2005 INTERIM REPORT
中期報告

青島啤酒股份有限公司
TSINGTAO BREWERY CO., LTD.

CONTENTS

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE 2005
(AMOUNTS EXPRESSED IN RMB THOUSANDS UNLESS OTHERWISE STATED)

		As at	
		30th June 2005	31st December 2004
ASSETS	*Note*	**(Unaudited)**	(Restated)
Non-current assets			
Property, plant and equipment	7	**5,518,417**	5,349,607
Leasehold land payments	6	**680,898**	595,593
Intangible assets	8	**426,954**	322,623
Interest in associates		**23,637**	71,641
Negative goodwill		**—**	(80,971)
Deferred income tax assets		**6,036**	6,245
Available-for-sale financial assets		**3,223**	17,880
Other long-term assets	27	**46,493**	40,464
		6,705,658	6,323,082
Current assets			
Inventories	9	**1,414,628**	1,382,831
Trade receivables	10, 27	**212,633**	159,419
Bills receivable		**127,591**	98,594
Deposits, prepayments and other receivables	27	**372,841**	494,054
Derivative financial instruments	11	**10,104**	—
Pledged bank deposits		**30,897**	32,226
Cash and cash equivalents		**1,742,264**	1,330,327
		3,910,958	3,497,451
Total assets		**10,616,616**	9,820,533
EQUITY			
Capital and reserves attributable to the Company's equity holders			
Share capital	12	**1,308,219**	1,060,000
Convertible bonds		**—**	1,191,192
Other reserves	13	**3,577,189**	2,630,088
Retained earnings			
— Proposed final dividend	23	**—**	196,233
— Others		**(58,062)**	(323,385)
		4,827,346	4,754,128
Minority interests		**588,334**	544,333
Total equity		**5,415,680**	5,298,461

CONDENSED CONSOLIDATED BALANCE SHEET (Cont'd)

AS AT 30TH JUNE 2005

(AMOUNTS EXPRESSED IN RMB THOUSANDS UNLESS OTHERWISE STATED)

		As at	
		30th June 2005	31st December 2004
LIABILITIES	*Note*	**(Unaudited)**	(Restated)
Non-current liabilities			
Borrowings	16	**24,924**	66,302
Deferred income tax liabilities		**17,829**	18,300
Long-term loan due to a shareholder	27	**12,415**	123,815
Deferred liabilities		**—**	12,641
		55,168	221,058
Current liabilities			
Trade payables	14, 27	**893,474**	659,061
Bills payable	15	**353,400**	442,924
Accruals and other payables	27	**2,120,540**	1,546,680
Deposits and advance from customers	27	**175,306**	150,565
Taxes payable		**85,430**	93,050
Dividends payable	23	**138,481**	2,100
Borrowings	16, 27	**1,264,596**	1,355,192
Current portion of long-term bank loans	16	**87,541**	24,442
Provisions	17	**27,000**	27,000
		5,145,768	4,301,014
Total liabilities		**5,200,936**	4,522,072
Total equity and liabilities		**10,616,616**	9,820,533
Net current liabilities		**(1,234,810)**	(803,563)
Total assets less current liabilities		**5,470,848**	5,519,519

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005
(AMOUNTS EXPRESSED IN RMB THOUSANDS UNLESS OTHERWISE STATED)

		(Unaudited) Six months ended 30th June	
	Note	**2005**	2004 (Restated)
Sales	5	**4,458,990**	3,872,590
Cost of sales	19	**(2,992,620)**	(2,558,920)
Gross profit		**1,466,370**	1,313,670
Other gain, net	18	**24,891**	1,366
Selling and marketing costs	19	**(831,678)**	(710,465)
Administrative expenses	19	**(362,290)**	(323,608)
Other operating income/(expense), net	19	**43,879**	(13,685)
Operating profit		**341,172**	267,278
Finance costs	20	**(36,622)**	(21,646)
Share of loss of associates		**(3,150)**	(4,146)
Profit before income tax		**301,400**	241,486
Income tax expense	21(a)	**(83,191)**	(75,637)
Profit for the Period		**218,209**	165,849
Attributable to:			
Equity holders of the Company		**173,640**	144,774
Minority interests		**44,569**	21,075
		218,209	165,849
Earnings per share for profit attributable to the equity holders of the Company during the six months ended 30th June			
— Basic	22	**RMB0.15**	RMB0.14
— Diluted	22	**N/A**	RMB0.11
Dividends	23	**—**	—

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30TH JUNE 2005
(AMOUNTS EXPRESSED IN RMB THOUSANDS UNLESS OTHERWISE STATED)

		(Unaudited)						
		Attributable to equity holders of the Company						
	Note	**Share capital**	**Convertible bonds**	**Other reserves** *(Note 13)*	**Proposed final dividends**	**Accumulated loss**	**Minority interests**	**Total**
Balance at 1st January 2004, as previously reported as equity		1,060,000	923,738	2,523,453	212,000	(304,365)	579,465	4,994,291
Dividends declared		—	—	—	(212,000)	—	—	(212,000)
Profit for the period		—	—	—	—	144,774	21,075	123,699
Translation difference		—	—	331	—	—	—	331
Issuance of convertible bond, net		—	267,454	—	—	—	—	267,454
Transfer of equity interest		—	—	—	—	—	(49,497)	(49,497)
Balance at 30th June 2004		1,060,000	1,191,192	2,523,784	—	(159,591)	551,043	5,166,428
Balance at 1st January 2005, as previously reported as equity		**1,060,000**	**1,191,192**	**2,630,088**	**196,233**	**(323,385)**	**544,333**	**5,298,461**
Opening adjustment for the adoption of HKFRS 3	3(a)	**—**	**—**	**—**	**—**	**80,971**	**—**	**80,971**
Opening adjustment for the adoption of HKAS 39	3(a)	**—**	**—**	**—**	**—**	**10,712**	**—**	**10,712**
Balance at 1st January 2005, as restated		**1,060,000**	**1,191,192**	**2,630,088**	**196,233**	**(231,702)**	**544,333**	**5,390,144**
Profit for the Period		**—**	**—**	**—**	**—**	**173,640**	**44,569**	**218,209**
Dividends declared		**—**	**—**	**—**	**(196,233)**	**—**	**—**	**(196,233)**
Conversion of convertible bonds		**248,219**	**(1,191,192)**	**942,973**	**—**	**—**	**—**	**—**
Translation difference		**—**	**—**	**3,578**	**—**	**—**	**—**	**3,578**
Others		**—**	**—**	**550**	**—**	**—**	**(568)**	**(18)**
Balance at 30th June 2005		**1,308,219**	**—**	**3,577,189**	**—**	**(58,062)**	**588,334**	**5,415,680**

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2005
(AMOUNTS EXPRESSED IN RMB THOUSANDS UNLESS OTHERWISE STATED)

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Net cash generated from operating activities	**973,095**	851,257
Net cash used in investing activities	**(249,246)**	(277,138)
Net cash (used in)/generated from financing activities	**(300,902)**	155,104
Net increase in cash and cash equivalents	**422,947**	729,223
Cash and cash equivalents at 1st January	**1,315,739**	849,765
Exchange gain on cash and cash equivalents	**3,578**	331
Cash and cash equivalents at 30th June	**1,742,264**	1,579,319
Analysis of balances of cash and cash equivalents:		
Cash at bank and in hand	**1,742,264**	1,579,319

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.

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

Major acquisitions of the Group and the Company during the six months ended 30th June 2005 (the "Period") are detailed in Note 26.

2 BASIS OF PREPARATION AND ACCOUNTING POLICIES

This unaudited condensed consolidated financial information of the Group has been prepared in accordance with the new/revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants.

This condensed consolidated financial information is unaudited, but they have been reviewed by the Audit Committee of the Company. This condensed consolidated financial information should be read in conjunction with the 2004 annual financial statements.

The accounting policies and methods of computation used in the preparation of this condensed consolidated financial information are consistent with those used in the annual financial statements for the year ended 31st December 2004 except that the Group has changed certain of its accounting policies following its adoption of the new HKFRSs which are effective for accounting periods commencing on or after 1st January 2005.

The changes to the Group's accounting policies and the effects of adopting these new policies are set out in note 3 below.

3 CHANGES IN ACCOUNTING POLICIES

(a) Effect of adopting new HKFRSs

In 2005, the Group adopted the new revised standards of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation — Special Purpose Entities
HKFRS 3	Business Combinations

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Ints 12 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Ints 12 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance to the revised standard. Each the Group entity has the same functional currency as the presentation currency for respective entity financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of payments for the acquisitions of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of derivative financial instruments for hedging activities.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31st December 2004, positive goodwill was:

— Amortised on a straight line basis over a period of 10 years; and

— Assessed for an indication of impairment at each balance sheet date.

3 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(a) Effect of adopting new HKFRSs (Cont'd)

Negative goodwill was:

— Recognised in the consolidated profit and loss account over the weighted average useful lives of the identifiable fixed assets acquired.

In accordance with the provisions of HKFRS 3 (Note 3.4):

For positive goodwill,

— The Group ceased amortisation of goodwill from 1st January 2005;

— Accumulated amortisation as at 31st December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ending 31st December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

For negative goodwill,

— The carrying amount of the unamortized negative goodwill balance as at 1st January 2005 is derecognized at the beginning of that period, with a corresponding adjustment to the opening balance of accumulated loss of the Group.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards. All standards adopted by the Group require retrospective application other than:

— HKAS 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised as at 1st January 2005;

— HKFRS 3 — prospectively after the adoption date.

(i) The adoption of revised HKAS 17 resulted in:

	As at	
	30th June 2005	31st December 2004
Decrease in property, plant and equipment	**(680,898)**	(595,593)
Increase in leasehold land payments	**680,898**	595,593

3 CHANGES IN ACCOUNTING POLICIES (CONT'D)

(a) Effect of adopting new HKFRSs (Cont'd)

(ii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at 30th June 2005
Decrease in negative goodwill	**80,971**
Decrease in accumulated losses	**80,971**

(iii) The adoption of HKAS39 resulted in an increase in opening retained earnings at 1st January 2005 by approximately RMB10,712,000 and the details of the adjustments to the balance sheet at 30th June 2005 and profit and loss for the six months ended 30th June 2005 are as follows:

	As at 30th June 2005
Increase in derivative financial instruments (assets)	**10,104**
Decrease in accumulated losses	**10,104**

	For the six months ended 30th June 2005
Other gain	**8,812**

(b) New Accounting Policies

The accounting policies used for the condensed consolidated financial information for the six months ended 30th June 2005 are the same as those set out in note 2 to the 2004 annual financial statements except for the following:

3.1 Acquisition of subsidiaries and associates

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

An investment in an associate is accounted for using the equity method from the date on which it becomes an associate. On acquisition of the investment, the measurement and recognition of goodwill is same as that of goodwill arising from the acquisition of subsidiaries. Goodwill relating to an associate is included in the carrying amount of the investment. Appropriate adjustments to the investor's share of the profits or losses after acquisition are made to account based on their fair values at the date of acquisition.

3.2 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The condensed consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

3 CHANGES IN ACCOUNTING POLICIES (CONT'D)

3.2 Foreign currency translation (Cont'd)

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

3.3 Property, plant and equipment

Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

3.4 Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly controlled entities is included in intangible assets. Goodwill on acquisitions of associated company is included in investments in associated company. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

3.5 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

3.6 Investments

From 1st January 2004 to 31st December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and other investments.

(a) Investment securities

Investments in debt (other than held-to-maturity securities) and equity securities which were intended to be held for an identified long-term purpose on a continuing basis, were classified as investment securities and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment securities were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such securities were reduced to their fair values. The impairment losses were recognised as expenses in the profit and loss account. These impairment losses were written back to the profit and loss account when the circumstances and events that had led to the write-downs or write-offs cease to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

Upon disposal or transfer of the investment securities, any gain or loss thereon was accounted for in the profit and loss account.

(b) Other investments

Securities other than investment securities or held-to-maturity securities were classified as other investments and were carried at fair value in the balance sheet. Any unrealised holding gain or loss on other investments was recognised in the profit and loss account in the period when it arose.

Upon disposal or transfer of other investments, any gain or loss thereon was accounted for in the profit and loss account.

From 1st January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

3 CHANGES IN ACCOUNTING POLICIES (CONT'D)

3.6 Investments (Cont'd)

From 1st January 2005 onwards: (Cont'd)

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realized within 12 months of the balance sheet date.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet (Note 3.7).

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the Period, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are included in the income statement in the period in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

3 CHANGES IN ACCOUNTING POLICIES (CONT'D)

3.7 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

3.8 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

4 FINANCIAL RISK MANAGEMENT

4.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The foreign exchange risks of the Group occur due to the fact that the Group has business activities denominated in foreign currencies, primarily with respect to the US dollars. The Group has entered into foreign exchange forward contracts to manage the risk arising from certain recognised liabilities. The directors are of the opinion that the Group's remaining exposure to foreign exchange risk would be minimal.

(b) Credit risk

Except for a long-term receivable due from a customer and a related company jointly in the amount of approximately RMB50,893,000 as at 30th June 2005 (Note 26(e)), the Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of products are made to customers with appropriate credit history.

(c) Liquidity risk

Most of the bank financing of the Group is in the form of short-term bank loans. As a result, the Group had net current liabilities of approximately RMB1,237,896,000 as at 30th June 2005. The directors are confident that the Group will be able to renew its short-term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones.

The Group has not experienced any difficulty in renewing the borrowing facilities when they fell due and as of 30th June 2005, the Group had unutilised banking facilities granted by certain banks in the amount of approximately RMB2,028,000,000 which the Group could utilize it meet its short-term cash needs. As a result, the Directors do not consider there was significant liquidity risk as at that date.

4 FINANCIAL RISK MANAGEMENT (CONT'D)

4.1 Financial risk factors (Cont'd)

(d) Cash flow and fair value interest rate risk

The Group does not have significant interest-bearing assets. The Group's interest-rate risk which affects its income and operating cash flows mainly arises from long-term borrowings, which mostly are issued at fixed rates. They expose the Group to fair value interest-rate risk. The directors are of the opinion that future interest rates are at the point to a upward trend and believe that the Group's future financial results will be adversely affected.

4.2 Accounting for derivative financial instruments and hedging activities

From 1st January 2004 to 31st December 2004:

Derivative financial instruments are designated "hedging" or "non-hedging instruments". The transactions which, according to the Group's policy for risk management, are able to meet the conditions for hedge accounting are classified as hedging transactions; the others, although utilized for the purpose of managing risk (since the Group's policy does not permit speculative transactions), have been designated as "trading". The Group records derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the income statement upon maturity to match against the underlying hedged transactions, where relevant.

For foreign exchange instruments designated as hedges, the premium (or discount) representing the difference between the spot exchange rate at the inception of the contract and the forward exchange rate is included as finance income and expenses in the income statement according to accrual accounting.

From 1st January 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

4.2 Accounting for derivative financial instruments and hedging activities (Cont'd)

From 1st January 2005 onwards: (Cont'd)

(b) Cash flow hedge (Cont'd)

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the forecast transaction is ultimately recognized in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(c) Derivatives that do not qualify for hedge accounting

For derivative instruments other than those qualified for hedge accounting, the changes in the fair value are recognised immediately in the income statement.

5 SEGMENT INFORMATION

(a) Primary reporting format — geographical segment

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 2005						
	Qingdao Region	Other Shandong Regions	Huabei Region	Huanan Region	Overseas *(Note a)*	Eliminations	Consolidated
Turnover							
External sales	1,402,349	420,844	1,193,749	1,313,736	128,312	—	4,458,990
Inter-segment sales	121,430	172,055	30,036	16,908	—	(340,429)	—
	1,523,779	592,899	1,223,785	1,330,644	128,312	(340,429)	4,458,990
Results							
Segment results	206,152	2,823	59,937	50,580	36,609		356,102
Unallocated expenses, net							(14,930)
Operating profit							341,172
Finance costs							(36,622)
Share of loss of associates (should be net of tax)	(3,150)	—	—	—	—		(3,150)
Profit before income tax							301,400
Income tax expense							(83,191)
Profit for the Period							218,209
Other information							
Depreciation	48,912	39,942	60,403	115,785	332	—	265,374
Amortisation	5,644	3,416	7,395	10,985	—	—	27,440
Assets impairment losses recognised in the income statement	—	19,664	12,974	14,717	—	—	47,355
Reversal of impairment losses recognised in the income statement	—	(767)	—	—	—	—	(767)

5 SEGMENT INFORMATION (CONT'D)

(a) Primary reporting format — geographical segment (Cont'd)

	(Unaudited) Six months ended 30th June 2004						
	Qingdao Region	Other Shandong Regions	Huabei Region	Huanan Region	Overseas *(Note a)*	Eliminations	Consolidation
Turnover							
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)	—
	1,203,606	507,700	1,034,448	1,219,521	147,338	(240,023)	3,872,590
Results							
Segment results	138,344	(1,210)	44,795	115,820	44,499		342,248
Unallocated expenses, net							(74,970)
Operating profit							267,278
Finance costs							(21,646)
Share of profits less losses of associates	(4,416)	—	—	—	—		(4,146)
Profit before income tax							241,486
Income tax expense							(75,637)
Profit for the Period							165,849
Other information							
Depreciation	49,859	37,758	62,316	83,446	—	—	233,379
Amortisation	12,994	320	1,231	4,777	—	—	19,322
Assets impairment losses recognised in the income statement	3,885	2,856	23,707	16,472	—	—	46,920

5 SEGMENT INFORMATION (CONT'D)

(a) Primary reporting format — geographical segment (Cont'd)

	(Unaudited) As at 30th June 2005						
	Qingdao Region	**Other Shandong Regions**	**Huabei Region**	**Huanan Region**	**Overseas** *(Note a)*	**Eliminations**	**Consolidated**
Assets							
Segment assets	**6,350,058**	**1,205,696**	**2,172,819**	**5,269,810**	**—**	**(5,286,622)**	**9,711,761**
Interests in associates	**18,162**	**—**	**—**	**—**	**—**	**—**	**18,162**
Unallocated assets							**876,589**
							10,606,512
Liabilities							
Segment liabilities	**1,324,009**	**1,118,129**	**1,715,532**	**3,747,710**	**—**	**(3,710,600)**	**4,194,780**
Unallocated liabilities							**996,052**
							5,190,832
Capital expenditure	**23,623**	**17,638**	**39,653**	**832,894**	**112**	**—**	**913,920**

	As at 31st December 2004						
	Qingdao Region	Other Shandong Region	Huabei Region	Huanan Region	Overseas *(Note a)*	Eliminations	Consolidated
Assets							
Segment assets	6,087,513	1,207,272	2,283,693	4,105,188	—	(4,809,010)	8,874,656
Interests in associates	71,641	—	—	—	—	—	71,641
Unallocated assets							874,236
							9,820,533
Liabilities							
Segment liabilities	1,383,194	992,204	1,615,106	2,671,255	—	(2,795,823)	3,865,936
Unallocated liabilities							656,136
							4,522,072
Capital expenditure	121,747	46,227	660,992	573,756	—	—	1,402,722

Note a: The segment represents sales of goods to regions (including Hong Kong) out of the PRC through the Group's overseas subsidiary or the Group's PRC branches and subsidiaries established for overseas sales. Separable segment assets and liabilities are insignificant to the Group as a whole.

(b) Secondary reporting format — business segment

The Group is mainly engaged in the production and distribution of beer products. Accordingly, no analysis of business segment information is provided.

6 CAPITAL EXPENDITURE

	Goodwill	Trademarks	Technology know-how	Others	Total intangible assets	Property, plant and equipment	Leasehold land payments
Opening net book amount as at 1st January 2005	**214,001**	**74,271**	**8,050**	**26,301**	**322,623**	**5,349,607**	**595,593**
Acquisition of a subsidiary *(Note 26)*	**120,256**	**2,700**	**—**	**—**	**122,956**	**380,709**	**43,725**
Other additions	**—**	**—**	**—**	**1,522**	**1,522**	**134,557**	**59,138**
Disposals	**—**	**—**	**—**	**—**	**—**	**(34,494)**	**—**
Depreciation/amortisation charge	**—**	**(7,839)**	**(931)**	**(1,112)**	**(9,882)**	**(265,374)**	**(17,558)**
Impairment charge	**(10,265)**	**—**	**—**	**—**	**(10,265)**	**(47,355)**	**—**
Reversal of impairment	**—**	**—**	**—**	**—**	**—**	**767**	**—**
Closing net book amount as at 30th June 2005	**323,992**	**69,132**	**7,119**	**26,711**	**426,954**	**5,518,417**	**680,898**
Opening net book amount as at 1st January 2004	151,306	76,726	10,246	18,763	257,041	4,931,270	536,277
Additions	18,039	151	—	9,251	27,441	253,753	1,327
Disposals	—	—	—	—	—	(9,600)	—
Depreciation/amortisation charge	(9,580)	(1,335)	(931)	(2,194)	(14,040)	(233,379)	(5,282)
Impairment charge	—	—	—	—	—	(46,920)	—
Closing net book amount as at 30th June 2004	159,765	75,542	9,315	25,820	270,442	4,895,124	532,322
Acquisition of subsidiaries	80,818	—	—	60	80,878	386,750	109,336
Additions	—	—	—	386	386	538,380	3,583
Disposals	—	—	—	—	—	(181,104)	(39,959)
Depreciation/amortisation charge	(13,583)	(1,271)	(1,265)	35	(16,084)	(275,370)	(13,644)
Impairment charge	—	—	—	—	—	(15,581)	—
Reversal of impairment	—	—	—	—	—	1,408	—
Closing net book amount as at 31st December 2004	214,001	74,271	8,050	26,301	322,623	5,349,607	595,593

7 PROPERTY, PLANT AND EQUIPMENT

The movements in property, plant and equipment are as follows:

	Plant and buildings	Machinery	Motor vehicles	Other equipment	Construction-in-progress	Total
Cost or valuation						
At 1st January 2005	**2,717,532**	**5,275,859**	**397,818**	**280,490**	**62,611**	**8,734,310**
Acquisition of a subsidiary (unaudited)	**127,967**	**583,215**	**5,282**	**2,753**	**—**	**719,217**
Additions (unaudited)	**3,940**	**11,782**	**19,940**	**16,587**	**82,308**	**134,557**
Transfer (unaudited)	**4,227**	**59,761**	**1,312**	**1,181**	**(66,481)**	**—**
Disposals (unaudited)	**(14,027)**	**(120,469)**	**(15,569)**	**(15,874)**	**—**	**(165,939)**
At 30th June 2005 (unaudited)	**2,839,639**	**5,810,148**	**408,783**	**285,137**	**78,438**	**9,422,145**
Accumulated depreciation and impairment loss						
At 1st January 2005	**629,437**	**2,401,088**	**198,067**	**156,111**	**—**	**3,384,703**
Charge for the Period (unaudited)	**37,146**	**183,327**	**21,388**	**23,513**	**—**	**265,374**
Acquisition of a subsidiary (unaudited)	**18,828**	**312,659**	**3,785**	**3,236**	**—**	**338,508**
Written back on disposal (unaudited)	**(9,473)**	**(100,441)**	**(11,492)**	**(10,039)**	**—**	**(131,445)**
Impairment charge for the Period (unaudited)	**—**	**47,151**	**204**	**—**	**—**	**47,355**
Write-back of impairment charge (unaudited)	**—**	**(185)**	**(582)**	**—**	**—**	**(767)**
At 30th June 2005 (unaudited)	**675,938**	**2,843,599**	**211,370**	**172,821**	**—**	**3,903,728**
Net book value						
At 1st January 2005	**2,088,095**	**2,874,771**	**199,751**	**124,379**	**62,611**	**5,349,607**
At 30th June 2005 (unaudited)	**2,163,701**	**2,966,549**	**197,413**	**112,316**	**78,438**	**5,518,417**

As at 30th June 2005, no (31st December 2004: RMB239,430,000) buildings, plant and machinery, motor vehicles and other equipment had been pledged as security for bank loans of the Group (31st December 2004: RMB165,500,000) (Note 16).

As at 30th June 2005, ownership certificates of certain buildings ("Building Ownership Certificates") for certain buildings of the Group with respective carrying values of approximately RMB291,191,000 (31st December 2004: RMB310,844,000) and land use right certificates ("Land Certificates") of certain parcels of land of the Group with an aggregate carrying value of approximately RMB28,493,000 (31st December 2004: RMB35,072,000) 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 to apply for and obtain the Buildings Ownership Certificates and Land Certificate 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 2005, the operating facilities of certain subsidiaries of the Group were located on parcels of allocated land ("Allocated Lands") owned by certain local municipal governments. The carrying values of the associated buildings and facilities constructed thereon were approximately RMB21,508,000 (31st December 2004: RMB21,885,000). The Company's directors consider that there is no any significant adverse impact on the operation of the Group. Accordingly, no provision for fixed assets impairment was considered necessary.

8 INTANGIBLE ASSETS

The movements in intangible assets are as follows:

	Six months ended 30th June 2005				
	Goodwill (i)	**Trademarks (ii)**	**Technology know-how (iii)**	**Software and Others**	**Total**
At 31st December 2004					
Cost	280,378	103,497	18,629	33,386	435,890
Accumulated amortisation	(66,377)	(29,226)	(10,579)	(7,085)	(113,267)
Net book amount	214,001	74,271	8,050	26,301	322,623
Six months ended 30th June 2005					
Opening net book amount	**214,001**	**74,271**	**8,050**	**26,301**	**322,623**
Acquisition of a subsidiary (unaudited) *(Note 25(b))*	**120,256**	**2,700**	**—**	**—**	**122,956**
Other additions (unaudited)	**—**	**—**	**—**	**1,522**	**1,522**
Amortisation (unaudited)	**—**	**(7,839)**	**(931)**	**(1,112)**	**(9,882)**
Impairment charge (unaudited)	**(10,265)**	**—**	**—**	**—**	**(10,265)**
Closing net book amount (unaudited)	**323,992**	**69,132**	**7,119**	**26,711**	**426,954**
At 30th June 2005					
Cost (unaudited)	**400,634**	**106,197**	**18,629**	**34,908**	**560,368**
Accumulated amortisation and impairment loss (unaudited)	**(76,642)**	**(37,065)**	**(11,510)**	**(8,197)**	**(133,414)**
Net book value (unaudited)	**323,992**	**69,132**	**7,119**	**26,711**	**426,954**

(i) Goodwill

The addition of goodwill in the Period mainly arose from acquisitions of a new subsidiary (see Note 26(b) for details).

(ii) 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.

In the opinion of the directors, the above trademark is essential to the operations of the Company and it is expected to bring enduring economic benefits to the Group and the Company continuously which exceed its carrying value. Therefore, it is amortised over a period of 40 years.

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

(iii) Technology known-how

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

9 INVENTORIES

	As at	
	30th June 2005 (Unaudited)	31st December 2004
Raw materials, packaging materials and auxiliary materials	**1,164,878**	1,147,447
Work-in-progress	**189,972**	162,750
Finished goods	**116,300**	114,278
	1,471,150	1,424,475
Less: Written down of inventories to net realisable value	**(56,522)**	(41,644)
Inventories, net	**1,414,628**	1,382,831

10 TRADE RECEIVABLES

	As at	
	30th June 2005 (Unaudited)	31st December 2004
Trade receivables — third parties	**351,489**	271,749
Receivables from related parties *(Note 27(b))*	**29,440**	28,955
Less: provision for impairment of receivables	**(168,296)**	(141,285)
	212,633	159,419

The aging analysis of trade receivables is as follows:

	(Unaudited) 30th June 2005			31st December 2004		
	Amount	**Provision for bad debts**	**Balance after provision**	Amount	Provision for bad debts	Balance after provision
Less than 1 year	**192,739**	**(704)**	**192,035**	139,701	(4,150)	135,551
1 to less than 2 years	**42,170**	**(37,346)**	**4,824**	38,205	(32,030)	6,175
2 to less than 3 years	**38,904**	**(38,785)**	**119**	57,831	(56,078)	1,753
Over 3 years	**107,116**	**(91,461)**	**15,655**	64,967	(49,027)	15,940
Total	**380,929**	**(168,296)**	**212,633**	300,704	(141,285)	159,419

The Group makes specific bad debt provision against the doubtful trade receivable balances which is determined based on the credit history of the customers and the evidence of whether a portion or the full amount of the outstanding balance is uncollectible.

As described in Note 27(e), the trade receivables of the Group include a balance jointly due from a customer and a related company, which was agreed to be settled by installments.

There is no concentration of credit risk with respect to the trade receivable balances since the Group has a large number of customers which are nationally dispersed. The net book value of accounts receivable approximates its fair value as at 30th June 2005.

11 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30th June 2005	
	Assets (Unaudited)	**Liabilities (Unaudited)**
Forward foreign exchange contracts — ineffective hedges	**10,104**	**—**

As at 30th June 2005, the Group had entered into certain forward contracts with banks in relation to purchase of US dollars ("US$") in an aggregate amount of US$100,400,000 (equivalent to approximately RMB830,961,000). All these forward contracts will reach maturity in November 2005 and February 2006. In the opinion of directors, the forward contracts are non-speculative in nature and they are used as a hedge against the Company's outstanding bank loans which are denominated in US dollars. However, as these instruments are not qualified for hedging accounting under the requirements of HKAS 39 as described in Note 4.2, they were recognized at fair value and the changes of fair value of approximately RMB8,812,000 were charged to income statement immediately.

12 SHARE CAPITAL

As at 30th June 2005, the authorised registered share capital was RMB1,308,219,178 (31st December 2004: RMB1,060,000,000) of RMB1 each.

	30th June 2005		31st December 2004	
	***RMB'000* (Unaudited)**	***Number of shares ('000)* (Unaudited)**	*RMB'000*	*Number of shares ('000)*
State shares	**399,820**	**399,820**	399,820	399,820
PRC legal person shares	**53,330**	**53,330**	53,330	53,330
PRC public shares ("A shares")	**200,000**	**200,000**	200,000	200,000
Overseas public shares ("H shares")	**655,069**	**655,069**	406,850	406,850
	1,308,219	**1,308,219**	1,060,000	1,060,000

On 12th April 2005, the tranche II and tranche III of the mandatory convertible bonds ("CB") issued by the Company to Anheuser-Bush Companies, Inc. ("A-B Company") at HK$627,120,000 and HK$508,275,000 (equivalent to approximately RMB1,203,755,000) were converted into 248,219,000 of new H shares issued by the Company at HK$4.68 and HK$4.45 (equivalent to approximately RMB4.96 and RMB4.72) per share, respectively. After then, all issued CB had been converted into H shares of the Company.

As at 30th June 2005, all issued share capital had been fully paid up.

13 OTHER RESERVES

	(Unaudited)					
	Share premium	**Capital reserve**	**Surplus reserve**	**Public welfare fund**	**Cumulative translation adjustments**	**Other reserves**
Balance at 1st January 2004, as previously reported as equity	2,115,258	12,921	218,185	176,978	111	2,523,453
Translation difference	—	—	—	—	331	331
Balance at 30th June 2004	2,115,258	12,921	218,185	176,978	442	2,523,784
Waiver of loans	—	4,331	—	—	—	4,331
Profit appropriation to surplus reserve	—	—	58,104	—	—	58,104
Profit appropriation to public welfare fund	—	—	—	45,515	—	45,515
Translation difference	—	—	—	—	(1,646)	(1,646)
Balance at 31st December 2004	2,115,258	17,252	276,289	222,493	(1,204)	2,630,088
Balance at 1st January 2005, as per above	**2,115,258**	**17,252**	**276,289**	**222,493**	**(1,204)**	**2,630,088**
Conversion of convertible bonds *(Note 12)*	**942,973**	**—**	**—**	**—**	**—**	**942,973**
Translation difference	**—**	**—**	**—**	**—**	**3,578**	**3,578**
Others	**—**	**550**	**—**	**—**	**—**	**550**
Balance at 30th June 2005	**3,058,231**	**17,802**	**276,289**	**222,493**	**2,374**	**3,577,189**

14 TRADE PAYABLES

	As at	
	30th June 2005 (Unaudited)	31st December 2004
Trade payables — third parties	**893,420**	658,054
Amounts due to related parties *(Note 27(b))*	**54**	1,007
	893,474	659,061

The ageing analysis of trade payables is as follows:

	As at	
	30th June 2005 (Unaudited)	31st December 2004
Less than 1 year	**833,888**	620,543
1 to less than 2 years	**22,408**	17,122
2 to less than 3 years	**11,855**	5,294
Over 3 years	**26,321**	16,102
	893,474	659,061

15 BILLS PAYABLE

All the bills payable balances of the Group as at 30th June 2005 are with a six-month maturity period. Approximately RMB27,797,000 (31st December 2004: RMB32,226,000) of bank deposits of the Group denominated in Renminbi had been pledged for the issuance of these bills.

16 BORROWINGS

	30th June 2005			31st December 2004		
	Short-term bank loans (Unaudited)	**Long-term bank loans (Unaudited)**	**Total (Unaudited)**	Short-term bank loans	Long-term bank loans	Total
Repayable:						
— Within 1 year	**1,264,596**	**87,541**	**1,352,137**	1,355,192	24,442	1,379,634
— Between 2 and 5 years	**—**	**8,490**	**8,490**	—	47,573	47,573
— Over 5 years	**—**	**16,434**	**16,434**	—	18,729	18,729
	1,264,596	**112,465**	**1,377,061**	1,355,192	90,744	1,445,936
Less: Portion due within 1 year	**(1,264,596)**	**(87,541)**	**(1,352,137)**	(1,355,192)	(24,442)	(1,379,634)
Long-term portion	**—**	**24,924**	**24,924**	—	66,302	66,302

As at 30th June 2005, loans of the Group amounting to approximately RMB19,234,000 (31st December 2004: RMB19,234,000) were guaranteed by Tsingtao Brewery Group Company Limited ("TB Group Company"), a related party, and approximately RMB66,212,000 (31st December 2004: Nil) were guaranteed by Tailian Brewery (Cayman Islands) Company Limited ("Tailian Brewery"), a minority equity owner of a subsidiary.

Approximately RMB282,148,000 (31st December 2004: RMB128,000,000) of the loans of the subsidiaries as at 30th June 2005 were guaranteed by the Company.

No loans of the Group (31st December 2004: RMB165,500,000) are secured by buildings, plant and machinery, motor vehicles and other equipment (Note 7).

Pursuant to the debt restructuring agreements or acquisition agreements of certain subsidiaries, interest charges to be levied on approximately RMB19,234,000 (31st December 2004: RMB49,894,000) of the loan balances of the Group 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 2004: 2% to 6.90%).

The effective interest rates at the balance sheet date for RMB, HK$ and US$ were 4.15%, 3.25% and 3.81% per annum, respectively.

The carrying amount of borrows approximate their fair value.

17 PROVISIONS

	As at	
	30th June 2005 (Unaudited)	31st December 2004
Potential litigation with Qindao Guangming Group Company ("Guangming Company")	**27,000**	27,000

17 PROVISIONS (CONT'D)

Pursuant to a judgement of the Higher People's Court of Shandong ("Shandong Higher Court") dated 2nd April 2004, the Company was demanded to pay damages to Guangming Company, a former beer distributor of the Group, as compensation for its losses suffered from a breach of the terms of a beer products distribution contract in an aggregate amount of approximately RMB27,000,000. The Company had appealed to that court (the "Appeal") in April 2004 but up to the date of approval of these accounts, the proceeding was still in progress and no judgement had been made by the court. The directors cannot form a view as to the outcome of the Appeal and a provision of RMB27,000,000 for the potential damages payable had been made in 2004, which had been maintained as a provision as at 30th June 2005.

18 OTHER GAIN, NET

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Derivative instruments:		
— forward contracts: transactions not qualifying for hedge accounting *(3(a)(iii))*	**8,812**	—
Amortisation of deferred gain arising from the issuance of convertible bonds	**12,641**	1,205
Interest income	**5,058**	4,405
Impairment loss of available-for-sale financial assets	**(1,620)**	(4,244)
	24,891	1,366

19 EXPENSES BY NATURE

Expenses included in cost of goods sold, other operating income/(expense), selling and marketing costs and administrative expenses are analyzed as follows:

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Employee benefits expenses	**167,852**	151,244
Costs of inventories (including direct materials, direct labor and overheads)	**2,946,032**	2,512,000
Depreciation of fixed assets *(Note 6)*	**265,374**	233,379
Amortisation of intangible assets and leasehold land payments *(Note 6)*	**27,440**	19,322
Provision for doubtful debts	**22,270**	10,108
Impairment loss of property, plant and equipment *(Note 6)*	**46,588**	46,920
Impairment loss of goodwill *(Note 6)*	**10,265**	—
Written down of inventories to net realisable value	**15,352**	14,982
Provision for outstanding litigation	**—**	51,068
Subsidy income	**(28,386)**	(29,485)

20 FINANCE COSTS

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Interest on bank loans and overdrafts	**42,887**	24,728
Net foreign exchange transaction gains	**(6,265)**	(3,082)
	36,622	21,646

21 TAXATION

(a) Income tax expense

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Current income tax		
— Hong Kong income tax *(i)*	**1,665**	1,453
— PRC enterprise income tax *(ii)*	**81,789**	74,483
— Deferred income tax relating to reversal of temporary differences	**(362)**	(299)
	83,191	75,637

(i) Hong Kong income tax

Hong Kong income tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the Period.

(ii) PRC enterprise income tax ("EIT")

EIT is provided on the estimated assessable income of the Period calculated in accordance with the relevant regulations of the PRC after considering all the available tax benefits from refunds and allowances.

In accordance with an approval document dated 18th April 1994 issued by the State Administration for Taxation ("SAT") of the PRC, net profit earned by the Company is subject to EIT at 15%, which is effective from the date of establishment of the Company and until there is further changes of the relevant laws and regulations. The Company also received a confirmation from the Ministry of Finance of Qingdao on 23rd March 1997 that this preferential tax treatment would not be terminated until further notice.

Tsingtao Brewery (Chenzhou) Company Limited ("Chenzhou Company") and Shenzhen Tsingtao Beer Asahi Company Limited ("Shenzhen Asahi") were approved as enterprises with foreign investment and therefore, they are exempt from EIT for two years starting from the first year of profit-marking after offsetting prior year tax losses, followed by a 50% reduction for the next three consecutive years thereafer. 2005 is the fourth profitable year of Chenzhou Company and the fifth profitable year of Shenzhen Asahi. Accordingly, EIT for Chenzhou Company and Shenzhen Asahi were provided at reduced rates of 16.5% and 7.5%, respectively.

Shenzhen Tsingtao Brewery Sales Company Limited, Tsingtao Brewery Huanan Holding Company Limited, Tsingtao Brewery (Doumen) Melt Company Limited, Tsingtao Brewery (Sanshui) Company Limited, Tsingtao Brewery (Zhuhai) Company Limited, Tsingtao Brewery (Xiamen) Company Limited and Tsingtao Brewery (Xianmen) Sales Company Limited were established in Shenzhen, 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 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 calculated at 17% of the domestic sales value of tangible goods. In addition, it is subject to a refund of 13% on its export sales of products based on an "exempt, credit, refund" policy enacted. The Group also pays input VAT on its purchases of raw materials and auxiliary materials which is deducted against output VAT in arriving at the net VAT amount payable to the PRC Government.

21 TAXATION (CONT'D)

(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.

22 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the Period, excluding ordinary shares purchased by the Company and held as treasury shares.

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company *(RMB'000)*	**173,640**	144,774
Weighted average number of ordinary shares in issue *(thousands)*	**1,168,339**	1,060,000
Basic earnings per share *(RMB per share)*	**0.15**	0.14

The diluted earnings per share for 2004 was calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. The amount for the year ended 31st December 2004 was arrived at based on 1,294,137,362 ordinary shares which was the weighted average number of ordinary shares in issue during the period plus the weighted average number of 234,137,362 ordinary shares deemed to be issued if all outstanding CB (mentioned in Note 11) had been converted into shares as at 1st January 2004. No diluted earnings per share was presented as there were no dilutive potential ordinary shares as of 30th June 2005.

23 DIVIDENDS

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Interim dividend paid of RMB0.15 (2004: RMB0.20) per share	**59,852**	—
Interim dividend proposed	**—**	—
	59,852	—

During the Period, final dividends for 2004 amounting to RMB196,232,877 (dividend per share: RMB0.15) for 2004 were approved in the shareholders' general meeting held on 23rd June 2005. The Board of Directors do not recommend the payment of an interim dividend for the Period (30th June 2004: nil).

24 CONTINGENCIES

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 welfare benefits of the employees was terminated. In replacement, qualified employees are to be compensated in the form of monetary housing subsidies. As at 30th June 2005, no formal plan had yet been developed by the Group and no plans had been announced by the Group to their employees in respect of the arrangements. After obtaining the relevant legal advice, the Company's board of directors is of the opinion that the Group had no obligation to make any payment or provision for such monetary housing subsidies as at 30th June 2005 and there is no reasonable basis to accrue for any potential liabilities.

25 COMMITMENTS

(a) Capital commitments

The Group had no material capital commitments which were authorised but not contracted and provided for as of 30th June 2005.

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

	As at	
	30th June 2005 (Unaudited)	31st December 2004
Construction projects	**32,558**	58,077
Investments in an associates	**1,500**	221,350
	34,058	279,427

(b) Operating lease commitments

As at 30th June 2005, the Group had future aggregate minimum lease payments under non-cancelable operating leases of land and buildings as follows:

	As at	
	30th June 2005 (Unaudited)	31st December 2004
Not later than one year	**1,128**	2,490

26 BUSINESS COMBINATION

(a) Comparing with the financial statements for the year 2004, the scope of consolidation of the Group has included the following newly acquired subsidiary:

Name of new subsidiary	**Date of acquisition**	**Place establishment and principal operation**	**Registered and paid-in capital**	**Equity interest held by the Company (%)**		**Principal activities**
				Directly	*Indirectly*	
Nanning Tsingtao Brewery Company Limited ("Nanning Company")	February 2005	Nanning, the PRC	RMB730,000,000	—	71.25%	Manufacturing and domestic trading of beer

In 2004, Tsingtao Brewery Huanan Holding Company ("Huanan Holding Company"), a subsidiary of the Company, acquired 30% equity interest in Nanning Company from Tailian Brewery and the relevant legal procedures were completed in January 2004. In May 2004, Huanan Holding Company and Tailian Brewery entered into another equity transfer agreement, pursuant to which, Huannan Holding Company undertook to acquire 45% equity interest from Tailian Brewery at a consideration of approximately RMB200,880,000. The legal procedures in relation to this additional equity interest acquisition were completed in February 2005. After the completion of the above equity transfer, the equity interest indirectly held by the Company was increased from 28.5% to 71.25% and Nanning Company became a subsidiary of the Company.

26 BUSINESS COMBINATION (CONT'D)

(b) Acquisition of a subsidiary

Details of net assets acquired and the related goodwill balance so arose from the business combination are as follows:

	Nanning Company
	(Unaudited)
Net Net assets acquired:	
Fixed assets	380,881
Other non-current assets	124,380
Trade and other receivables	20,835
Cash and cash equivalents	26,148
Long-term bank loans	(66,212)
Trade and other payables	(301,459)
Taxation payable	(5,408)
Net assets	179,165
Net assets acquired (45%)	80,624
Goodwill on acquisition	120,256
Cash consideration paid	200,880

Analysis of the net outflow in respect of the purchase are as follows:

Purchase consideration settled in cash	200,880
Cash and cash equivalents in subsidiary acquired	(26,148)
Net cash outflow on acquisition	174,732

27 RELATED PARTY TRANSACTIONS

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

(a) The following major transactions were carried out with related parties in the Period:

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Purchases from related companies	**118,211**	97,461
Sales to related companies	**115,627**	169,432

All the above transactions with related parties were carried out based on terms agreed between the Group and the related companies.

27 RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 30th June 2005, the Group had the following significant current account balances maintained with related parties:

	30th June 2005 (Unaudited)	31st December 2004
Included in:		
Trade receivables and other long-term assets *(e)*	**87,001**	86,516
Deposits, prepayment and other receivables	**15,490**	16,644
Trade payables	**54**	1,007
Other payables and long-term payables		
— A-B Company *(f)*	**125,217**	124,151
— Other related parties	**10,562**	13,635
Deposits and advance from customers	**1,771**	1,271

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

(c) Loans of the Group amounting to approximately RMB19,234,000 (31st December 2004: RMB19,234,000) are guaranteed by TB Group Company.

(d) As at 30th June 2005, the Company had provided approximately RMB2,679,765,000 (31st December 2004: RMB2,345,371,000) entrusted loans to subsidiaries through the Bank of Communications and the Industrial and Commercial Bank of China. All these entrusted loans are unsecured and will mature within one year. Entrusted loans amounting to approximately RMB1,857,940,000 (31st December 2004: RMB1,428,320,000) are interest-free, and the remaining outstanding entrusted loan balances are interest-bearing at rates ranging from 2% to 5.02% per annum (2004: 2% to 5.02% per annum).

(e) The Group reached a settlement agreement jointly with a customer and a related company (collectively "the Debtors") in 2001 in connection with an aggregate outstanding receivable balance of RMB105,000,000 (the "Debts"). Pursuant to the agreement, the Debt's are repayable in eight annual installments, commencing from 1st January 2002. As at 30th June 2005, the outstanding balances of the Debts of approximately RMB15,000,000 and RMB35,892,810 (30th June 2004: RMB10,000,000 and RMB53,808,000) (deducting relevant impairment) were classified as both accounts receivable and other long-term assets on the condensed consolidated balance sheets of the Group according to the expected repayment schedule. TB Group Company, has undertaken to guarantee the repayment of the outstanding balance.

(f) In October 2003, the subsidiary of the Company — Tsingtao Brewery (Hong Kong) Trading Company Limited ("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 5 years. The Company has undertaken to guarantee the repayment of the Loan.

27 RELATED PARTY TRANSACTIONS (CONT'D)

(g) Key management compensation

	Six months ended 30th June	
	2005	2004
	(Unaudited)	(Unaudited)
Basic salaries, allowances and benefits-in-kind	**534**	508
Retirement fund contributions	**14**	17
	548	525

28 EVENTS AFTER THE BALANCE SHEET DATE

(a) In April 2005, the Company and the other two equity owners of Zhaoshang Logistic entered into a capital injection agreement that the Company and the other two equity owners undertook to inject additional cash capital of RMB1,500,000, RMB2,250,000 and RMB1,250,000 respectively, into Zhaoshang Logistic. After the capital injection, the registered capital of Zhaoshang Logistic was increased from RMB5,000,000 to RMB10,000,000. The legal procedure was completed in July 2005 and the relative equity interest in Zhaoshang Logistic held by the Company remained unchanged.

(b) On 11th August 2005, the Company and the organising committee of the 29th Olympic Games entered into an agreement that the Company became one of the sponsors of Beijing 2008 Games.

29 COMPARATIVE FIGURES

The Group has adopted new HKFRSs which are effective for accounting periods commencing on or after 1st January 2005. As mentioned in Note 3, this has resulted in changes to the presentation of certain items and comparative financial information has been restated, accordingly. In addition, certain comparative figures have been reclassified to confirm with the current period's presentation.

(AMOUNTS EXPRESSED IN RMB THOUSANDS UNLESS OTHERWISE STATED)

RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HKFRSs

The Group has prepared a separate set of financial information for the six months ended 30th June 2005 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 HKFRSs give rise to differences in the reported balances of assets, liabilities and net profit of the Group. The financial effects of the material differences between PRC GAAP and HKFRSs are summarised and explained in the following table:

Impact on the consolidated net assets:

	30th June 2005 (Unaudited)	31st December 2004
Net assets as per accounts prepared under PRC GAAP	**4,796,588**	3,586,682
HKFRSs adjustments:		
Adjustments arising from different exchange rates used under HKFRSs 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	**(135,147)**	(129,407)
Difference between the accounting for business combination under PRC GAAP and HKFRSs	**(57,969)**	(64,472)
Adjustment of negative goodwill brought forward to retained earnings upon adoption of HKFRS 3 on 1st January 2005	**80,971**	—
Recognition of derivative financial instruments at fair value	**10,104**	—
Deferred tax liability arising from depreciation of fixed assets	**(5,386)**	(5,647)
Difference in accounting for the principal balance of convertible bonds and the corresponding interest expenses	**—**	1,228,787
Others	**(3,068)**	(3,068)
Net assets per accounts prepared under HKFRSs	**4,827,346**	4,754,128

Impact on the consolidated net profit:

	Six months ended 30th June	
	2005 (Unaudited)	2004 (Unaudited)
Net Profit under PRC GAAP	**163,154**	148,251
HKFRSs adjustments:		
Additional depreciation charges for assets acquired before unification of the two-tier exchange rate system in the PRC	**(5,740)**	(5,740)
Waiver of payables	**306**	1,259
Deferred tax liability arising from depreciation of fixed assets	**263**	(529)
Difference between the accounting for business combination under PRC GAAP and HKFRSs	**6,502**	(5,086)
Difference in accounting for interest expenses relating to the convertible bonds	**9,763**	7,031
Recognition of derivative financial instruments at fair value	**(608)**	—
Others	**—**	(412)
Profit attributable to shareholders under HKFRSs	**173,640**	144,774

1. OPERATION REVIEW FOR THE FIRST HALF OF THE YEAR

In the first half of 2005, with steady growth of the domestic economy, the total beer output of the country reached 144.5 million hl, representing a y-o-y growth of 2.63%.

Despite a number of unfavorable factors such as the continued price rise in energy, transportation and raw materials, the Company managed to maintain continual growth in the major economic indices under the guidance of the year's policy of shifting the focus from the expansion of operational scale to the reinforcement of operational capabilities.

In the first half of the year, the total beer output and sales volume of the Company reached 20.59 million hl with a y-o-y growth of 9.7%, while the net operational cash inflow sustained growth and amounted to RMB977 million with a y-o-y growth of 13.2%. In line with the strategic plan of its brand development, the Company conducted extensive promotion for the brand concept of "Passion makes the dream real", which successfully reinforced and consolidated Tsingtao Beer's leadership in the medium to high level market in the PRC. The sales volume of the first six major brands of the Company accounted for 64% of its total sales volume, representing an increase of five percentage points.

2. USE OF PROCEEDS

During the reporting period, there was no outstanding application of proceeds from the Company's A-Share issue or proceeds raised in previous periods.

3. BUSINESS OUTLOOK FOR THE SECOND HALF OF THE YEAR

In the second half of the year, the efforts to maintain the swift growth in total sales volume will be coupled by adjustments to enrich the product portfolio, with the objective to continuously enhancing both the capability and level of profitability of the Company. The Company is fully confident of fulfilling the beer output and sales volume targets for the year.

1. DIVIDENDS

Pursuant to the provisions of the Company's Articles of Association, no interim dividend will be paid by the Company for the six months ended 30th June 2005.

2. MATERIAL LITIGATIONS OR ARBITRATIONS DURING THE REPORTING PERIOD

As at the end of the reporting period, there was no further progress in respect of the appeal to the Supreme Court on the case of Qingdao Guangming General Company suing the Company for the breach of a distribution contract.

3. On 23rd June 2005, Li Guirong, Jin Zhiguo, Sun Mingbo, Liu Yingdi, Sun Yuguo, Stephen J. Burrows, Mark F. Schumm, Chu Zenggang, Fu Yang, Li Yan and Poon Chiukwok were elected to be members of the Fifth Board of Directors at the 2004 Annual General Meeting of the Company; Sun Jiayao, Liu Qingyuan, Zhong Mingshan, Chen Jun and Frances Zheng were elected to be members of the Fifth Supervisory Committee of the Company; in addition, Yu Jiaping, Huang Zujiang and Ren Zenggui were elected to be Supervisors in the capacities of staff representatives. Wu Haihua, Tam Lailing and Pan Guirong retired as the Directors of the Company due to expiry of their terms, while Wu Yuting and David Renaud retired as the Supervisors of the Company due to expiry of their terms.

On the same day, at the first meeting of the Fifth Board of Directors of the Company, Li Guirong was elected Chairman, and each of Jin Zhiguo and Stephen J. Burrows was elected Vice Chairman; Jin Zhiguo was appointed President of the Company; Sun Mingbo was appointed Executive Vice President of the Company; Fan Wei was appointed Chief Engineer of the Company; Sun Yuguo was appointed Vice President and Chief Accountant; each of Yan Xu, Zhang Xueju, Cao Xiangdong, Jiang Hong and Zhang Anwen was appointed Vice President of the Company; Yuan Lu was appointed Secretary to the Board of Directors of the Company. Sun Jiayao was elected Chairman of the Supervisory Committee at the first meeting of the Fifth Supervisory Committee of the Company.

4. During the reporting period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the listed shares of the Company.

5. OTHER SIGNIFICANT EVENTS

Amortization will no longer be required for goodwill accounting while the carrying amount of goodwill is required to be tested annually for impairment in accordance with the newly revised Hong Kong Financial Reporting Standards. From 1st January 2005 onwards, the Company is required to conduct impairment test on goodwill annually. Accordingly, the Company will appoint independent professional valuer to conduct the above work in the fourth quarter of 2005.

1. CHANGES IN SHARE CAPITAL

The Company issued mandatory convertible bonds in an aggregate of HK$1,416,000,000 to A-B Company in three tranches in accordance with the "Strategic Investment Agreement" signed between the Company and A-B Company. Pursuant to the request of conversion by A-B Company, it was resolved at the sixteenth meeting of the Fourth Board of Directors of the Company that: the issuance of 248,219,178 new H shares to the controlling subsidiary of A-B Company and Law Debenture Trust (Asia) Limited (the "Trustee") was approved, and the total number of shares of the Company increased to 1,308,219,178. Please refer to the Company's announcement dated 12th April 2005 published in "Shanghai Securities News", "China Securities Journal" and "Securities Times", "Wen Wei Po" and "The Standard" of Hong Kong for the details of the conversion.

Unit: shares

		Opening value	Increase/decrease during the reporting period	Closing value
I.	Unlisted shares			
	Including:			
	State-owned shares	399,820,000		399,820,000
	Domestic legal person shares	53,330,000		53,330,000
	Total of unlisted shares	453,150,000		453,150,000
II.	Listed shares			
	RMB-denominated ordinary shares	200,000,000		200,000,000
	Overseas listed foreign shares	406,850,000	+248,219,178	655,069,178
	Total of listed shares	606,850,000	+248,219,178	855,069,178
	Total number of shares	1,060,000,000	+248,219,178	1,308,219,178

2. SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) As at 30th June 2005, Mr Liu Ying Di, Mr Huang Zu Jiang, Mr Sun Ming Bo, Mr Fan Wei, Mr Zhang Xue Ju and Mr Cao Xiang Dong were interested in 5,000, 8,000, 1,561, 3,882, 1,000 and 2,000 shares in the share capital of the Company, respectively, all of which were listed A Shares. Save as disclosed above, none of the Directors, Supervisors and Senior Management of the Company has any interests and short positions in the Shares, underlying shares and debentures of the Company or any associated corporations (as defined in Part XV of the Securities and Futures Ordinance (the "SFO")) 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 and Supervisors of the Company, please refer to the "Disclosure of Interests" section at the Stock Exchange's website at www.hkex.com.hk.

(2) Directors' and Supervisors' interests

At no time during the reporting period was the Company and any of its subsidiaries a party to any arrangement to enable the Directors, Supervisors and chief executive of the Company to acquire benefits by means of the acquisition of shares in the Company.

3. SUBSTANTIAL SHAREHOLDERS

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

Holders	Class of shares held	Number of shares held at the end of the reporting period (shares)	Percentage to total share capital (%)	Increase/ decrease during the reporting period (shares)
Qingdao State-owned Assets Administration Office ("QSOAAO")	A	399,820,000	30.56	0
HKSCC Nominees Limited	H	294,656,373	22.52	+189,993
Anheuser-Bush International Holdings, Inc. ("A-B International")	H	145,321,918	11.11	+145,321,918
A-B Jade HongKong Holding Co., Ltd. ("A-B HongKong")	H	116,321,918	8.89	+11,321,918
Law Debenture Trust (Asia) Limited	H	91,575,342	7.00	+91,575,342
China Orient Asset Management Corporation	A	29,250,000	2.24	—
Construction Bank of China, Qingdao Branch	A	19,080,000	1.46	—
Fortis Haitong Returns Growth Fund	A	7,000,000	0.54	—
E Fund Stable Growth Fund	A	6,843,922	0.52	—
Social Security Fund 108	A	6,509,013	0.50	—

The above shareholdings of the top 10 shareholders of the Company at the end of the reporting period were prepared in accordance with the register of the Company as at 30th June 2005 supplied by China Securities Depository and Clearing Corporation Limited Shanghai Branch and Hong Kong Registrars Limited. Save as disclosed above, as at 30th June 2005, none of the registered shareholders of the Company held 5% or more of the issued shares of the Company.

A-B Company held 261,643,836 H shares through its wholly-owned subsidiaries A-B International and A-B HongKong. The Trustee held 91,575,342 H shares pursuant to the Voting Trust Arrangement, and exercised the voting rights of such shares in accordance with the written instructions of QSOAAO. The economic benefits of such shares, including dividends, distribution of benefits and payments, were handled in accordance with the instructions of A-B Company.

(2) Substantial shareholders of H Shares

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 30 June 2005, 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	As a percentage of the entire issued capital	As a percentage of all issued H Shares
QSOAAO	Long Position	A Shares	Beneficial	*1*	399,820,000 A Shares	30.56%	N/A
	Long Position	H Shares	section 317 agreement	*1, 2*	353,219,178 H Shares	27.00%	53.92%

Name	Nature	Class of Shares	Capacity	*Note*	Number of shares/ underlying shares	As a percentage of the entire issued capital	As a percentage of all issued H Shares
Anheuser-Busch Companies, Inc.	Long Position	H Shares	Corporate/ Beneficiary of a trust	*1, 2*	353,219,178 H Shares	27.00%	53.92%
	Long Position	A Shares	section 317 agreement	*1*	399,820,000 A Shares	30.56%	N/A
The Capital Group Companies, Inc.	Long Position	H Shares	Investment Manager	*3*	44,038,000 H Shares	3.37%	6.72%
Government of Singapore Investment Corporation Pte Ltd	Long Position	H Shares	Investment Manager	N/A	31,825,000 H Shares	2.43%	4.86%
Franklin Resources, Inc.	Long Position	H Shares	Corporate	*4*	24,238,000 H Shares	1.85%	3.70%
Templeton International, Inc.	Long Position	H Shares	Corporate	*5*	23,388,000 H Shares	1.79%	3.57%

Notes:

(1) The A Shares held by QSOAAO only composed of unlisted state-owned shares. An undertaking agreement between QSOAAO and A-B Company dated 21 October 2002 constitutes a section 317 agreement under the SFO. In the case of an agreement to which section 317 applies, each party to the agreement is taken (for the purposes of the duty of disclosure) to be interested in any shares comprised in the relevant share capital in which any other party to the agreement is interested apart from the agreement.

(2) The 353,219,178 H Shares which were deemed to be interested by A-B Company were held by its wholly-owned subsidiaries. Of which, 91,575,342 H Shares were alloted and issued to a voting trustee pursuant to the Voting Trust Agreement.

(3) The 44,038,000 H Shares which were deemed to be interested by The Capital Group Companies, Inc. were held by its wholly-owned company in the capacity of investment manager.

(4) The 24,238,000 H Shares which were deemed to be interested by Franklin Resources, Inc. were held by its wholly-owned companies.

(5) The 23,388,000 H Shares which were deemed to be interested by Templeton International, Inc. were held by its wholly-owned company.

(6) For the latest disclosure of interests filings for the Company's substantial shareholders, please refer to the "Disclosure of Interests" section on the Stock Exchange's web-site at www.hkex.com.hk.

SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") as the code of conduct for securities transactions by the Company's Directors. Based on specific enquiry with the Directors, all Directors confirmed that they had complied with the required standard as set out in the Model Code, throughout the period ended 30 June 2005.

CODE OF CORPORATE GOVERNANCE PRACTICES

Pursuant to the relevant requirements of the China Securities Regulatory Commission on corporate governance, the Company made corresponding amendments to the Articles in June this year, and set up three special committees under the Board of Directors respectively as Auditing and Financial Committee, Strategy and Investment Committee and Corporate Governance and Remuneration Committee, all of which have their own working regulations for implementation. There has been no other non-compliance with the requirements of the Code of Corporate Governance Practices as set out in Appendix 14 of the Listing Rules, except the Company has not selected and appointed a suitable candidate to act as the "qualified accountant" as required by rule 3.24 of the Listing Rules.

AUDITING AND FINANCIAL COMMITTEE

The Auditing and Financial Committee of the Board of Directors of the Company had reviewed the unaudited 2005 interim report of the Company.

DOCUMENTS AVAILABLE FOR INSPECTION

1. A copy of the interim report as duly signed by the Chairman of the Company.

2 Accounting statements as duly signed and 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.

19th August 2005

COMPANY INFORMATION

1	Official name of the Company:	青島啤酒股份有限公司
	Name in English:	TSINGTAO BREWERY COMPANY LIMITED
2	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:	The Stock Exchange of Hong Kong Limited
	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, Hongkong Zhong Road, 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:	86-532-85713831
	Fax:	86-532-85713240
	E-Mail:	secretary@tsingtao.com.cn
6	Designated newspapers for information disclosure:	"China Securities Journal"; "Shanghai Securities News"; "Securities Times"; 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

青島啤酒

2005
INTERIM REPORT
中期報告

青 島 啤 酒 股 份 有 限 公 司
TSINGTAO BREWERY CO., LTD.