)
Total	<b>297,431,119</b>	307,667,155	<b>334,189,007</b>	250,308,891

The ageing of other receivables and the related provision for bad debts is analysed below:

### (a) Group

	(Unaudited) 30th June 2004				31st December 2003			
	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)
Within one year	228,520,058	64.90%	(3,816,596)	1.67%	228,986,949	63.25%	(2,247,352)	0.98%
Between one and two years	51,712,903	14.69%	(7,291,128)	14.10%	55,260,608	15.27%	(3,268,823)	5.92%
Between two and three years	8,966,458	2.55%	(7,082,865)	78.99%	38,041,855	10.51%	(11,479,889)	30.18%
Over three years	62,894,591	17.86%	(36,472,302)	57.99%	39,697,296	10.97%	(37,323,489)	94.02%
Total	<b>352,094,010</b>	<b>100.00%</b>	<b>(54,662,891)</b>	<b>15.53%</b>	<b>361,986,708</b>	<b>100.00%</b>	<b>(54,319,553)</b>	<b>15.01%</b>

As at 30th June 2004, the aggregate amount of Group's five largest other receivable balances was approximately 186,258,000 (31st December 2003: 143,265,000), being 53% (31st December 2003: 40%) of the total other receivables balances.

## 9 OTHER RECEIVABLES (CONT'D)

### (b) Company

	(Unaudited) 30th June 2004				31st December 2003			
	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)	Amount	Percentage (%)	Provision for bad debts	Provision Percentage (%)
Within one year	132,438,956	36.33%	(42,231)	0.03%	60,351,112	21.35%	(31,092)	0.05%
Between one and two years	197,999,324	54.32%	(3,572,501)	1.80%	173,499,340	61.36%	(53,713)	0.03%
Between two and three years	9,148,153	2.51%	(2,448,872)	26.77%	25,276,388	8.94%	(8,907,428)	35.24%
Over three years	24,939,626	6.84%	(24,273,448)	97.33%	23,596,138	8.35%	(23,421,854)	99.26%
Total	<u>364,526,059</u>	<u>100.00%</u>	<u>(30,337,052)</u>	<u>8.32%</u>	<u>282,722,978</u>	<u>100.00%</u>	<u>(32,414,087)</u>	<u>11.46%</u>

As at 30th June 2004, the aggregate amount of Company's five largest other receivable balances was approximately 94,794,000 (31st December 2003: 245,884,000), being 26% (31st December 2003: 87%) of the total other receivable balance.

The Company's other receivables balance, which aged from one to three years, were mainly loans made to subsidiaries for financing their working capital. The Company considered that no provision for doubtful debts was necessary after taking into account the operating results of the subsidiaries.

As at 30th June 2004, the Group and the Company had no other receivables balance due from parties who own 5% or above shareholdings in the Company.

## 10 ADVANCES TO SUPPLIERS

The ageing of advances to suppliers is analysed below:

### (a) Group

	(Unaudited) 30th June 2004		31st December 2003	
	Amount	Percentage(%)	Amount	Percentage(%)
Less than one year	240,931,906	99.65%	133,152,529	99.11%
Between one and two years	446,951	0.18%	1,002,165	0.75%
Between two and three years	354,033	0.15%	104,559	0.08%
Over three years	35,580	0.02%	90,077	0.06%
Total	<u>241,768,470</u>	<u>100.00%</u>	<u>134,349,330</u>	<u>100.00%</u>

## 10 ADVANCES TO SUPPLIERS (CONT'D)

### (b) Company

	<b>(Unaudited)</b> <b>30th June 2004</b>		31st December 2003	
	<b>Amount</b>	<b>Percentage(%)</b>	Amount	Percentage(%)
Less than one year	<b>5,986,427</b>	<b>99.97%</b>	16,793,506	100%
Between one and two years	<b>1,800</b>	<b>0.03%</b>	—	—
Total	<b><u>5,988,227</u></b>	<b><u>100%</u></b>	<b><u>16,793,506</u></b>	<b><u>100%</u></b>

As at 30th June 2004, the Group and the Company have no advances to suppliers balance which was made to parties who own 5% or above shareholdings in the Company.

Advances to suppliers balance of the Group and the Company, which aged over one year, were mainly deposits paid for purchasing of materials.

## 11 INVENTORIES

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Raw materials	367,931,900	425,140,694	115,009,874	134,133,346
Packaging materials	397,462,877	353,727,924	10,434,489	12,077,263
Low cost consumables and auxiliary materials	236,794,189	251,178,676	25,952,461	34,124,005
Materials on consignment	4,255,925	6,859,009	262,656	3,785,599
Work in progress	174,621,507	128,849,769	39,271,166	28,994,890
Finished goods	135,336,241	164,877,217	34,878,539	65,660,624
	<b>1,316,402,639</b>	1,330,633,289	<b>225,809,185</b>	278,775,727
Less: Provision for loss on realisation of inventories	<b>(39,898,582)</b>	(25,130,185)	<b>(1,022,238)</b>	(1,022,238)
Total	<b>1,276,504,057</b>	1,305,503,104	<b>224,786,947</b>	277,753,489

Provision for loss on realisation of inventories:

	Beginning of the Period	(Unaudited) Addition	(Unaudited) Reversal	(Unaudited) End of the Period
Group				
Raw materials	2,805,178	183,070	—	2,988,248
Finished goods	9,049,580	—	—	9,049,580
Others	13,275,427	14,799,151	(213,824)	27,860,754
Total	25,130,185	14,982,221	(213,824)	39,898,582

	Beginning of the Period	(Unaudited) Addition	(Unaudited) Write off	(Unaudited) End of the Period
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Company

Raw material	1,022,238	—	—	1,022,238
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Provision for loss on realisation of inventories 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.

## 12 PREPAID EXPENSES

### Group

	Beginning of the Period	(Unaudited) Addition	(Unaudited) Amortisation for the Period	(Unaudited) End of the Period	Reasons for balance retained at Period end
Insurance premium	7,826,634	4,315,289	(7,123,264)	5,018,659	Not yet fully amortised
Advertising expenses	3,426,473	14,756,157	(9,346,838)	8,835,792	Not yet fully amortised
Rental	985,807	1,692,594	(1,851,806)	826,595	Not yet fully amortised
Others	1,884,481	37,295,006	(26,842,201)	12,337,286	Not yet fully amortised
Total	<u>14,123,395</u>	<u>58,059,046</u>	<u>(45,164,109)</u>	<u>27,018,332</u>	

### Company

	Beginning of the Period	(Unaudited) Addition	(Unaudited) Amortisation for the Period	(Unaudited) End of the Period	Reasons for balance retained at Period end
Insurance premium	4,977,472	935,736	(3,765,376)	2,147,832	Not yet fully amortised
Advertising expenses	—	13,138,502	(5,358,000)	7,780,502	Not yet fully amortised
Rental	447,550	673,033	(810,445)	310,138	Not yet fully amortised
Others	237,458	6,621,516	(3,151,404)	3,707,570	Not yet fully amortised
Total	<u>5,662,480</u>	<u>21,368,787</u>	<u>(13,085,225)</u>	<u>13,946,042</u>	

## 13 LONG-TERM EQUITY INVESTMENTS

### Group

	Notes	(Unaudited) 30th June 2004	31st December 2003
Investments in associated companies	(b)	<b>142,531,962</b>	21,202,259
Other equity investments	(c)	<b>25,727,367</b>	25,837,109
Provision for impairment		<b>(7,054,780)</b>	(7,054,780)
		<b>161,204,549</b>	39,984,588
Consolidation difference	(d)	<b>(82,393,897)</b>	(99,419,846)
Total		<b><u>78,810,652</u></b>	<b><u>(59,435,258)</u></b>

### Company

Investments in subsidiaries	(a)	<b>1,886,793,542</b>	1,687,466,851
Investments in associated companies	(b)	<b>5,906,182</b>	5,449,854
Other equity investments	(c)	<b>17,969,562</b>	17,969,562
Provision for impairment		<b>(2,992,862)</b>	(2,992,862)
		<b>1,907,676,424</b>	1,707,893,405
Equity investment differences	(d)	<b>(70,460,727)</b>	(78,447,024)
Equity total		<b><u>1,837,215,697</u></b>	<b><u>1,629,446,381</u></b>

### 13 LONG-TERM EQUITY INVESTMENTS (CONT'D)

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

Name of investees	Year of commencement and cessation	Initial investment	Additional investment	Total investment	(Unaudited) Change in equity during the Period	(Unaudited) Dividend received during the Period	(Unaudited) Cumulative changes inequity	Total investment
				as at 31st December 2003				as at 30th June 2004
Xian Company	1996	109,618,397	63,287,554	265,380,621	40,628,389	—	133,103,059	306,009,010
Shanghai Songjiang	2000	287,233,335	—	293,624,566	5,688,172	—	12,079,403	299,312,738
Huanan Holding	2001	190,000,000	—	204,792,914	34,455,257	—	49,248,171	239,248,171
Shenzhen Sales	1999	19,000,000	—	131,851,247	44,353,549	—	157,204,796	176,204,796
Shenzhen Asahi	1997	126,746,680	—	165,562,397	16,989,329	(30,600,000)	25,205,046	151,951,726
Luzhou Company	2001	61,110,000	36,335,684	49,190,088	37,640,163	—	(10,615,433)	86,830,251
No.5 Company	2000	37,625,391	—	69,789,970	3,123,123	—	35,287,702	72,913,093
Fuzhou Company	2001	60,851,224	16,606,992	52,487,657	(4,796,029)	—	(29,766,588)	47,691,628
Changsha Company	2004	7,000,000	40,600,000	—	47,600,000	—	—	47,600,000
Haerbin Company	2000	24,770,378	58,000,000	50,130,110	(2,846,694)	—	(35,486,962)	47,283,416
Three Ring Company	2001	37,561,561	—	15,248,695	(2,289,432)	—	(24,602,298)	12,959,263
Others (ending balance less than 10,000,000)	1993	361,323,728	489,287,418	389,408,586	11,052,864	(1,672,000)	(451,821,696)	398,789,450
		<u>1,322,840,694</u>	<u>704,117,648</u>	<u>1,687,466,851</u>	<u>231,598,691</u>	<u>(32,272,000)</u>	<u>(140,164,800)</u>	<u>1,886,793,542</u>

There are no significant restrictions on realisation and the repatriation of investment held by the Group.

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

Associates	Balance as at beginning of the Period	(Unaudited) Increase in equity during the Period	(Unaudited) Equity pick up in current Period	(Unaudited) Balance as at the end of the Period
Qinghua International	2,077,625	—	—	2,077,625
Others	3,372,229	—	456,328	3,828,557
Company total	5,449,854	—	456,328	5,906,182
Tsingtao Asahi Beverage Company Limited	15,750,359	8,000,000	(2,458,845)	21,291,514
Nanning Company	—	117,475,874	(2,143,654)	115,332,220
Others	2,046	—	—	2,046
Group total	<u>21,202,259</u>	<u>125,475,874</u>	<u>(4,146,171)</u>	<u>142,531,962</u>

### 13 LONG-TERM EQUITY INVESTMENTS (CONT'D)

#### (c) Other equity investments

Name of investees	(Unaudited) 30th June 2004	
	Investment amount	Proportion of shares held by the Company to the registered capital of the investees
Shanghai International Ming Jiu Development Corporation	7,000,000	17.5%
Tianjin Tsingtao Brewery Sales Company Limited ("Tianjin Company") (i)	4,884,300	60%
Tsingtao Yingxiao Club	3,985,262	25%
Others	<u>2,100,000</u>	
Company total	17,969,562	
Guangxi Bei Hai Real Estate	3,610,000	15%
Others	<u>4,147,805</u>	
Group total	<u><u>25,727,367</u></u>	

(i) The Group does not exercise substantial influence over the financial and operating policies of Tianjing Company.

#### (d) The details of the consolidation differences/equity investment differences are as follows:

Subsidiaries	Reason of formation	Initial investment	Beginning balance	(Unaudited) Addition in current Period	(Unaudited) Amortization of current Period	(Unaudited) Unamortized balance
Shanghai Songjiang	Acquisition	(133,483,335)	(92,233,308)	—	6,674,167	(85,559,141)
Five Star Company	Acquisition	(54,539,713)	(39,995,790)	—	2,726,986	(37,268,804)
Three Ring Company	Acquisition	49,285,564	36,142,747	—	(2,464,278)	33,678,469
Fuzhou Company	Acquisition	64,192,777	52,730,014	—	(3,209,639)	49,520,375
Others	Acquisition	<u>(84,810,564)</u>	<u>(35,090,687)</u>	<u>—</u>	<u>4,259,061</u>	<u>(30,831,626)</u>
Company total		(159,355,271)	(78,447,024)	—	7,986,297	(70,460,727)
Indirectly-held subsidiaries of the Group		<u>(44,600,685)</u>	<u>(20,972,822)</u>	6,892,339	2,147,313	<u>(11,933,170)</u>
Group Total		<u><u>(203,955,956)</u></u>	<u><u>(99,419,846)</u></u>	<u>6,892,339</u>	<u>10,133,610</u>	<u><u>(82,393,897)</u></u>

The consolidation difference/equity investment difference of the Group and the Company are amortised over 10 years using straight-line method.

## 14 FIXED ASSETS AND ACCUMULATED DEPRECIATION

### (a) Group

	Land and buildings	Plant and machinery	Motor vehicles	Other equipment	Total
<b>Original cost</b>					
Beginning of Period	2,744,816,915	5,260,721,024	403,047,136	230,979,659	8,639,564,734
Transfer in from construction in progress (unaudited)	48,817,768	115,264,688	319,600	1,912,049	166,314,105
Additions (unaudited)	51,749,318	8,248,056	16,074,740	11,367,373	87,439,487
Disposals (unaudited)	(9,423,848)	(28,919,783)	(2,779,332)	(2,022,408)	(43,145,371)
End of Period (unaudited)	<u>2,835,960,153</u>	<u>5,355,313,985</u>	<u>416,662,144</u>	<u>242,236,673</u>	<u>8,850,172,955</u>
<b>Accumulated depreciation</b>					
Beginning of Period	702,113,257	2,403,829,471	165,812,788	119,040,734	3,390,796,250
Charge for the Period (unaudited)	33,742,173	164,125,648	18,715,971	18,204,448	234,788,240
Disposal (unaudited)	(2,766,502)	(17,115,537)	(2,735,366)	(1,675,045)	(24,292,450)
End of Period (unaudited)	<u>733,088,928</u>	<u>2,550,839,582</u>	<u>181,793,393</u>	<u>135,570,137</u>	<u>3,601,292,040</u>
<b>Impairment loss</b>					
Beginning of Period	32,743,534	88,910,842	3,104,074	—	124,758,450
Charge for the Period (unaudited)	1,256,718	45,549,226	113,552	—	46,919,496
Reversal (unaudited)	(2,639,798)	(6,223,343)	(388,534)	—	(9,251,675)
End of Period (unaudited)	<u>31,360,454</u>	<u>128,236,725</u>	<u>2,829,092</u>	<u>—</u>	<u>162,426,271</u>
<b>Net book value</b>					
Beginning of Period	<u>2,009,960,124</u>	<u>2,767,980,711</u>	<u>234,130,274</u>	<u>111,938,925</u>	<u>5,124,010,034</u>
End of Period (unaudited)	<u>2,071,510,771</u>	<u>2,676,237,678</u>	<u>232,039,659</u>	<u>106,666,536</u>	<u>5,086,454,644</u>

As at 30th June 2004, an aggregate carrying value of approximately 97,527,000 of the Group's buildings, machinery and equipment and motor vehicles (31st December 2003: Nil) had been pledged as a security for certain bank loans approximately to 16,000,000 of the Group (Note 18(c)).

As at 30th June 2004, the building ownership certificates ("Building Ownership Certificates") for certain buildings of the Group with carrying value of approximately 314,790,000 (31st December 2003: 356,360,000) had not yet been obtained. After consultation made with the Company's legal adviser, the Company's Board of Directors consider that there is no legal restriction for the Group and the Company to apply for and obtain the Buildings Ownership Certificates and it should not lead to any significant adverse impact on the operations of the Group and the Company. Accordingly, no provision for fixed assets impairment was considered necessary.

For certain buildings of the Group located on parcels of allocated lands granted by local governments, please refer to Note 16 for details.

## 14 FIXED ASSETS AND ACCUMULATED DEPRECIATION (CONT'D)

### (b) Company

	Land and buildings	Plant and machinery	Motor vehicles	Other equipment	Total
<b>Original cost</b>					
Beginning of Period	552,749,378	1,194,828,887	144,821,347	99,069,140	1,991,468,752
Transfer in from construction in progress (unaudited)	1,634,313	14,453,713	—	42,220	16,130,246
Additions (unaudited)	11,388,118	7,386,345	3,154,497	5,084,430	27,013,390
Disposals (unaudited)	<u>(6,316,032)</u>	<u>(6,232,922)</u>	<u>(2,388,000)</u>	<u>(1,488,584)</u>	<u>(16,425,538)</u>
End of Period (unaudited)	<u>559,455,777</u>	<u>1,210,436,023</u>	<u>145,587,844</u>	<u>102,707,206</u>	<u>2,018,186,850</u>
<b>Accumulated depreciation</b>					
Beginning of Period	161,482,164	746,479,880	69,888,024	48,651,071	1,026,501,139
Charge for the Period (unaudited)	8,717,307	25,707,714	8,229,185	6,889,531	49,543,737
Disposal (unaudited)	<u>(2,517,464)</u>	<u>(4,322,268)</u>	<u>(1,174,600)</u>	<u>(1,342,163)</u>	<u>(9,356,495)</u>
End of Period (unaudited)	<u>167,682,007</u>	<u>767,865,326</u>	<u>76,942,609</u>	<u>54,198,439</u>	<u>1,066,688,381</u>
<b>Impairment loss</b>					
Beginning of Period	—	6,884,800	5,950	—	6,890,750
Charge for the Period (unaudited)	<u>—</u>	<u>(11,038)</u>	<u>—</u>	<u>—</u>	<u>(11,038)</u>
End of Period (unaudited)	<u>—</u>	<u>6,873,762</u>	<u>5,950</u>	<u>—</u>	<u>6,879,712</u>
<b>Net book value</b>					
Beginning of Period	<u>391,267,214</u>	<u>441,464,207</u>	<u>74,927,373</u>	<u>50,418,069</u>	<u>958,076,863</u>
End of Period (unaudited)	<u>391,773,770</u>	<u>435,696,935</u>	<u>68,639,285</u>	<u>48,508,767</u>	<u>944,618,757</u>

## 15 CONSTRUCTION IN PROGRESS

Construction project	(Unaudited)	Beginning of Period	(Unaudited) Addition	(Unaudited)	(Unaudited) Transfer out	(Unaudited) End of Period	(Unaudited)	(Unaudited) Source of financing	(Unaudited)
	Budgeted amount			Transfer to fixed assets			Proportion of amount invested to budgeted amount		
Plant 1 production line improvement	49,410,000	22,948,560	9,317,579	—	—	32,266,139	Internally generated fund	65.3%	
Plant 2 production line improvement	20,014,500	11,090,743	5,774,190	(15,186,476)	—	1,678,457	Internally generated fund	8.4%	
Plant 4 production line improvement	2,183,000	639,000	824,349	—	—	1,463,349	Internally generated fund	67%	
New factory plant	32,117,000	27,322,606	—	—	(680,960)	26,641,646	Internally generated fund	83%	
Malt production line improvement	58,420,000	5,930,876	530,049	(943,770)	—	5,517,155	Internally generated fund	9.4%	
Others	432,000	415,580	—	—	—	415,580	Internally generated fund	96%	
<b>Company total</b>	<b>162,576,500</b>	<b>68,347,365</b>	<b>16,446,167</b>	<b>(16,130,246)</b>	<b>(680,960)</b>	<b>67,982,326</b>			
Xian Company production line improvement	31,905,736	11,310,105	8,828,724	(8,905,368)	(531,397)	10,702,064	Internally generated fund	34%	
Xingkaihu Company production line improvement	849,753	394,421	132,959	(40,805)	—	486,575	Bank loans	57%	
Rongcheng Company production line improvement	36,200,000	42,789	261,812	(79,555)	(6,940)	218,106	Internally generated fund	0.6%	
Huangshi Company production line improvement	92,068,543	78,164,269	13,602,615	(91,766,884)	—	—	Bank loans	—	
Sanshui Company production line improvement	31,000,000	465,068	2,220,122	(385,227)	(383,622)	1,916,341	Internally generated fund	6.2%	
Tengzhou Company production line improvement	5,234,000	1,326,233	666,311	(1,332,990)	217,462	877,016	Internally generated fund	17%	
Zhuhai Company production line improvement	44,023,053	28,336,293	1,367,419	(28,213,106)	—	1,490,606	Internally generated fund	3.4%	
No. 5 Company production line improvement	12,367,568	5,322,771	2,492,355	(331,041)	(662,899)	6,821,186	Internally generated fund	55%	

## 15 CONSTRUCTION IN PROGRESS (CONT'D)

Construction project	(Unaudited)	Beginning of Period	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Budgeted amount		Addition	Transfer to fixed assets	Transfer out	End of Period	Source of financing	Proportion of amount invested to budgeted amount
Penglai Company production line improvement	37,500,000	—	4,684	—	—	4,684	Internally generated fund	0.01%
Chenzhou Company production line improvement	20,000	—	18,357	—	—	18,357	Internally generated fund	92%
Weifeng Company production line improvement	1,355,000	88,899	647,011	—	—	735,910	Internally generated fund	54%
Shouguang Company production line improvement	3,711,200	1,019,908	1,893,902	(1,231,962)	(63,385)	1,618,463	Internally generated fund	44%
Three Ring Company production line improvement	4,828,209	2,477,784	961,571	(61,538)	—	3,377,817	Internally generated fund	70%
Five Star Company production line improvement	3,104,680	1,657,656	1,493,018	(928,934)	(429,972)	1,791,768	Internally generated fund	58%
Shenzhen Asahi Company production line improvement	6,219,000	55,040	613,882	—	—	668,922	Internally generated fund	11%
Langfang Company production line improvement	12,710,000	118,487	9,532,024	(9,650,511)	—	—	Internally generated fund	—
Luzhou Company production line improvement	6,381,270	1,446,336	4,175,740	(103,709)	—	5,518,367	Internally generated fund	86%
Fuzhou Company production line improvement	16,542,912	10,473,927	1,432,808	(1,524,114)	—	10,382,621	Bank loans	63%
Changsha Company production line improvement	26,698,200	—	22,413,430	—	—	22,413,430	Internally generated fund	84%
Suizhou Company production line improvement	850,000	—	702,280	(696,000)	(6,280)	—	Internally generated fund	—
Mishan Company production line improvement	450,000	—	325,554	—	—	325,554	Internally generated fund	72%
Other subsidiaries production line improvement	72,829,155	3,944,421	15,765,448	(4,932,115)	(875,993)	13,901,761	Internally generated fund	19%
<b>Group total</b>	<u>609,424,779</u>	<u>214,991,772</u>	<u>105,998,193</u>	<u>(166,314,105)</u>	<u>(3,423,986)</u>	<u>151,251,874</u>		

## 15 CONSTRUCTION IN PROGRESS (CONT'D)

To the extent that the funds are specifically borrowed and used to finance the acquisition and construction of fixed assets and construction in progress, the capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of the related assets was 4.78% per annum (31st December 2003: 4.78% per annum). During the Period, the Group capitalised approximately 575,000 (31st December 2003: 1,815,000) of its borrowing costs in the construction in progress.

## 16 INTANGIBLE ASSETS

### (a) Group

	(Unaudited) Original cost	(Unaudited) Accumulated amortisation	Beginning of Period	(Unaudited) Additions	(Unaudited) Amortisation	(Unaudited) End of Period	Remaining years of amortisation (year)	Source of financing
Trademarks	129,912,382	(33,262,306)	99,140,864	424,185	(2,914,973)	96,650,076	2.5 — 29	Injection by shareholders and acquisition of subsidiaries
Land use rights	663,790,114	(110,813,806)	556,985,634	1,326,804	(5,336,130)	552,976,308	39 — 49.5	Purchase and acquisition of subsidiaries
Technology know-how	18,629,100	(9,314,548)	10,246,006	—	(931,454)	9,314,552	5	Injection from minority shareholders
Others	32,926,746	(7,107,082)	18,763,086	9,250,851	(2,194,273)	25,819,664	0 — 9.5	Purchase and acquisition of subsidiaries
Total	<u>845,258,342</u>	<u>(160,497,742)</u>	<u>685,135,590</u>	<u>11,001,840</u>	<u>(11,376,830)</u>	<u>684,760,600</u>		

### (b) Company

	(Unaudited) Original cost	(Unaudited) Accumulated amortisation	Beginning of Period	(Unaudited) Additions	(Unaudited) Amortisation	(Unaudited) End of Period	Remaining years of amortisation (year)	Source of financing
Trademarks	100,000,000	(27,499,967)	73,750,033	—	(1,250,000)	72,500,033	29	Injection by shareholders
Land use rights	87,411,367	(19,138,446)	69,147,034	—	(874,113)	68,272,921	39	Acquisition
Others	8,972,913	(1,751,642)	7,617,642	51,000	(447,371)	7,221,271	0 — 9.5	Acquisition
Total	<u>196,384,280</u>	<u>(48,390,055)</u>	<u>150,514,709</u>	<u>51,000</u>	<u>(2,571,484)</u>	<u>147,994,225</u>		

As at 30th June 2004, the land use rights certificates (“Land Certificates”) for certain lands of the Group with an aggregate carrying value of approximately 35,145,000 (31st December 2003: 35,499,000) had not yet been obtained. After consultation with the Company’s legal adviser, the Company’s Board of Directors consider that there is no legal restriction for the Group to apply for and obtain the Land Certificates and it should not lead to any significant adverse impact on the operations of the Group. Accordingly, no provision for intangible assets impairment was considered necessary.

In addition, as at 30 June 2004, certain operating facilities of the Group were located on parcels of allocated land (“Allocated Land”) granted by certain local municipal governments to the previous operating parties of the facilities. As at 30th June 2004, the carrying values of the associated buildings and facilities constructed thereon were approximately 119,694,000 (31st December 2003: 136,317,000). The Group is in the process of applying for the transfer of the legal title of these Allocated Land to the Group.

In the opinion of the Company’s Board of Directors, the underlying value of these assets was not less than its carrying value in the books of the Company and of the Group as at 30th June 2004 and no impairment provided.

## 17 LONG-TERM PREPAID EXPENSES

### (a) Group

	(Unaudited) original cost	(Unaudited) Accumulated amortisation	Beginning of Period	(Unaudited) Additions	(Unaudited) Amortisation	(Unaudited) End of Period	Remaining years of amortisation (year)
Advertising expenses of the Company	3,000,000	(925,000)	2,225,000	—	(150,000)	2,075,000	6.5
Xian Company-greenerly expenditures	2,225,117	(1,241,697)	1,097,924	—	(114,504)	983,420	4.5
Anqiu Company-building usage rights	1,570,681	(928,407)	733,593	—	(91,319)	642,274	3.5
Yingcheng Company- improvement expenses	2,000,000	(1,566,698)	633,306	—	(200,004)	433,302	1
Others	3,595,339	(1,877,159)	1,394,539	701,970	(378,329)	1,718,180	0 — 8
<b>Total</b>	<b>12,391,137</b>	<b>(6,538,961)</b>	<b>6,084,362</b>	<b>701,970</b>	<b>(934,156)</b>	<b>5,852,176</b>	

### (b) Company

	(Unaudited) Original cost	(Unaudited) Accumulated amortisation	Beginning of Period	(Unaudited) Additions	(Unaudited) Amortisation	(Unaudited) End of Period	Remaining years of amortisation (year)
Advertising expenses of the Company	3,000,000	(925,000)	2,225,000	—	(150,000)	2,075,000	7
Others	506,000	(202,400)	354,200	—	(50,600)	303,600	3
<b>Total</b>	<b>3,506,000</b>	<b>(1,127,400)</b>	<b>2,579,200</b>	<b>—</b>	<b>(200,600)</b>	<b>2,378,600</b>	

## 18 LOANS

Borrowing rate of the Group and the Company are determined based on the announced rate of the People's Bank of China.

### (a) Short-term loans and current portion of long-term loans

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Secured loans	<b>16,000,000</b>	1,105,557	—	—
Guaranteed loans				
— by related parties	<b>39,764,000</b>	4,617,237	<b>20,530,000</b>	4,617,237
— by the Company	<b>159,268,525</b>	374,682,525	—	—
Loans on open credit	<b>1,078,652,504</b>	983,593,226	<b>827,670,000</b>	599,899,000
	<b>1,293,685,029</b>	1,363,998,545	<b>848,200,000</b>	604,516,237
Short-term loans	<b>1,246,664,700</b>	1,302,612,990	<b>827,670,000</b>	579,369,000
Current portion of long-term loans	<b>47,020,329</b>	61,385,555	<b>20,530,000</b>	25,147,237
<b>Total</b>	<b>1,293,685,029</b>	1,363,998,545	<b>848,200,000</b>	604,516,237

As at 30th June 2004, the Group had no overdue short-term loans that had not yet been repaid.

## 18 LOANS (CONT'D)

### (b) Long-term bank loans

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Guaranteed loans	19,234,000	23,564,000	19,234,000	23,564,000
Loans on open credit	27,280,815	30,219,722	—	—
<b>Total</b>	<b>46,514,815</b>	<b>53,783,722</b>	<b>19,234,000</b>	<b>23,564,000</b>

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						
— Danish Krone	400,000	1.3461	538,440	—	—	—
— Euro	158,618	10.0031	1,586,670	—	—	—
— RMB	—	—	19,234,000	—	—	19,234,000
Maturity within two to three years						
— Danish Krone	400,000	1.3461	538,440	—	—	—
— Euro	158,618	10.0031	1,586,670	—	—	—
— RMB	—	—	—	—	—	—
Maturity within three to five years						
— Danish Krone	800,000	1.3461	1,076,880	—	—	—
— Euro	317,235	10.0031	3,173,333	—	—	—
— RMB	—	—	—	—	—	—
Maturity over five years						
— Danish Krone	5,000,000	1.3461	6,730,500	—	—	—
— Euro	1,184,621	10.0031	11,849,882	—	—	—
— RMB	—	—	200,000	—	—	—
<b>Total</b>			<b>46,514,815</b>			<b>19,234,000</b>

## 18 LOANS (CONT'D)

- (c) As at 30th June 2004, pursuant to the debt restructuring agreements or acquisition agreements of certain subsidiaries, interest charges to be levied on approximately 19,234,000 (31st December 2003: 49,394,000) and 19,234,000 (31st December 2003: 44,094,000) of the loan balance of the Group and of the Company, respectively, were waived by the lenders at no consideration. The remaining outstanding loan balances are interest-bearing at rates ranging from 4.78% to 5.31% per annum (31st December 2003: 1.63% to 6.90%).

As at 30th June 2004, approximately 16,000,000 (31st December 2003: 1,106,000) of the loans of the Group are secured by buildings, plant and machinery, motor vehicles and other equipment with an aggregate carrying value of approximately 97,527,000 (31st December 2003: secured by fixed deposits of approximately 28,000,000).

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 624,499,000 (31st December 2003: 742,431,000) as at 30th June 2004. The Board of Directors of the Company is confident that the Group will have sufficient operating cash inflows and be able to renew its short-term facilities upon maturity or to identify new sources of financing to replace the current short-term facilities.

## 19 NOTES PAYABLE

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Commercial bills	<b>88,681,016</b>	117,585,257	<b>82,543,600</b>	99,384,500
Bank drafts	<b>407,616,524</b>	407,864,252	—	—
Total	<b>496,297,540</b>	<b>525,449,509</b>	<b>82,543,600</b>	<b>99,384,500</b>

The bank drafts of the Group and the Company will reach maturity within 6 months after the balance sheet date.

## 20 ACCOUNTS PAYABLE, ADVANCES FROM CUSTOMERS, AND OTHER PAYABLES

The Group and the Company did not have any payable balances which were due to parties having 5% or above shareholdings in the Company. The accounts payable and other payables aged over 3 years were mainly due to balances acquired from subsidiaries upon acquisition. Advances from customers aged over 1 year were mainly deposits for purchases.

## 21 TAXES PAYABLE

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Value added tax payable, net	<b>56,010,069</b>	10,757,817	<b>24,074,981</b>	4,509,948
Enterprise income tax payable	<b>40,308,554</b>	47,519,934	<b>21,595,688</b>	23,972,519
Consumption tax payable	<b>145,336,043</b>	111,646,338	<b>11,117,461</b>	9,676,964
City maintenance and construction tax payable	<b>10,563,120</b>	4,107,052	<b>4,516,361</b>	2,256,937
Others	<b>5,640,536</b>	6,698,686	<b>2,951,830</b>	4,752,068
Total	<b>257,858,322</b>	<b>180,729,827</b>	<b>64,256,321</b>	<b>45,168,436</b>

## 22 ACCRUED EXPENSES

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Selling and transportation expenses	124,142,451	18,423,591	60,269,623	2,555,370
Interest expense	10,090,872	11,241,335	6,723,293	8,595,201
Repairs and maintenance	31,245,170	3,638,615	6,755,930	—
Utilities	7,982,408	3,908,260	267,877	—
Advertising expenses	25,273,314	17,576,942	17,000,000	3,512,492
Others	38,938,942	8,062,864	6,998,895	3,693,035
Total	<u>237,673,157</u>	<u>62,851,607</u>	<u>98,015,618</u>	<u>18,356,098</u>

## 23 PROVISIONS

	(Unaudited) 30th June 2004	31st December 2003
Potential litigation with Qindao Guangming Company (“Guangming Company”) (a)	27,000,000	—
Potential litigation with Qindao Yuanyang Xianghe Trading Company (“Xianghe Company”) (b)	23,784,000	—
Others	284,422	—
Total	<u>51,068,422</u>	<u>—</u>

- (a) Pursuant to a court verdict ruled by Shandong Province Higher People’s Court (“Shandong Higher Court”) on 2nd April 2004, the Company was required to pay Guangming Company, a distributor, in an aggregate of approximately 27,000,000 as loss from breaching of a distribution contract. The Company appealed to the Supreme People’s Court of the PRC during the legal period for appeal. As of the date of this report, the appealing procedures are currently in progress and no judgement from the Supreme People’s Court of the PRC had been delivered. For the sake of prudence, Board of Directors of the Company have fully accrued for 27,000,000 in the profit and loss account.
- (b) Pursuant to a court verdict ruled by Shandong Higher Court on 19th April 2004, the Company was required to pay Xianghe Company, a third party, in an aggregate of approximately 23,784,000 as compensation for a dispute arising from a commodity barter contract between the Company and Xianghe Company. The Company appealed to the Shandong Higher Court during the legal period for appeal. As of the date of this report, the appealing procedures are currently in progress and no judgment from the Shandong Higher Court had been delivered. For the sake of prudence, the Board of Directors of the Company have fully accrued for 23,784,000 in the profit and loss account.

## 24 CONVERTIBLE BONDS

### (a) Convertible bonds

Type	Face value	Date of issue	Mandatory conversion date	Discounted net present value	(Unaudited) 30th June 2004
Mandatory CB Tranche II	665,813,304	1st April 2003	31st March 2010	—	665,813,304
Mandatory CB Tranche III Part 1	269,817,965	21st October 2003	20th October 2010	—	269,817,965
Mandatory CB Tranche III Part 2	269,817,965	31st March 2004	30th March 2011	—	269,817,965
					<u>1,205,449,234</u>

### (b) Refundable bond interests

Type	Interest payable at beginning of the period	(Unaudited) Accrual for the Period	(Unaudited) Paid during the Period	(Unaudited) Interest payable at the end of the Period
Mandatory convertible bonds	<u>4,513,880</u>	<u>9,087,172</u>	<u>(7,440,422)</u>	<u>6,160,630</u>

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 CB to be issued by the Company with an aggregate principal amount of approximately HK\$1,416,195,000 (RMB1,503,448,000), commencing from 2003. The CB are convertible into 308,219,178 new H Shares issuable 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 RMB297,999,000) which was issued to 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 was interest-free.

#### Tranche II of the CB (“Tranche II”)

The total subscription amount of Tranche II is HK\$627,120,000 (equivalent to approximately RMB665,813,000) 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 new H shares at HK\$4.68 (equivalent to approximately RMB4.96) per share within seven years after the payment of the subscriptions. 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.

## 24 CONVERTIBLE BONDS (CONT'D)

### Tranche III of the CB ("Tranche III")

The total subscription amount of Tranche III is HK\$508,275,000 (equivalent to approximately RMB539,636,000) which was issued to A-B Company by several instalments in October 2003 and in March 2004. Tranche III can be converted into 114,219,178 new H shares at HK\$4.45 (equivalent to approximately RMB4.72) per share within seven 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, A - B Company has not exercised its conversion right.

Upon the conversion of each of Tranche I, Tranche II and Tranche III of the CB, the percentage shareholding of Qingdao State-owned Assets Administration Bureau ("Qingdao Bureau"), the existing substantial shareholder of the Company, has decreased/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 has increased/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 its trustee, will be entitled to exercise the voting rights attached to such 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.

## 25 SHARE CAPITAL

	(Unaudited)		31st December 2003	
	30th June 2004	Percentage (%)	31st December 2003	Percentage (%)
Unlisted shares				
Founding person:				
Including: State shares	399,820,000	37.72%	399,820,000	37.72%
PRC legal person shares	53,330,000	5.03%	53,330,000	5.03%
	<u>453,150,000</u>	<u>42.75%</u>	<u>453,150,000</u>	<u>42.75%</u>
Listed shares				
PRC public shares in RMB ("A Shares")	200,000,000	18.87%	200,000,000	18.87%
Overseas public shares ("H Shares")	406,850,000	38.38%	406,850,000	38.38%
	<u>606,850,000</u>	<u>57.25%</u>	<u>606,850,000</u>	<u>57.25%</u>
Total	<u>1,060,000,000</u>	<u>100.00%</u>	<u>1,060,000,000</u>	<u>100.00%</u>

## 26 CAPITAL SURPLUS

### (a) Group

	Beginning balance	(Unaudited) Increase	(Unaudited) Ending balance
Share premium	1,771,139,906	—	1,771,139,906
Surplus on revaluation of fixed assets	6,304,398	—	6,304,398
Assets donations received	4,871,808	—	4,871,808
Equity investment difference (i)	—	23,819,242	23,819,242
Forfeited payables balances of subsidiaries	11,743,649	1,258,584	13,002,233
Others	4,817,221	2,039,642	6,856,863
	<u>1,798,876,982</u>	<u>27,117,468</u>	<u>1,825,994,450</u>

### (b) Company

	Beginning balance	(Unaudited) Increase	(Unaudited) Ending balance
Share premium	1,771,139,906	—	1,771,139,906
Surplus on revaluation of fixed assets	56,043,498	—	56,043,498
Assets donations received	4,871,808	—	4,871,808
Equity investment differences (i)	—	23,819,242	23,819,242
Forfeited payables balances of subsidiaries	11,743,649	1,258,584	13,002,233
Others	4,817,221	2,039,642	6,856,863
	<u>1,848,616,082</u>	<u>27,117,468</u>	<u>1,875,733,550</u>

(i) The equity investment differences were equity investment differences arising from acquisition of 30% equity interest in Nanning Company by Huanan Holding, please refer to Note 5(c)(i) for details.

## 27 RESERVES

### (a) Group

	(Unaudited) 30th June 2004	31st December 2003
Statutory surplus reserve fund	218,185,385	218,185,385
Statutory public welfare fund	176,978,672	176,978,672
	<u>395,164,057</u>	<u>395,164,057</u>

## 27 RESERVES (CONT'D)

### (b) Company

	(Unaudited) 30th June 2004	31st December 2003
Statutory surplus reserve fund	151,280,901	151,280,901
Statutory public welfare fund	122,011,680	122,011,680
Total	<u>273,292,581</u>	<u>273,292,581</u>

In accordance with the provision of the Company Laws in the PRC, the articles of association of the Company and board resolution passed by the Company, the Company appropriates 10% of its annual profits (after offsetting any accumulated deficits) to a statutory surplus reserve, until the reserve reaches 50% of the issued capital of the Company. With the approval obtained from the relevant government authorities, the surplus reserve can be utilised to offset any deficit or to increase the share capital of the Company, provided that the remaining balance of the reserve, after such utilisations, does not fall below 25% of the issued capital balance.

In addition, the Company also appropriates its profits of 5% to 10%, after offsetting any accumulated deficits, to a statutory public welfare fund. The fund is designated for the use of staff welfare and it is not distributable as dividends. Upon consumption of the fund, an equivalent amount has to be transferred from the fund to a discretionary surplus reserve.

No appropriation to statutory surplus reserve fund or statutory public welfare fund during this Period in the Group and the Company.

## 28 UNDISTRIBUTED PROFITS

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Undistributed profits at beginning of Period/year	259,760,239	108,828,477	359,653,103	163,428,623
Retrospective adjustment — cash dividends approved by the general meeting subsequent to the balance sheet date	—	220,000,000	—	220,000,000
Undistributed profits at beginning of Period/year as restated, after retrospective prior year adjustments	259,760,239	328,828,477	359,653,103	383,428,623
Add: Net profit for the current Period/year	148,250,561	253,871,661	149,013,610	245,280,600
Less: profit appropriation to statutory surplus reserve fund	—	(55,530,809)	—	(24,528,060)
Less: profit appropriation to statutory public welfare fund	—	(47,409,090)	—	(24,528,060)
Less: Dividends	(212,000,000)	(220,000,000)	(212,000,000)	(220,000,000)
Undistributed profits at end of Period/year	<u>196,010,800</u>	<u>259,760,239</u>	<u>296,666,713</u>	<u>359,653,103</u>

## 29 REVENUE FROM MAIN OPERATIONS AND COST OF MAIN OPERATIONS

### (a) Business segment

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

	<b>Group</b>	
	(Unaudited) <b>Six months ended 30th June 2004</b>	(Unaudited) Six months ended 30th June 2003
<b>Revenue from main operations</b>		
Tsingtao region	<b>1,300,030,916</b>	1,082,293,059
Other Shandong region	<b>604,088,389</b>	607,474,545
Hua Bei China region	<b>1,176,726,236</b>	922,265,465
Hua Nan China region	<b>1,342,837,557</b>	1,243,984,922
Overseas	<b>154,034,999</b>	229,574,634
Sub-total	<b>4,577,718,097</b>	4,085,592,625
Intra-segment elimination	<b>(240,023,177)</b>	(250,130,590)
Total	<b><u>4,337,694,920</u></b>	<b><u>3,835,462,035</u></b>
<b>Cost of main operations</b>		
Tsingtao region	<b>691,910,711</b>	615,668,400
Other Shandong region	<b>407,202,573</b>	405,880,435
Hua Bei China region	<b>777,389,350</b>	599,990,960
Hua Nan China region	<b>793,418,528</b>	749,224,005
Overseas	<b>82,102,282</b>	137,861,962
Sub-total	<b>2,752,023,444</b>	2,508,625,762
Inter-segment elimination	<b>(240,023,177)</b>	(250,130,590)
Total	<b><u>2,512,000,267</u></b>	<b><u>2,258,495,172</u></b>

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

For the six months ended 30th June 2004, sales made to the five largest customers of the Group and the Company amounting to approximately 273,292,000 and 246,371,000, respectively, being 6.30% and 17.53% of the turnover of the Group and the Company (for the six months ended 30th June 2003: 350,842,000 and 277,427,000, being 9.15% and 21.48%, respectively).

### 30 TAX AND LEVIES ON MAIN OPERATIONS

Basis of accrual	Group		Company	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Period ended 30th June 2004	Period ended 30th June 2003	Period ended 30th June 2004	Period ended 30th June 2003
Consumption tax	Refer to Note 36(d)			
	<b>400,817,171</b>	349,860,509	<b>63,433,673</b>	52,785,141
City maintenance and construction tax	Refer to Note 36(c)			
	<b>42,901,462</b>	34,850,949	<b>12,647,635</b>	9,144,945
Others	<b>21,386,450</b>	17,588,241	<b>5,682,093</b>	3,889,312
Total	<b>465,105,083</b>	402,299,699	<b>81,763,401</b>	65,819,398

### 31 PROFIT FROM OTHER OPERATIONS

	Group		Company	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Six months ended 30th June 2004	Six months ended 30th June 2003	Six months ended 30th June 2004	Six months ended 30th June 2003
<b>Other operating income</b>				
Sale of materials	<b>27,318,996</b>	1,732,219	<b>96,032,560</b>	196,623,320
Sale of scraps	<b>9,215,884</b>	7,055,163	<b>1,647,782</b>	632,458
Others	<b>25,246,965</b>	10,607,925	<b>4,224,674</b>	2,285,195
Sub-total	<b>61,781,845</b>	19,395,307	<b>101,905,016</b>	199,540,973
<b>Other operating expenses</b>				
Sale of materials	<b>27,475,653</b>	3,050,581	<b>97,528,869</b>	197,520,028
Sale of scraps	<b>2,809,176</b>	1,477,414	<b>1,424,976</b>	632,458
Others	<b>15,716,657</b>	7,621,879	<b>1,890,098</b>	714,572
Sub-total	<b>46,001,486</b>	12,149,874	<b>100,843,943</b>	198,867,058
Profit from other operations	<b>15,780,359</b>	7,245,433	<b>1,061,073</b>	673,915

### 32 FINANCE EXPENSES

	Group		Company	
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
	Six months ended 30th June 2004	Six months ended 30th June 2003	Six months ended 30th June 2004	Six months ended 30th June 2003
Interest expense	<b>(34,528,190)</b>	(67,848,827)	<b>(18,927,219)</b>	(20,768,265)
Less: Interest income				
— others	<b>6,916,968</b>	6,055,230	<b>1,718,296</b>	1,400,634
Exchange differences, net	<b>3,071,284</b>	(3,276,186)	<b>2,602,093</b>	(1,478,440)
Others	<b>(2,511,980)</b>	(1,932,126)	<b>(1,774,413)</b>	(2,836,903)
Total	<b>(27,051,918)</b>	(67,001,909)	<b>(16,381,243)</b>	(23,682,974)

### 33 INVESTMENT INCOME

	Group		Company	
	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003
Equity share in profits (losses) of subsidiaries	—	—	24,809,516	(2,492,031)
Equity share in (losses) profits of associated companies	(4,146,171)	(3,318,885)	456,328	75,973
Income from debt investments	97,978	983,652	97,978	983,652
Amortisation of equity investment differences	10,133,610	11,737,678	7,986,297	8,376,914
Interest income from entrusted loans	—	—	10,777,660	—
Others	(1,598,421)	21,112	1,712,538	—
<b>Total</b>	<b>4,486,996</b>	<b>9,423,557</b>	<b>45,840,317</b>	<b>6,944,508</b>

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

### 34 SUBSIDY INCOME

During 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 certain 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 Board of Directors are not aware of any reasons that the said financial subsidies will not be available to the subsidiaries in the future.

### 35 NON-OPERATING INCOME AND EXPENSES

	Group		Company	
	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003
<b>Non-operating income</b>				
Gain on disposal of fixed assets	2,749,462	1,491,424	31,574	187,106
Others	2,719,134	2,188,030	112,059	413,677
<b>Total</b>	<b>5,468,596</b>	<b>3,679,454</b>	<b>143,633</b>	<b>600,783</b>
<b>Non-operating expenses</b>				
Compensation and penalty	50,992,521	—	50,903,306	—
Loss on disposal of fixed assets	9,370,205	5,948,642	7,018,769	869,314
Provision for impairment of fixed assets	46,919,496	24,001,718	—	—
Others	1,330,135	5,465,504	150,000	2,671,214
<b>Total</b>	<b>108,612,357</b>	<b>35,415,864</b>	<b>58,072,075</b>	<b>3,540,528</b>

### 36 INCOME TAXATION

	Group		Company	
	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003
PRC Enterprise Income Tax (a)	74,483,833	54,437,013	30,678,556	19,511,684
Hong Kong profits tax (b)	1,452,777	478,130	—	—
Total	<u>75,936,610</u>	<u>54,915,143</u>	<u>30,678,556</u>	<u>19,511,684</u>

#### (a) PRC Enterprise Income Tax

PRC Enterprise Income Tax (“EIT”) is provided on the estimated 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.

Sanshui Company, Chenzhou Company and Shenzhen Asahi 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. It has been the fifth, third and fourth year of profitable operations for Sanshui Company, Chenzhou Company and Shenzhen Asahi respectively.

Shenzhen Sales Company 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. Current year was the fourth year of profitable operations after offsetting all the prior year tax losses of Shenzhen Sales Company, and it no longer privileged this preferential tax treatment.

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

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.

#### (b) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (30th June 2003: 17.5%) on the estimated assessable profit for the Period.

#### (c) Value-added tax (“VAT”)

According to the PRC value-added tax temporary regulations (“VAT Regulations”), the Group is subject to output value-added tax (“output VAT”) which is calculated at 17% of the sales amount of tangible goods. The Group also pays input VAT on its purchases of raw material and auxiliary materials, 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 maintenance and construction tax and educational surcharge based on 7% and 3% of net VAT amount payable, respectively.

## 36 INCOME TAXATION (CONT'D)

### (d) Consumption tax

The Ministry of Finance of the PRC and the State Administration of Taxation issued the "Notice for changes in consumption tax for alcoholic products" (Caishui [2001] No. 84), which states that for beer with an ex-factory price (including packaging material and related deposits) over RMB3,000 per ton, the consumption tax is RMB250 per ton. For all the other beer sold, the consumption tax is levied at RMB220 per ton.

## 37 DIVIDENDS

During the Period, the Company's shareholders approved the payment of a final dividend of 212,000,000 for 2003 at the annual general meeting (RMB0.20 per share). The directors do not recommend the payment of an interim dividend for the six months ended 30th June 2004 (six months ended 30th June 2003: Nil).

	<b>(Unaudited) Six months ended 30th June 2004</b>	<b>(Unaudited) Six months ended 30th June 2003</b>
Dividend paid	—	87,782,000
Dividends proposed and declared 2003 final: RMB0.20 per share (2002 final: RMB0.22 per share)	<u><b>212,000,000</b></u>	<u><b>220,000,000</b></u>

The final dividend for 2003 of RMB0.20 per share was proposed on 1st April 2004. As at 30th June 2004, the dividend distribution progress has not been completed.

## 38 RELATED PARTY TRANSACTIONS

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

<b>Name of company</b>	<b>Relationship with the Group</b>
Tsingtao Brewery Group Co., Ltd.	Certain common directors and a common major shareholder
Tsingtao Brewery Shi Ye Co., Ltd.	Certain common directors and a common major shareholder
Tsingtao Brewery Real Estate Co., Ltd.	Certain common directors and a common major shareholder
Tsingtao Brewery Engineering Co., Ltd.	Certain common directors and a common major shareholder
Tsingtao Brewery Advertising Co., Ltd.	Certain common directors and a common major shareholder
Tsingtao Brewery Trading Co., Ltd.	Certain common directors and a common major shareholder
Tsingtao Brewery Property Management Co., Ltd.	Certain common directors and a common major shareholder
Tsingtao Brewery (Zhangzhou) Company Limited	Certain common directors and a common major shareholder
Xian Hans Beverages Company Limited	Minority shareholder of a subsidiary

### 38 RELATED PARTY TRANSACTIONS (CONT'D)

<b>Name of company</b>	<b>Relationship with the Group</b>
Asahi Breweries Limited	Minority shareholder of a subsidiary
Itochu Corporation	Minority shareholder of a subsidiary
Sumikin Bussan Corporation	Minority shareholder of a subsidiary
Jiangsu Peixian State Owned Operations Company	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 Three Ring Beer Company Limited	Minority shareholder of a subsidiary
Beijing Asia Shuang He Sheng Five Star Beer Group Company	Minority shareholder of a subsidiary
Zhuhai Doumen Huang Mei Enterprise Group Company	Minority shareholder of a subsidiary
Fuzhou Brewery	Minority shareholder of a subsidiary
Carlsberg Asia Private Company Limited	Minority shareholder of a subsidiary
A - B Company	Major investor
Tsingtao Brewery (Guangzhou) General Agency Co. Ltd.	Associated company
Beijing Tsingtao Brewery General Agency Co. Ltd.	Associated company
Tsingtao Brewery (Yangzhou) Company Limited	Associated company
Qinghua International	Associated company
Liaoning Shenqing Tsingtao Brewery Sales Company Limited	Associated company
Nanning Company	Associated company
Tsingtao Beer Asahi Beverage Company Limited	Associated company
Liaoning Anshan Municipal Light State Owned Assets Operating Co. Ltd	Minority shareholder of a subsidiary
China Railway Construction Corporation Railway Transportation Division	Minority shareholder of a subsidiary

Except for A-B Company, none of the above related companies own any equity interest in the Company during the Period.

### 38 RELATED PARTY TRANSACTIONS (CONT'D)

- (a) For the six months ended 30th June 2004, the Group had the following material transactions with related and associated companies:

	(Unaudited) Six months ended 30th June 2004	(Unaudited) Six months ended 30th June 2003
Sales of goods:		
Liaoning Shenqing Tsingtao Brewery Sales Company Limited	74,747,233	40,582,785
Nanning Company	5,018,054	—
Tsingtao Brewery Shi Ye Co., Ltd.	313,118	—
Qinghua International	3,031,101	2,199,569
Tsingtao Brewery (Yangzhou) Company Limited	—	47,768
	<u>83,109,506</u>	<u>42,830,122</u>
Purchases of goods:		
Qinghua International	80,738,288	33,303,875
Tsingtao Brewery Trading Co., Ltd.	12,176,544	6,281,831
Shandong Weifang Lanzai Brewery Company Limited	48,272	180,975
Tsingtao Brewery (Zhangzhou) Co., Ltd.	20,475,045	—
Tsingtao Brewery Shi Ye Co., Ltd.	4,288,731	—
Tsingtao Brewery Engineering Co., Ltd.	256,952	—
	<u>117,983,832</u>	<u>39,766,681</u>
Advertising services provided by a related company:		
Tsingtao Brewery Advertising Co., Ltd.	—	470,633
Equipment installation service provide to a related company by the Group:		
Tsingtao Brewery Engineering Co., Ltd.	110,109	—
Equipment installation services provided to the Group:		
Tsingtao Brewery Engineering Co., Ltd.	688,623	79,800
Guarantees provided by related companies for the Group's bank loans:		
Tsingtao Brewery Group Co., Ltd.	39,764,000	125,000,000
Asahi Breweries Limited, Itochu Corporation, Sumikin Bussan Corporation	—	125,000,000
	<u>39,764,000</u>	<u>250,000,000</u>

- (i) The pricing of all the sales or purchases made to/from related parties by the Group is determined based on market price.
- (ii) Tsingtao Brewery Group Co., Ltd. has provided a guarantee for the accounts receivable repayment plan of 105,000,000 due from a customer and Tsingtao Brewery (Guangzhou) General Agency Co., Ltd.. As at 30th June 2004, approximately 63,808,000 of the balance (deducting the related provisions) was still outstanding, please refer to Note 8(c) and 38(b).

### 38 RELATED PARTY TRANSACTIONS (CONT'D)

- (b) As at 30th June 2004, the Group had the following significant current balances with related and associated companies:

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Included in short-term investment (entrusted loans) (i):				
Tsingtao Brewery (Yangzhou) Company Limited	<b>56,450,000</b>	66,450,000	<b>56,450,000</b>	66,450,000
Included in accounts receivable and long-term accounts receivable:				
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd. ((a)(ii))	<b>82,560,810</b>	86,860,810	<b>82,560,810</b>	86,860,810
Beijing Tsingtao Brewery General Agency Co., Ltd.	<b>11,245,784</b>	11,245,784	<b>11,245,784</b>	11,245,784
Tsingtao Brewery Shi Ye Company Limited	<b>1,588,376</b>	1,553,781	<b>1,588,376</b>	1,553,781
Tsingtao Brewery (Yangzhou) Company Limited	<b>1,177,728</b>	1,086,850	<b>1,177,728</b>	1,086,850
Nanning Company	<b>5,101,947</b>	—	—	—
Qinghua International	<b>1,893,809</b>	—	<b>1,893,809</b>	—
Tsingtao Brewery (Zhangzhou) Company Limited	—	156,000	—	156,000
	<b>103,568,454</b>	100,903,225	<b>98,466,507</b>	100,903,225

### 38 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 30th June 2004, the Group had the following significant current balances with related and associated companies: (Cont'd)

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Included in other receivables:				
Nanning Company	<b>21,019,200</b>	—	—	—
Liaoning Anshan Municipal Light State Owned Assets Operating Co., Ltd	<b>906,533</b>	877,186	—	—
Sichuan Huo Ju	<b>48,669</b>	2,204,706	—	—
Tsingtao Brewery Shi Ye Company Limited	<b>212,942</b>	208,373	<b>212,942</b>	208,373
Xian Hans Beverages Company Limited	<b>227,992</b>	126,479	—	—
Tsingtao Brewery Advertising Co., Ltd	<b>12,812</b>	3,037,775	<b>12,812</b>	10,775
Tsingtao Brewery Group Co., Ltd	<b>7,075,757</b>	2,936,756	<b>4,379,147</b>	240,146
Tsingtao Brewery Engineering Co., Ltd	<b>209,575</b>	248,154	<b>209,575</b>	248,154
Tsingtao Brewery Trading Co., Ltd	<b>2,938,525</b>	2,938,525	<b>2,938,525</b>	2,938,525
Tsingtao Brewery (Zhangzhou) Company Limited	<b>11,900,605</b>	15,524,000	<b>11,500,000</b>	11,500,000
Zhuhai Doumen Huang Mei Enterprise Group Company	<b>9,996,279</b>	5,000,000	—	—
Fuzhou Brewery Niang (Singapore) Private Co., Ltd	—	5,679	—	—
Tsingtao Brewery Real Estate Co., Ltd	—	10,000,000	—	10,000,000
	<b><u>54,548,889</u></b>	<b><u>43,107,633</u></b>	<b><u>19,253,001</u></b>	<b><u>25,145,973</u></b>

### 38 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 30th June 2004, the Group had the following significant current balances with related and associated companies: (Cont'd)

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Included in advances to suppliers				
Nanning Company	<b>61,442,163</b>	—	—	—
Tsingtao Brewery (Zhangzhou) Company Limited	<b>444,104</b>	—	—	—
Tsingtao Brewery Engineering Co., Ltd	—	1,189,240	—	—
	<b>61,886,267</b>	1,189,240	—	—
Included in advances from suppliers:				
Liaoning Shengqing Tsingtao Brewery Sales Company Limited	<b>626,326</b>	3,073,220	<b>626,326</b>	3,073,220
China Railway Construction Corporation Railway Transportation Division	<b>36,496</b>	—	—	—
Nanning Company	<b>183,885</b>	—	—	—
	<b>846,707</b>	3,073,220	<b>626,326</b>	3,073,220

### 38 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 30th June 2004, the Group had the following significant current balances with related and associated companies: (Cont'd)

	<u>Group</u>		<u>Company</u>	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Included in other payables and long-term accounts payable:				
Tsingtao Brewery Engineering Co., Ltd.	<b>870,334</b>	52,608	<b>154,472</b>	—
Tsingtao Brewery Group Co., Ltd.	<b>24,599,396</b>	25,099,396	—	—
Jiangsu Peixian State Owned Operations Company	<b>441,187</b>	441,187	—	—
Beijing Asia Shuang He Sheng Five Star Beer Group Company	<b>25,453,610</b>	50,944,166	—	—
Tsingtao Beer Asahi Beverage Company Limited	<b>136,618</b>	136,618	<b>136,618</b>	136,618
Tsingtao Brewery Shi Ye Company Limited	<b>8,000</b>	8,000	<b>8,000</b>	8,000
Tsingtao Brewery Property Management Co., Ltd.	<b>3,700</b>	3,700	<b>3,700</b>	3,700
A-B Company (ii)	<b>124,150,500</b>	124,047,480	—	—
Sichuan Huo Ju	<b>62,730</b>	3,393	—	—
Carlsberg Asia Private Co., Ltd.	—	11,822	—	11,822
China Railway Construction Corporation Railway Transportation Division	<b>29,295</b>	—	—	—
Nanning Company	<b>12,875</b>	—	—	—
	<b><u>175,768,245</u></b>	<b><u>200,748,370</u></b>	<b><u>302,790</u></b>	<b><u>160,140</u></b>

### 38 RELATED PARTY TRANSACTIONS (CONT'D)

- (b) As at 30th June 2004, the Group had the following significant current balances with related and associated companies: (Cont'd)

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Included in accounts payable:				
Tsingtao Brewery Trading Co., Ltd	185,737	2,136,104	185,737	2,136,104
Tsingtao Brewery Shi Ye Company Limited	97,146	528,410	97,146	450,582
Sichuan Huo Ju	370,730	370,730	—	—
Tsingtao Brewery Engineering Co., Ltd	256,952	280,892	—	—
Tsingtao Brewery Advertising Co., Ltd	13,332	26,664	13,332	26,664
Shandong Weifang Lanzai Brewery Company Limited	81,060	82,788	—	—
Tsingtao Beer Asahi Beverage Company Limited	6,000	12,672	6,000	—
Beijing Asia Shuang He Sheng Five Star Beer Group Company	—	13,966,225	—	—
	<u>1,010,957</u>	<u>17,404,485</u>	<u>302,215</u>	<u>2,613,350</u>
Included in notes payable:				
Nanning Company	<u>55,000,000</u>	<u>—</u>	<u>—</u>	<u>—</u>

Except for the amount mentioned in (a) and the loan mentioned in (i) and (ii) below, 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 2004, the Company had provided approximately 56,450,000 (31st December 2003: 66,450,000) entrusted loans to an associated company, through the Bank of Communications. The entrusted loan is interest free, unsecured and it will mature within one year.
- (ii) In October 2003, Hong Kong Company entered into a loan agreement with A-B Company, pursuant to which, Hong Kong Company borrowed a loan of US\$15,000,000 (equivalent to approximately RMB124,151,000) (the "Loan") from A-B Company. The Loan is interest bearing at 1% per annum, unsecured and repayable within five years. The Company has undertaken to guarantee the repayment of the Loan.

## 39 CONTINGENT LIABILITIES

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 30th June 2004, no formal plan has yet been developed by the Group and the Company, and no plans had been announced by the Group and the Company 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 2004 and there is no reasonable basis to accrue for any potential liabilities.

## 40 COMMITMENTS

### (a) Capital commitments

The Group's and the Company's capital expenditures contracted for at the balance sheet date but not recognised in the financial statements are as follows:

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Construction projects	29,422,000	33,301,000	10,287,000	13,189,000
Investments and acquisitions (i)	9,900,000	9,950,000	—	—
	<u>39,322,000</u>	<u>43,251,000</u>	<u>10,287,000</u>	<u>13,189,000</u>

(i) The capital commitment was for Doumen Company, a subsidiary, to purchase assets from Zhuhai Doumen Malt Factory ("Doumen Malt Factory"), details refer to Note 41(c).

### (b) Operating lease commitments

The future minimum operating lease payment according to the agreement contracted is as following:

	Group		Company	
	(Unaudited) 30th June 2004	31st December 2003	(Unaudited) 30th June 2004	31st December 2003
Less than one year	<u>2,130,000</u>	<u>—</u>	<u>310,000</u>	<u>—</u>

As detailed in Note 5(d), TB Baoji, a subsidiary of the Group, committed to take up the responsibility of the related operating cost of Baoji Brewery Company and relevant staff cost of Baoji Alcohol.

## 41 SIGNIFICANT SUBSEQUENT EVENTS

- (a) In November 2003, the Company entered into an equity transfer agreement (the “Transfer Agreement”) with Canada EVG Enterprises Inc. (“EVG”), pursuant to which EVG will acquire 25% equity interest in Beijing Tsingtao Brewery Three Ring Company (“Three Ring Company”) owned by the Company. In February 2004, the Company signed another agreement with EVG to cancel the Transfer Agreement. The Company and Hong Kong Company instead reached an equity transfer agreement in which the Company will transfer its 25% equity interest in Three Ring Company to Hong Kong Company at a consideration of US\$850,000. This transaction in relation to the change of foreign equity interests has been approved by the government authorities in July 2004. After the transaction, the Company and Hong Kong Company will hold 29% and 25% equity interests of Three Ring Company, respectively.
- (b) In May and June 2004, the Company entered into an investment agreement and a supplementary agreement with Gansu Nongken Brewery Company Limited (“Gansu Nongken”) and its shareholders that the registered capital of Gansu Nongken is increased. The Company would inject an amount of approximately 60,481,000 into Gansu Nongken and hold 50% of its equity interests. The change of business registration relating to the increase of the registered capital was completed in July 2004. Gansu Nongken was also renamed as Tsingtao Brewery (Gansu) Company Limited.
- (c) In December 2003, Tsingtao Brewery (Doumen) Melt Company Limited (“Doumen Company”), a subsidiary of the Company, entered into an asset transfer agreement with Zhuhai Doumen Malt Factory (“Doumen Malt Factory”). Pursuant to the agreement, Doumen Malt Factory will transfer Land Use right, buildings, equipment and parts of utility supply system belonging to Doumen Malt Factory to Doumen Company at a consideration of approximately 19,900,000. As at 30th June 2004, Doumen Company had paid approximately 10,000,000 to Doumen Malt Factory. The payment of the remaining balance and the relevant legal approval procedures for the transaction were still in progress.
- (d) The shareholders approved the dividend distribution of year 2003 i.e. cash dividend RMB0.20 per share in the 2003 general meeting of shareholders. This distribution had been completed as at 30th July 2004.

## 42 NET PROFIT BEFORE EXTRAORDINARY GAINS AND LOSSES

	(Unaudited) Six months ended 30th June 2004
Net profit	148,250,561
Add (less): Extraordinary gains and losses	
— Losses on disposal of long-term equity investments, fixed assets, construction in progress and other long-term assets	6,620,743
— Subsidy income	(29,485,149)
— Non-operating income (excluding gains on disposal of fixed assets)	(2,719,134)
— Non-operating expenses (excluding losses on disposal of fixed assets)	52,322,656
	<hr/> 174,989,677
Tax effect on extraordinary gains and losses	<hr/> (10,494,145)
Net profit before extraordinary gains and losses	<hr/> <u>164,495,532</u>

## 43 RECLASSIFICATION

Certain items of the comparative financial information have also been reclassified and disclosed in accordance to the disclosure requirements in this Period.

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

**(1) RETURN ON EQUITY AND EARNINGS PER SHARE INDEX**

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
<b>For the six months ended 30th June 2004 (Unaudited)</b>								
Gross profit	39.12%	37.92%	1.2836	1.2836	15.42%	14.95%	0.5100	0.5100
Operating profit	9.04%	8.76%	0.2967	0.2967	5.47%	5.30%	0.1809	0.1809
Net profit	4.26%	4.13%	0.1399	0.1399	4.25%	4.12%	0.1406	0.1406
Net profit before extraordinary items	4.73%	4.58%	0.1552	0.1552	5.90%	5.72%	0.1952	0.1952
<b>For the six months ended 30th June 2003 (Unaudited)</b>								
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

Return on equity (“ROE”) and earnings per share (“EPS”) are calculated based on the method specified in “Listed Companies Disclosure Regulation No. 9 — Computation and Disclosure of ROE and EPS”.

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

**(2) ANALYSIS OF ASSET IMPAIRMENT LOSSES**

**(a) Group**

<b>Item</b>	<b>Beginning of period RMB</b>	<b>(Unaudited) Additions RMB</b>	<b>(Unaudited) Write back/ set off RMB</b>	<b>(Unaudited) End of period RMB</b>
Accounts receivable	123,447,460	10,749,075	(640,695)	133,555,840
Other receivables	54,319,553	379,524	(36,186)	54,662,891
Long-term accounts receivable	21,191,858	—	—	21,191,858
<b>Total provision for bad debts</b>	<b>198,958,871</b>	<b>11,128,599</b>	<b>(676,881)</b>	<b>209,410,589</b>
Raw materials	2,805,178	183,070	—	2,988,248
Finished goods	9,049,580	—	—	9,049,580
Other inventories	13,275,427	14,799,151	(213,824)	27,860,754
<b>Total provision for diminution of inventories</b>	<b>25,130,185</b>	<b>14,982,221</b>	<b>(213,824)</b>	<b>39,898,582</b>
Provision for diminution of long-term investments	7,054,708	—	—	7,054,708
Land and buildings	32,743,534	1,256,718	(2,639,798)	31,360,454
Plant and machinery	88,910,842	45,549,226	(6,223,343)	128,236,725
Motor vehicles	3,104,074	113,552	(388,534)	2,829,092
<b>Total provision for impairment of fixed assets</b>	<b>124,758,450</b>	<b>46,919,496</b>	<b>(9,251,675)</b>	<b>162,426,271</b>

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

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

**(b) Company**

<b>Item</b>	<b>Beginning of Period RMB</b>	<b>(Unaudited) Additions RMB</b>	<b>(Unaudited) Write back/ set off RMB</b>	<b>(Unaudited) End of Period RMB</b>
Accounts receivable	59,874,622	2,621,375	—	62,495,997
Other receivables	32,414,087	602,340	(2,679,375)	30,337,052
Long-term accounts receivable	<u>21,191,858</u>	<u>—</u>	<u>—</u>	<u>21,191,858</u>
Total provision for bad debts	<u>113,480,567</u>	<u>3,223,715</u>	<u>(2,679,375)</u>	<u>114,024,907</u>
Raw materials	<u>1,022,238</u>	<u>—</u>	<u>—</u>	<u>1,022,238</u>
Total provision for diminution of inventories	<u>1,022,238</u>	<u>—</u>	<u>—</u>	<u>1,022,238</u>
Provision for diminution of long-term investments	<u>2,992,862</u>	<u>—</u>	<u>—</u>	<u>2,992,862</u>
Plant and machinery	6,884,800	—	(11,038)	6,873,762
Motor vehicles	<u>5,950</u>	<u>—</u>	<u>—</u>	<u>5,950</u>
Total provision for impairment of fixed assets	<u>6,890,750</u>	<u>—</u>	<u>(11,038)</u>	<u>6,879,712</u>

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION (UNAUDITED) (Cont'd)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

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

The Group has prepared a separate set of statutory financial statements for the six months ended 30th June 2004 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 net assets:

	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000
Net assets as per accounts prepared under PRC GAAP	3,477,601	3,513,903
HK GAAP adjustments:		
Adjustments arising from different exchange rates used under HK GAAP and PRC GAAP	141,253	141,253
Additional depreciation charges for assets acquired before unification of the two-tier exchange rate system in the PRC	(123,667)	(117,927)
Difference between the amortisation of investment differences under PRC GAAP and amortisation of goodwill and negative goodwill under HK GAAP	(89,050)	(58,106)
Adjustments arising from adoption of HK SSAP 12	(2,530)	(2,001)
Difference in accounting for the principal balance of convertible bonds and the corresponding interest	1,212,716	938,231
Others	(938)	(527)
	<u>4,615,385</u>	<u>4,414,826</u>
Net assets per accounts prepared under HK GAAP		

Impact on the consolidated profit and loss account:

	(Unaudited) For the six months ended 30th June 2004 RMB'000	(Unaudited) For the six months ended 30th June 2003 RMB'000
Net Profit under PRC GAAP	148,251	116,403
HK GAAP adjustments:		
Additional depreciation charges for assets acquired before unification of the two-tier exchange rate system in the PRC	(5,740)	(5,740)
Difference between the amortization of investment differences under PRC GAAP and amortization of goodwill and negative goodwill under HK GAAP	(5,086)	(6,068)
Profited payable balances of subsidiaries	1,259	238
Adjustments arising from adoption of HK SSAP 12	(529)	(393)
Difference in accounting for interest of convertible bonds	7,031	3,549
Others	(412)	780
	<u>144,774</u>	<u>108,769</u>
Profit attributable to shareholders under HKGAAP		

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

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

	<i>Note(s)</i>	(Unaudited)	
		Six months ended 30th June	
		2004	2003
		<b>RMB'000</b>	<b>RMB'000</b>
Turnover	3, 9, 28	<b>3,872,590</b>	3,433,162
Cost of sales	28	<b>(2,512,000)</b>	(2,258,495)
Gross profit		<b>1,360,590</b>	1,174,667
Other expenses, net	4, 19	<b>(56,157)</b>	(2,420)
Distribution costs		<b>(710,465)</b>	(624,175)
Administrative and other operating expenses		<b>(323,608)</b>	(303,282)
Operating profit	4	<b>270,360</b>	244,790
Finance costs	7	<b>(24,728)</b>	(64,530)
Share of profits less losses of associated companies		<b>(4,146)</b>	(3,319)
Profit before taxation		<b>241,486</b>	176,941
Taxation	8	<b>(75,637)</b>	(54,616)
Profit after taxation		<b>165,849</b>	122,325
Minority interests		<b>(21,075)</b>	(13,556)
Profit attributable to shareholders	11	<b>144,774</b>	108,769
Dividends	10	<b>212,000</b>	220,000
Basic earnings per share	12	<b>RMB0.14</b>	RMB0.11
Fully diluted earnings per share	12	<b>RMB0.11</b>	RMB0.10

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET**

AS AT 30TH JUNE 2004 AND 31ST DECEMBER 2003

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

		(Unaudited) 30th June 2004	(Audited) 31st December 2003
	Note(s)	RMB'000	RMB'000
<b>Non-current assets</b>			
Intangible assets	14	270,442	257,041
Fixed assets	13	5,427,446	5,467,547
Construction in progress		176,222	210,144
Long-term investments	27	17,862	17,930
Interest in associated companies	27	117,454	21,197
Negative goodwill	15	(95,081)	(98,191)
Deferred tax assets	23	6,901	7,111
Other long-term assets	16, 28	58,695	58,826
		<u>5,979,941</u>	<u>5,941,605</u>
<b>Current assets</b>			
Inventories	17	1,276,504	1,305,503
Short-term investment		4,530	—
Trade receivable	16, 28	228,050	165,204
Bills receivable		98,055	50,883
Deposits, prepayments and other receivables	28	637,361	527,474
Short-term bank deposits		31,024	12,016
Pledged bank deposits		22,051	83,135
Bank balances and cash		1,579,319	837,749
		<u>3,876,894</u>	<u>2,981,964</u>

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED BALANCE SHEET (CONT'D)**

AS AT 30TH JUNE 2004 AND 31ST DECEMBER 2003

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

		(Unaudited) 30th June 2004	(Audited) 31st December 2003
	<i>Note(s)</i>	<i>RMB'000</i>	<i>RMB'000</i>
<b>Current liabilities</b>			
Trade payable	21, 28	786,619	646,913
Current portion of long-term bank loans	18	47,020	61,386
Bills payable	22, 28	496,298	525,450
Accruals		243,834	67,365
Taxes payable		40,309	47,520
Other payables	28	1,216,625	940,836
Dividends payable	10	214,876	1,100
Short-term bank loans	18, 28	1,246,665	1,302,613
Sales deposits	28	146,122	129,068
Provisions	19	51,068	—
		<u>4,489,436</u>	<u>3,722,251</u>
<b>Net current liabilities</b>		<u>(612,542)</u>	<u>(740,287)</u>
<b>Total assets less current liabilities</b>		<u>5,367,399</u>	<u>5,201,318</u>
<b>Financed by:</b>			
Share capital	24	1,060,000	1,060,000
Convertible bonds	20	1,191,192	923,738
Reserves	25	2,364,193	2,219,088
2003 proposed final dividends	10, 25	—	212,000
<b>Shareholder's fund</b>		<u>4,615,385</u>	<u>4,414,826</u>
<b>Minority interests</b>		<u>551,043</u>	<u>579,465</u>
<b>Non-current liabilities</b>			
Long-term bank loans	18	46,515	53,784
Deferred liabilities		13,730	12,113
Deferred tax liability	23	16,575	17,083
Long-term loan due to a shareholder	28	124,151	124,047
		<u>200,971</u>	<u>207,027</u>
		<u>5,367,399</u>	<u>5,201,318</u>

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

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

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

	(Unaudited)									
	Share capital	Share premium	Convertible bonds	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Exchange differences	Accumulated losses	Proposed dividends	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1st January 2004	1,060,000	2,115,258	923,738	12,921	218,185	176,978	111	(304,365)	212,000	4,414,826
Exchange differences	—	—	—	—	—	—	331	—	—	331
Dividends (Note 10)	—	—	—	—	—	—	—	—	(212,000)	(212,000)
Profit for the period	—	—	—	—	—	—	—	144,774	—	144,774
Issuance of convertible bond, net (Note 20)	—	—	267,454	—	—	—	—	—	—	267,454
<b>At 30th June 2004</b>	<b>1,060,000</b>	<b>2,115,258</b>	<b>1,191,192</b>	<b>12,921</b>	<b>218,185</b>	<b>176,978</b>	<b>442</b>	<b>(159,591)</b>	<b>—</b>	<b>4,615,385</b>
At 1st January 2003	1,000,000	1,893,826	—	11,448	162,654	129,569	339	(232,413)	220,000	3,185,423
Cumulative effect of change in accounting policy	—	—	—	—	—	—	—	(1,217)	—	(1,217)
At 1st January 2003, as restated	1,000,000	1,893,826	—	11,448	162,654	129,569	339	(233,630)	220,000	3,184,206
Exchange differences	—	—	—	—	—	—	135	—	—	135
Dividends (Note 10)	—	—	—	—	—	—	—	—	(220,000)	(220,000)
Profit for the period	—	—	—	—	—	—	—	108,769	—	108,769
Issuance of convertible bond, net (Note 20)	—	—	935,811	—	—	—	—	—	—	935,811
<b>At 30th June 2003</b>	<b>1,000,000</b>	<b>1,893,826</b>	<b>935,811</b>	<b>11,448</b>	<b>162,654</b>	<b>129,569</b>	<b>474</b>	<b>(124,861)</b>	<b>—</b>	<b>4,008,921</b>

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

*FOR THE SIX MONTHS ENDED 30TH JUNE 2004*

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

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Net cash inflow from operating activities	851,257	686,248
Net cash outflow from investing activities	(277,138)	(275,797)
Net cash inflow/(outflow) from financing activities	155,104	(165,432)
Increase in cash and cash equivalents	729,223	245,019
Cash and cash equivalents at 1st January	849,765	762,166
Effect of foreign exchange rate changes	331	135
Cash and cash equivalents at 30th June	<u>1,579,319</u>	<u>1,007,320</u>
Analysis of balances of cash and cash equivalents:		
Bank balances and cash	<u>1,579,319</u>	<u>1,007,320</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 be placed with banks for obtaining banks drafts. As at 30th June 2004, these short-term bank deposits and pledged cash and bank deposits are approximately RMB31,024,000 (30th June 2003: RMB28,000,000) and RMB22,051,000 (30th June 2003: RMB35,509,000), respectively.

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO ACCOUNTS

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

### 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. It obtained the business license of a sino-foreign joint stock company on 27th December 1995. Its H shares have been listed on the Main Board of 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” with Anheuser-Busch International Holdings, Inc. (“A-B Company”) pursuant to which the Company issued several tranches of mandatory convertible bonds (“CB”) to A-B Company amounting to approximately HK\$1,416,195,000 (equivalent to approximately RMB1,503,448,000). Upon full conversion of the CB, the equity holding of A-B Company in the Company will increase to approximately 27%. During 2003, approximately HK\$1,162,057,000 (equivalent to approximately RMB1,233,630,000) of the CB were issued and the related proceeds were received from A-B Company, out of which approximately HK\$280,800,000 (equivalent to approximately RMB297,999,000) of the CB had been converted into 60,000,000 new H-shares as at 31st December 2003. The remaining balance of the CB of approximately HK\$254,138,000 (equivalent to approximately RMB269,818,000) was received on 31st March 2004. More details are set out in Note 20. During the six months ended 30th June 2004, all the CB has been issued without any conversion of new H-shares occurred.

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the production and distribution of beer products.

Please refer to Note 27 for details of the Group and the Company’s major acquisitions during the period.

### 2 BASIS OF PREPARATION

These interim consolidated accounts of the Group are prepared in accordance with Hong Kong Statement of Standard Accounting Practice (“HK SSAP”) 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 2003 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 2003.

### 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:

	(Unaudited)						
	Six months ended 30th June 2004						
	Tsingtao Region <i>RMB'000</i>	Other Shandong Region <i>RMB'000</i>	Hua Bei Region <i>RMB'000</i>	Hua Nan Region <i>RMB'000</i>	Overseas <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
<b>Turnover</b>							
External sales	1,073,567	471,163	974,802	1,205,720	147,338	—	3,872,590
Inter-segment sales	130,039	36,537	59,646	13,801	—	(240,023)	—
<b>Turnover</b>	<u>1,203,606</u>	<u>507,700</u>	<u>1,034,448</u>	<u>1,219,521</u>	<u>147,338</u>	<u>(240,023)</u>	<u>3,872,590</u>
<b>Result</b>							
Segment results	<u>138,344</u>	<u>(1,210)</u>	<u>44,795</u>	<u>115,820</u>	<u>44,499</u>		<u>342,248</u>
Unallocated expenses, net							(71,888)
<b>Operating profit</b>							270,360
Finance costs							(24,728)
Share of profits less losses of associated companies	(4,146)	—	—	—	—		(4,146)
<b>Profit before taxation</b>							241,486
Taxation							(75,637)
<b>Profit after taxation</b>							165,849
Minority interests							(21,075)
<b>Profit attributable to shareholders</b>							<u>144,774</u>

### 3 SEGMENTAL REPORTING (CONT'D)

	(Unaudited)						
	Six months ended 30th June 2003						
	Tsingtao Region <i>RMB'000</i>	Other Shandong Region <i>RMB'000</i>	Hua Bei Region <i>RMB'000</i>	Hua Nan Region <i>RMB'000</i>	Overseas <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidation <i>RMB'000</i>
<b>Turnover</b>							
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)	—
<b>Turnover</b>	<u>1,004,426</u>	<u>515,752</u>	<u>810,580</u>	<u>1,124,449</u>	<u>228,086</u>	<u>(250,131)</u>	<u>3,433,162</u>
<b>Results</b>							
Segment results	<u>116,192</u>	<u>12,646</u>	<u>35,659</u>	<u>55,346</u>	<u>85,930</u>		<u>305,773</u>
Unallocated expenses, net							(60,983)
<b>Operating profit</b>							244,790
Finance costs							(64,530)
Share of profits less losses of associated companies	(3,319)	—	—	—	—		<u>(3,319)</u>
<b>Profit before taxation</b>							176,941
Taxation							<u>(54,616)</u>
<b>Profit after taxation</b>							122,325
Minority interests							<u>(13,556)</u>
<b>Profit attributable to shareholders</b>							<u>108,769</u>

#### 4 OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Loss on disposal of fixed assets, net	6,621	4,457
Provision for/(reversal of) inventory provision	214	(1,261)
Costs of inventories (including depreciation, amortisation and staff costs)	2,512,000	2,258,495
Depreciation of owned fixed assets	238,661	243,169
Amortisation of intangible assets		
— Trademark	1,608	1,314
— Technology know-how	931	885
— Others	2,194	699
Amortisation of goodwill expenses	9,580	8,667
Amortisation of negative goodwill	(5,150)	(5,122)
Auditors' remuneration	3,233	2,915
Operating lease rentals	2,364	6,941
Provision for doubtful debts	10,108	28,035
Impairment losses of fixed assets	46,920	24,002
Written down of inventories to net realisable value	14,982	2,114
Research and development costs	1,699	842
Provisions in respect of potential litigations loss	51,068	—
Staff costs (Note 5)	269,207	264,766

#### 5 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Wages and salaries	201,898	189,089
Social security costs	18,575	22,278
Pension costs — defined contribution plans	44,249	50,596
Staff employment medical benefits	4,485	2,803
Total	269,207	264,766

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

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
<b>Directors' emoluments</b>		
Non-executive directors		
— Directors' fee	—	—
— Other emoluments	—	—
Executive directors		
— Directors' fee	—	—
— Salaries, allowances and benefits-in-kind	508	142
— Retirement fund contributions	17	14
Total	<u>525</u>	<u>156</u>

### Management's emoluments

Details of emoluments of the five highest paid individuals (None of them (six months ended 30th June 2003: Same) are directors or supervisory committee member of the Company) are as follows:

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits-in-kind	524	349
Retirement fund contributions	21	14
Total	<u>545</u>	<u>363</u>

### Supervisory committee members' emoluments

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

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Salaries, allowances and benefits-in-kind	328	75
Retirement fund contributions	17	14
Total	<u>345</u>	<u>89</u>

For the six months ended 30th June 2004, 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 six months ended 30th June 2003: same) and no (For the six months ended 30th June 2003: None) director has waived or agreed to waive any emoluments. During the period, no (For the six months ended 30th June 2003: No) emoluments were paid to the five highest paid individuals as an inducement to join the Group or as compensation for loss of office. No (For the six months ended 30th June 2003: No) emoluments were paid to non-executive directors.

## 7 FINANCE COSTS

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Interest on bank loans and overdrafts wholly repayable within 5 years	25,303	65,117
Amounts capitalised	(575)	(587)
Total	<u>24,728</u>	<u>64,530</u>

## 8 TAXATION

### (a) Profits tax

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Hong Kong profits tax (i)	1,453	478
PRC Enterprise Income Tax ("EIT") (ii)	74,483	54,437
Deferred taxation relating to the reversal of temporary differences	(299)	(299)
	<u>75,637</u>	<u>54,616</u>

Reconciliation of statutory tax rate to effective tax rate:

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
Statutory tax rate	33%	33%
Tax effect of net income/expense that is not taxable/deductible in determining taxable profit	4%	9%
Loss sustained by subsidiaries	9%	9%
Effect of different taxation rate of different subsidiaries of the Group	(21%)	(17%)
Others	5%	(3%)
Effective tax rate	<u>30%</u>	<u>31%</u>

#### (i) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the period.

#### (ii) EIT

EIT is provided on the estimated assessable income of the year calculated in accordance with the relevant regulations of the PRC.

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 Ministry of Finance of Qingdao on 23rd March 1997, stating that this preferential tax treatment would not be terminated until further notice.

## 8 TAXATION (CONT'D)

### (a) Profits tax (Cont'd)

#### (ii) EIT (Cont'd)

Tsingtao Brewery (Sanshui) Company Limited ("Sanshui Company"), Tsingtao Brewery (Chenzhou) Company Limited ("Chenzhou Company") and Shenzhen Tsingtao Beer Asahi Company Limited ("Shenzhen Company") were approved as enterprises with foreign investment 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 consecutive years thereafter. The current year was the fifth profitable year for Sanshui Company, the third profitable year for Chenzhou Company and the fourth profitable year for Shenzhen Company.

Shenzhen Tsingtao Brewery Hua Nan Sales Company Limited ("Shenzhen Sales Company") 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. The current year was the fourth profitable year for Shenzhen Sales Company and EIT was provided at the prevailing full tax rate of 15% in Shenzhen.

Tsingtao Brewery (Zhuhai) Company Limited and Tsingtao Brewery (Xiamen) Company Limited ("Xiamen Company") 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%.

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

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

According to "the People's Republic of China Value-added Tax Temporary Regulations" ("VAT Regulations"), the Group is subject to output VAT which is calculated at 17% of the sales of tangible goods. The Group also pays input VAT on its purchases of raw materials and work-in-progress 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 maintenance and 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" (Cai Shui [2001] No. 84), which states that for beer production 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 production sold below that price, the consumption tax is levied at 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 to 2 times the sales volume of slack season (November to April of the following year).

## 10 DIVIDENDS

During the period, dividends distribution of RMB212,000,000 (dividend per share: RMB0.20) for 2003 was approved in the shareholders' general meeting. The Board of Directors do not recommend the payment of an interim dividend for the six months ended 30th June 2004 (30th June 2003: nil).

	<b>(Unaudited)</b>	
	<b>Six months ended 30th June</b>	
	<b>2004</b>	<b>2003</b>
	<b>RMB'000</b>	<b>RMB'000</b>
Dividends, paid:	<u>—</u>	<u>87,782</u>
Dividends proposed:		
Final dividend for 2003 of RMB0.20 per share (2002 final dividends: RMB0.22 per share)	<u><b>212,000</b></u>	<u>220,000</u>

The final dividend for 2003 of RMB0.20 per share was proposed on 1st April 2004. As at 30th June 2004, the respective distribution had not been completed. The final dividends of RMB0.22 per share for 2002 were proposed on 2nd April 2003 and were paid in 2003.

## 11 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The consolidated profit attributable to shareholders includes profit of approximately RMB146,639,000 (30th June 2003: RMB105,376,000) which has been dealt with in the accounts of the Company.

## 12 EARNINGS PER SHARE

The calculations of basic and fully diluted earnings per share are based on the Group's profit attributable to shareholders of approximately RMB144,774,000 (30th June 2003: RMB108,769,000).

The basic earnings per share is based on the weighted average number of 1,060,000,000 (30th June 2003: 1,000,000,000 ordinary shares) ordinary shares in issue during the period. The fully diluted earnings per share is based on 1,279,664,384 (30th June 2003: 1,097,535,912) ordinary shares which is the weighted average number of ordinary shares in issue during the period plus the weighted average number of 279,664,384 (30th June 2003: 97,535,912) ordinary shares deemed to be issued if all outstanding mandatory convertible bonds had been converted into shares.

### 13 FIXED ASSETS

	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Total RMB'000
<b>Cost or valuation</b>						
Beginning of period	647,189	2,391,588	4,602,799	413,170	230,486	8,285,232
Transfer-in from construction in progress (unaudited)	—	48,818	115,265	320	1,912	166,315
Additions (unaudited)	1,327	51,749	8,248	16,074	11,367	88,765
Disposals (unaudited)	—	(9,424)	(28,920)	(2,779)	(2,022)	(43,145)
End of period (unaudited)	<u>648,516</u>	<u>2,482,731</u>	<u>4,697,392</u>	<u>426,785</u>	<u>241,743</u>	<u>8,497,167</u>
<b>Accumulated depreciation, amortisation and impairment loss</b>						
Beginning of period	110,912	522,263	1,895,316	170,119	119,075	2,817,685
Charge for the period (unaudited)	5,282	32,078	164,512	18,660	18,129	238,661
Written back on disposal (unaudited)	—	(2,767)	(17,116)	(2,735)	(1,675)	(24,293)
Reversal of impairment loss provision (unaudited)	—	(2,640)	(6,223)	(389)	—	(9,252)
Impairment loss provision (unaudited)	—	1,257	45,549	114	—	46,920
End of period (unaudited)	<u>116,194</u>	<u>550,191</u>	<u>2,082,038</u>	<u>185,769</u>	<u>135,529</u>	<u>3,069,721</u>
<b>Net book value</b>						
End of period (unaudited)	<u>532,322</u>	<u>1,932,540</u>	<u>2,615,354</u>	<u>241,016</u>	<u>106,214</u>	<u>5,427,446</u>
Beginning of period	<u>536,277</u>	<u>1,869,325</u>	<u>2,707,483</u>	<u>243,051</u>	<u>111,411</u>	<u>5,467,547</u>

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

As at 30th June 2004, approximately RMB97,527,000 of the Group's buildings, plant and machinery, motor vehicles and other equipment (31st December 2003: nil) had been pledged as security for certain bank loans amounting to RMB16,000,000 of the Group (*Note 18*).

As at 30th June 2004, ownership certificates ("Building Ownership Certificates") of certain buildings of the Group with respective carrying value of approximately RMB314,790,000 (31st December 2003: RMB356,360,000) and land use right certificates ("Land Certificates") of certain parcels of land of the Group with an aggregate carrying value of approximately RMB35,145,000 (31st December 2003: RMB35,499,000) 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 Land Certificates and there will not be any significant adverse impact on the operations of the Group. Accordingly, no provision for fixed assets impairment was considered necessary.

In addition, as at 30th June 2004, the operating facilities of certain subsidiaries of the Group were located on parcels of allocated land ("Allocated Lands") owned by certain local municipal governments. Majority of the municipal government have agreed to process the legal title transfer. The carrying values of the associated buildings and facilities constructed thereon were approximately RMB119,694,000 (31st December 2003: RMB136,317,000). The Company's directors consider that there is no any significant adverse impact on the operation of the Group. Accordingly, no provision for intangible assets impairment was considered necessary. The Group is in the process of applying for the transfer of the legal title of these Allocated Lands to the Group.

## 14 INTANGIBLE ASSETS

	Goodwill	Trademarks(i)	Technology know-how(ii)	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<b>Cost</b>					
Beginning of period	194,520	103,346	18,629	23,689	340,184
Additions (Unaudited)	18,039	424	—	9,251	27,714
Deduction (Unaudited)	—	—	—	(13)	(13)
End of period (Unaudited)	<u>212,559</u>	<u>103,770</u>	<u>18,629</u>	<u>32,927</u>	<u>367,885</u>
<b>Accumulated amortisation</b>					
Beginning of period	43,214	26,620	8,383	4,926	83,143
Charge for the period (Unaudited)	9,580	1,608	931	2,194	14,313
Deduction (Unaudited)	—	—	—	(13)	(13)
End of period (Unaudited)	<u>52,794</u>	<u>28,228</u>	<u>9,314</u>	<u>7,107</u>	<u>97,443</u>
<b>Net book value</b>					
End of period (Unaudited)	<u>159,765</u>	<u>75,542</u>	<u>9,315</u>	<u>25,820</u>	<u>270,442</u>
Beginning of period	<u>151,306</u>	<u>76,726</u>	<u>10,246</u>	<u>18,763</u>	<u>257,041</u>

### (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 lives 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 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 HK SSAP 29.

Other trademarks were acquired as a result of acquisitions of certain subsidiaries. The cost of these intangible assets were determined based on their fair value at the respective dates of acquisition. They are amortised over their estimated useful lives ranging from 5 to 10 years.

### (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 on a straight-line basis over an expected period of inflow of economic benefits of 10 years. The cost of these intangible assets were determined based on their fair value at the respective dates of acquisition.

In the opinion of the Company's directors, the underlying value of the intangible assets as at 30th June 2004 were not less than their carrying values in the books of the Company and of the Group as at that date.

## 15 NEGATIVE GOODWILL

RMB'000

### Cost

Beginning of period	(131,390)
Additions (Unaudited)	(2,040)

End of period (Unaudited)	(133,430)
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### Accumulated Amortisation

Beginning of period	33,199
Charge for the period (Unaudited)	5,150

End of period (Unaudited)	38,349
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### Net Book Value

End of period (Unaudited)	(95,081)
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Beginning of period	(98,191)
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The negative goodwill is recognised as other revenue over the remaining weighted average useful life of the identifiable depreciable fixed assets of the subsidiaries acquired.

## 16 TRADE RECEIVABLE

The ageing analysis of trade receivable is as follows:

	(Unaudited) 30th June 2004			31st December 2003		
	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	199,103	(7,933)	191,170	128,796	(2,599)	126,197
One to less than two years	33,447	(8,746)	24,701	42,273	(12,592)	29,681
Two to less than three years	36,004	(33,937)	2,067	28,272	(19,312)	8,960
Over three years	93,052	(82,940)	10,112	89,311	(88,945)	366
Total	<u>361,606</u>	<u>(133,556)</u>	<u>228,050</u>	<u>288,652</u>	<u>(123,448)</u>	<u>165,204</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 against certain doubtful trade receivable balances. In addition, based on past experience of the Group and conditions of individual customers, 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 to be recovered, provision is made for the estimated uncollectible portion.

## 16 TRADE RECEIVABLE (CONT'D)

The Group and the Company reached a settlement agreement with a customer and a related company (collectively "the Debtors") in 2001 in connection with an aggregate outstanding receivable balance aged over three years due from them, totaling RMB105,000,000. Pursuant to the agreement, the entire outstanding balance will be repayable in eight annual installments, commencing from 1st January 2002. In addition, Tsingtao Brewery Group Company also undertook to guarantee the repayment of the balance. As at 30th June 2004, relevant provision has been accrued and amounts of approximately RMB10,000,000 and RMB53,808,000 were recorded as trade receivable and other long-term assets on the consolidated balance sheets, respectively.

## 17 INVENTORIES

	(Unaudited)	
	30th June 2004	31st December 2003
	RMB'000	RMB'000
Raw materials, packaging materials and auxiliary materials	1,006,445	1,036,906
Work-in-progress	174,622	128,850
Finished goods	135,336	164,877
	<u>1,316,403</u>	<u>1,330,633</u>
Provision for inventories to net realisable value and obsolescences	(39,899)	(25,130)
Inventories, net	<u>1,276,504</u>	<u>1,305,503</u>

Approximately RMB25,500,000 (31st December 2003: RMB25,130,000) of the gross value of finished goods of the Group were covered by full provision.

## 18 BANK LOANS

	(Unaudited)			31st December 2003		
	30th June 2004			31st December 2003		
	Short-term bank loans	Long-term bank loans	Total	Short-term bank loans	Long-term bank loans	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Repayable :						
— within 1 year	1,246,665	47,020	1,293,685	1,302,613	61,386	1,363,999
— in the second to fifth years inclusive	—	27,734	27,734	—	34,810	34,810
— over 5 years	—	18,781	18,781	—	18,974	18,974
Total	<u>1,246,665</u>	<u>93,535</u>	<u>1,340,200</u>	<u>1,302,613</u>	<u>115,170</u>	<u>1,417,783</u>
Portion due within one year	<u>(1,246,665)</u>	<u>(47,020)</u>	<u>(1,293,685)</u>	<u>(1,302,613)</u>	<u>(61,386)</u>	<u>(1,363,999)</u>
Long-term portion	<u>—</u>	<u>46,515</u>	<u>46,515</u>	<u>—</u>	<u>53,784</u>	<u>53,784</u>

Pursuant to the debt restructuring agreements or acquisition agreements of certain subsidiaries, the interest charges on the Group's and the Company's loans levied on approximately RMB19,234,000 (31st December 2003 : RMB49,394,000) and RMB19,234,000 (31st December 2003 : RMB44,094,000), respectively, were waived by the lenders at no consideration. The remaining outstanding loan balance are interest bearing at rates ranging from 4.78% to 5.31% per annum (31st December 2003: 1.63% to 6.90%).

Approximately RMB16,000,000 (31st December 2003 : RMB1,106,000) of the Group's loans are secured by buildings, plant and machinery, motor vehicles and other equipment with an aggregate carrying value of approximately RMB97,527,000 as at 30th June 2004 (31st December 2003 : secured by fixed deposit of approximately RMB28,000,000).

## 18 BANK LOANS (CONT'D)

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 RMB612,542,000 (31st December 2003: RMB740,287,000) as at 30th June 2004. The Board of Directors of the Company is confident that the Group will have sufficient operating cash inflows and be able to renew its short-term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones.

As at 30th June 2004, the Group had unutilised balance of approximately RMB2,075,000,000 (31st December 2003: RMB1,000,000,000) out of the available banking facilities granted from certain banks.

## 19 PROVISIONS

	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000
Potential litigation loss with Qingdao Guangming Company ("Guangming Company") (a)	27,000	—
Potential litigation loss with Qingdao Yuanyang Xianghe Trading Company ("Xianghe Company") (b)	23,784	—
Others	284	—
	<u>51,068</u>	<u>—</u>

- (a) Pursuant to a court verdict ruled by Shandong Province Higher People's Court ("Shandong Higher Court") on 2nd April 2004, the Company was required to pay Guangming Company, a distributor, in an aggregate of approximately RMB27,000,000 as loss from breaching of a distribution contract. The Company appealed to the Supreme People's Court of the PRC during the legal period for appeal. As of the date of this report, the appealing procedures were still in progress and no judgement from the Supreme People's Court of the PRC had been delivered. For the sake of prudence, Board of Directors of the Company have fully accrued for RMB27,000,000 in the profit and loss account.
- (b) Pursuant to a court verdict ruled by Shandong Higher Court on 19th April 2004, the Company was required to pay Xianghe Company, a third party, in an aggregate of approximately RMB23,784,000 as compensation for a dispute arising from a commodity barter contract between the Company and Xianghe Company. The Company appealed to the Shandong Higher Court during the legal period for appeal. As of the date of this report, the appealing procedures were still in progress and no judgment from the Shandong Higher Court had been delivered. For the sake of prudence, the Board of Directors of the Company have fully accrued for RMB23,784,000 in the profit and loss account.

## 20 CONVERTIBLE BONDS

As at 30th June 2004, the details of CB without converted into new H shares of the Company are as follows:

Date of issue	Mandatory conversion date	Face value RMB'000	Discounted net present value (i) RMB'000	(Unaudited) 30th June 2004 RMB'000
1st April 2003	31st March 2010	665,562	(9,873)	655,689
21st October 2003	20th October 2010	271,444	(3,395)	268,049
31st March 2004	30th March 2011	270,275	(2,821)	<u>267,454</u>
				<u>1,191,192</u>

- (i) Discounted net present value represents the difference between the net present values of estimated cash flows of expected annual interest payments payable by the Company to the bondholder, and the expected refunds from the bondholder to be receivable by the Company upon conversion of the bonds (assuming mandatory conversion occurs upon the expiry of the contracted conversion periods).

## 20 CONVERTIBLE BONDS (CONT'D)

During the six months ended 30th June 2004, interest of approximately RMB14,114,000 was paid by the Company associated with the CB.

On 21st October 2002, the Company and A-B Company entered into a Strategic Investment Agreement, pursuant to which A-B Company undertook to subscribe for three tranches of mandatory convertible bonds ("CB") issued by the Company with an aggregate principal amount of approximately HK\$1,416,195,000 (RMB1,503,448,000), commencing from 2003. The CB are convertible into 308,219,178 new H Shares issuable by the Company as follows:

### **Tranche I of the CB ("Tranche I")**

The total subscription amount of Tranche I was HK\$280,800,000 (equivalent to approximately RMB297,999,000) which was issued to 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 was interest-free.

### **Tranche II of the CB ("Tranche II")**

The total subscription amount of Tranche II was HK\$627,120,000 (equivalent to approximately RMB665,813,000) 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. 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 had not exercised its conversion right.

### **Tranche III of the CB ("Tranche III")**

The total subscription amount of Tranche III was HK\$508,275,000 (equivalent to approximately RMB539,636,000) issued to A-B Company by several instalments in October 2003 and March 2004. Tranche III can be converted into 114,219,178 newly 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, A-B Company had not exercised its conversion right.

Upon the conversion of each of Tranche I, Tranche II and Tranche III of the CB, the percentage shareholding of Qingdao State-Owned Assets Administration Bureau ("Qingdao Bureau"), the existing substantial shareholder of the Company, has decreased/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 has increased/will decrease from approximately 4.5% to 9.9%, 20.0% and 27.0%, respectively. 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 enjoys 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 shareholding at general meetings of holders of state shares and PRC legal person shares and PRC public shares or H shares class meetings of the Company.

## 21 TRADE PAYABLE

The ageing analysis of trade payable is as follows:

	(Unaudited)		
	30th June		31st December
	2004		2003
	RMB'000		RMB'000
Less than 1 year	761,975		603,964
One to less than two years	14,268		27,342
Two to less than three years	3,911		6,159
Over three years	6,465		9,448
	<u>786,619</u>		<u>646,913</u>
Total	<u>786,619</u>		<u>646,913</u>

## 22 BILLS PAYABLE

All bills payable balance of the Group and of the Company were within a six-month ageing period. Approximately RMB22,051,000 (31st December 2003: RMB55,135,000) of deposits of the Group denominated in Renminbi were mostly pledged for these bills.

## 23 DEFERRED TAXATION

Deferred taxation are calculated in full on temporary differences under the liability method using the applicable principal taxation rates of entities within the Group from 15% to 33% (2003: same).

As at 30th June 2004, deferred tax assets were recognised for temporary differences arising from fair value adjustment on depreciation of fixed assets acquired in business combination to the extent that realisation of such taxes benefit through the future taxable profits is probable. In addition, the Group also had unrecognised deferred tax assets associated with tax losses available to be carried forward of approximately RMB228,586,000 (31st December 2003: RMB210,526,000) which will expire in the period of 2004-2009, and fair value adjustment on depreciation of fixed assets of approximately RMB83,887,000 (31st December 2003: RMB96,283,000), provision for realisation and impairment losses of receivable balances, inventories and fixed assets of approximately RMB93,848,000 (31st December 2003: RMB77,999,000) as there is no certainty of realisation through future taxable profits.

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

### (i) Deferred tax assets

	Provisions		Fair value adjustment on depreciation		Other		Total	
	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000
Beginning of Period/year	—	—	7,111	7,528	—	5,101	7,111	12,629
Debited to profit and loss account	—	—	(210)	(417)	—	(5,101)	(210)	(5,518)
End of Period/year	<u>—</u>	<u>—</u>	<u>6,901</u>	<u>7,111</u>	<u>—</u>	<u>—</u>	<u>6,901</u>	<u>7,111</u>

## 23 DEFERRED TAXATION (CONT'D)

### (ii) Deferred tax liabilities

	Adjustment for fair value of depreciation	
	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000
Beginning of Period/year	17,083	18,098
Credited to profit and loss account	(508)	(1,015)
End of Period/year	<u>16,575</u>	<u>17,083</u>
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered more than 12 months	6,484	6,694
Deferred tax liabilities to be settled after more than 12 months	<u>15,559</u>	<u>16,068</u>

## 24 SHARE CAPITAL

	(Unaudited) 30th June 2004		31st December 2003	
	RMB'000	Percentage (%)	RMB'000	Percentage (%)
State shares	399,820	37.72%	399,820	37.72%
PRC legal person shares	53,330	5.03%	53,330	5.03%
PRC public shares (A Shares)	200,000	18.87%	200,000	18.87%
Overseas public shares (H Shares)	406,850	38.38%	406,850	38.38%
Total	<u>1,060,000</u>	<u>100.00%</u>	<u>1,060,000</u>	<u>100.00%</u>

## 25 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 under the PRC accounting standards for the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's paid-up share capital), and it is also obliged to appropriate funds to the statutory public welfare fund at a percentage of the net profit after taxation determined by the directors. These reserves cannot be applied for purposes other than those for which they are created and are not distributable as cash dividends.

The Board of Directors have resolved that the statutory public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's employees. 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 Huai Zi [1995] No.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 as determined in accordance with the 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 determined in accordance with the PRC accounting standards and regulations and those determined in accordance with the accounting principles generally accepted in Hong Kong. The inappropriate profit available for distribution to shareholders as at 30th June 2004 amounted to approximately RMB159,591,000 (31st December 2003: RMB193,404,000).

## 26 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. During the six months ended 30th June 2004, the Group’s contributions were approximately RMB44,249,000 (30th June 2003: RMB50,596,000).

Tsingtao Brewery (Hong Kong) Trading Company Limited (“Hong Kong Company”), 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. During the six months ended 30th June 2004, the subsidiary made contributions of approximately HK\$75,000 (equivalent to RMB79,000) (30th June 2003: HK\$74,000 (equivalent to RMB78,000)). The assets of the fund are held separately from that of the subsidiary and are managed by independent professional fund managers.

## 27 SUBSIDIARIES AND ASSOCIATED COMPANIES

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

Name of new subsidiaries	Date of establishment	Place of establishment and principal operation	Registered and share capital	Equity interest held by the Company (%)		Principal activities
				Directly held	Indirectly held	
Xuzhou Pengcheng Brewery Sales Company Limited	January 2004	Xuzhou, the PRC	RMB5,000,000	—	83.80%	Trading of beer
Tsingtao Brewery (Changsha) Company Limited (i)	January 2004	Changsha, the PRC	RMB68,000,000	70%	28.50%	Manufacturing and domestic trading of beer

- (i) In January 2004, the Company together with Tsingtao Brewery Huanan Holding Company Limited (“Huanan Holding Company”), a subsidiary of the Company, agreed to set up a company named Tsingtao Brewery (Changsha) Company Limited (“Changsha” Company) with a registered capital of RMB10,000,000. Both the Company and Huanan Holding Company invested RMB7,000,000 and RMB3,000,000 to hold 70% and 30% of the shareholdings of Changsha Company, respectively. In March 2004, with the approval of Board of Directors, the Company and Huanan Holding Company injected additional capital of RMB40,600,000 and RMB17,400,000 into Changsha Company. After this additional capital injection, the registered capital of Changsha Company was increased from RMB10,000,000 to RMB68,000,000. The equity interests of Changsha Company held by the Company and Huanan Holding Company remained unchanged.
- (b) In current period, there were changes in equity interests of the following subsidiaries:
- (i) In May 2004, the Company entered into an agreement with Sichuan Huo Ju Hua Gong Company Limited (“Sichuan Huo Ju”), pursuant to which, the Company acquired 40% interests of Tsingtao Brewery (Luzhou) Company Limited (“Luzhou Company”) held by Sichuan Huo Ju at a consideration of approximately RMB34,296,000. After the transaction, the equity interests of Luzhou Company held by the Company increased from 55% to 95%.
- (ii) During the current period, Hong Kong Company acquired 5% and 20% interests of Xiamen Company held by the Company and Ou Mei Investment Company, respectively. In May 2004, the relevant procedures have been completed. Accordingly, the equity interests 75% and 25% were held by the Company and Hong Kong Company, respectively. In addition, the Company and Hong Kong Company injected additional capital of RMB60,000,000 and RMB20,000,000 into Xiamen Company, respectively, which has been approved by Xiamen Foreign Investment Bureau. The change of business registration was completed in July 2004. After the additional capital injection, the registered capital of Xiamen Company was increased from RMB10,000,000 to RMB90,000,000 and there is no change in the proportion of equity interests held by the Company and Hong Kong Company.

## 27 SUBSIDIARIES AND ASSOCIATED COMPANIES (CONT'D)

- (c) Huanan Holding Company, a subsidiary of the Company, acquired 30% equity interest in Nanning Tsingtao Brewery Company Limited ("Nanning Company") from Tailian Brewery (Cayman Islands) Company Limited ("Tailian Brewery"). The legal procedures in relation to this acquisition were completed in June 2004. In May 2004, Huanan Holding Company and Tailian Brewery entered into an equity transfer agreement, pursuant to which, Huannan Holding Company undertook to acquire an additional 45% equity interest from Tailian Brewery at a consideration of approximately RMB200,880,000. As at the reporting date, the approval of the State Ministry of Business was still in progress. After completion of above equity transfer, the equity interest indirectly held by the Company would be increased from 30% to 75%.

## 28 RELATED PARTY TRANSACTIONS

- (a) For the six months ended 30th June 2004, the Group had the following material transactions with related parties:

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	<i>RMB'000</i>	<i>RMB'000</i>
Sales to associated companies	83,110	42,830
Purchases from related companies (minority shareholders of a subsidiary, companies with the same ultimate shareholder and an associated company)	117,984	39,767
Advertising services provided by a related company (company with the same ultimate shareholder)	—	471
Equipment and installation services provided to a related company	110	—
Equipment and installation services provided by a related company (company with the same ultimate shareholder)	689	80
Guarantees provided by related companies for the Group's bank loan	39,764	250,000

The Board of Directors of the Company are of the opinion that all above transactions were entered into in the ordinary course of business and based on mutually agreed terms.

## 28 RELATED PARTY TRANSACTIONS (CONT'D)

- (b) As at 30th June 2004, the Group had the following significant current account balances with related parties:

	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000
<b>Included in:</b>		
Trade receivable and other long-term assets (d)		
— Related parties	103,568	100,903
Other receivables		
— Related parties	54,549	45,108
Prepayments		
— Related parties	61,886	1,189
	<u>103,568</u>	<u>100,903</u>
<b>Included in:</b>		
Other payables and long-term loan due to a shareholder		
— A-B Company (f)	124,151	124,047
— Other related parties	51,617	76,701
Trade payable		
— Related parties	1,011	17,404
Advance		
— Related parties	847	3,073
Bills payable		
— Related parties	55,000	—
	<u>124,151</u>	<u>124,047</u>

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

- (c) Loans of the Group amounting to approximately RMB39,764,000 (31st December 2003: RMB125,000,000) are guaranteed by Tsingtao Brewery Group Company Limited.
- (d) The Group and the Company reached a settlement agreement with a customer and a related company in 2001 in connection with an aggregate outstanding receivable balance aged over three years due from them, totaling RMB105,000,000 (details see also Note 16).
- (e) As at 30th June 2004, the Company had arranged advances and loans to an associated company of approximately RMB56,450,000 (31st December 2003: RMB66,450,000) through entrustment loan arrangements made with banks in the PRC. All these loans are unsecured, non-interest bearing and with maturity within one year.
- (f) In October 2003, Hong Kong Company entered into a loan agreement with A-B Company, pursuant to which, Hong Kong Company borrowed a loan of US\$15,000,000 (equivalent to approximately RMB124,151,000) (the "Loan") from A-B Company. The Loan is interest bearing at 1% per annum, unsecured and repayable within five years. The Company has undertaken to guarantee the repayment of the Loan.

## 29 CONTINGENT LIABILITIES

Pursuant to certain policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, the policy of allocating staff quarters as staff housing welfare of the employees was terminated. In replacement, qualified employees are to be compensated in the form of monetary housing subsidies ("Housing reform"). As at 30th June 2004, no formal plan has yet been developed by the Group and the Company and no plans had been developed by the Group and the Company to their employees in respect of the arrangements. After seeking a legal advice, the Company's Board of Directors is 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 2004 and there is no reasonable basis to accrue for any potential liabilities.

### 30 COMMITMENTS

Saved as disclosed in other notes to accounts, as at 30th June 2004, 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 2004.

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

	<b>(Unaudited)</b> <b>30th June</b> <b>2004</b> <b>RMB'000</b>	31st December 2003 <b>RMB'000</b>
Construction projects	<b>29,422</b>	33,301
Investments and acquisitions	<b>9,900</b>	9,950
Total	<b>39,322</b>	<b>43,251</b>

#### (b) Operating lease commitments

As at 30th June 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases of land and buildings as follows:

	<b>(Unaudited)</b> <b>30th June</b> <b>2004</b> <b>RMB'000</b>	31st December 2003 <b>RMB'000</b>
Not later than one year	<b>2,130</b>	—

In 2003, Tsingtao Brewery (Xi'an) Company Limited ("Xi'an Company"), a subsidiary of the Company, and Shanxi Baoji Brewery Company Limited ("Baoji Brewery Company") entered into a lease agreement, pursuant to which Baoji Brewery Company leases all its operating fixed assets and second its employees to Tsingtao Brewery (Baoji) Company Limited ("Tsingtao Brewery Baoji"), jointly set up by the Company and Xi'an Company, for beer production business, and Baoji Brewery Company bears all the operating costs relating to the leased assets and employees.

In May 2004, Tsingtao Brewery Baoji and Shanxi Baoji Alcohol factory ("Baoji Alcohol"), the biggest shareholder of Baoji Brewery Company, entered into a lease agreement, pursuant to which Baoji Alcohol leases its buildings, land and equipment to Tsingtao Brewery Baoji, in return, Tsingtao Brewery Baoji undertakes to utilise Baoji Alcohol's personnel in its operations and bear the relevant staff costs. Xi'an Company is also committed to bear the related operating costs of Tsingtao Brewery Baoji.

### 31 SIGNIFICANT SUBSEQUENT EVENTS

- (a) In November 2003, the Company entered into an equity transfer agreement (the "Transfer Agreement") with Canada EVG Enterprises Inc. ("EVG"), pursuant to which EVG will acquire 25% equity interest in Beijing Tsingtao Brewery Three Ring Company ("Three Ring Company") owned by the Company. In February 2004, the Company signed another agreement with EVG to cancel the Transfer Agreement. The Company and Hong Kong Company instead reached an equity transfer agreement in which the Company will transfer its 25% equity interest in Three Ring Company to Hong Kong Company at a consideration of US\$850,000. This transaction in relation to the change of foreign equity interests has been approved by the government authorities in July 2004. After the transaction, the Company and Hong Kong Company will hold 29% and 25% equity interests of Three Ring Company, respectively.

### 31 SIGNIFICANT SUBSEQUENT EVENTS (CONT'D)

- (b) In May and June 2004, the Company entered into an investment agreement and a supplementary agreement with Gansu Nongken Brewery Company Limited (“Gansu Nongken”) and its shareholders that the registered capital of Gansu Nongken is increased. The Company would inject an amount of approximately RMB60,481,000 into Gansu Nongken and hold 50% of its equity interests. The change of business registration relating to the increase of the registered capital was completed in July 2004. Gansu Nongken was also renamed as Tsingtao Brewery (Gansu) Company Limited.
- (c) In December 2003, Tsingtao Brewery (Doumen) Melt Company Limited (“Doumen Company”), a subsidiary of the Company, entered into an asset transfer agreement with Zhuhai Doumen Malt Factory (“Doumen Malt Factory”). Pursuant to the agreement, Doumen Malt Factory will transfer Land Use right, buildings, equipment and parts of utility supply system belonging to Doumen Malt Factory to Doumen Company at a consideration of approximately RMB19,900,000. As at 30th June 2004, Doumen Company had paid approximately RMB10,000,000 to Doumen Malt Factory. The payment of the remaining balance and the relevant legal approval procedures for the transaction were still in progress.
- (d) The shareholders approved the dividend distribution of year 2003 i.e. cash dividend RMB0.20 per share in the 2003 general meeting of shareholders. This distribution had been completed as at 30th July 2004.

On behalf of the Board

**Li Gui Rong**

*Director*

**Qingdao, the PRC**

**TSINIGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**SUPPLEMENTARY INFORMATION (UNAUDITED)**

FOR THE SIX MONTHS ENDED 30TH JUNE 2004

**RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HK GAAP**

The Group has prepared a separate set of statutory accounts for the six months ended 30th June 2004 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 net assets:

	(Unaudited) 30th June 2004 RMB'000	31st December 2003 RMB'000
Net assets as per accounts prepared under PRC GAAP	3,477,601	3,513,903
HK GAAP adjustments:		
Adjustments arising from different exchange rates used under HK GAAP and PRC GAAP	141,253	141,253
Additional depreciation charges for assets acquired before unification of the two-tier exchange rate system in the PRC	(123,667)	(117,927)
Difference between the amortisation of investment differences under PRC GAAP and amortisation of goodwill and negative goodwill under HK GAAP	(89,050)	(58,106)
Adjustments arising from the adoption of HK SSAP 12	(2,530)	(2,001)
Difference in accounting for the principal balance of convertible bonds and the corresponding interest	1,212,716	938,231
Others	(938)	(527)
Net assets per accounts prepared under HK GAAP	<u>4,615,385</u>	<u>4,414,826</u>

Impact on the consolidated profit and loss account:

	(Unaudited)	
	Six months ended 30th June	
	2004	2003
	RMB'000	RMB'000
Net Profit under PRC GAAP	148,251	116,403
HK GAAP adjustments:		
Additional depreciation charges for assets acquired before unification of the two-tier exchange rate system in the PRC	(5,740)	(5,740)
Difference between the amortization of investment differences under PRC GAAP and amortization of goodwill and negative goodwill under HK GAAP	(5,086)	(6,068)
Waiver of liabilities of certain subsidiaries	1,259	238
Adjustments arising from adoption of HK SSAP 12	(529)	(393)
Difference in accounting for interest of convertible bonds	7,031	3,549
Others	(412)	780
Profit attributable to shareholders under HK GAAP	<u>144,774</u>	<u>108,769</u>

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

In the first half of 2004, with the steady growth of the domestic economy and the better environment for growth of consuming market, the total beer output of the country has reached 140.8 million hl with 18.64% y-o-y growth.

Due to the price inflations in raw materials, energy and transportation costs in the first half year, the domestic brewers are all facing more pressure than before. Under this disadvantageous condition, with the core strategy of "Quality, Synergy, Efficiency and Credibility" regulated at the beginning of the year, the Company adopted various kinds of effective measures timely and realised continuous growth in beer output, sales income and profit.

The total output and sales volume of the Company in the first half was 18.77 million hl with 14% y-o-y growth. The Company promoted brand structure and product structure adjustment and enhanced marketing of high and medium end products and realized initial effect: Tsingtao, the principal brand, had 5.7 million hl sales volume with 13% y-o-y growth; the principal brand and the secondary brands including Laoshan represented 58% of the total sales volume with 4% y-o-y growth; which greatly increased the gross profit margin of the Company.

In accordance with the Company's overall planning of brand development, the Company had gradually promoted and adopted new Tsingtao Beer logo domestically in the first half of the year, which energized the centennial brand and promoted the products' modernization image. Taking advantage of the promotion of new logo and new products, the Company accelerated the consolidation progress and the sales volume of high and medium end brands were continuously increased in high-speed rather than being decreased with the price raised.

Facing the new competition conditions of the beer industry in the first half, the Company focused mainly on internal consolidation. The Company enhanced the development of basement markets, improved logistics through adopting modern ERP management system, enhanced controls on various expenses by optimizing procedures and strengthening management and enhanced synergy effect, thus offset the rising pressure on production costs effectively.

The total export amount in the first half was 270 thousand hl with 42% decrease, which was mainly caused by Taiwan market due to the reason as is known to all, while there was over 10% growth in the export to European districts and other near ocean areas.

## 2. USE OF PROCEEDS

In 2001, the Company raised RMB787 million by issuing 100 million additional A shares. Till the end of the reporting period, except the draft beer project in Xi'an has not been started yet due to the local market prospect, the other projects invested with the capital raised by additional issuance of A shares have been completed and begun to bring about profit. The remaining RMB121.15 million is temporarily used as the Company's cash flow.

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

The joining of foreign brewers in large scale will intensify the competition in domestic beer market in the second half of the year. The Company will continue to execute effective management measures to enhance adjustment strength of brand structure and promote the Company's profitability while keeping rapid growth in total sales volume. The Company is quite confident in realizing the target of 36 million sales volume in the year.

# **SIGNIFICANT EVENTS**

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## **1. DIVIDENDS**

Pursuant to the provisions of the Company's Articles of the Association, the Company does not recommend the payment of interim dividend for the 6 months ended 30th June 2004.

## **2. MATERIAL LITIGATIONS OR ARBITRATIONS DURING THE REPORT PERIOD**

- (1) The case of Guangming General Company suing the Company for the breach of distribution contract as disclosed in the Company's 2001 Annual Report was ruled in the first trial by Shandong Province Higher People's Court ("Shandong Higher Court") on 2nd April 2004, and the Company received the written judgment on 12th April 2004. The Company appealed to the Supreme Court of the P.R.C during the legal appealing duration and received the written notice of acceptance from "Shandong Higher Court" on 23rd June 2004. The Company is waiting for the written notice of a trial from the Supreme people's court of the P.R.C till the end of the reporting period.
- (2) The Company received a written final judgment on 8th May 2004 made finally by "Shandong Higher Court" on 19th April 2004 in relation to the Company's barter contract disputation with Qingdao Yuan Yang Xiang He Industrial and Trading Co., Ltd ("Xianghe Company"), pursuant to which, the Company had to pay in an aggregate amount of RMB23.78 million to "Xianghe Company" as compensation for commodity and gunny bag money. The Company has submitted its appeal request to "Shandong Higher Court" and the appealing procedures are currently in progress.
- (3) The Company has appealed to "Shandong Higher Court" against its second verdict on the Company's litigation with Qingdao Hong long Trading Co., Ltd and "Shandong Higher Court" placed the case on file for retrial. The case is still in retrial procedures till the end of reporting period.

## **3. ACQUISITIONS & MERGERS AND ASSETS RECONSTRUCTION DURING THE REPORTING PERIOD**

- (1) The RMB60 million and RMB20 million additional investment on Tsingtao Brewery (Xia'men) Company Limited ("Xia'men Company") made respectively by the Company and Tsingtao Beer (Hong Kong) Trading Company Limited ("Tsingtao Beer Hong Kong Company") as disclosed in the Company's 2004 First Quarter Result Report was approved by Xia'men Foreign Investment Bureau, and the change of industrial and commercial registration was finished on 5th July 2004. Currently, the registered capital of "Xia'men Company" is RMB90 million, of which the Company holds 75% and "Tsingtao Beer Hong Kong Company" holds 25%.
- (2) On 2nd March 2004, upon the approval of the Company's Board of Directors, the Company and Shenzhen Tsingtao Beer Huanan Investment Company Limited ("Huanan Investment") injected respectively additional RMB40.6 million and RMB17.4 million on Tsingtao Brewery (Changsha) Company Limited ("Changsha Company"), pursuant to which the registered capital of "Changsha Company" was increased from 10 million to 68 million while the Company still holds 70% and "Huanan Investment" holds 30% equity of it. The additional injection has been finished till the end of the reporting period.
- (3) On 9th May 2004, the Company signed a "Equity Transfer Agreement" with Sichuan Huoju Chemical Group Company Limited ("Sichuan Huoju"), pursuant to which the Company will acquire 40% stakes of "Sichuan Huoju" in an aggregate of RMB34.3 million depending on equity transfer calculation basis of the 40% net assets value of Tsingtao Brewery (Luzhou) Company Limited ("Luzhou Company") audited on 31st December 2003. Upon the close of equity transfer, the Company and "Sichuan Huoju" hold respectively 95% and 5% equity of "Luzhou Company".
- (4) On 14th May 2004, under the precondition of considering the Company's strategic development requirement in Guangxi market and the assets quality of Nanning Tsingtao Brewery Company Limited ("Nanning Company") and etc., "Huanan Investment" and Tailian Brewing (Cayman Island) Company Limited ("Tailian Brewing") signed a "Equity Transfer Agreement", pursuant to which, "Huanan Investment" will acquire 45% equity of "Nanning Company" transferred from "Tailian Brewing" in an aggregate of RMB200.88 million. The above equity transfer is in the procedure of waiting for the approval of ministry of commerce of P.R.C. till the end of the reporting period. Upon the close of equity transfer, "Huanan Investment" will hold 75% equity of "Nanning Company" and "Tailian Brewing" will hold the remaining 25%.

- (5) Respectively on 20th May and 16th June 2004, the Company signed a “Additional injection and Equity Transfer Agreement” and a “Supplementary Agreement” with Gansu Nongken Beer Company Limited (“Nongken Beer”), pursuant to which and depending on net asset value of “Nongken Beer” confirmed by the auditing report made on 31st December 2003, the Company injected RMB60.4808 million into “Nongken Beer” and thus holds 50% stakes of it. The procedures for the above additional injection and equity transfer have been finished and the Company name of “Nongken Beer” was changed to Tsingtao Brewery (Gansu) Nongken Company Limited. “Nongken Beer” owns two factories in Gansu Province with total annual output capacity of 2 million hl.
4. On 31st March 2004, the Company issued the 2nd Sub-tranche of Tranche III Convertible Bonds in an aggregate of HK\$254,137,671 to Anheuser-Bush, which was remitted to the specified account of the Company in the same day. After this, the Company has issued all the Convertible Bonds in accordance with the “Strategic Investment Agreement” signed on 21st October 2002.
5. On 20th January 2003, Tsingtao Brewery Xi’an Company Limited (“Xi’an Company”), a subsidiary of the Company, and Shanxi Baoji Beer Company Limited (“Baopi Company”) entered into an Tenancy Agreement, pursuant to which, Tsingtao Brewery Baoji Beer Company Limited (“Tsingtao Baoji”), jointly established by the Company and “Xi’an Company”, leased all the assets other than the current assets of “Baopi Company”. On 29th May 2004, “Tsingtao Baoji” and Shanxi Province Baoji Alcohol Factory, the first shareholder of “Baopi Company”, entered into an Tenancy Agreement, pursuant to which, Tsingtao Baoji will rent the houses, land, equipment and other assets of Baoji Alcohol Factory for operation at equal value exchange of using staffs of “Baoji Alcohol Factory” and bearing related operation cost of them. Through renting the assets of Baoji Alcohol Factory, the management efficiency of “Tsingtao Baoji” will be improved and the operation will be ensured effectively.
6. During the reporting period, neither the Company nor any of its subsidiaries had purchased, redeemed or sold any of the listed shares of the Company.

# CHANGES IN SHARE CAPITAL

## 1 CHANGES IN SHARE CAPITAL

No changes in the equity of the Company occurred during the reporting period

## 2 SHAREHOLDING OF DIRECTORS, SUPERVISORS AND SENIOR MANAGERMENTS

(1) No changes happened on the Company's equity held by the Company's Directors, Supervisors and Senior Managements in the reporting period.

(2) H share

As at 30th June 2004, none of the Directors, Supervisors and Senior Managements of the Company has any interests and short positions in the H shares, underlying H shares and debentures of the Company or any associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which was recorded in 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 filing for the Directors, Supervisors and Senior Managements of the Company, please refer to the "Disclosure of Interests" section at the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk).

(3) Directors and Supervisors' Interests

None of the Directors, Supervisors and major management personnel had interests in any contracts entered into with the Company or any of its subsidiaries during the reporting period.

## 3 MAJOR SHAREHOLDERS

(1) The top 10 shareholders of the Company at the end of the reporting period

Name	Type of Share	At end of period (shares)	Percentage to total share capital (%)	Increase and decrease (shares) in the reporting period
Office of Qingdao State-owned Assets Administration Bureau	A	399,820,000	37.72	0
HKSCC Nominees Limited	H	294,535,180	27.79	553,800
Anheuser-Busch Companies Inc.	H	105,000,000	9.91	0
Oriental Asset Management Company of P.R.C	A	29,250,000	2.76	—
Construction Bank of China, Qingdao Branch	A	19,080,000	1.80	—
E Fund Stable Growth Fund	A	9,745,225	0.92	—
Shanghai Shenneng Biology Technique Company Limited	A	6,922,213	0.65	—
Tongqian Fund	A	5,986,058	0.56	—
Qingdao Huaqing Financial Service Company Limited	A	5,000,000	0.47	—
Yuyuan Security Investment Fund	A	4,745,432	0.45	—

The above informations for the top 10 shareholders of the Company were listed in accordance with the List of Shareholders supplied by China Security Registrars Limited Shanghai Branch and Hongkong Security Registrars Limited as at 30th June 2004. Saved as disclosed above, as at 30th June 2004., none of the shareholders registered in the Company had 5% or over 5% listed shares of the Company.

- (2) Save as disclosed below, the Directors of the Company are not aware of any persons (other than a Director or Supervisor or chief executive of the Company or his/her respective associate(s)) who, as at 30th June 2004, 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	entire issued capital	all issued H shares
Qingdao State-Owned Assets Administration Office	Long Position	A shares	Beneficial	1	399,820,000 A shares	37.72%	N/A
	Long Position	H shares	Interests of persons acting in concert	1	105,000,000 H shares	9.91%	25.81%
	Unlisted, physically settled derivatives (mandatory convertible bonds)	H shares	Interests of persons acting in concert	1	248,219,178 underlying H shares	23.42%	61.01%
Anheuser-Busch Companies, Inc.	Long Position	H shares	Corporate	1, 2	105,000,000 H shares	9.91%	25.81%
	Unlisted, physically settled derivatives (mandatory convertible bond)	H shares	Corporate	1, 2	248,219.17 underlying H shares	23.42%	66.01%
	Long Position	A shares	Interests of persons acting in concert	1, 2	399,820,000 A shares	37.72%	N/A
Franklin Resources, Inc.	Long Position	H shares	Corporate	3	24,238,000 H shares	2.29%	5.96%
Government of Singapore Investment Corporation Pte Ltd	Long Position	H shares	N/A	N/A	36,658,000 H shares	3.46%	9.01%
The Capital Group Companies, Inc.	Long position	H shares	Corporate/Investment Manager	4	33,608,000 H shares	3.17%	8.26%

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 21st 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 had directly or through a nominee subscribed 3 tranches of mandatory convertible bonds convertible to 308,219,178 H shares. The first tranche of the convertible bonds was converted into 60,000,000 shares on 2nd July 2003.*
- (3) *23,388,000 H shares were deemed to be interested by Franklin Resources, Inc. through wholly-controlled corporations.*
- (4) *33,608,000 H shares were deemed to be interested by The Capital Group Companies, Inc. through wholly-controlled corporations.*
- (5) *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](http://www.hkex.com.hk).*

## **CODE OF BEST PRACTICE**

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The Company had complied with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities of HKEx during the reporting period.

## **AUDITING AND FINANCIAL COMMITTEE**

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The Auditing and Financial Committee of the Board of Directors of the Company had reviewed the un-audited 2004 interim report of the Company.

## **DOCUMENTS AVAILABLE FOR INSPECTION**

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1. A copy of the interim report as duly signed by the Chairman of the Company.
2. Accounting statements as duly signed and stamped by legal representative, 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.

Qingdao, P.R.C.

11th August 2004

## COMPANY INFORMATION

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- 1 Official name of the Company: 青島啤酒股份有限公司  
Name in English: TSINGTAO BREWERY COMPANY LIMITED
  
- 2 Stock Listing of the Company:  
A Share: Shanghai Securities and Stock Exchange  
Stock code: 600600; Stock name in short: 青島啤酒 (Tsingtao Beer)  
H Share: Hong Kong Stock Exchange  
Stock code: 0168; Stock name in short: 青島啤酒 (Tsingtao Beer)
  
- 3 Registered Address: No.56, Dengzhou Road, Qingdao, Shandong Province, P.R.C  
Office Address: Tsingtao Beer Tower, May Fourth Square, Hong Kong Road,  
Central, Qingdao, Shandong Province, P.R.C  
Postcode: 266071  
Website: www.tsingtao.com.cn  
E-Mail: info@tsingtao.com.cn
  
- 4 Legal representative: Li Gui Rong
  
- 5 Secretary of the Board: Yuan Lu  
Securities Affairs Representative: Zhang Rui Xiang  
Telephone: 86-532-5713831  
Fax: 86-532-5713240  
E-Mail: secretary@tsingtao.com.cn
  
- 6 Designated newspapers for information disclosure: "China Securities Post"; "Shanghai Securities Post";  
Hong Kong, "Wen Wei Po"; "The Standard"  
Website for Interim Report: www.sse.com.cn  
www.hkex.com.hk  
Interim Report Kept At: Secretaries Office to the Board of the Company