



青島啤酒股份有限公司
TSINGTAO BREWERY CO., LTD.

(Stock Code 股份代號: 168)

激情成就夢想
Passion, dreams & success

2008
INTERIM REPORT
中期報告



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TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INTERIM BALANCE SHEET

AS AT 30 JUNE 2008

	Note	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	5,799,431	5,608,946
Leasehold land and land use rights	5	806,142	717,172
Prepayment for land use rights		17,442	17,442
Intangible assets	7	235,110	237,269
Interest in associates		29,069	27,882
Deferred income tax assets		175,429	174,783
Available-for-sale financial assets		12,634	20,223
Other long-term assets		18,540	11,120
Total non-current assets		7,093,797	6,814,837
Current assets			
Inventories	8	2,690,263	2,187,254
Trade receivables	9	99,372	94,199
Bills receivable		10,853	37,294
Deposits, prepayments and other receivables		994,229	1,076,742
Pledged bank deposits		18,567	20,266
Cash and cash equivalents		2,757,948	1,314,643
Total current assets		6,571,232	4,730,398
Total assets		13,665,029	11,545,235
EQUITY			
Capital and reserves attributable to the Company's shareholders			
Share capital	10	1,308,219	1,308,219
Other reserves	11	3,823,800	3,632,861
Retained earnings			
— Proposed final dividend		—	287,808
— Others		661,425	280,297
		5,793,444	5,509,185
Minority interests		370,773	479,150
Total equity		6,164,217	5,988,335
LIABILITIES			
Non-current liabilities			
Borrowings and loans	12	1,198,121	96,580
Deferred income tax liabilities		115,033	17,035
Deferred government grants		63,840	76,275
Other financial liabilities		41,130	28,286
Total non-current liabilities		1,418,124	218,176

TSINGTAO BREWERY COMPANY LIMITED

CONDENSED CONSOLIDATED INTERIM BALANCE SHEET (Cont'd)

AS AT 30 JUNE 2008

		30 June 2008	31 December 2007
	<i>Note</i>	RMB'000	RMB'000
		(Unaudited)	
Current liabilities			
Derivative financial instruments	<i>13</i>	20,300	22,801
Trade payables	<i>14</i>	1,310,882	1,080,803
Bills payable	<i>15</i>	195,796	207,268
Accruals and other payables		2,797,118	2,172,297
Advance from customers		257,266	482,882
Income taxes payable		251,745	279,227
Loan due to a shareholder		102,887	109,569
Dividends payable	<i>21</i>	311,333	—
Borrowings and loans	<i>12</i>	835,361	983,877
		<hr/>	<hr/>
Total current liabilities		6,082,688	5,338,724
		<hr/>	<hr/>
Total liabilities		7,500,812	5,556,900
		<hr/>	<hr/>
Total equity and liabilities		13,665,029	11,545,235
		<hr/> <hr/>	<hr/> <hr/>
Net current assets/(liabilities)		488,544	(608,326)
		<hr/> <hr/>	<hr/> <hr/>
Total assets less current liabilities		7,582,341	6,206,511
		<hr/> <hr/>	<hr/> <hr/>

The notes on pages 7 to 27 form an integral part of this condensed interim financial information.

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INTERIM INCOME STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Note	Six months ended 30 June	
		2008 RMB'000 (Unaudited)	2007 RMB'000 (Unaudited) (Restated)
Sales	4	7,790,667	6,739,438
Cost of goods sold	17	(5,293,239)	(4,622,857)
Gross profit		2,497,428	2,116,581
Other gains (net)	16	77,879	47,520
Selling and marketing costs	17	(1,610,684)	(1,336,273)
Administrative expenses	17	(362,154)	(270,816)
Other operating gains/(losses)		15,117	(11,808)
Operating profit		617,586	545,204
Finance expenses	18	(22,111)	(11,416)
Share of profits of associates		609	404
Profit before income tax		596,084	534,192
Income tax expense	19	(190,529)	(230,166)
Profit for the period		405,555	304,026
Attributable to:			
— Shareholders of the Company		381,128	268,659
— Minority interests		24,427	35,367
		405,555	304,026
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 and diluted	20	0.291	0.205
Dividends	21	287,808	287,808

The notes on pages 7 to 27 form an integral part of this condensed interim financial information.

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

FOR THE SIX MONTHS ENDED 30 JUNE 2008

(Unaudited)

	Attributable to shareholders of the Company					Total equity RMB'000
	Share capital RMB'000	Other reserves RMB'000	Proposed final dividends RMB'000	Accumulated (losses)/ profits RMB'000	Minority interests RMB'000	
Balance at 1 January 2007, as previously reported	1,308,219	3,796,626	287,808	(145,224)	452,294	5,699,723
Opening adjustments for the accounting policy change	—	(236,203)	—	236,203	—	—
Balance at 1 January 2007, as restated	1,308,219	3,560,423	287,808	90,979	452,294	5,699,723
Translation difference	—	1,013	—	—	—	1,013
Profit for the period	—	—	—	268,659	35,367	304,026
Total recognised income for the period ended June 2007, as restated	—	1,013	—	268,659	35,367	305,039
Adjustment to appropriations	—	43,287	—	(43,287)	—	—
Dividends declared	—	—	(287,808)	—	(29,009)	(316,817)
Capital contribution from minority shareholders	—	—	—	—	15,703	15,703
Others	—	—	—	—	862	862
Balance at 30 June 2007, as restated	1,308,219	3,604,723	—	316,351	475,217	5,704,510
Balance at 1 January 2008	1,308,219	3,632,861	287,808	280,297	479,150	5,988,335
Translation difference	—	(164)	—	—	—	(164)
Fair value loss on available-for-sale financial assets	—	(7,246)	—	—	(343)	(7,589)
Deferred income tax liabilities for available-for-sale financial assets	—	1,812	—	—	86	1,898
Profit for the period	—	—	—	381,128	24,427	405,555
Total recognised income for the period ended June 2008	—	(5,598)	—	381,128	24,170	399,700
Dividends declared	—	—	(287,808)	—	(29,725)	(317,533)
Purchase of minority shares	—	(86,993)	—	—	(102,822)	(189,815)
Equity component of convertible bonds, net of transaction costs	—	380,490	—	—	—	380,490
Deferred income tax liabilities for convertible bonds	—	(97,426)	—	—	—	(97,426)
Others	—	466	—	—	—	466
Balance at 30 June 2008	1,308,219	3,823,800	—	661,425	370,773	6,164,217

The notes on pages 7 to 27 form an integral part of this condensed interim financial information.

TSINGTAO BREWERY COMPANY LIMITED
CONDENSED CONSOLIDATED INTERIM CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30 JUNE 2008

	Six months ended 30 June	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Cash flows from operating activities		
Cash generated from operations	973,696	1,484,621
Income tax paid	(218,529)	(112,587)
Interest received	10,224	9,440
Cash generated from operating activities — net	765,391	1,381,474
Cash flows from investing activities		
Acquisition of a subsidiary, net of cash acquired	7,887	—
Purchase of property, plant and equipment, construction-in-progress and intangible assets	(473,220)	(385,969)
Acquisition minority shares	(180,550)	—
Proceeds from sales of property, plant and equipment	2,864	8,826
Cash refund from leasehold deposit	32,439	12,000
Decrease/(increase) in short-term bank deposits and pledged bank deposits	29,033	(1,861)
Cash paid for excised derivative financial instruments	(4,161)	(75)
Cash flows from investing activities — net	(585,708)	(367,079)
Cash flows from financing activities		
Proceeds from borrowings	278,457	318,947
Repayment of borrowings	(421,528)	(236,877)
Cash received upon issuance of convertible bonds	1,500,000	—
Transaction costs paid for issuance of convertible bonds	(35,457)	—
Interest paid	(26,420)	(17,169)
Dividends paid to minority shareholders	(23,298)	(28,432)
Cash flows from financing activities — net	1,271,754	36,469
Net increase in cash and cash equivalents	1,451,437	1,050,864
Cash and cash equivalents at the start of period	1,314,643	1,213,243
Exchange losses on cash and cash equivalents	(8,132)	(1,529)
Cash and cash equivalents at the end of period	2,757,948	2,262,578

The notes on pages 7 to 27 form an integral part of this condensed interim financial information.

TSINGTAO BREWERY COMPANY LIMITED

NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

FOR THE SIX MONTHS ENDED 30 JUNE 2008

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 (together “the Group”) are principally engaged in the production and distribution of beer products. The Company’s registered address is No. 56, Dengzhou Road, Qingdao, PRC.

This condensed consolidated financial information was approved for issue by the Board of Directors on 19 August 2008.

The English language 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 language names have not been legally adopted by these entities.

2. BASIS OF PREPARATION

This condensed consolidated interim financial information for the six months ended 30 June 2008 has been prepared in accordance with HKAS 34, “Interim financial reporting”. The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2007, which have been prepared in accordance with HKFRSs.

3. ACCOUNTING POLICIES

Except as described below, the accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2007, as described in those annual financial statements.

Taxes on income in the interim periods are accrued using the tax rate that would be applicable to expected total annual earnings.

The following new standards, amendments to standards or interpretations are mandatory for the first time for the financial year beginning 1 January 2008 but are not currently relevant for the Group:

- HK(IFRIC) — Int 11, “HKFRS2, Group and treasury share transactions”;
- HK(IFRIC) — Int 12, “Service concession arrangements”;
- HK(IFRIC) — Int 14, “HKAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction”.

The following standards, amendments and interpretations to existing standards have been published but are not effective for the financial year beginning 1 January 2008 and have not been early adopted:

- HKFRS 8, “Operating segments”, effective for annual periods beginning on or after 1 January 2009. HKFRS 8 replaces HKAS 14, “Segment reporting”, and requires a “management approach”, under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in details by management but no significant impact is expected;

3. ACCOUNTING POLICIES (CONT'D)

- HKAS 23 (amendment), “Borrowing costs”, effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group, as the Group currently applies a policy of capitalising borrowing costs;
- HKFRS 2 (amendment), “Share-based payment”, effective for annual periods beginning on or after 1 January 2009. This amendment is not relevant to the Group’s operation as the Group has currently no such schemes;
- HKFRS 3 (amendment), “Business combination” and consequential amendments to HKAS 27, “Consolidated and separate financial statements”, HKAS 28, “Investments in associates” and HKAS 31, “Interests in joint ventures”, effective prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 July 2009. Management is assessing the impact of the new requirements regarding acquisition accounting, consolidation and associates on the Group;
- HKAS 1 (amendment), “Presentation of financial statements”, effective for annual periods beginning on or after 1 January 2009. Management is in the process of developing proforma accounts under the revised disclosure requirements of this standard;
- HKAS 32 (amendment), “Financial instruments: presentation”, and consequential amendments to HKAS 1, “Presentation of financial statements”, effective for annual periods beginning on or after 1 January 2009. This is not relevant to the Group as the Group does not have any puttable instruments; and
- HK(IFRIC) — Int 13, “Customer loyalty programmes”, effective for annual periods beginning on or after 1 July 2008. Management is evaluating the effect of this interpretation on its revenue recognition, and no material changes to the Group’s operating results is expected.

4. 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 30 June 2008						
	Qingdao Region	Other Shandong Regions	Huabei Region	Huanan Region	Overseas	Eliminations	Consolidated
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
Turnover							
External sales	3,457,542	291,026	1,409,563	2,462,026	170,510	—	7,790,667
Inter-segment sales	122,643	893,251	176,286	33,352	1,003	(1,226,535)	—
	<u>3,580,185</u>	<u>1,184,277</u>	<u>1,585,849</u>	<u>2,495,378</u>	<u>171,513</u>	<u>(1,226,535)</u>	<u>7,790,667</u>
Results							
Segment results	<u>324,685</u>	<u>37,984</u>	<u>85,461</u>	<u>258,679</u>	<u>39,496</u>	<u>—</u>	<u>746,305</u>
Unallocated expenses, net							(128,719)
Operating profit							617,586
Finance costs							(22,111)
Share of profits of associates	609	—	—	—	—	—	609
Profit before income tax							596,084
Income tax expense							(190,529)
Profit for the period							<u>405,555</u>
Other information							
Depreciation	55,432	38,869	60,268	102,295	376	—	257,240
Amortisation	3,496	1,807	3,923	4,076	—	—	13,302
Property, plant and equipment impairment losses	<u>—</u>	<u>287</u>	<u>932</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>1,219</u>

4. SEGMENT INFORMATION (CONT'D)

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

	(Unaudited)						
	Six months ended 30 June 2007						
	Qingdao Region <i>RMB'000</i>	Other Shandong Regions <i>RMB'000</i>	Huabei Region <i>RMB'000</i>	Huanan Region <i>RMB'000</i>	Overseas <i>RMB'000</i> <i>(Note a)</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
Turnover							
External sales	2,676,040	514,489	1,412,979	1,970,357	165,573	—	6,739,438
Inter-segment sales	84,030	559,190	91,718	21,239	—	(756,177)	—
	<u>2,760,070</u>	<u>1,073,679</u>	<u>1,504,697</u>	<u>1,991,596</u>	<u>165,573</u>	<u>(756,177)</u>	<u>6,739,438</u>
Results							
Segment results	<u>203,800</u>	<u>38,683</u>	<u>21,299</u>	<u>256,910</u>	<u>51,056</u>	<u>—</u>	<u>571,748</u>
Unallocated expenses, net							(26,544)
Operating profit							545,204
Finance costs							(11,416)
Share of profits of associates	404	—	—	—	—	—	404
Profit before income tax							534,192
Income tax expense							(230,166)
Profit for the period							<u>304,026</u>
Other information							
Depreciation	57,517	27,642	61,760	103,825	352	—	251,096
Amortisation	1,646	1,478	4,262	3,355	219	—	10,960
Property, plant and equipment impairment losses	—	—	50,000	206	—	—	50,206

4. SEGMENT INFORMATION (CONT'D)

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

(Unaudited)							
As at 30 June 2008							
	Qingdao Region <i>RMB'000</i>	Other Shandong Regions <i>RMB'000</i>	Huabei Region <i>RMB'000</i>	Huanan Region <i>RMB'000</i>	Overseas <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
					<i>(Note a)</i>		
Assets							
Segment assets	2,666,919	2,800,333	2,542,813	6,098,983	—	(2,161,016)	11,948,032
Interests in associates	29,069	—	—	—	—	—	29,069
Unallocated assets							<u>1,687,928</u>
							<u>13,665,029</u>
Liabilities							
Segment liabilities	1,394,395	924,217	940,079	3,030,905	—	(2,190,425)	4,099,171
Unallocated liabilities							<u>3,401,641</u>
							<u>7,500,812</u>
Capital expenditure	<u>46,979</u>	<u>225,790</u>	<u>30,462</u>	<u>270,297</u>	<u>82</u>	<u>—</u>	<u>573,610</u>
As at 31 December 2007							
	Qingdao Region <i>RMB'000</i>	Other Shandong Regions <i>RMB'000</i>	Huabei Region <i>RMB'000</i>	Huanan Region <i>RMB'000</i>	Overseas <i>RMB'000</i>	Eliminations <i>RMB'000</i>	Consolidated <i>RMB'000</i>
					<i>(Note a)</i>		
Assets							
Segment assets	2,404,599	2,038,935	2,398,711	4,835,985	—	(1,045,266)	10,632,964
Interests in associates	27,882	—	—	—	—	—	27,882
Unallocated assets							<u>884,389</u>
							<u>11,545,235</u>
Liabilities							
Segment liabilities	1,138,448	604,075	872,838	2,121,114	—	(1,097,462)	3,639,013
Unallocated liabilities							<u>1,917,887</u>
							<u>5,556,900</u>
Capital expenditure							
— for the six months							
ended 30 June 2007	<u>83,162</u>	<u>200,181</u>	<u>69,195</u>	<u>134,198</u>	<u>563</u>	<u>—</u>	<u>487,299</u>

Segment assets consist primarily of property, plant and equipment, intangible assets, investments in associates, inventories, trade and other receivables, and cash and cash equivalents. They exclude deferred taxation, cash and cash equivalents for the corporate use.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation, borrowings, and derivative financial instruments.

Capital expenditure mainly comprises additions to property, plant and equipment, leasehold land and land use rights, and intangible assets.

Note a: The segment represents sales of goods to regions (including Hong Kong) out of the PRC through the Group's overseas subsidiaries 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.

4. SEGMENT INFORMATION (CONT'D)

(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. LEASEHOLD LAND AND LAND USE RIGHTS

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments. Their net book value are analysed as follows:

	As at	
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	
Opening	717,172	676,759
Additions	98,773	59,640
Amortisation	(9,803)	(17,372)
Disposals	—	(1,855)
	<u>806,142</u>	<u>717,172</u>

In addition, as at 30 June 2008, 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 RMB64,490,000 (31 December 2007: RMB68,136,000). 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.

6. PROPERTY, PLANT AND EQUIPMENT

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

	Plant and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	Construction -in-progress RMB'000	Total RMB'000
At 1 January 2007						
Cost	2,907,372	5,675,937	395,100	298,462	228,421	9,505,292
Accumulated depreciation and impairment	(814,970)	(3,135,144)	(244,775)	(211,809)	—	(4,406,698)
Net book amount	<u>2,092,402</u>	<u>2,540,793</u>	<u>150,325</u>	<u>86,653</u>	<u>228,421</u>	<u>5,098,594</u>
Year ended 31 December 2007						
Opening net book amount	2,092,402	2,540,793	150,325	86,653	228,421	5,098,594
Acquisition of subsidiaries	14,400	356	1,610	865	—	17,231
Additions	16,403	44,969	28,265	38,259	1,044,347	1,172,243
Transfers	294,374	728,381	4,296	20,336	(1,047,387)	—
Disposals	(4,109)	(17,934)	(9,583)	(1,301)	—	(32,927)
Depreciation	(80,483)	(360,878)	(27,698)	(36,128)	—	(505,187)
Impairment charges	(1,058)	(138,101)	(1,839)	(10)	—	(141,008)
Closing net book amount	<u>2,331,929</u>	<u>2,797,586</u>	<u>145,376</u>	<u>108,674</u>	<u>225,381</u>	<u>5,608,946</u>
At 31 December 2007						
Cost	3,215,238	6,316,520	394,397	344,989	225,381	10,496,525
Accumulated depreciation and impairment	(883,309)	(3,518,934)	(249,021)	(236,315)	—	(4,887,579)
Net book amount	<u>2,331,929</u>	<u>2,797,586</u>	<u>145,376</u>	<u>108,674</u>	<u>225,381</u>	<u>5,608,946</u>
At 1 January 2008						
Opening net book amount	2,331,929	2,797,586	145,376	108,674	225,381	5,608,946
Acquisition of subsidiaries (Unaudited)	—	706	2,530	339	—	3,575
Additions (Unaudited)	7,334	20,372	16,549	20,723	404,663	469,641
Transfers (Unaudited)	169,882	249,780	3,960	9,921	(433,543)	—
Disposals (Unaudited)	(6,193)	(13,708)	(3,303)	(1,068)	—	(24,272)
Depreciation (Unaudited)	(43,020)	(180,629)	(14,030)	(19,561)	—	(257,240)
Impairment charges (Unaudited)	(71)	(1,045)	(87)	(16)	—	(1,219)
Closing net book amount (Unaudited)	<u>2,459,861</u>	<u>2,873,062</u>	<u>150,995</u>	<u>119,012</u>	<u>196,501</u>	<u>5,799,431</u>
At 30 June 2008						
Cost (Unaudited)	3,380,400	6,501,043	404,064	360,448	196,501	10,842,456
Accumulated depreciation and impairment (Unaudited)	(920,539)	(3,627,981)	(253,069)	(241,436)	—	(5,043,025)
Net book amount (Unaudited)	<u>2,459,861</u>	<u>2,873,062</u>	<u>150,995</u>	<u>119,012</u>	<u>196,501</u>	<u>5,799,431</u>

As at 30 June 2008, approximately RMB34,684,000 (31 December 2007: RMB37,002,000) of machinery had been pledged as security for RMB15,000,000 bank loans of the Group (Note 12).

6. PROPERTY, PLANT AND EQUIPMENT (CONT'D)

As at 30 June 2008, ownership certificates of certain buildings (“Building Ownership Certificates”) for certain buildings of the Group with respective carrying values of approximately RMB539,148,000 (31 December 2007: RMB434,336,000) had not yet been obtained by the Group. The Group are in the process of applying for certain buildings with carrying value of approximately RMB446,062,000. After consultation made with the Company’s legal adviser, the Company’s directors are of the view that there is no legal restriction for the Group to apply for and obtain the Buildings Ownership Certificates and Land Certificates. Other buildings with carrying value of approximately RMB93,086,000 are currently not in the application process as the Group cannot locate certain necessary documents. The Company’s directors are of the view, after making reference to a legal opinion, that this situation will not prevent the Group from possession of such facilities, and there will not be any significant adverse impact on the operations of the Group. Accordingly, no provision for fixed assets impairment is considered necessary.

Machinery includes the following amounts where the Group is a lessee under a finance lease:

	As at	
	30 June	31 December
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	
Cost — capitalised finance leases	10,214	10,214
Accumulated depreciation	(830)	(580)
Net book amount	<u>9,384</u>	<u>9,634</u>

Included in prior year additions were certain assets purchased by a subsidiary of the Group from a local third party brewery company (the “Vendor”) at a purchase price of approximately RMB123 million. After the purchase, that subsidiary was advised by the Vendor that one of its major creditors (“the Creditor”) had a claim against it for the transaction and the subsidiary might be involved in the future settlement of the dispute. As at the date of approval of the financial statements, no formal claim had been lodged against the subsidiary nor the Group. The directors of the Company consider that it would not lead to any significant contingent liabilities nor adverse financial impact to the Group.

7. INTANGIBLE ASSETS

	Goodwill	Trademarks	Technology	Software	Total
	<i>RMB'000</i>	<i>RMB'000</i>	know-how	and others	<i>RMB'000</i>
		(i)	(ii)		
		<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
At 1 January 2007					
Cost	320,228	115,092	18,629	42,022	495,971
Accumulated amortisation and impairment loss	<u>(197,411)</u>	<u>(39,677)</u>	<u>(14,305)</u>	<u>(12,085)</u>	<u>(263,478)</u>
Net book amount	<u>122,817</u>	<u>75,415</u>	<u>4,324</u>	<u>29,937</u>	<u>232,493</u>
Year ended 31 December 2007					
Opening net book amount	122,817	75,415	4,324	29,937	232,493
Additions	—	—	—	19,379	19,379
Amortisation	—	(413)	(1,863)	(3,372)	(5,648)
Disposal	<u>—</u>	<u>(8,955)</u>	<u>—</u>	<u>—</u>	<u>(8,955)</u>
Closing net book amount	<u>122,817</u>	<u>66,047</u>	<u>2,461</u>	<u>45,944</u>	<u>237,269</u>
At 31 December 2007					
Cost	320,228	106,137	18,629	61,401	506,395
Accumulated amortisation and impairment loss	<u>(197,411)</u>	<u>(40,090)</u>	<u>(16,168)</u>	<u>(15,457)</u>	<u>(269,126)</u>
Net book amount	<u>122,817</u>	<u>66,047</u>	<u>2,461</u>	<u>45,944</u>	<u>237,269</u>
Six months ended 30 June 2008					
Opening net book amount	122,817	66,047	2,461	45,944	237,269
Additions (Unaudited)	—	—	—	1,340	1,340
Amortisation (Unaudited)	<u>—</u>	<u>(207)</u>	<u>(931)</u>	<u>(2,361)</u>	<u>(3,499)</u>
Closing net book amount (Unaudited)	<u>122,817</u>	<u>65,840</u>	<u>1,530</u>	<u>44,923</u>	<u>235,110</u>
At 30 June 2008					
Cost (Unaudited)	320,228	106,137	18,629	62,741	507,735
Accumulated amortisation and impairment loss (Unaudited)	<u>(197,411)</u>	<u>(40,297)</u>	<u>(17,099)</u>	<u>(17,818)</u>	<u>(272,625)</u>
Net book amount (Unaudited)	<u>122,817</u>	<u>65,840</u>	<u>1,530</u>	<u>44,923</u>	<u>235,110</u>

(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. The directors of the Company are of the view that the trademark has an indefinite useful life and it is subject to annual impairment assessment but not amortisation.

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 respective values at the 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.

8. INVENTORIES

	<u>As at</u>	
	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	
Raw materials, packaging materials and auxiliary materials	2,166,594	1,796,609
Work-in-progress	306,082	233,496
Finished goods	217,587	157,149
	<hr/>	<hr/>
Inventories, net	2,690,263	2,187,254
	<hr/>	<hr/>

The cost of inventories recognised as expense and included in cost of goods sold amounted to approximately RMB3,622,494,000 (30 June 2007: RMB3,028,731,000).

Approximately RMB57,682,000 of the carrying amount of inventories of the Group were stated at their net realisable amounts.

9. TRADE RECEIVABLES

	<u>As at</u>	
	30 June 2008	31 December 2007
	RMB'000	RMB'000
	(Unaudited)	
Associates	40,849	45,518
Accounts receivables due from distributors	14,996	14,996
Other trade debtors	293,824	268,538
	<hr/>	<hr/>
	349,669	329,052
<i>Less: provision for impairment of receivables</i>	(250,297)	(234,853)
	<hr/>	<hr/>
	99,372	94,199
	<hr/>	<hr/>

The aging analysis of trade receivables was as follows:

	<u>30 June 2008</u>			<u>31 December 2007</u>		
	Amount	Provision for bad debts	Balance after provision	Amount	Provision for bad debts	Balance after provision
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	(Unaudited)			(Unaudited)		
Less than 1 year	95,925	(389)	95,536	91,382	(443)	90,939
1 to less than 2 years	3,659	(1,280)	2,379	3,835	(987)	2,848
2 to less than 3 years	3,850	(2,995)	855	3,302	(3,156)	146
Over 3 years	246,235	(245,633)	602	230,533	(230,267)	266
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total	349,669	(250,297)	99,372	329,052	(234,853)	94,199
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

The majority of the Group's domestic sales are transacted at cash on delivery terms. For export sales transacted out of the PRC, they are mainly covered by letters 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 approximated to its fair value as at 30 June 2008.

The Group makes specific bad debt provision against its doubtful trade receivable balances based on the credit status of the customers and the existence of any evidence which indicates that a portion or the full amount of the outstanding balance is uncollectible.

10. SHARE CAPITAL

As at 30 June 2008, the authorised registered share capital of the Company was RMB1,308,219,178 (31 December 2007: RMB1,308,219,178) of RMB1 each.

	30 June 2008		31 December 2007	
	RMB'000 (Unaudited)	Number of shares ('000) (Unaudited)	RMB'000	Number of shares ('000)
PRC public shares subject to restriction	417,395	417,395	417,395	417,395
PRC public shares ("A Shares")	235,755	235,755	235,755	235,755
Overseas public shares ("H 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 2008, all issued share capital had been fully paid up.

11. OTHER RESERVES

	(Unaudited)				
	Share premium RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000 (note a)	Cumulative translation adjustments RMB'000	Total RMB'000
Balance at 1 January 2007, as previous reported	3,058,231	65,753	669,637	3,005	3,796,626
Opening adjustments for the accounting policy change	—	—	(236,203)	—	(236,203)
Balance at 1 January 2007, as restated	<u>3,058,231</u>	<u>65,753</u>	<u>433,434</u>	<u>3,005</u>	<u>3,560,423</u>
Adjustments to appropriations	—	—	43,287	—	43,287
Translation difference	—	—	—	1,013	1,013
Balance at 30 June 2007	<u>3,058,231</u>	<u>65,753</u>	<u>476,721</u>	<u>4,018</u>	<u>3,604,723</u>
Balance at 1 January 2008	<u>3,058,231</u>	<u>75,508</u>	<u>495,219</u>	<u>3,903</u>	<u>3,632,861</u>
Fair value loss on available-for- sale financial assets	—	(7,246)	—	—	(7,246)
Deferred income tax liabilities for available-for-sale financial assets	—	1,812	—	—	1,812
Equity component of convertible bonds, net of transaction costs	—	380,490	—	—	380,490
Deferred tax arising on initially stating the convertible bonds at fair value	—	(97,426)	—	—	(97,426)
Acquisition of minority interests in subsidiaries (note b)	(86,993)	—	—	—	(86,993)
Others	—	466	—	—	466
Translation difference	—	—	—	(164)	(164)
Balance at 30 June 2008	<u>2,971,238</u>	<u>353,604</u>	<u>495,219</u>	<u>3,739</u>	<u>3,823,800</u>

11. OTHER RESERVES (CONT'D)

Note:

(a) Surplus reserves

According to the Articles of Association of the Company and the Company Law of the PRC, the Company has to set aside 10% of its net profit after taxation under the PRC accounting standards for the statutory surplus reserve (except where the reserve balance has reached 50% of the paid-up share capital of the Company).

- (b) During the period, the Company purchased 23.9% minority interest of Tsingtao Brewery Xi'an Han's Group Company Limited at a consideration of RMB171,000,000, 10% minority interest of Tsingtao Brewery (Xuzhou) Pengcheng Company Limited at a consideration of RMB10,370,000 and 5% minority interest of Tsingtao Brewery (Rizhao) Company Limited at a consideration of RMB7,740,000 from the minority shareholders. The differences between considerations paid and the relevant shares acquired of the carrying value of net assets of the subsidiaries are deducted from equity.

12. BORROWINGS AND LOANS

	Note	As at	
		30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000
Non-current			
Long-term bank loans	(a)	92,986	101,070
Convertible bonds	(b)	1,101,761	—
Finance lease liabilities	(c)	8,521	8,291
		1,203,268	109,361
Less: Current portion of long-term bank loans	(a)	(1,941)	(10,216)
Current portion of finance lease liabilities	(c)	(3,206)	(2,565)
		1,198,121	96,580
Current			
Short-term bank loans	(a)	830,214	971,096
Current portion of long-term bank loans	(a)	1,941	10,216
Current portion of finance lease liabilities	(c)	3,206	2,565
		835,361	983,877
Total borrowings and loans		2,033,482	1,080,457

12. BORROWINGS AND LOANS (CONT'D)

(a) Bank loans

	30 June 2008			31 December 2007		
	Short-term bank loans <i>RMB'000</i> (Unaudited)	Long-term bank loans <i>RMB'000</i> (Unaudited)	Total <i>RMB'000</i> (Unaudited)	Short-term bank loans <i>RMB'000</i>	Long-term bank loans <i>RMB'000</i>	Total <i>RMB'000</i>
Repayable:						
— Within 1 year	830,214	1,941	832,155	971,096	10,216	981,312
— Between 1 and 2 years	—	2,293	2,293	—	2,269	2,269
— Between 2 and 5 years	—	77,879	77,879	—	77,807	77,807
— Over 5 years	—	10,873	10,873	—	10,778	10,778
	<u>830,214</u>	<u>92,986</u>	<u>923,200</u>	<u>971,096</u>	<u>101,070</u>	<u>1,072,166</u>
Less: Portion due within 1 year	<u>(830,214)</u>	<u>(1,941)</u>	<u>(832,155)</u>	<u>(971,096)</u>	<u>(10,216)</u>	<u>(981,312)</u>
Long-term portion	<u>—</u>	<u>91,045</u>	<u>91,045</u>	<u>—</u>	<u>90,854</u>	<u>90,854</u>

As at 30 June 2008, loans of the Group amounting to approximately RMB14,466,000 and RMB7,519,000 were guaranteed by the Beijing Development and Reform Committee and the Beijing Branch of Bank of China, respectively.

As at 30 June 2008, approximately RMB15,000,000 (31 December 2007: RMB20,000,000) of the loans of the Group were secured by machinery with an aggregate carrying value of approximately RMB34,684,000 (31 December 2007: machinery of approximately RMB37,002,000).

As at 30 June 2008, approximately RMB19,000,000 (31 December 2007: RMB14,500,000) of the loans of Tsingtao Brewery Yulin Company Limited were guaranteed by Tsingtao Brewery Xi'an Han's Group Company Limited.

The carrying amounts of the borrowings are denominated in the following currencies.

	As at	
	30 June 2008 <i>RMB'000</i> (Unaudited)	31 December 2007 <i>RMB'000</i>
RMB	485,893	623,977
Hong Kong dollar	72,367	60,888
US dollar	342,955	365,230
Euro	14,466	14,284
Danish Krone	7,519	7,787
	<u>923,200</u>	<u>1,072,166</u>

All the loans of the Group are subject to the market interest rate changes except the loans dominated in Danish Krone and Euro which are interest free ("Interest Free Loans").

The effective interest rates at the balance sheet date for the loans denominated in RMB, HK\$ and US\$ were 5.28%, 3.06% and 4.41% per annum, respectively. The directors consider that the carrying amount of these borrowings approximated to their respective fair values as at 30 June 2008. The fair value of the Interest Free Loans was approximately RMB16,542,000.

Interest expense on borrowings and loans for the six months ended 30 June 2008 is approximately RMB44,405,000 (30 June 2007: RMB17,717,000).

As at 30 June 2008, the Group had aggregate unutilised short term loan facilities of approximately RMB1,600,000,000 (31 December 2007: RMB1,400,000,000). All are expiring within a year with floating interest rates to be charged on the amount to be drawn down.

12. BORROWINGS AND LOANS (CONT'D)

(b) Convertible bonds

The Company issued 15,000,000 0.8% convertible bonds with attached warrants subscription rights at a par value of RMB1,500,000,000 on 2 April 2008. The bonds will mature 6 years from the issue date at their nominal value of RMB1,500,000,000. The holders of the bonds have warrants subscription rights to subscribe newly issued A shares of the Company at the rate of 7 shares per bond. The values of the liability component and the equity conversion component embedded in the bond offer were determined at the date of issuance of the bonds.

The fair value of the liability component, included in non-current borrowings, was calculated using a market interest rate for a non-convertible bond in the market with equivalent terms. The residual amount, representing the carrying value of the bonds after deduction of the fair value of the liability component, represents fair value of the equity conversion option, is included in shareholders' equity under other reserves, net of the attributable transaction costs.

The convertible bonds recognised in the balance sheet is calculated as follows:

	<i>RMB'000</i>
Face value of the convertible bond issued on 2 April 2008	1,500,000
Equity component	(389,702)
Transaction costs attributable to liability component	(26,245)
Liability component on initial recognition at 2 April 2008	1,084,053
Interest expenses	17,708
Interest paid	—
Liability component at 30 June 2008	1,101,761

The fair value of the liability component of the convertible bond at 30 June 2008 amounted to approximately RMB1,101,761,000. The fair value is calculated using cash flow discounted at the rate of 6.1%.

(c) Finance lease liabilities

	<i>As at</i>	
	30 June 2008 <i>RMB'000</i> (Unaudited)	31 December 2007 <i>RMB'000</i>
Less than 1 year	3,206	2,565
1 to less than 2 years	2,565	2,565
2 to less than 3 years	2,565	2,565
Over 3 years	1,922	3,205
	10,258	10,900
<i>Less:</i> Portion due within 1 year	(3,206)	(2,565)
Finance lease liabilities	7,052	8,335
<i>Less:</i> Unearned finance income	(1,737)	(2,609)
	5,315	5,726

13. DERIVATIVE FINANCIAL INSTRUMENTS

	<u>As at 30 June 2008</u>	
	Assets	Liabilities
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Forward foreign exchange contracts	—	20,300
	<u> </u>	<u> </u>

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and these derivative instruments were remeasured at their fair value as at 30 June 2008. The revaluation gain of these contracts held at period ended which remained at open position was approximately RMB2,501,000 and it had been charged to the income statement.

14. TRADE PAYABLES

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

	<u>As at</u>	
	30 June	31 December
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	
Less than 1 year	1,287,495	1,057,195
1 to less than 2 years	4,170	7,379
2 to less than 3 years	11,123	8,891
Over 3 years	8,094	7,338
	<u>1,310,882</u>	<u>1,080,803</u>

15. BILLS PAYABLE

All the bills payable balances of the Group as at 30 June 2008 are of maturity within six months. Approximately RMB15,405,000 (31 December 2007: RMB16,116,000) of bank deposits of the Group denominated in Renminbi had been pledged for the issuance of these bills, and approximately RMB76,718,000 of the bills issued by the subsidiaries as at 30 June 2008 (31 December 2007: RMB19,396,000) were guaranteed by the Company. The Directors are of view that the carrying amount of the bill payable as at period ended approximated to their fair value.

16. OTHER GAINS — NET

	<u>Six months ended 30 June</u>	
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	(Unaudited)
Derivative instruments:		
— foreign exchange forward contracts not qualified for hedge accounting	2,501	(2,516)
— realised loss on foreign exchange forward contracts	(4,161)	(75)
Interest income	10,224	9,440
Government grants (i)	69,315	40,671
	<u>77,879</u>	<u>47,520</u>

- (i) 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.

17. 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	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Changes in inventories of finished goods and work in progress	(133,024)	(82,838)
Raw materials and consumables used	3,755,518	3,111,569
Employee benefit expenses	733,638	534,298
Depreciation, amortisation and impairment charges	270,542	320,263
Transportation expenses	273,814	208,110
Advertising costs	255,050	248,040
Utilities	313,096	255,340
Other expenses	1,797,443	1,635,164
Total cost of sales, distribution costs and administrative expenses	<u>7,266,077</u>	<u>6,229,946</u>

18. FINANCE EXPENSES

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Interest on loans	44,559	20,825
Net foreign exchange translation gains	(22,448)	(9,409)
	<u>22,111</u>	<u>11,416</u>

19. TAXATION

(a) Income tax expense

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited) (Restated)
Current income tax		
— Hong Kong profits tax (i)	3,098	3,773
— PRC enterprise income tax (ii)	185,607	226,455
Deferred income tax	1,824	(62)
	<u>190,529</u>	<u>230,166</u>

(i) Hong Kong profits tax

Hong Kong profit tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

19. TAXATION (CONT'D)

(a) Income tax expense (Cont'd)

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

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

Adoption of Enterprise Income Tax Law in the PRC:

The PRC Enterprise Income Tax Law ("EIT Law") was effective on 1 January 2008, and applicable income tax rate of entities within the Group currently is be subject to 25% from 1 January 2008. According to Guo Fa [2007] No.39, "Circular of the State Council on the Implementation of Transitional Preferential Enterprise Income Tax Policies", from 1 January 2008, the lower preferential tax rates enjoyed by certain enterprises shall gradually be increased to the statutory tax rate of 25% within 5 years from 1 January 2008, while entities previously applying 24% EIT rate of 24% has been adjusted to 25% from 1 January 2008. The effect of this change has been reflected in the determination of deferred tax assets/liabilities as at 31 December 2007.

For entities which are still entitled to unutilized tax holidays (including two-year exemption and three-year half rate) under the then existing preferential tax treatments, the unutilized tax holiday is allowed to be carried forward to 2008 and future years until their expiry. However, if an entity has not yet commenced its tax holiday due to its loss position, the tax holiday is deemed to commence from 2008 onwards.

Tax concessions and holidays entitled by the Group:

Xiamen Company, Songjiang Company, Changsha Company, Yulin Company, Five Star Company, Three Ring Company, Fuzhou Company and Nanning Company 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 thereafter. 2008 is the fifth profitable year of Xiamen Company, the third profitable year of Songjiang Company and the second profitable year of Changsha Company and Fuzhou Company. For other subsidiaries which have not got commenced the tax holiday due to their loss positions, the tax holiday is deemed to commence from 2008 onwards. Accordingly, EIT expense for Xiamen Company was provided at a reduced rate of 9%; EIT expense for Songjiang Company was provided at a reduced rate of 12.5% while Changsha Company, Fuzhou Company and other subsidiaries described were exempt from the income tax for the current year.

Huanan Sales Company, Huanan Holding Company, Shenzhen Asahi and Dongnan Sales Company were established in Shenzhen and Xiamen Special Economic Zones for the PRC where they conduct their operations. Accordingly, they are subject to EIT at a reduced rate of 18% in 2008.

Other subsidiaries of the Group which are established and operating in the PRC are subject to EIT at a standard rate of 25% based on their respective assessable income for the year.

Tax concessions and holidays entitled by the Company for previous years:

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

On 5 July 2007, the Company became aware of a notice which was issued by SAT in June 2007 (the "Notice") regarding the preferential tax treatment granted to nine state-owned enterprises listed on the Stock Exchange of Hong Kong Limited in 1993 (including the Company). According to the Notice, the relevant local tax authorities are required to immediately rectify the expired preferential tax treatments adopted by the Company and take appropriate action on the differences of income taxes collected in prior years arising therefore in accordance with the applicable rules and provisions under the promulgated Law on Tax Collection and Administration of the PRC.

19. TAXATION (CONT'D)

(a) Income tax expense (Cont'd)

(ii) PRC enterprise income tax ("EIT") (Cont'd)

On 15 April 2008, the Company was informed by the governing local tax bureau that the applicable EIT rate for the year ended 31 December 2007 was adjusted from 15% to 33%. The PRC EIT for the year ended 31 December 2007 of the Company was hence provided at 33% in the financial statements. The Company has not been notified by any tax authorities regarding the exposure of prior years. The directors are of the view that the final outcome cannot be reliably estimated and, therefore, no provision for potential EIT exposure in prior years had been made in the financial statements.

The EIT expenses for the six months ended 30 June 2007 has been restated and increased by approximately RMB78,914,000 so as to reflect the abovementioned change in the applicable EIT rate.

(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 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.

20. EARNINGS PER SHARE — BASIC AND DILUTED

Earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the number of ordinary shares in issue during the year.

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Unaudited)
Profit attributable to share holders of the Company (<i>RMB'000</i>)	381,128	268,659
Number of ordinary shares in issue (<i>thousands</i>)	1,308,219	1,308,219
Basic earnings per share (<i>RMB per share</i>)	<u>0.291</u>	<u>0.205</u>

The diluted earnings per share information was the same as basic for 2008 and 2007 as there were no dilutive potential ordinary shares as of 30 June 2008 and 2007.

The Company issued convertible bonds with attached warrants subscription rights during the period. Though the contingently issuable shares of the Company due to the exercise of the warrants subscription rights by the bonds holders may potentially dilute basic earnings per share in the future, the exercise price of those rights is higher than the prevailing share price of the Company as at 30 June 2008 and therefore, they were not included in the calculation of diluted earnings per share for the period.

21. DIVIDENDS

During the period, a final dividend for 2007 amounting to RMB287,808,000 (dividends per share: RMB0.22) were approved in Annual General Meeting held on 10 June 2008. The Board of Directors do not recommend the payment of an interim dividend for the period (30 June 2007: nil).

22. CONTINGENCIES

- (a) Pursuant to certain policies for housing reform issued by the State Council of the PRC 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 2008, 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 30 June 2008 and there is no reasonable basis to accrue for any potential liabilities.
- (b) As described in Note 19, the directors are of the view that the potential income tax liabilities prior to 2007 arising from the cancellation of the previous preferential tax concessions could not be reliably estimated and therefore no provision was made.
- (c) As at 30 June 2008, the Group had provided guarantee of RMB22,000,000 in favor of an associate of the Group for its bank loans.

23. COMMITMENTS

(a) Capital and other commitments

The Group's and the Company's commitments is primarily related to construction of fixed assets, acquisition of subsidiaries and other activities which were contracted but not provided for in the financial statements. Details are as follows:

<u>As at</u>	
30 June	31 December
2008	2007
<i>RMB'000</i>	<i>RMB'000</i>
(Unaudited)	
<u>1,098,581</u>	<u>1,853,617</u>

Note: These commitments mainly relate to construction of new breweries and increase in production capacity as well as for raw materials purchase.

(b) Operating lease and other commitments

As at 30 June 2008, 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:

	<u>As at</u>	
	30 June	31 December
	2008	2007
	<i>RMB'000</i>	<i>RMB'000</i>
	(Unaudited)	
Not later than one year	<u>1,069</u>	<u>23</u>

24. 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 half-year:

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Purchases from related companies		
— Associates	<u>12</u>	<u>892</u>
Sales to related companies		
— Associates	<u>169,510</u>	<u>107,993</u>
Construction services provided to the Group		
— Tsingtao Beer Construction Co., Ltd.	<u>—</u>	<u>2,251</u>
Logistics services provided to the Group (including paid on behalf)		
— Associates	<u>174,628</u>	<u>132,345</u>
Guarantee provided in favour of an associate of the Group		
— Tsingtao Beer and Asahi Beverage Co Ltd	<u>22,000</u>	<u>15,000</u>
Interest paid to		
— Tsingtao Beer Group Company	<u>2,476</u>	<u>1,780</u>
Purchase the minority interest of subsidiaries from		
— Tsingtao Beer Group Company	<u>20,600</u>	<u>—</u>

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

24. RELATED PARTY TRANSACTIONS (CONT'D)

(b) As at 30 June 2008, the Group had the following significant balances maintained with related parties:

	30 June 2008 RMB'000 (Unaudited)	31 December 2007 RMB'000
Included in:		
Trade receivable and other long-term assets accounts		
— Associates	<u>10,744</u>	<u>30,413</u>
Deposits, prepayment and other receivables		
— Associates	<u>164</u>	969
— Other related parties	<u>10,305</u>	<u>10,315</u>
Other payables and long-term payables		
— Anheuser-Busch Companies, Inc (“A-B Company”) (i)	<u>102,887</u>	109,569
— Associates	<u>24,875</u>	18,088
— Other related parties	<u>17,333</u>	<u>31,657</u>
Sales deposits		
— Associates	<u>5,832</u>	<u>6,156</u>
Short-term loans from		
— Tsingtao Beer Group Company	<u>82,000</u>	<u>70,000</u>

Except for those mentioned in notes (i) and (ii) below and except for the short-term loans, 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 2008, the Company had extended certain advances and loans, amounting to approximately RMB2,082,469,000 (31 December 2007: RMB2,704,878,000), to subsidiaries through entrusted loan arrangement made with banks in the PRC .
- (ii) In October 2003, a subsidiary of the Company, Hong Kong Company entered into a loan agreement with Anheuser-Busch Companies, Inc (“A-B Company”) that Hong Kong Company borrowed a loan of USD\$15,000,000 (equivalent to approximately RMB102,887,000 (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.

(c) Key management compensation

	Six months ended 30 June	
	2008	2007
	RMB'000	RMB'000
	(Unaudited)	(Unaudited)
Basic salaries, allowances and benefits-in-kind	<u>3,330</u>	1,704
Retirement fund contributions	<u>177</u>	<u>140</u>
	<u>3,507</u>	<u>1,844</u>

Key management personnel are those persons, in total 18 persons, having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management personnel.

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 period ended 30 June 2008 in accordance with “*Accounting Standards for Business Enterprises (2006)*” 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 2008 (Unaudited)	31 December 2007
Net assets as per accounts prepared under PRC GAAP	5,793,444	5,509,185
HKFRS adjustments:	—	—
Net assets attributable to the Company’s shareholders as per financial statements prepared under HKFRS	<u>5,793,444</u>	<u>5,509,185</u>

Impact on the consolidated net profit:

	Six months ended 30 June	
	2008 (Unaudited)	2007 (Unaudited)
Net profit under PRC GAAP	381,128	287,892
HKFRS adjustments:		
Additional depreciation charges arising from differences in accounting of assets valuation under PRC GAAP and HKFRS	—	(18,434)
Others	—	(799)
Profit attributable to shareholders of the Company under HKFRS	<u>381,128</u>	<u>268,659</u>

(I) REVIEW OF OPERATIONAL RESULTS FOR THE FIRST HALF OF 2008

For the first half of 2008, due to the negative factors including the tightened currency policy, natural disasters and the high cost of raw materials in China, the national beer industry realized its total sales volume of 196.48 million hl, which increased 5.6% only (data resource: National Bureau of Statistics of China) and was lower than the growth rate of 16.2% in last year. During the reporting period, the Company realized 26.86 million hl of accumulated sales volume, which increased 5%; in accordance with Hong Kong Financial Reporting Standards, its sales revenues reached RMB7.791 billion, which increased 15.6%; profits attributable to shareholders reached RMB0.381 billion, which increased 41.9%.

Facing the slow growth of market share, and price hike such as raw materials, packaging material, labor and energy, the Company eased certain pressure brought by price hike through further deepening its organizational reform by adjusting the prices of some products, optimizing the product mix, adjusting production techniques and using new materials to keep the steady growth of the major economic indicators in the first half year. During the reporting period, the Company made obvious progress in brand integration. As a result, the sales volume of its top 4 brands (Tsingtao, Shanshui, Laoshan and Hans) reached 24.8 million hl, which was accounted for 92.4% of the total sales volume of the Company and increased 30%; in which, the sales volume of Tsingtao reached 11.1 million hl, which increased 22%; draft, small bottled and canned high-quality beer increased 21.8%, 30.2% and 19.3% respectively. In the first half year, the revenues of per thousand litre of beer increased 10%, while the gross profit of the Company increased 0.7 percent point.

In 2008, the theme of this year's Olympic marketing activities is "releasing the passion". It put into more efforts in the marketing and sales with the opportunities brought by the Beijing Olympic Games. Therefore, the Company had planned and carried out a series of activities such as "Nationwide Olympic Caravan", "Tsingtao Olympic Experiencing Center", "Tsingtao Beer — CCTV City Show", and "Tsingtao Beer — I am the Champion", to promote, based on these activities, the implementation of its "Three-in-one" marketing strategy, further expand the brand impact of Tsingtao beer, increase its sales volume and optimize its products mix.

(II) ANALYSIS TO PRINCIPAL BUSINESS AND OPERATIONS OF THE COMPANY

1. Table of Principal Business by Geographical Markets

Region	Turnover	Unit: RMB'000	
		Increase/ Decrease	(%)
Qingdao	3,580,185		29.71
Shandong Province (excluding Qingdao)	1,184,277		10.30
North China	1,585,849		5.39
South China	2,495,378		25.30
Exports	171,513		3.59
Sub-total	9,017,202		20.30
Less: Intra-group set-offs	1,226,535		62.20
Total	7,790,667		15.60

The Group is mainly engaged in the production and sales of beer.

2. Cost of Sales

In the first half of 2008, the Group's cost of sales was RMB5.293 billion which increased 14.5% from the previous year mainly due to the expansion of sales scale and price hike of raw materials.

3. Expenses during the Period

- (1) In the first half of 2008, the sales expenses of the Group was RMB1.611 billion, which increased 20.5% mainly due to more expenses in advertising expenses including Olympic marketing and brand promotion, and in marketing fees.
- (2) In the first half of 2008, the administrative expenses of the Group was RMB0.362 billion, which increased 33.7% mainly due to the set-off of RMB0.046 billion of the welfare fees in the previous years pursuant to requirements in the China's latest accounting policies. Regardless of the above factor, the administrative expenses incurred in this reporting period increased RMB0.045 billion which mainly due to an increase of RMB0.033 billion of remunerations to the management team and RMB0.016 billion of taxes including land utilizing tax.
- (3) In the first half of 2008, the financial expenses of the Group was RMB22.11 million, which increased 93.7% mainly due to the payment of RMB17.71 million of interests for the bonds with warrants issued in April 2008.

4. Other Gains

In the first half of 2008, the Group's other gains were RMB77.88 million, which increased 63.9% mainly due to the increase of governmental allowance obtained by the subsidiaries during the reporting period.

5. Income Tax

In the first half of 2008, the income tax of the Group was RMB191 million, which decreased 17.2% as the tax rate of 25% applied by the parent company during the period was lower than that of 33% during the same period in last year.

As the income tax rate for the parent company in 2007 was adjusted from 15% to 33%, therefore, the net profit during the same period in last year was that being calculated and adjusted with the tax rate of 33%.

Impacts to the income tax due to changes of income tax rate in 2007

Item	Unit: RMB'000				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Tax fees payable	45,050	33,690	61,960	34,510	175,210
Deferred income tax assets	2,240	(2,070)	(8,410)	8,240	—
Increased Amount of income tax	47,290	31,620	53,550	42,750	175,210

6. Interpretation of Composition of Assets/Liabilities

(1) Currency Funds

By the end of the first half of 2008, the currency funds of the Group was RMB2.777 billion, which increased 108% from the beginning of 2008 mainly due to the proceeds of RMB1.5 billion from issuing the bonds with warrants during the period.

(2) Inventories

By the end of the first half of 2008, the inventories of the Group was RMB2.69 billion, which increased 23% from the beginning of 2008 mainly due to the increase of storage of raw materials.

(3) Bonds Payable

By the end of the first half of 2008, the increased and confirmed bonds payable of the Group were RMB1.101 billion from the beginning of 2008 mainly due to the issuance of bonds with warrants during the reporting period.

(4) Deferred Income Tax Debts

By the end of the first half of 2008, the deferred income tax debts of the Group was RMB0.115 billion, which increased 575.3% from the beginning of 2008 mainly due to the deferred income tax debts of RMB0.1 billion confirmed by the bonds with warrants issued during the reporting period.

(5) Bank Borrowings

By the end of the first half of 2008, the total bank borrowings of the Group had reached RMB923 million including RMB830 million of medium and short term borrowings, and RMB92.986 million of long term borrowings including RMB1.941 million of borrowings within 1 year, RMB2.293 million of borrowings of 1-2 years, RMB77.879 million of borrowings of 2-5 years and RMB10.873 million of borrowings of over 5 years.

By the end of the first half of 2008, the bank borrowings of the Group in currencies had included RMB485.893 million of borrowings in Renminbi, RMB72.367 million of borrowings in Hong Kong Dollars, RMB342.955 million of borrowings in US Dollars, RMB14.466 million of borrowings in Euro, and RMB7.519 million of Danish Krone.

All borrowings of the Group may be affected by the fluctuation of interest rate in the market. However, the borrowings in Danish Krone and Euro are free of interest, and the valid annual interest rate on the settlement date for the borrowings in Renminbi, Hong Kong Dollars and US Dollars are 5.28%, 3.06% and 4.41% respectively.

7. Analysis of Cash Flow

- (1) By the end of the first half of 2008, the net amount of cash flow from business activities of the Group was RMB0.765 billion, which decreased RMB0.616 billion or 44.6% from RMB1.381 billion during the same period in last year. It was mainly caused by the growth of production and sales scale, increase of storage of raw materials, and increase of expenses in Olympic marketing, brand promotion and transportation fees.
- (2) By the end of the first half of 2008, the net amount of cash flow produced from investing activities of the Group was -RMB0.586 billion, which decreased RMB0.219 billion from -RMB0.367 billion during the same period in last year. It was mainly caused by the purchase of minority shares in its subsidiaries like Tsingtao Brewery Xi'an Hans Group Company Limited and the purchase of long-term assets due to the expansion or relocation of its subsidiaries under the governmental instructions.
- (3) By the end of the first half of 2008, the net amount of cash flow from fund raising activities of the Group was RMB1.272 billion, which increased RMB1.236 billion from RMB0.036 billion during the same period in last year. It was mainly caused by the issuance of bonds with warrants during the reporting period.

8. Investments

By the end of the first half of 2008, the Company had increased its investments to its subsidiaries as follows:

- (1) To increase RMB360 million to its wholly-owned subsidiary Tsingtao Brewery (Jinan) Company Limited which make its registered capital reach RMB560 million.
- (2) To increase RMB50 million to its wholly-owned subsidiary Tsingtao Brewery (Chengdu) Company Limited which make its registered capital reach RMB200 million.
- (3) To increase RMB220 million to its subsidiary Tsingtao Brewery Company Limited No. 3 which make its registered capital reach RMB230 million.
- (4) To increase RMB240 million to its subsidiary Tsingtao Brewery (Xuzhou) Pengcheng Company Limited which make its registered capital reach RMB245 million.
- (5) To increase RMB280 million to its subsidiary Tsingtao Brewery (Rizhao) Company Limited which make its registered capital reach RMB290 million. The process of change of registration at the State Administration for Industry and Commerce has been completed in July 2008.
- (6) The Company purchased 23.9% of shares in Tsingtao Brewery Xi'an Hans Group Company Limited held by Xi'an Industrial Assets Company Limited for the price of RMB171 million. The procedures for change of registration at the State Administration for Industry and Commerce has been completed on 25 January 2008. Tsingtao Brewery Xi'an Hans Group Company Limited became the wholly-owned subsidiary of the Company after the procedures.

9. Debt/Capital Ratio

By 30 June 2008, the Group's debt/capital ratio was 17.1% (1.9% by 30 June 2007), the formula for calculating the debt/capital ratio is: total amount of long-term borrowings/(total amount of long-term borrowings + shareholders' equity attributable to the parent company).

10. Charge of Assets

By 30 June 2008, the RMB15 million of bank facilities with mortgages of the Group was comprised of the mortgages of net amount of around RMB34.68 million of machines and equipments (By 31 December 2007, the RMB20 million of bank facilities with mortgages of the Group was comprised of the mortgages of net amount of around RMB37 million of machines and equipments, and RMB10.4 million of raw materials.).

11. Risk of Flexible Exchange Rate

As the Group currently relies on the imported barley among the raw materials in its production of Tsingtao beer, so the change of exchange rate would indirectly affect the price of raw materials used by the Group, and thus bring certain impacts to the earning ability of the Group.

The continuous hike of the exchange rate of Renminbi would also bring certain negative impacts to the exports of the Group.

12. Contingent Liabilities

- (1) Pursuant to certain policies for housing reform announced by the State Council and Qingdao Municipal Government in 1998, the policy of allocating staff quarters as welfare benefits to its employees was terminated. In replacement, qualified employees are to be compensated with monetary housing subsidies. As of 30 June 2008, no formal plan had yet been worked out by the Group or the Company, nor any plans in respect of such arrangement had been announced by the Group or the Company to their employees. After consulting its lawyers, the Directors of the Company were in the opinion that both the Group and the Company were not liable to and had not made any payments for such monetary housing subsidies, and there was no reasonable basis for the Group and the Company to accrue for any potential liabilities.
- (2) As stated in *Note 19 to the Consolidated Financial Statements*, the issues for income tax of the previous years of the Group were still pending for resolution. The Directors of the Company consider that there is no significant adverse impact on the operation of the group and accordingly, no provision for the impairment loss considered necessary.
- (3) As of 30 June 2008, Tsingtao Brewery Company Limited No. 5, the subsidiary of the Company, had provided guarantee for RMB22 million of bank facility of Qingdao Tsingtao-Asahi Company Limited for the period from 16 July 2007 to 15 July 2008.

13. Employees Information

By the end of the reporting period, the Company (including its subsidiaries) had a total of 29,921 employees. The remuneration policy of the Company is based on the principles of “remuneration being determined with reference to the position” and “incentive being determined with reference to the performance”, and is in line with the market practices. The Company sets a reasonable range of the amount of emoluments with reference to the market rate and adopted such range in a flexible manner, and provides suitable welfare package to its employees in accordance with the relevant State laws and regulations, and pays attention to their personal development. The Company takes seriously about its employees’ education and trainings by putting into more efforts in the establishments of education and training system, and carrying out the suitable and effective training programs based on the Company’s needs. The training includes: improving the comprehensive managing level of the management team, improving the employees’ professional skills for their own positions, and providing further education for the professional technicians. In the first half of 2008, the accumulated number of times the persons who attended the trainings reached 6,191.

As of 30 June 2008, the Company had not set up a share option scheme for the Company’s employees.

(III) PROSPECT FOR THE SECOND HALF OF 2008

For the second half year, by facing the fiercer pressure of hike of costs, and based on the current situation of the national and international macro-economy and the momentum in the national beer industry, the Board of Directors of the Company has adjusted its operational goal in 2008 that its growth of sales volume would be over 2 percent point higher than that of the national beer industry during the same period. In the next half of 2008, the Company would go on to take active measures to respond to the more and more complicated competition. On one hand, it would utilize the proceeds from the issuance of bonds with warrants to create new production capabilities, and to further expand the market to increase its sales volume by focusing on the Olympic marketing; on the other hand, it would further improve its capability in integrated operations and professional function management, to maintain a long-term sustainable development of the Company.

SIGNIFICANT EVENTS

1. Dividends

The Company shall not distribute interim dividends for the six months ended on 30 June 2008 pursuant to the provisions in the articles of association of the Company.

2. During the reporting period, the Company did not involve in any new events of significant litigations and arbitration.

For the case of the 999 Group bringing an action demanding the Company, Tsingtao Brewery (Xuzhou) Pengcheng Company Limited, Xuzhou Bureau of Finance and Xuzhou Light Industry Assets Operations Company to jointly repay its principal and interests totaling RMB12.14 million ever disclosed in the Company's 2007 annual report, Xuzhou Intermediate People's Court had made initial judgment on 29 April 2008 of denying all requests raised by the 999 Group.

3. The Company acquired 23.9% shareholdings in Tsingtao Brewery Xi'an Hans Group Company Limited ("TB Hans") held by Xi'an Industrial Assets Operations Co., Ltd. ("Industrial Co.") through open transaction in Xi'an Property Ownership Trading Center. According to the result of public bidding, the Company acquired such shares for the price of RMB171 million, and signed the share transfer agreement with Industrial Co. on 28 December 2007. The Board of Directors (including the Independent Directors) of the Company believed that, the transaction was in line with the Company's development strategies, beneficial to the Company for strengthening its centralized management over TB Hans to further improving the organizational structure and brands integration in the west-north market. It determined the acquisition price based on the net asset value of TB Hans appraised by the appraisal firms, and also took into account of its operational situations and earning ability. The transaction price was fair and reasonable, and was in line with the interests of the Company and its shareholders as a whole. For details of the transaction, please refer to the announcement published on 4 January 2008 in *China Securities Journal*, *Shanghai Securities News* and *Securities Times*, and on the website of stock exchange where the Company is listed. On 25 January 2008, the registration process for transfer of above shares was completed in the State Administration for Industry and Commerce of Xi'an, and TB Hans became a wholly-owned subsidiary of the Company.
4. On 26 May 2008, the Company and Tsingtao Brewery Group Company Limited ("Group Company") entered into an agreement pursuant to which the Company agreed to acquire the minority shares in its 22 controlling subsidiaries held by the Group Company through open transaction in Qingdao Property Ownership Trading Center for the consideration of RMB76.94 million. The pricing was determined with reference to the appraised net assets value of the target companies as at 31 March 2007 by two independent PRC assets appraisal firms and the net profit or loss of the target companies for the six months ended on 30 September 2007. The Company made the payments to the account designated by Qingdao Property Ownership Trading Center within 5 working days after the agreement took into effect under the approval of Qingdao Property Ownership Trading Center. The Board of Directors (including the Independent Directors) of the Company believed that, the transaction was in line with the Company's development strategies, beneficial to the Company for strengthening its centralized management over its subsidiaries and reducing the related party transactions. It determined the acquisition price based on the appraised net asset value of the subsidiaries, and also took into account of their operational situations and earning ability. The transaction price was fair and reasonable, and was in line with the interests of the Company and its shareholders as a whole. For details of the transaction, please refer to the announcement on the websites of stock exchanges where it is listed.
5. Under the *Entrusted Operation and Management Agreement* and its supplementary agreement signed between the Company and the 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 and included it into the consolidating scope of financial statements during the reporting period. Save as it, there is no other issues of custody of the Company.

6. Tsingtao Brewery No. 5 Company Limited, the Company's controlling subsidiary, provided connected guarantee for its associated company Qingdao Tsingtao-Asahi Company Limited (in which it held 40% stake), in respect of loans in the total amount of RMB22 million offered by No. 1 Shibe Sub-branch of Qingdao Branch of the Communications Bank Co., Ltd. Save as it, all external guarantees provided by the Company during the reporting period were for the bank loans and current borrowings for its subsidiaries under the approval of its Board of Directors.
7. Under the approval of the China Securities Regulatory Commission, the Company issued bonds with warrants with a 6-year term in the total value of RMB1.5 billion (the "offering proceeds") to qualified investors of A-shares in Shanghai Stock Exchange on 2 April 2008. The separated bonds and warrants had been traded respectively in Shanghai Stock Exchange on 18 April under the approval of Shanghai Stock Exchange.

The face value for each bond is RMB100 with interest rate of 0.8%. It will pay the interest once per year, and repay the principal in one-off when it expires. The bonds with warrants are attached with totally 105 million warrants whose exercising price is RMB28.06/share. Each 2 warrants represent the subscribing right for 1 A-share issued by the Company. The exercising period will be the trading days between 13 October 2009 and 19 October 2009 (the warrants are not allowed to be traded during the exercising period).

During the reporting period, the Company had accumulatively utilized RMB1.15 billion of the offering proceeds. The remaining RMB0.35 billion of the offering proceeds was deposited into a savings account of the bank designated by the Company.

8. According to the notice from the tax authority in Qingdao in April 2008, the applicable income tax rate for the Company for 2007 was 33% (the previous income tax rate applicable to the Company was 15%). As at the date of disclosure of this Report, the tax authority has not made any decision on how to settle the income tax before the year 2007. The Company will issue further announcement as and when appropriate upon receipt of any further information. Pursuant to the new *Enterprise Income Tax Law of the People's Republic of China* which came into effect on 1 January 2008, the income tax rate applicable to the Company for 2008 is 25%.
9. The Company held its 2007 annual general meeting on 10 June 2008 to elect members of the 6th Board of Directors, in which Mr. JIN Zhi Guo, Mr. WANG Fan, Mr. SUN Ming Bo, Mr. LIU Ying Di and Mr. SUN Yu Guo were Executive Directors, Mr. Stephen J. BURROWS and Mr. Mark F. SCHUMM were Non-executive Directors, Mr. FU Yang, Ms. LI Yan, Mr. POON Chiu Kwok and Ms. WANG Shu Wen were Independent Directors; to elect Mr. DU Chang Gong, Mr. LIU Qing Yuan, Mr. ZHONG Ming Shan and Ms. Frances ZHENG Supervisors as Shareholders Representative of the 6th Board of Supervisors. Besides, Mr. TENG An Gong, Mr. CAO Xiang Dong and Mr. XUE Chao Shan were elected Supervisors as Staff Representative by the Company's Staff Congress, and formed the 6th Board of Supervisors with the aforesaid Supervisors as Shareholders Representative. The above Directors and Supervisors will serve for a term of three years from the date of being elected.

At the first meeting of the 6th Board of Directors held on the same day, Mr. JIN Zhi Guo was elected Chairman of the Company, Mr. WANG Fan and Mr. Stephen J. BURROWS Vice-chairman. At the first meeting of the 6th Board of Supervisors held on the same day, Mr. DU Chang Gong was elected Chairman of the Board of Supervisors for a term of three years from the date of being elected.

At the first meeting of the 6th Board of Directors of the Company, it appointed Mr. SUN Ming Bo President of the Company, Ms. YAN Xu Vice President of the Company & President of Marketing Center, Mr. FAN Wei Vice President of the Company & President of Production Center; Ms. JIANG Hong, Mr. SUN Yu Guo, and Mr. ZHANG An Wen Vice President, Mr. DONG Jian Jun Chief Brewer of the Company, Mr. YU Jia Ping Vice President of Production Center, Mr. YANG Hua Jiang Vice President of Marketing Center. The service term of the aforesaid senior management is 3 years from the date of being appointed by the Board of Directors. It also appointed Mr. ZHANG Xue Ju Secretary to the Board of Directors, and Mr. ZHANG Rui Xiang Representative for Securities Affairs of the Company, for a term of three years from the date of being appointed by the Board of Directors.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

The Company and any of its subsidiaries did not purchase, sell or redeem any of its listed securities during the reporting period.

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF SUBSTANTIAL SHAREHOLDERS

1. Changes in Shares

There were no changes in the total number of shares and the share capital structure of the Company.

2. Shareholdings of Substantial Shareholders

As of 30 June 2008, the total number of shareholders of the Company was 50,850. According to the information publicly available to the Company, and within the knowledge of the Directors of the Company, the Company has complied with the requirements of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules")* and maintained a sufficient public float of over 25% of the issued share capital.

(1) The shareholdings of top 10 shareholders

Shareholder's Name	Increase/ Decrease during the Reporting Period	Total Number of Shares Held	Percentage (%)	Class of shares
Tsingtao Brewery Group Company Limited ("Tsingtao Group")	0	399,820,000	30.56	A-share with sales restriction
HKSCC Nominees Limited	-26,000	298,230,072	22.80	H-share
A-B Jade Hong Kong Holding Company Limited ("A-B Hong Kong")	0	261,643,836	20.00	H-share
Law Debenture Trust (Asia) Limited (the "Trustee")	0	91,575,342	7.00	H-share
China Jianyin Investment Company Ltd.		17,574,505	1.34	A-share with sales restriction
Dacheng Blue Chip Steady Securities Investment Fund		12,529,000	0.96	A-share
National Social Security Fund 108		12,500,000	0.96	A-share
Industrial Trend Investment Mixed Securities Investment Fund		11,654,478	0.89	A-share
National Social Security Fund 102		10,099,943	0.77	A-share
Industrial Global Vision Stock Securities Investment Fund		8,052,408	0.62	A-share

(2) *The Shareholdings of Top 10 Shareholders of Shares without Sales Restriction*

Shareholder's Name	Number of Shares without Sales Restriction Held	Class of Shares
HKSCC Nominees Limited	298,230,072	H-share
A-B Jade Hong Kong Holding Company Limited	261,643,836	H-share
Law Debenture Trust (Asia) Limited	91,575,342	H-share
Dacheng Blue Chip Steady Securities Investment Fund	12,529,000	A-share
National Social Security Fund 108	12,500,000	A-share
Industrial Trend Investment Mixed Securities Investment Fund	11,654,478	A-share
National Social Security Fund 102	10,099,943	A-share
Industrial Global Vision Stock Securities Investment Fund	8,052,408	A-share
Boshi Thematic Sector Stock Securities Investment Fund	7,759,901	A-share
Yinhua Core Value Advantage Stock Securities Investment Fund	5,816,161	A-share

Explanation for the connected relationship or acting in concert among the above shareholders: A-B Company holds 261,643,836 shares of H-share through its wholly-owned subsidiary A-B Hong Kong. The Trustee is arranged under the entrusted voting to hold 91,575,342 H-shares, and undertakes such voting right under the written instruction of Tsingtao Group, while the financial interests including the dividends, profit distribution and payments delivery of these shares are processed under instructions of A-B Company.

Save as disclosed above, the Company is unaware if there is any other connected relationship among these top 10 shareholders or if they are parties acting in concert.

Note: The H-shares held by HKSCC Nominees Limited were held on behalf of various clients.

(3) 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 2008, 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 (Cap. 571, Laws of Hong Kong) (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 H Shares
State-owned Assets Supervision and Administration Commission of the People's Government of Qingdao ("SASACQ")	Long Position	A-Share	Corporate	1	399,820,000 A-Shares	30.56%	N/A
	Long Position	H-Share	Section 317 Agreement	1, 2	353,219,178 H-Shares	27.00%	53.92%
A-B Company	Long Position	H Share	Corporate/ Beneficiary of a trust	1, 2	353,219,178 H-Shares	27.00%	53.92%
	Long Position	A-Share	Section 317 Agreement	1	399,820,000 A-Shares	30.56%	N/A
JPMorgan Chase & Co.	Long Position	H-Share	Interest of controlled corporations/ Beneficial Owner/	3	52,300,007 H-Shares	4.00%	7.98%
	Interest in a lending pool	H-Share	Investment Manager/ Custodian		29,413,837 H-Shares	2.25%	4.49%
	Short Position	H-Share	Beneficial Owner		1,406,000 H-Shares	0.11%	0.21%

Notes:

- (1) An undertaking agreement ("Undertaking Agreement") between SASACQ and A-B Company dated 21 October 2002 constitutes an agreement under section 317 of the SFO. For the purposes of 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. According to the Novation Agreement in respect of an Undertaking Agreement dated 21 October 2002 signed between SASACQ, A-B Company and Tsingtao Group on 19 April 2007, all rights and obligations of SASACQ under the Undertaking Agreement have been novated to its wholly-owned subsidiary, Tsingtao Group. All of the aforesaid A-shares held by SASACQ were also transferred to Tsingtao Group on 4 April 2007. For the details of the transfer of shares, please refer to the announcements published in the PRC and Hong Kong on 6 February, 27 March and 11 April 2007.
- (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 allotted to a voting trustee pursuant to the Voting Trust Agreement.
- (3) The Shares in which JPMorgan Chase & Co. was deemed to be interested were held through various intermediate holding companies.
- (4) For the latest disclosure of interests filings for the Company's substantial shareholders, please refer to the "Disclosure of Interests" section on the website of Hong Kong Exchanges and Clearing Limited ("HKEx") (www.hkex.com.hk).

SHAREHOLDINGS OF DIRECTORS, SUPERVISORS AND CHIEF EXECUTIVE

There were no changes for the Company's shares held by Directors, Supervisors and chief executive during the reporting period. As of 30 June 2008, Mr. SUN Ming Bo held 1,840 shares, Mr. LIU Ying Di held 5,894 shares, Mr. FAN Wei held 3,476 shares, Mr. DONG Jian Jun held 92 shares, Mr. ZHANG Xue Ju held 1,179 shares, and Mr. CAO Xiang Dong held 2,358 shares in the Company. The shares held by the above persons are of Listed A-shares.

Save as disclosed above and as of 30 June 2008, none of the Directors, Supervisors, chief executives of the Company and his/her respective associate(s) had 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 *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 of Hong Kong Limited pursuant to the *Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code")* set out in Appendix 10 of the *Listing Rules*.

Neither the Company nor any of its subsidiaries has entered into any arrangements during the reporting period to enable any of the Directors, Supervisors and chief executive to obtain benefits from purchasing shares of the Company.

For the latest disclosure of interests filings for the Directors and Supervisors of the Company, please refer to the "Disclosure of Interests" section at the website of the HKEx (www.hkex.com.hk).

MODEL CODE

The Company has adopted the *Model Code* and the *Administration Regulations of the Company's Shares held by Directors, Supervisors and Senior Management of the Company and its Changes* formulated by the Company as its codes of conduct and standards in respect of securities transactions by the Directors. Specific enquiries were made with all Directors who had confirmed that they had complied with the *Model Code* and its codes of conduct and standards regarding Director's securities transactions at all applicable time during the reporting period.

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

The Company had been emphasizing to the corporate governance and its transparency. Under the requirements on corporate governance raised by the regulatory authority, the Company had been improving its internal control to realize a standard and highly efficient operations to ensure that its shareholders may obtain rewards from sound corporate governance. During the reporting period, the Company had been in compliance with the provisions in Appendix 14 of the *Code on Corporate Governance Practices of the Listing Rules*.

REVIEW OF THE UNAUDITED INTERIM REPORT

The Audit & Finance Committee under the Board of Directors of the Company has reviewed the Company's unaudited 2008 interim report.

By Order of the Board of Directors
JIN Zhi Guo
Chairman

Qingdao, the People's Republic of China
19 August 2008

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
Short Name: 青島啤酒 Code: 600600
H share: The Stock Exchange of Hong Kong Limited
Short Name: TSINGTAO BREW Code: 0168
Warrants: Shanghai Stock Exchange
Short Name: 青啤CWB1 Code: 580021
Bonds: Shanghai Stock Exchange
Short Name: 08青啤債 Code: 126013

3. Registered address: No.56, Dengzhou Road, Qingdao, Shandong Province, the People's Republic of China
Office address: Tsingtao Beer Tower, May Fourth Square, Hong Kong Road Central, Qingdao, Shandong Province, the People's Republic of China
Postcode: 266071
Website: www.tsingtao.com.cn
E-mail: info@tsingtao.com.cn

4. Legal representative: JIN Zhi Guo

5. Secretary to the Board of Directors: ZHANG Xue Ju
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;*
Websites for Publication of www.sse.com.cn
Interim Report: www.hkex.com.hk
Interim Report Kept At: Equity Management Dept. of the Company



2008

INTERIM REPORT

中期報告

青島啤酒股份有限公司
TSINGTAO BREWERY CO., LTD.