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2006 | INTERIM
REPORT
中期報告

青島啤酒股份有限公司
TSINGTAO BREWERY CO., LTD.

Stock Code 上市編號: 168



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TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2006

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

ASSETS	Note	30 June 2006 (Unaudited)	31 December 2005 (Audited)
Non-current assets			
Property, plant and equipment	7	5,263,143	5,263,964
Leasehold land and land use rights	6	677,377	660,197
Intangible assets	8	377,234	379,488
Interest in associates		22,655	21,789
Deferred income tax assets		33,248	21,806
Available-for-sale financial assets		993	993
Other long-term assets		27,779	29,880
Total non-current assets		6,402,429	6,378,117
Current assets			
Inventories	9	1,490,740	1,423,927
Trade receivables	10	144,279	105,068
Bills receivable		50,473	75,213
Deposits, prepayments and other receivables		357,869	327,272
Derivative financial instruments	11	5,049	—
Pledged bank deposits	16	63,043	17,570
Cash and cash equivalents		1,972,066	1,248,291
Total current assets		4,083,519	3,197,341
Total assets		10,485,948	9,575,458
EQUITY			
Capital and reserves attributable to shareholders of the company			
Capital	12	1,308,219	1,308,219
Reserves	13	3,674,292	3,673,572
Retained earnings		(21,973)	(25,401)
		4,960,538	4,956,390
Minority interests		552,734	576,686
Total equity		5,513,272	5,533,076

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

AS AT 30 JUNE 2006

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

		30 June 2006	31 December 2005
LIABILITIES	<i>Note</i>	(Unaudited)	(Audited)
Non-current liabilities			
Borrowings	14	22,935	21,786
Derivative financial instruments	11	—	90
Deferred income tax liabilities		16,505	17,374
Long-term loan due to a shareholder		119,934	121,053
Total non-current liabilities		159,374	160,303
Current liabilities			
Trade payables	15	913,808	710,997
Bills payable	16	408,472	345,844
Accruals and other payables		2,160,070	1,576,309
Deposits and advance from customers		198,219	219,005
Taxes payable		141,303	61,981
Dividends payable		215,536	12,221
Borrowings		769,509	949,171
Current portion of long-term bank loans		6,385	6,551
Total current liabilities		4,813,302	3,882,079
Total liabilities		4,972,676	4,042,382
Total equity and liabilities		10,485,948	9,575,458
Net current liabilities		(729,783)	(684,738)
Total assets less current liabilities		5,672,646	5,693,379

The notes on pages 7 to 24 form an integral part of these condensed interim financial information.

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

		Six months ended 30 June	
		2006	2005
		(Unaudited)	(Unaudited)
	Note		
Sales	4	5,767,651	4,977,182
Cost of goods sold	18	(3,963,369)	(3,510,812)
Gross profit		1,804,282	1,466,370
Other gains (net)	17	42,345	64,318
Selling and marketing costs	18	(1,066,409)	(831,678)
Administrative expenses	18	(372,563)	(362,290)
Other operating (loss)/gains (net)	18	(35,103)	4,452
Operating profit		372,552	341,172
Finance costs	19	(16,020)	(36,622)
Share of loss of associates		(575)	(3,150)
Profit before income tax		355,957	301,400
Income tax expense	20	(112,978)	(83,191)
Profit for the half-year		242,979	218,209
Attributable to:			
— Shareholders of the Company		212,743	173,640
— Minority interests		30,236	44,569
		242,979	218,209
Earnings per share for profit attributable to the shareholders of the Company during the period (expressed in RMB per share)		RMB per share	RMB per share
— Basic	21	0.16	0.15
— Diluted	21	N/A	N/A
Dividends	22	—	—

The notes on pages 7 to 24 form an integral part of these condensed interim financial information.

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INTERIM STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2006

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

	(Unaudited)							
	Attributable to shareholders of the Company							
	Capital	Convertible bonds	Other reserves <i>(Note 12)</i>	Proposed final dividends	Accumulated losses	Total	Minority interests	Total equity
Balance at								
1 January 2005	1,060,000	1,191,192	2,630,088	196,233	(231,702)	4,845,811	544,333	5,390,144
Dividends declared	—	—	—	(196,233)	—	(196,233)	—	(196,233)
Profit for the half-year	—	—	—	—	173,640	173,640	44,569	218,209
Conversion of convertible bonds	248,219	(1,191,192)	942,973	—	—	—	—	—
Translation difference	—	—	3,578	—	—	3,578	—	3,578
Others	—	—	550	—	—	550	(568)	(18)
Balance at								
30 June 2005	1,308,219	—	3,577,189	—	(58,062)	4,827,346	588,334	5,415,680
Balance at								
1 January 2006	1,308,219	—	3,673,572	209,315	(234,716)	4,956,390	576,686	5,533,076
Dividends declared	—	—	—	(209,315)	—	(209,315)	(53,541)	(262,856)
Profit for the half-year	—	—	—	—	212,743	212,743	30,236	242,979
Translation difference	—	—	720	—	—	720	—	720
Others	—	—	—	—	—	—	(647)	(647)
Balance at								
30 June 2006	1,308,219	—	3,674,292	—	(21,973)	4,960,538	552,734	5,513,272

The notes on pages 7 to 24 form an integral part of these condensed interim financial information.

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

	Six months ended 30 June	
	2006	2005
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	1,384,669	1,107,441
Income tax paid	(126,369)	(102,353)
Interest received	8,630	5,058
	<hr/>	<hr/>
Cash generated from operating activities — net	1,266,930	1,010,146
	<hr/>	<hr/>
Cash flows from investing activities		
Acquisition of a subsidiary, net of cash acquired	—	(208,033)
Purchase of property, plant and equipment, construction-in-progress and intangible assets	(350,018)	(156,013)
Proceeds from sales of property, plant and equipment	4,545	27,217
Acquisition of associated companies and other investments	—	(1,778)
Increase in pledged bank deposits	52,479	(4,429)
Cash received from derivative financial instruments	2,987	9,421
Dividend received	4,915	9,436
	<hr/>	<hr/>
Cash flows from investing activities — net	(285,092)	(324,179)
	<hr/>	<hr/>
	981,838	685,967
	<hr/>	<hr/>
Cash flows from financing activities		
Proceeds from borrowings	231,142	374,187
Repayment of borrowings	(428,905)	(527,264)
Contribution and advance from minority shareholders	15,703	—
Cash received upon conversion of convertible bond	—	53,713
Dividends paid to Company's shareholders	—	(99,470)
Interest paid	(22,571)	(42,887)
Dividends paid to minority interests	(54,321)	(32,005)
	<hr/>	<hr/>
Cash flows from financing activities — net	(258,952)	(273,726)
	<hr/>	<hr/>
Net increase in cash and bank	722,886	412,241
Cash and bank at start of period	1,248,291	1,330,327
Exchange gains/(losses) on cash and bank	889	(304)
	<hr/>	<hr/>
Cash and bank at the end of period	1,972,066	1,742,264
	<hr/> <hr/>	<hr/> <hr/>

The notes on pages 7 to 24 form an integral part of these condensed interim financial information.

TSINGTAO BREWERY COMPANY LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30TH JUNE 2006

(ALL AMOUNTS IN RMB THOUSANDS UNLESS OTHERWISE STATED)

1 GENERAL INFORMATION

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

The Company and its subsidiaries (collectively referred to as the “Group”) are principally engaged in the production and distribution of beer products. The Company’s registered address is Tsingtao Beer Tower, May Fourth Square, Hong Kong Zhong Road, Qingdao, the PRC.

This condensed consolidated financial information was approved for issue by the Board of Directors on 28 August 2006.

The English names of some of the companies referred to in the financial statements represent unofficial translation of their registered Chinese names by management and these English names have not been legally adopted by these entities.

2 BASIS OF PREPARATION

This condensed consolidated interim financial information for the half-year ended 30 June 2006 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The interim condensed financial report should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

3 ACCOUNTING POLICIES

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005, as described in the annual financial statements for the year ended 31 December 2005.

The following new standards, amendments to standards and interpretations are mandatory for financial year ending 31 December 2006.

- Amendment to HKAS 19, “Actuarial gains and losses, group plans and disclosures”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 39, Amendment to “The fair value option”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;
- Amendment to HKAS 21, Amendment “Net investment in a foreign operation”, effective for annual periods beginning on or after 1 January 2006. This amendment does not have material impact on the Group’s consolidated equity;
- Amendment to HKAS 39, Amendment “Cash flow hedge accounting of forecast intragroup transactions”, effective for annual periods beginning on or after 1 January 2006. This amendment is not relevant for the Group;

3 ACCOUNTING POLICIES (CONT'D)

- Amendment to HKAS 39 and IFRS/HKFRS 4, Amendment “Financial guarantee contracts”, effective for annual periods beginning on or after 1 January 2006. This amendment was assessed to have no significant effect to the Group;
- HKFRS 6, “Exploration for and evaluation of mineral resources”, effective for annual periods beginning on or after 1 January 2006. This standard is not relevant for the Group;
- HK(IFRIC)-Int 4, “Determining whether an arrangement contains a lease”, effective for annual periods beginning on or after 1 January 2006. The Group has performed a review on all its contracts, and has not identified any of them to be required to be accounted for as leases in accordance with HKAS17;
- HK(IFRIC)-Int 5, “Rights to interests arising from decommissioning, restoration and environmental rehabilitation funds”, effective for annual periods beginning on or after 1 January 2006. This interpretation is not relevant for the Group; and
- HK(IFRIC)-Int 6, “Liabilities arising from participating in a specific market — waste electrical and electronic equipment”, effective for annual periods beginning on or after 1 December 2005. This interpretation is not relevant for the group.

The following new standards, amendments to standards and interpretations have been issued but are not effective for 2006 and have not been early adopted:

- IFRIC/HK(IFRIC)-Int 7, “Applying the Restatement Approach under IFRS/HKFRS 29”, effective for annual periods beginning on or after 1 March 2006. Management do not expect the interpretation to be relevant for the Group;
- IFRIC/HK(IFRIC)-Int 8, “Scope of IFRS/HKFRS 2”, effective for annual periods beginning on or after 1 May 2006. Management do not expect this interpretation to be relevant for the Group;
- IFRIC/HK(IFRIC)-Int 9, “Reassessment of Embedded Derivatives”, effective for annual periods beginning on or after 1 June 2006. Management believes that this interpretation should not have a significant impact on the reassessment of embedded derivatives as the Group already assess if embedded derivative should be separated using principles consistent with IFRIC/HK(IFRIC)-Int 9; and
- IFRS/HKFRS 7, “Financial instruments: Disclosures”, effective for annual periods beginning on or after 1 January 2007. IAS/HKAS 1, “Amendments to capital disclosures”, effective for annual periods beginning on or after 1 January 2007. The Group assessed the impact of IFRS/HKFRS 7 and the amendment to IAS/HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of IAS/HKAS 1. The Group will apply IFRS/HKFRS 7 and the amendment to IAS/HKAS 1 from annual periods beginning 1 January 2007.

4 SEGMENT INFORMATION

(a) Primary reporting format — geographical segment

Due to the fact that the Group's principal operating activities are the sales of beer products throughout the PRC, management considers that the primary reporting segment is the geographical segment as follows:

	(Unaudited)						
	Six months ended 30 June 2006						
	Qingdao Region	Other Shandong Regions	Huabei Region	Huanan Region	Overseas	Eliminations	Consolidated
					<i>(Note a)</i>		
Turnover							
External sales	2,009,333	537,198	1,435,848	1,634,137	151,135	—	5,767,651
Inter-segment sales	77,854	342,315	51,358	18,289	—	(489,816)	—
	<u>2,087,187</u>	<u>879,513</u>	<u>1,487,206</u>	<u>1,652,426</u>	<u>151,135</u>	<u>(489,816)</u>	<u>5,767,651</u>
Results							
Segment results	<u>239,611</u>	<u>13,923</u>	<u>52,845</u>	<u>99,668</u>	<u>42,027</u>		<u>448,074</u>
Unallocated expenses, net							(75,522)
Operating profit							372,552
Finance costs							(16,020)
Share of loss of associates	(575)	—	—	—	—		(575)
Profit before income tax							355,957
Income tax expense							(112,978)
Profit for the half-year							<u>242,979</u>
Other information							
Depreciation	37,836	38,903	54,552	118,400	340	—	250,031
Amortisation of land use rights and intangible assets	2,825	1,583	3,757	5,186	—	—	13,351
Property, plant and equipment impairment losses	<u>5,260</u>	<u>16,525</u>	<u>14,442</u>	<u>21,496</u>	—	—	<u>57,723</u>

4 SEGMENT INFORMATION (CONT'D)

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

	(Unaudited)						Consolidated
	Six months ended 30 June 2005						
	Qingdao Region	Other Shandong Regions	Huabei Region	Huanan Region	Overseas (Note a)	Eliminations	
Turnover							
External sales	1,507,282	526,088	1,342,525	1,465,956	135,331	—	4,977,182
Inter-segment sales	121,430	172,055	30,036	16,908	—	(340,429)	—
	<u>1,628,712</u>	<u>698,143</u>	<u>1,372,561</u>	<u>1,482,864</u>	<u>135,331</u>	<u>(340,429)</u>	<u>4,977,182</u>
Results							
Segment results	<u>206,153</u>	<u>2,823</u>	<u>59,937</u>	<u>50,580</u>	<u>36,609</u>		<u>356,102</u>
Unallocated expenses, net							(14,930)
Operating profit							
Finance costs							341,172
Share of losses of associates	(3,150)	—	—	—	—		(36,622)
							(3,150)
Profit before income tax							
Income tax expense							301,400
							(83,191)
Profit for the half-year							
							<u>218,209</u>
Other information							
Depreciation	48,912	39,942	60,403	115,785	332	—	265,374
Amortisation of land use rights and intangible assets	5,644	3,416	7,395	10,985	—	—	27,440
Property, plant and equipment impairment losses	—	19,664	12,974	14,717	—	—	47,355

4 SEGMENT INFORMATION (CONT'D)

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

	(Unaudited)						Consolidated
	As at 30 June 2006						
	Qingdao Region	Other Shandong Regions	Huabei Region	Huanan Region	Overseas <i>(Note a)</i>	Eliminations	
Assets							
Segment assets	6,895,785	1,225,798	2,244,925	5,411,175	—	(6,441,046)	9,336,637
Interests in associates	25,131	—	—	—	—	—	25,131
Unallocated assets							<u>1,124,180</u>
							<u>10,485,948</u>
Liabilities							
Segment liabilities	1,837,910	1,107,361	1,943,557	4,073,457	—	(4,603,353)	4,358,932
Unallocated liabilities							<u>613,744</u>
							<u>4,972,676</u>
Capital expenditure	<u>68,711</u>	<u>17,087</u>	<u>217,059</u>	<u>51,462</u>	<u>1,257</u>	<u>—</u>	<u>355,576</u>
As at 31 December 2005							
	Qingdao Region	Other Shandong Region	Huabei Region	Huanan Region	Overseas <i>(Note a)</i>	Eliminations	Consolidated
Assets							
Segment assets	5,907,566	1,485,587	2,217,406	4,943,403	—	(5,735,037)	8,818,925
Interests in associates	21,789	—	—	—	—	—	21,789
Unallocated assets							<u>734,744</u>
							<u>9,575,458</u>
Liabilities							
Segment liabilities	1,176,343	1,246,351	1,603,185	3,484,597	—	(3,726,943)	3,783,533
Unallocated liabilities							<u>258,849</u>
							<u>4,042,382</u>
Capital expenditure							
— for the six months ended							
30 June 2005	<u>23,623</u>	<u>17,638</u>	<u>39,653</u>	<u>832,894</u>	<u>112</u>	<u>—</u>	<u>913,920</u>

Note a: The segment represents sales of goods to regions (including Hong Kong) out of the PRC through an overseas subsidiary of the Group, or through 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.

5 CAPITAL EXPENDITURE

	Tangible and intangible assets
Six months ended 30 June 2005	
Opening net book amount 1 January 2005	6,267,823
Acquisition of subsidiary	547,390
Additions	195,217
Disposals	(34,494)
Depreciation and amortisation	(292,814)
Impairment	(56,853)
	<hr/>
Closing net book amount 30 June 2005	6,626,269
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Six months ended 30 June 2006	
Opening net book amount at 1 January 2006	6,303,649
Additions	355,576
Disposals	(20,366)
Depreciation and amortisation	(263,382)
Impairment	(57,723)
	<hr/>
Closing net book amount at 30 June 2006	6,317,754
	<hr/> <hr/>

6 LEASEHOLD LAND AND LAND USE RIGHTS

	As at	
	30 June 2006 (Unaudited)	31 December 2005
Opening	660,197	595,593
Additions	27,511	1,064
Acquisition of subsidiaries	—	94,327
Amortisation	(10,331)	(24,761)
Disposal	—	(6,026)
	<hr/>	<hr/>
	677,377	660,197
	<hr/> <hr/>	<hr/> <hr/>

As at 30 June 2006, land use rights certificates (“Land Certificates”) of certain parcels of land of the Group with an aggregate carrying amounts of approximately RMB28,465,000 (31 December 2005: RMB28,479,000) had not yet been obtained by the Group. After consultation made with the Company’s legal counsel, the directors considers that there is no legal restriction for the Group and the Company to apply for and obtain the land use right certificates. Accordingly, no provision for impairments loss is considered necessary.

In addition, as at 30 June 2006, 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 RMB20,753,000 (31 December 2005: RMB21,130,000). The Company’s directors consider that there is no significant adverse impact on the operations of the Group and accordingly, no provision for impairment loss is considered necessary.

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
At 1 January 2005						
Cost	2,717,532	5,275,859	397,818	280,490	62,611	8,734,310
Accumulated depreciation and impairment	(629,437)	(2,401,088)	(198,067)	(156,111)	—	(3,384,703)
Net book amount	<u>2,088,095</u>	<u>2,874,771</u>	<u>199,751</u>	<u>124,379</u>	<u>62,611</u>	<u>5,349,607</u>
Year ended 31 December 2005						
Opening net book amount	2,088,095	2,874,771	199,751	124,379	62,611	5,349,607
Acquisition of subsidiaries	108,657	270,557	1,497	—	—	380,711
Disposal of subsidiaries	(12,173)	(15,420)	(1,489)	(284)	—	(29,366)
Additions	27,685	46,223	27,715	34,174	179,311	315,108
Transfers	29,607	97,849	1,737	5,713	(134,906)	—
Disposals	(19,085)	(30,386)	(2,826)	(19,326)	—	(71,623)
Depreciation	(85,572)	(368,179)	(40,732)	(44,445)	—	(538,928)
Impairment charges	(2,924)	(124,560)	(14,061)	—	—	(141,545)
Closing net book amount	<u>2,134,290</u>	<u>2,750,855</u>	<u>171,592</u>	<u>100,211</u>	<u>107,016</u>	<u>5,263,964</u>
At 31 December 2005						
Cost	2,841,258	5,454,156	396,518	283,916	107,016	9,082,864
Accumulated depreciation and impairment	(706,968)	(2,703,301)	(224,926)	(183,705)	—	(3,818,900)
Net book amount	<u>2,134,290</u>	<u>2,750,855</u>	<u>171,592</u>	<u>100,211</u>	<u>107,016</u>	<u>5,263,964</u>
At 1 January 2006						
Opening net book amount	2,134,290	2,750,855	171,592	100,211	107,016	5,263,964
Additions (unaudited)	44,358	84,654	13,024	12,103	173,158	327,297
Transfers (unaudited)	10,234	76,625	233	657	(87,749)	—
Disposals (unaudited)	(7,230)	(9,663)	(2,850)	(621)	—	(20,364)
Depreciation (unaudited)	(38,907)	(173,028)	(18,233)	(19,863)	—	(250,031)
Impairment charges (<i>note a</i>) (unaudited)	—	(52,383)	(5,340)	—	—	(57,723)
Closing net book amount (unaudited)	<u>2,142,745</u>	<u>2,677,060</u>	<u>158,426</u>	<u>92,487</u>	<u>192,425</u>	<u>5,263,143</u>
At 30 June 2006						
Cost (unaudited)	2,888,620	5,605,773	406,925	296,055	192,425	9,389,798
Accumulated depreciation and impairment	(745,875)	(2,928,713)	(248,499)	(203,568)	—	(4,126,655)
Net book amount (unaudited)	<u>2,142,745</u>	<u>2,677,060</u>	<u>158,426</u>	<u>92,487</u>	<u>192,425</u>	<u>5,263,143</u>

As at 30 June 2006, approximately RMB45,850,000 (31 December 2005: RMB12,500,000) machinery had been pledged as security for RMB26,000,000 bank loans of the Group (31 December 2005: RMB10,000,000) (*Note 15*).

7 PROPERTY, PLANT AND EQUIPMENT (CONT'D)

As at 30 June 2006, ownership certificates of certain buildings ("Building Ownership Certificates") for certain buildings of the Group with respective carrying values of approximately RMB300,593,000 (31 December 2005: RMB310,204,000) 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 in this respect is considered necessary.

- (a) The directors of the Company have performed impairment assessment on the carrying value of fixed assets of the Group when there were impairment indicators during the six months ended 30 June 2006 in accordance with the accounting policies of the Group. As a result of such assessment, impairment charges of RMB57,723,000 relating to fixed assets of certain subsidiaries of the Company had been recognised.

8 INTANGIBLE ASSETS

The movements in intangible assets are as follows:

	Goodwill	Trademarks (i)	Technology know-how (ii)	Software and Others	Total
At 1 January 2005					
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
Year ended 31 December 2005					
Opening net book amount	214,001	74,271	8,050	26,301	322,623
Acquisition of a subsidiary	115,975	9,512	—	—	125,487
Additions	—	—	—	4,500	4,500
Amortisation	—	(7,537)	(1,863)	(2,393)	(11,793)
Disposal	(9,748)	(5,231)	—	—	(14,979)
Impairment charge	(46,350)	—	—	—	(46,350)
Closing net book amount	273,878	71,015	6,187	28,408	379,488
At 31 December 2005					
Cost	320,228	107,778	18,629	37,886	484,521
Accumulated amortisation and impairment loss	(46,350)	(36,763)	(12,442)	(9,478)	(105,033)
Net book value	273,878	71,015	6,187	28,408	379,488
Six months ended 30 June 2006					
Opening net book amount	273,878	71,015	6,187	28,408	379,488
Additions (Unaudited)	—	—	—	766	766
Amortisation (Unaudited)	—	(842)	(931)	(1,247)	(3,020)
Closing net book amount (Unaudited)	273,878	70,173	5,256	27,927	377,234
At 30 June 2006					
Cost (Unaudited)	320,228	107,778	18,629	38,652	485,287
Accumulated amortisation and impairment loss (Unaudited)	(46,350)	(37,605)	(13,373)	(10,725)	(108,053)
Net book value (Unaudited)	273,878	70,173	5,256	27,927	377,234

8 INTANGIBLE ASSETS (CONT'D)

(i) Trademarks

Trademarks mainly include the "TSINGTAO BEER" trademark which was injected by the founding shareholders into the Company on 16 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 recognised according to their fair value at the respective dates of acquisition.

(ii) 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	
	30 June 2006 (Unaudited)	31 December 2005
Raw materials, packaging materials and auxiliary materials	1,159,486	1,173,623
Work-in-progress	221,345	177,770
Finished goods	154,279	128,873
	<u>1,535,110</u>	<u>1,480,266</u>
Less: Write-down of inventories to net realisable value	(44,370)	(56,339)
Inventories, net	<u>1,490,740</u>	<u>1,423,927</u>

Approximately RMB44,370,000 (31 December 2005: RMB56,339,000) of the gross value of inventories of the Group were covered by full provision against their net realisable values.

10 TRADE RECEIVABLES

	As at	
	30 June 2006 (Unaudited)	31 December 2005
Trade receivables — third parties	214,660	178,993
Receivables from related parties (<i>Note 25(b)</i>)	68,665	70,861
	<u>283,325</u>	<u>249,854</u>
Less: provision for impairment of receivables	(139,046)	(144,786)
	<u>144,279</u>	<u>105,068</u>

10 TRADE RECEIVABLES (CONT'D)

The aging analysis of trade receivables is as follows:

	30 June 2006			31 December 2005		
	Amount (Unaudited)	Provision for bad debts (Unaudited)	Balance after provision (Unaudited)	Amount	Provision for bad debts	Balance after provision
Less than 1 year	128,798	(537)	128,261	89,547	(2,075)	87,472
1 to less than 2 years	1,511	(1,049)	462	33,874	(31,685)	2,189
2 to less than 3 years	29,357	(28,801)	556	46,123	(45,716)	407
Over 3 years	123,659	(108,659)	15,000	80,310	(65,310)	15,000
Total	<u>283,325</u>	<u>(139,046)</u>	<u>144,279</u>	<u>249,854</u>	<u>(144,786)</u>	<u>105,068</u>

The majority of the Group's domestic sales are transacted at cash on delivery terms. For export sales outside of the PRC, they are mainly covered by letter of credit. Credit is only granted to customers with good credit history. 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 30 June 2006.

The Group makes specific bad debt provision against the doubtful trade receivable balances which are 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 at 30 June 2006, approximately RMB15,000,000 of the receivable balance aged more than 3 years not provided for bad debts represent the amount jointly due by a customer and a related company as described in note 25(b)(ii).

11 DERIVATIVE FINANCIAL INSTRUMENTS ASSETS/(LIABILITIES)

	30 June 2006 (Unaudited)	31 December 2005
Forward foreign exchange contracts — ineffective hedges	<u>5,049</u>	<u>(90)</u>

In the opinion of directors, the forward contracts are non-speculative in nature and they are intended to be used as hedges against the Company's outstanding bank loan balances denominated in US dollars. However, as these instruments are not qualified for hedging accounting under the requirements of HKAS 39, they were recognised at fair value. The change in the fair value of approximately RMB5,049,000 of such contracts held at the half-year end remained at open position were credited to the income statement for the six months ended 30 June 2006 (31 December 2005: Approximately RMB90,000 loss).

12 SHARE CAPITAL

As at 30 June 2006, the authorised registered share capital was RMB1,308,219,178 (31 December 2005: RMB1,308,219,178) of RMB1 each.

	30 June 2006		31 December 2005	
	RMB'000	Number of shares ('000)	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	200,000	200,000	200,000	200,000
Overseas public shares	655,069	655,069	655,069	655,069
	<u>1,308,219</u>	<u>1,308,219</u>	<u>1,308,219</u>	<u>1,308,219</u>

As at 30 June 2006, all issued share capital had been fully paid up.

13 OTHER RESERVES

	Share premium	Capital reserve	Surplus reserve (note a)	Public welfare fund (note a)	Cumulative translation adjustments	Other reserves
Balance at 1 January 2005, as previously reported as equity	2,115,258	17,252	276,289	222,493	(1,204)	2,630,088
Profit appropriation to surplus reserve	—	—	52,858	—	—	52,858
Profit appropriation to public welfare fund	—	—	—	47,430	—	47,430
Conversion of convertible bonds	942,973	—	—	—	—	942,973
Translation difference	—	—	—	—	223	223
Balance at 31 December 2005	<u>3,058,231</u>	<u>17,252</u>	<u>329,147</u>	<u>269,923</u>	<u>(981)</u>	<u>3,673,572</u>
Balance at 1 January 2006, as per above	3,058,231	17,252	329,147	269,923	(981)	3,673,572
Transfer of public welfare fund to surplus reserve (note (a))	—	—	269,923	(269,923)	—	—
Translation difference (Unaudited)	—	—	—	—	720	720
Balance at 30 June 2006 (Unaudited)	<u>3,058,231</u>	<u>17,252</u>	<u>599,070</u>	<u>—</u>	<u>(261)</u>	<u>3,674,292</u>

Note:

(a) Statutory reserves

According to the Articles of Association of the Company and Company Law of PRC, the Company has to set aside 10% of its net profit after taxation under PRC accounting standards for the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's paid-up share capital). These reserves are not distributable as cash dividends.

Pursuant to the provisions under the Company law of PRC and the Articles of Association of the Company, amended in the annual general meeting held on 30 June 2006, the Company ceased to appropriate funds to the public welfare fund of the Company from 1 January 2006 onwards. The balance of the public welfare fund as at 1 January 2006 of approximately RMB269,923,000 was transferred to the surplus reserve in accordance with the regulation promulgated by the Ministry of Finance of the PRC.

14 BORROWINGS

	30 June 2006			31 December 2005		
	Short-term bank loans (Unaudited)	Long-term bank loans (Unaudited)	Total (Unaudited)	Short-term bank loans	Long-term bank loans	Total
Bank loans						
Repayable:						
— Within 1 year	769,509	6,386	775,895	949,171	6,551	955,722
— Between 2 and 5 years	—	8,540	8,540	—	8,113	8,113
— Over 5 years	—	14,394	14,394	—	13,673	13,673
	<u>769,509</u>	<u>29,320</u>	<u>798,829</u>	<u>949,171</u>	<u>28,337</u>	<u>977,508</u>
Less: Portion due within 1 year	<u>(769,509)</u>	<u>(6,385)</u>	<u>(775,894)</u>	<u>(949,171)</u>	<u>(6,551)</u>	<u>(955,722)</u>
Long-term portion	<u>—</u>	<u>22,935</u>	<u>22,935</u>	<u>—</u>	<u>21,786</u>	<u>21,786</u>

14 BORROWINGS (CONT'D)

As at 30 June 2006, loans of the Group amounting to approximately RMB8,084,000 and RMB16,642,000 were guaranteed by Beijing Development and Reform Committee and Bank of China, Beijing branch, respectively. Loans of the Group and of the Company each amounting to approximately RMB4,344,000 (31 December 2005: RMB4,344,000) were guaranteed by Tsingtao Brewery Group Company Limited ("TB Group Company").

Approximately RMB11,000,000 (31 December 2005: RMB87,000,000) of the loans of the subsidiaries as at 30 June 2006 are guaranteed by the Company.

Approximately RMB26,000,000 (31 December 2005: RMB10,000,000) of the Group's loans as at 30 June 2006 are secured by machinery with an aggregate carrying value of approximately RMB45,850,000 (31 December 2005: RMB12,500,000).

The effective interest rates at the balance sheet date for the loans dominated in RMB, HK\$ and US\$ were 2.28%, 4.87% and 4.86% per annum, respectively. The directors consider that the carrying amount of these borrowings approximate their respective fair value as at 30 June 2006.

As of 30 June 2006, the Group had aggregate unutilised short term loan facilities of approximately RMB5,279,736,000 (31 December 2005: RMB2,900,000,000). All are expiring within a year with floating interest rates charged on the amount drawn down.

15 TRADE PAYABLES

	As at	
	30 June 2006 (Unaudited)	31 December 2005
Trade payables — third parties	913,640	710,894
Amounts due to related parties	168	103
	<u>913,808</u>	<u>710,997</u>

The ageing analysis of trade payables (including amounts due to related parties) is as follows:

	As at	
	30 June 2006 (Unaudited)	31 December 2005
Less than 1 year	892,302	677,981
1 to less than 2 years	8,792	14,034
2 to less than 3 years	6,306	10,179
Over 3 years	6,408	8,803
	<u>913,808</u>	<u>710,997</u>

16 BILLS PAYABLE

All the bills payable balances of the Group as at 30 June 2006 are of maturity within six months. Approximately RMB63,043,000 (31 December 2005: RMB17,570,000) of the bank deposits of the Group denominated in Renminbi had been pledged for the issuance of these bills, and approximately RMB53,880,000 of bills issued by the subsidiaries as at 30 June 2006 were guaranteed by the Company.

17 OTHER GAINS — NET

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Derivative instruments:		
— foreign exchange forward contracts: transactions not qualifying for hedge accounting (<i>note 11</i>)	5,139	8,812
Realised gain on foreign exchange forward contracts	2,897	9,421
Amortisation of deferred gain arising from the issuance of convertible bonds	—	12,641
Interest income	8,630	5,058
Government grants*	25,679	28,386
	<u>42,345</u>	<u>64,318</u>

* In connection with the acquisitions of certain subsidiaries of the Group in prior years, the Group entered into various agreements with the relevant municipal governments that these subsidiaries could enjoy certain financial incentives granted by the governments, mainly including financial subsidies determined with reference to the amounts of taxes paid by these subsidiaries.

18 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Staff costs	224,603	167,852
Costs of inventories (including direct materials, direct labor and overheads)	3,382,947	2,946,032
Depreciation of fixed assets (<i>Note 7</i>)	250,031	265,374
Amortisation of leasehold land and intangible assets (<i>Note 6, 8</i>)	13,351	27,440
(Reversal)/provision for doubtful debts	(3,709)	22,270
Impairment loss on property, plant and equipment (<i>Note 7(a)</i>)	57,723	46,588
Impairment loss on goodwill	—	10,265
(Reversal)/write-down of inventories to net realisable value	(11,969)	15,352

19 FINANCE COSTS

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Interest on bank loans	22,571	42,887
Net foreign exchange transaction gains	(6,551)	(6,265)
	<u>16,020</u>	<u>36,622</u>

There was no borrowing costs eligible for capitalisation as part of the costs of the related qualifying assets during the six months ended 30 June 2006 (2005: Nil).

(a) **Income tax expense**

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Current income tax		
— Hong Kong income tax (i)	1,995	1,664
— PRC enterprise income tax (ii)	123,294	81,889
Deferred income tax	(12,311)	(362)
	112,978	83,191

(i) **Hong Kong income tax**

Hong Kong income tax has been provided at the rate of 17.5% (2005: 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 18 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 23 March 1997 that this preferential tax treatment would not be terminated until further notice.

Tsingtao Brewery (Chenzhou) Company Limited (“Chenzhou Company”) was approved as enterprises with foreign investment and therefore, it is 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 thereafter. 2006 is the fifth profitable year of Chenzhou Company. Accordingly, EIT for Chenzhou Company was provided at reduced rate of 16.5%.

Shenzhen Tsingtao Brewery Sales Company Limited, Shenzhen Tsingtao Beer Asahi Company Limited, Huanan Holding Company Limited, Tsingtao Brewery (Doumen) Melt Company Limited, Tsingtao Brewery (Zhuhai) Company, Tsingtao Brewery (Xiamen) Company Limited and Tsingtao Brewery (Xianmen) Sales Company Limited were established in Shenzhen, Zhuhai and Xiamen Special Economic Zones for the PRC 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 year.

(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 entitled 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 deductible against output VAT on its sales in order to arrive at the net VAT amount payable to the PRC government.

(c) **Consumption tax**

Beers production, manufacturing consignment and beer product importation activities undertaken by the Group are subject to consumption tax in the PRC. For beer with an ex-factory price (including packaging materials and related deposits) of RMB3,000 or above per ton, the consumption tax is RMB250 per ton. For all other beer sold below that price, the consumption tax is levied at RMB220 per ton.

21 EARNINGS PER SHARE

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

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Profit attributable to shareholders of the Company (<i>RMB'000</i>)	212,743	173,640
Weighted average number of ordinary shares in issue (<i>thousands</i>)	1,308,219	1,168,339
Basic earnings per share (<i>RMB per share</i>)	<u>0.16</u>	<u>0.15</u>

No diluted earnings per share information was presented for 2005 and 2006 as there were no dilutive potential ordinary shares as of 30 June 2005 and 2006.

22 DIVIDENDS

During the period, a final dividend for 2005 amounting to RMB209,315,000 (dividend per share: RMB0.16) were approved in Annual General Meeting held on 29 June 2006. The Board of Directors do not recommend the payment of an interim dividend for the period (30 June 2005: nil).

23 CONTINGENCIES

- (a) Pursuant to certain policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, the policy of allocating staff quarters by the Company as welfare benefits of its employees was terminated. In replacement, qualified employees are to be compensated in the form of monetary housing subsidies. As at 30 June 2006, 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 advice from a PRC counsel, 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 30 June 2006 and there is no reasonable basis to accrue for any potential liabilities.
- (b) As at 30 June 2006, the Group had provided guarantee of RMB24,000,000 in favor of an associate of the Group for its bank loans.

24 COMMITMENTS

(a) Capital and other commitments

The Group had no material capital commitments which were authorised but not contracted and provided for as of 30 June 2006.

The Group's commitments in relation to construction of fixed assets, acquisition of subsidiaries and other activities which were contracted but not provided for are as follows:

As at	
30 June 2006 (Unaudited)	31 December 2005
<u>148,710</u>	<u>317,566</u>

24 COMMITMENTS (CONT'D)

(b) Operating lease and other commitments

As at 30 June 2006, the Group had future aggregate minimum lease payments under non-cancelable operating leases of land and buildings as well as other commitments associated with its operating activities as follows:

	As at	
	30 June 2006 (Unaudited)	31 December 2005
Not later than one year	<u>1,576</u>	<u>1,660</u>

25 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 for the six months ended 30 June 2006:

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Purchases from related companies		
— Associates	94,650	111,323
— Tsingtao Brewery (Aust) PTY LTD*	43,979	—
— Tsingtao Beer Construction Co., Ltd. (“TBC”)*	459	—
	<u>139,088</u>	<u>111,323</u>
Sales to related companies		
— Associates	135,437	110,493
— Tsingtao Beer Industrial Co., Ltd.*	2,465	264
— Tsingtao Brewery (Aust) PTY LTD*	1,248	—
	<u>139,150</u>	<u>110,757</u>
Construction services provided to the Group		
— TBC	1,560	2,740
Logistics services provided to the Group		
— Associates	78,355	66,259
Guarantee provided for the Group’s loans		
— Tsingtao Group Company*	4,344	19,234
Guarantee provided in favour of the Group’s receivables		
— Tsingtao Group Company	35,893	50,893
Guarantee provided in favour of an associate of the Group	<u>24,000</u>	<u>—</u>

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

* These companies are regarded as the related parties of the Company as they have certain common directors, as the company’s.

25 RELATED PARTY TRANSACTIONS (CONT'D)

- (b) As at 30 June 2006, the Group had the following significant current account balances maintained with related parties:

	30 June 2006 (Unaudited)	31 December 2005
Trade receivable and other long-term assets accounts		
— Associates (ii)	88,658	95,767
— Other related parties	900	987
	<hr/>	<hr/>
Deposits, prepayment and other receivables		
— Associates	8,269	9,994
— Other related parties	4,302	17,253
	<hr/>	<hr/>
Other payables and long-term payables		
— A-B Company (iii)	119,934	121,053
— Associates	2,931	2,145
— Other related parties	359	22,851
	<hr/>	<hr/>
Sales deposits		
— Associates	1,014	5,407
	<hr/> <hr/>	<hr/> <hr/>

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

- (i) As at 30 June 2006, the Company had extended advances and loans, amounting to approximately RMB2,713,660,000 (31 December 2005: RMB2,729,660,000) to subsidiaries through entrusted loan arrangement made with banks in the PRC.
- (ii) The Group had 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") due from them. Pursuant to the agreement, the Debts are repayable in eight annual installments, commencing from 1 January 2002. As at 30 June 2006, the outstanding balances of the Debts of approximately RMB15,000,000 and RMB20,893,000 (31 December 2005: RMB15,000,000 and RMB25,893,000) (after deduction of the relevant impairment loss provision) had been classified as both accounts receivable and other long-term assets receivables in the balance sheet of the Group according to the expected repayment schedule. TB Group Company has undertaken to guarantee the repayment of the outstanding balance.

According to the settlement agreement, the Debtors were obliged to repay an annual installment of RMB15,000,000 to the Group for the year 2005. However, the Debtors could only repay RMB10,000,000 and TB Group Company fulfilled its obligation as a guarantor to pay the remaining RMB5,000,000 to the Group on behalf of the Debtors.

- (iii) In October 2003, a subsidiary of the Company, Tsingtao Brewery (Hong Kong) Trading Company Limited ("Hong Kong Company") entered into a loan agreement with A-B Company that Hong Kong Company borrowed a loan of USD\$15,000,000 (equivalent to approximately RMB119,934,000) (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.

25 RELATED PARTY TRANSACTIONS (CONT'D)

(c) Key management compensation

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Basic salaries, allowances and benefits-in-kind	1,253	1,374
Retirement fund contributions	77	76
	<u>1,330</u>	<u>1,450</u>

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management, totalling 17 individuals.

26 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed in other notes to the financial statements, the Group had the following significant subsequent events:

During the period, a subsidiary of the Group acquired certain brewery related assets from a local third party brewery company (the "Vendor") at a purchase price of approximately RMB123 million. Subsequent to the balance sheet date the Group was advised by the Vendor that one of its major creditors (the "Creditor") proposed a debt restructure process in order to protect its claims against the Vendor which may require involvement of the Group. As at the date of approval of the financial information, the subsidiary and the Vendor were in negotiation with the Creditor in order to settle the dispute. The board of directors consider that the settlement of the dispute would not lead to any significant adverse financial impact on the Group.

TSINGTAO BREWERY COMPANY LIMITED

SUPPLEMENTARY INFORMATION

RECONCILIATION OF DIFFERENCES BETWEEN PRC GAAP AND HKFRS

The Group has prepared a separate set of financial information for the six months ended 30 June 2006 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 HKFRS 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 HKFRS are summarised and explained in the following table:

Impact on the consolidated net assets:

	As at	
	30 June 2006 (Unaudited)	31 December 2005
Net assets as per accounts prepared under PRC GAAP	4,935,975	4,941,430
HKFRS adjustments:		
Adjustments arising from different exchange rates used in valuation of carrying values of fixed assets under HKFRS 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	(141,253)	(140,887)
Difference between the accounting for business combination under PRC GAAP and HKFRS	(45,207)	(49,332)
Adjustment for negative goodwill brought forward to retained earnings upon adoption of HKFRS 3 on 1 January 2005	71,760	80,971
Recognition of derivative financial instruments at fair value	5,049	(90)
Deferred tax liability arising from depreciation of fixed assets	(4,412)	(5,090)
Goodwill impairment loss recognised upon cessation of business of a subsidiary	—	(9,121)
Others	(2,627)	(2,744)
Net assets attributable to the Company's shareholders as per financial statements prepared under HKFRS	<u>4,960,538</u>	<u>4,956,390</u>

Impact on the consolidated net profit:

	Six months ended 30 June	
	2006 (Unaudited)	2005 (Unaudited)
Net profit under PRC GAAP	201,997	163,154
HKFRS adjustments:		
Additional depreciation charges for assets acquired before unification of the two-tier exchange rate system in the PRC	(366)	(5,740)
Waiver of payables	1,143	306
Deferred tax liability arising from depreciation of fixed assets	678	263
Difference between the accounting for business combination under PRC GAAP and HKFRS	4,125	6,502
Difference in accounting for interest expenses relating to the convertible bonds	—	9,763
Recognition of derivative financial instruments at fair value	5,049	(608)
Others	117	—
Profit attributable to shareholders of the Company under HKFRS	<u>212,743</u>	<u>173,640</u>

1. REVIEW OF 1H06 OPERATIONAL RESULTS

In the first half of 2006, China's brewery industry continued the trend of steady growth driven by the further rapid growth of China's economy, with accumulated output of 164.2 million hl representing y-o-y growth of 14.2% (from reports by National Bureau of Statistics China).

In the first half-year, the hike of prices including energy, raw materials brings certain impacts towards the manufacturing costs of the national beer manufacturers. However, the Company realized solid growth of main performance indicators, and became the No. 1 in the national brewery industry with its brand value reaching RMB22.473 billion, by further carrying out a series of operational measures of organizational reform and in-depth integration under the guideline of "To improve professional operating capacity with detailed management and innovative marketing; to expand the value-added room for the value chain with in-depth integration and continuous reforms".

The Company's accumulated sales volumes for the first half-year reached 22.76 million hl with y-o-y growth rate of 10.5%, which was accounted for 13.9% of the total national output. In the same period, driven by the great achievements in brands integration and continuous optimization of product structure, the Company realized its growth of gross profit, in which on y-o-y base, the sales volume of its main brands increased 18%, and meanwhile, the sales volume of its top 6 brands was accounted to 73% of the Company's total sales volume, 8 percentages higher from the previous year.

After being successfully chosen the sponsor of Beijing 2008 Olympic Games in last year, Tsingtao Brewery started its Olympic marketing and then launched a series of spreading program of it, such as, sponsoring the Torino 2006 Winter Games; launching an theme interactive TV program with CCTV during the World Cup; innovatively launching an activity named "I am the Champion" and a nation-wide caravan road-show under cooperation with China National Radio and Hunan TV to spread the Olympic spirits to the public throughout the whole country. Through these activities, the Company promoted its brand image of Tsingtao Beer to a higher level and attracted more young consumers.

2. USE OF PROCEEDS

The Company collected RMB787 million through additional issuance of A-share in 2001. Till date, RMB680.54 million of it has been used in accumulation, in which RMB50 million was used in this year, and the remaining proceeds of RMB77.19 million is temporarily used in the circulation of the Company's current funds. For the need of economic development in north-west market and adjusting product structure, the Company has started Project of Construction of 0.5 million hl Draft Beer Line of Tsingtao Brewery (Xi'an) Company — Project of Investment with Proceeds from 2001 Additional Issuance of A-share. It is expected that the project will be completed in November 2006. Furthermore, all other projects invested with proceeds from other additional issuances have created benefits after being completed and put into production.

3. The detailed information of fund liquidity, capital structure, bank loans, assets mortgages, contingent liabilities, undertaking issues, and information of the acquisitions and sales of the subsidiaries and associated corporations of the Group are available in the enclosed Notes to the Financial Statements.

4. OUTLOOK FOR 2H06

In the second half-year, the Company will improve its operational efficiency of the whole supply chain through implementing the working principles and focuses determined at the beginning of the year, centralizing its sustainable development, promoting its organizational reform, and improving the management through information technology. At the same time, it will ensure to realize its full-year operational target by insisting on the main line of Olympic marketing, promoting the target of building young, fashionable and international image for Tsingtao Beer, and keeping on raising its shareholders' value.

SIGNIFICANT EVENTS

1. Dividends

The Company will not distribute interim dividends for the 6 months ended on 30 June 2006 pursuant to the provisions in the articles of association of the Company.

2. There are no serious issues on litigation and arbitration of the Company during the period ended on 30 June 2006 (“report period”).

3. Under the approval by the Board of Directors of the Company on 17 March 2006, Tsingtao Brewery Hans (Baoji) Company Limited (“Hans Baoji”), which was managed by a controlling subsidiary of the Company, entered into *Assets Sales Agreement* with Baoji Brewery Co., Ltd. (“Baoji Brewery”) on 20 March 2006. It is stated by the *Agreement* that Hans Baoji acquired some brewing-related assets including premises, lands, and machineries and equipments of the East Plant from Baoji Brewery for RMB123,320,000 in cash with its own funds. Such assets are valued at RMB110,440,000 by a third party valuator, and its original book value is RMB97,800,000. At present, the procedures for the transfer of acquired assets have been completed.

4. Under the *Entrusted Operation and Management Agreement* and its supplementary agreement signed between the Company and Tsingtao Brewery Group Company Limited (“Group Company”), the Company went on to manage the Group Company’s 80% stake in Tsingtao Brewery (Yangzhou) Company Limited (“Yangzhou Company”) as its custodian in the report period, and included it into the consolidation scope of the financial statements. Besides that, there are no other custody issues of the Company.

5. On 16 July 2005, Tsingtao Brewery No. 5 Company Limited, a controlling subsidiary of the Company, provided guarantee of RMB24,000,000 for loans of Qingdao Tsingtao Beer & Asahi Beverage Company Limited subject to its holding percentage of 40% in it. The guarantee period is from 16 July 2005 to 16 July 2006. Besides, all of the Company’s guarantees to third parties during the report period were for bank loans, bills and current borrowings for its subsidiaries under the approval of the Board of Directors. As of 30 June 2006, the total amount of guarantees provided by the Company for bank loans, accepted bills of exchange and borrowings for its subsidiaries had reached RMB492,000,000.

6. Mr. CHEN Jun, the external Supervisor of the Company, applied to resign his duty as Supervisor due to heavy work. His resignation was effective from 29 May 2006. Besides that, no other new recruitments or dismissals of Directors, Supervisors or senior management of the Company ever occurred in the report period.

7. There were no listed shares purchased, sold or redeemed by the Company and any of its subsidiaries in the report period.

CHANGES IN SHARE CAPITAL AND RIGHTS OF DIRECTORS AND SUPERVISORS

1. There were no changes of the total number of shares and structure of share capital during the report period.
2. Changes of Shares Held by Directors, Supervisors and Senior Management

- (1) There were no changes of the Company's shares held by Directors, Supervisors and senior management in the report period. As of 30 June 2006, Mr. SUN Ming Bo held 1,561 shares of the Company's share; Mr. LIU Ying Di, 5,000 shares; Mr. HUANG Zu Jiang, 8,000 shares; Mr. FAN Wei, 3,882 shares; Mr. ZHANG Xue Ju, 1,000 shares; and Mr. CAO Xiang Dong, 2,000 shares. The shares held by the above persons are of listed A-shares. Save as disclosed above, none of the Directors, Supervisors and senior management of the Company has any interests and short position in the shares, underlying shares and debentures of the Company or any of its associated corporations (as defined in Part XV of the *Securities and Futures Ordinance*) which were recorded in the register required to be kept under section 352 of the *Securities and Futures Ordinance* or otherwise notified to the Company and The Stock Exchange of Hong Kong Limited 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 on the website of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk).

- (2) Rights of Directors and Supervisors

The Company and its subsidiaries did not work out any arrangements in the report period so that any of its Directors, Supervisors and Chief Executive may obtain benefits from purchasing the Company's shares.

PRINCIPAL SHAREHOLDERS

1. TOP 10 SHAREHOLDERS AS OF END OF THE REPORT PERIOD

Shareholder's Name	Nature	Holding Percentage (%)	Shares Held	Changes (+/-)
State-owned Assets Supervision and Administration Commission of the People's Government of Qingdao ("SASACQ")	A	30.6	399,820,000	0
HKSCC Nominees Limited	H	22.6	295,201,373	+488,000
A-B Jade Hong Kong Holding Co, Ltd.	H	20.0	261,643,836	0
Law Debenture Trust (Asia) Limited	H	7.0	91,575,342	0
China Orient Asset Management Corporation	A	2.2	29,250,000	—
IFC-HSBC-Bill & Melinda Gates Foundation	A	1.7	22,139,578	—
China Construction Bank, Qingdao Branch	A	1.5	19,080,000	—
National Social Security Fund 108	A	1.0	13,000,000	—
Shenyin&Wanguo-HSBC-Merrill Lynch International	A	0.9	11,762,689	—
National Social Security Fund 102	A	0.6	8,032,365	—

2. PRINCIPAL SHAREHOLDERS OF H-SHARE

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 of 30 June 2006, 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 Securities and Futures Ordinance in Hong Kong.

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
SASACQ	Long Position	A-share	Beneficial	1	399,820,000 A-share	30.56%	N/A
	Long Position	H-share	Section 317 Agreement	1.2	353,219,178 H-share	27.00%	53.92%
Anheuser-Busch Companies, Inc.	Long Position	H-share	Corporate/ Beneficiary of a Trust	1.2	353,219,178 H-share	27.00%	53.92%
	Long Position	A-share	Section 317 Agreement	1	399,820,000 A-share	30.56%	N/A
The Capital Group Companies, Inc.	Long Position	H-share	Investment Manager	3	46,102,000 H-share	3.52%	7.04%

Notes:

- (1) The A-shares held by SASACQ is only composed of unlisted state-owned shares. An undertaking agreement signed between SASACQ and Anheuser-Busch Companies, Inc. ("A-B Company") on 21 October 2002 constitutes that referred to in Section 317 under the Securities and Futures Ordinance. As for the duty of disclosure. In the case of an agreement to which Section 317 applies, each party to the agreement is deemed 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 shares of H-share which were deemed to be interested by A-B Company were held by its wholly-owned subsidiaries, of which, 91,575,342 shares of H-share were allotted to a voting trustee pursuant to the *Voting Trust Agreement*.
- (3) The 46,102,000 shares of H-share 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) For the latest disclosure of interests filings for the Company's substantial shareholders, please refer to the "Disclosure of Interests" section on the web-site of The Stock Exchange of Hong Kong Limited (www.hkex.com.hk).

SECURITIES TRANSACTIONS BY DIRECTORS

The Company has applied the *Model Code for Securities Transactions by Directors by Listed Issuers* ("Model Code") included in the Appendix 10 of *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("Listing Rules") as its code of conduct for securities transactions by Directors of the Company. Specific enquiries have been made with all Directors who have confirmed that they complied with *Model Code* and its code of conduct regarding Director's securities transactions at all applicable times during the report period.

CODE OF CORPORATE GOVERNANCE PRACTICES

The Company has made amendments to the working principles of the Audit and Finance Committee under the Board of Directors pursuant to the requirements stated in the Appendix 14 *Code of Corporate Governance Practices* (“*Code Provisions*”) of the *Listing Rules*. As a result, the Audit and Finance Committee takes regular supervision over the Company’s financial reporting system and internal control procedures as the conventional unit in charge of the Company’s internal control, to further strengthen the construction of the Company’s internal control system. In the report period, there was no-incompliance with the *Code Provisions*.

AUDIT AND FINANCE COMMITTEE

The Audit and Finance Committee under the Board of Directors of the Company has reviewed the unaudited 2006 Interim Report of the Company.

DOCUMENT AVAILABLE FOR INSPECTION

1. Text of interim report signed by the Chairman of the Company.
2. Text of financial statements signed and stamped by the representative of legal person, accounting officer(s) and accounting manager(s).
3. Original copies of all company documents and announcements publicly disclosed in newspapers designated by China Securities Regulatory Commission during the report period.
4. Articles of association of the Company.

Qingduo, P.R.C.
28 August 2006

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 Stock Exchange
Stock code: 600600; Stock name in short: 青島啤酒
H Share: The Stock Exchange of Hong Kong Limited
Stock code: 0168; Stock name in short: TSINGTAO BREW

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; 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 Directors of the Company



青島啤酒

2006
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TSINGTAO BREWERY CO., LTD.