TSINGTAO
青島啤酒

TSINGTAO BREWERY COMPANY LIMITED

(a sino-foreign joint stock limited company established in the People's Republic of China)

(Stock Code: 168)

ANNOUNCEMENT OF 2010 INTERIM RESULTS

The Board of Directors (the "Board") of Tsingtao Brewery Company Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (the "Group") prepared pursuant to Hong Kong Financial Reporting Standards (HKFRS) for the six months ended 30 June 2010 ("reporting period").

I. CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

CONDENSED CONSOLIDATED BALANCE SHEET

	Note	Unaudited 30 June 2010 *RMB'000*	Audited 31 December 2009 *RMB'000*
ASSETS			
Non-current assets			
Leasehold land and land use rights		**858,687**	818,477
Property, plant and equipment		**5,569,056**	5,605,900
Intangible assets		**428,132**	423,841
Interests in jointly controlled entity and associates		**147,823**	147,449
Deferred income tax assets		**392,756**	240,843
Available-for-sale financial assets		**5,369**	5,369
Other non-current assets		**10,437**	11,814
		7,412,260	7,253,693
Current assets			
Inventories		**1,703,585**	1,877,379
Trade and other receivables	*4*	**503,734**	375,821
Income tax recoverable		**11,535**	9,979
Pledged bank deposits		**36,402**	43,006
Cash and cash equivalents		**7,624,062**	5,307,575
		9,879,318	7,613,760
Total assets		**17,291,578**	14,867,453

	Note	Unaudited 30 June 2010 *RMB'000*	Audited 31 December 2009 *RMB'000*
EQUITY			
Equity attributable to equity holders of the Company			
Share capital		**1,350,983**	1,350,983
Other reserves		**4,992,068**	5,081,834
Retained earnings			
— Proposed final dividend		**—**	216,157
— Others		**2,401,642**	1,571,606
		8,744,693	8,220,580
Non-controlling interests		**270,474**	342,574
Total equity		**9,015,167**	8,563,154
LIABILITIES			
Non-current liabilities			
Borrowings	*5*	**1,240,904**	1,230,139
Deferred income tax liabilities		**32,660**	34,281
Deferred government grants		**368,736**	184,169
Other non-current liabilities		**11,168**	11,168
		1,653,468	1,459,757
Current liabilities			
Trade and other payables	*6*	**5,830,302**	4,449,805
Current income tax liabilities		**371,612**	212,925
Dividends payable		**216,157**	—
Borrowings	*5*	**204,872**	181,812
		6,622,943	4,844,542
Total liabilities		**8,276,411**	6,304,299
Total equity and liabilities		**17,291,578**	14,867,453
Net current assets		**3,256,375**	2,769,218
Total assets less current liabilities		**10,668,635**	10,022,911

CONDENSED CONSOLIDATED INCOME STATEMENT

		Unaudited	
		Six months ended 30 June	
		2010	2009
	Note	***RMB'000***	*RMB'000*
Sales		**9,805,457**	8,969,485
Cost of goods sold		**(6,260,905)**	(5,933,303)
Gross profit		**3,544,552**	3,036,182
Distribution costs		**(2,134,348)**	(1,857,528)
Administrative expenses		**(409,233)**	(387,869)
Other gains — net		**125,593**	76,110
Other operating gains — net		**27,368**	20,116
Operating profit		**1,153,932**	887,011
Finance costs		**(47,896)**	(50,569)
Share of profits/(losses) of jointly controlled entity and associates — net		**5,805**	(808)
Profit before income tax		**1,111,841**	835,634
Income tax expense	*7*	**(241,330)**	(169,298)
Profit for the period		**870,511**	666,336
Profit attributable to:			
— Equity holders of the Company		**830,036**	639,784
— Non-controlling interests		**40,475**	26,552
		870,511	666,336
Earnings per share for profit attributable to the equity holders of the Company (expressed in RMB per share)			
— Basic and diluted	*8*	**0.614**	0.489
Dividends	*9*	**216,157**	327,055

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	Unaudited Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
Profit for the period	**870,511**	666,336
Other comprehensive income		
Fair value loss on available-for-sale financial assets, net of tax	—	(2,409)
Currency translation differences	**2,026**	234
Other comprehensive income for the period, net of tax	**2,026**	(2,175)
Total comprehensive income for the period	**872,537**	664,161
Total comprehensive income for the period attributable to:		
— Equity holders of the Company	**832,062**	637,609
— Non-controlling interests	**40,475**	26,552
	872,537	664,161

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Unaudited					
	Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Balance at 1 January 2009	**1,308,219**	**3,835,057**	**938,962**	**6,082,238**	**335,377**	**6,417,615**
Comprehensive income						
Profit for the period	—	—	639,784	639,784	26,552	666,336
Other comprehensive income						
Fair value loss on available-for-sale financial assets, net of tax	—	(2,409)	—	(2,409)	—	(2,409)
Currency translation differences	—	234	—	234	—	234
Total comprehensive income for the period ended 30 June 2009	**—**	**(2,175)**	**639,784**	**637,609**	**26,552**	**664,161**
Transactions with owners						
Dividends relating to 2008	—	—	(327,055)	(327,055)	(24,500)	(351,555)
Acquisition of non-controlling interests in subsidiaries	—	30,461	—	30,461	(86,742)	(56,281)
Others	—	(204)	—	(204)	320	116
Total transactions with owners	**—**	**30,257**	**(327,055)**	**(296,798)**	**(110,922)**	**(407,720)**
Balance at 30 June 2009	**1,308,219**	**3,863,139**	**1,251,691**	**6,423,049**	**251,007**	**6,674,056**
Balance at 1 January 2010	**1,350,983**	**5,081,834**	**1,787,763**	**8,220,580**	**342,574**	**8,563,154**
Comprehensive income						
Profit for the period	—	—	830,036	830,036	40,475	870,511
Other comprehensive income						
Currency translation differences	—	2,026	—	2,026	—	2,026
Total comprehensive income for the period ended 30 June 2010	**—**	**2,026**	**830,036**	**832,062**	**40,475**	**872,537**
Transactions with owners						
Dividends relating to 2009	—	—	(216,157)	(216,157)	(29,958)	(246,115)
Acquisition of non-controlling interests in a subsidiary	—	(91,543)	—	(91,543)	(82,617)	(174,160)
Others	—	(249)	—	(249)	—	(249)
Total transactions with owners	**—**	**(91,792)**	**(216,157)**	**(307,949)**	**(112,575)**	**(420,524)**
Balance at 30 June 2010	**1,350,983**	**4,992,068**	**2,401,642**	**8,744,693**	**270,474**	**9,015,167**

Notes:

1. Basis of preparation

This condensed consolidated interim financial information for the six months ended 30 June 2010 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 2009, which have been prepared in accordance with HKFRSs.

2. 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 2009, 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.

(a) New and amended standards adopted by the Group

The following new standards and amendments to standards are mandatory for the first time for the financial year beginning 1 January 2010.

- HKFRS 3 (revised), 'Business combinations', and consequential amendments to HKAS 27, 'Consolidated and separate financial statements', HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures', are 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.

  The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. There is a choice on an acquisition-by-acquisition basis to measure the non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. All acquisition-related costs are expensed. The Group has applied HKFRS 3 (revised) prospectively to all business combinations from 1 January 2010.

  As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised), 'consolidated and separate financial statements', at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group has applied HKAS 27 (revised) prospectively to transactions with non-controlling interest from 1 January 2010. As the Group has already chosen the similar accounting policy as HKAS 27 (revised) in prior years, the adoption did not result in material impact on the Group's financial statements.

- First improvements to Hong Kong Financial Reporting Standards (2008) were issued in October 2008 by the HKICPA. The improvement related to HKFRS 5 "Non-current assets held for sale and discontinued operations" is effective for annual period on or after 1 July 2009. It does not have a material impact on the Group's financial statements.

(b) Standards, amendments and interpretations to existing standards effective in 2010 but not relevant to the Group

- HK(IFRIC)-Int 17, 'Distributions of non-cash assets to owners' is effective for annual periods beginning on or after 1 July 2009. This is not currently applicable to the Group, as it has not made any non-cash distributions.

- 'Additional exemptions for first-time adopters' (Amendment to HKFRS 1) is effective for annual periods beginning on or after 1 January 2010. This is not relevant to the Group, as it is an existing HKFRS preparer.

- HKAS 39 (Amendment), 'Eligible hedged items' is effective for annual period on or after 1 July 2009. That is not currently applicable to the Group, as it has no hedging.

- HKFRS 2 (Amendment), 'Group cash-settled share-based payment transaction' is effective for annual periods beginning on or after 1 January 2010. This is not currently applicable to the Group, as it has no such share-based payment transactions.

- Second improvements to Hong Kong Financial Reporting Standards (2009) were issued in May 2009 by the HKICPA. All improvements are effective in the financial year of 2010.

3. Segment information

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Committee that makes strategic decisions, which consists of senior management led by the CEO and the president of the Group.

Management has determined the operating segments based on the reports reviewed by the Executive Committee that are used to make strategic decisions. As the Group is mainly engaged in the production and distribution of beer products, the Executive Committee considers the business mainly from a geographic perspective.

The Executive Committee assesses the performance of the operating segments based on profit before income tax which is consistent with that in the financial statements. Other information, as noted below, is also provided to the Executive Committee.

Total assets exclude deferred tax, available-for-sale financial assets, derivative financial instruments and interests in jointly controlled entity and associates, all of which are managed on a central basis. These are part of the reconciliation to total balance sheet assets.

Sales between segments are carried out based on terms agreed. The revenue from external parties reported to the Executive Committee is measured in a manner consistent with that in the income statement.

The segment information provided to Executive Committee for the reportable segments for the period ended 30 June 2010 is as follows:

	(Unaudited)								
	Shandong Region	**Huanan Region**	**Huabei Region**	**Huadong Region**	**Dongnan Region**	**Overseas**	**Unallocated**	**Eliminations**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	5,054,450	1,967,452	1,799,118	925,787	624,195	181,977	—	(747,522)	9,805,457
Inter-segment revenue	(304,779)	(104,642)	(271,137)	(24,936)	(40,766)	(1,262)	—	747,522	—
Revenue (from external customers)	**4,749,671**	**1,862,810**	**1,527,981**	**900,851**	**583,429**	**180,715**	**—**	**—**	**9,805,457**
Profit before income tax	**654,536**	**258,594**	**145,770**	**31,996**	**64,425**	**27,924**	**(89,762)**	**18,358**	**1,111,841**
Distribution cost	(1,213,213)	(404,583)	(173,266)	(171,765)	(115,914)	(55,607)	—	—	(2,134,348)
Depreciation and amortisation	(91,321)	(82,706)	(49,058)	(30,012)	(11,706)	(628)	(14,287)	—	(279,718)
Finance income	13,435	3,073	4,005	415	345	64	—	—	21,337
Finance costs	(2,094)	(2,340)	(13,341)	(3,207)	(46)	(6,863)	(38,363)	18,358	(47,896)
Income tax expense	(135,508)	(64,871)	(24,871)	(930)	(9,221)	(5,929)	—	—	(241,330)
Share of profit from jointly controlled entity and associates	—	—	—	—	—	—	5,805	—	5,805
Total assets	**4,766,576**	**3,417,176**	**2,575,482**	**1,443,959**	**644,248**	**233,728**	**5,493,485**	**(1,283,076)**	**17,291,578**
Total assets include:									
Interests in jointly controlled entity and associates	—	—	—	—	—	—	147,823	—	147,823
Additions to non-current assets (other than financial instruments and deferred tax assets)	117,023	34,984	26,313	75,852	7,687	2	11,946	—	273,807
Total liabilities	**3,080,409**	**1,749,379**	**1,862,274**	**780,744**	**383,805**	**45,661**	**1,750,897**	**(1,376,758)**	**8,276,411**

The segment information for the reportable segments for the period ended 30 June 2009 is as follows:

	(Unaudited)								
	Shandong Region	**Huanan Region**	**Huabei Region**	**Huadong Region**	**Dongnan Region**	**Overseas**	**Unallocated**	**Eliminations**	**Total Group**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Segment revenue	4,307,169	1,828,271	1,760,279	929,816	563,469	165,081	—	(584,600)	8,969,485
Inter-segment revenue	(185,299)	(74,304)	(275,528)	(5,133)	(43,247)	(1,089)	—	584,600	—
Revenue (from external customers)	**4,121,870**	**1,753,967**	**1,484,751**	**924,683**	**520,222**	**163,992**	**—**	**—**	**8,969,485**
Profit before income tax	**483,534**	**202,366**	**125,409**	**17,088**	**44,479**	**30,043**	**(97,357)**	**30,072**	**835,634**
Distribution cost	(942,108)	(365,420)	(212,285)	(186,196)	(108,440)	(43,079)	—	—	(1,857,528)
Depreciation and amortisation	(78,786)	(80,812)	(49,205)	(31,068)	(12,598)	(686)	(16,792)	—	(269,947)
Impairment losses of PP&E and other non-current assets	—	—	—	—	(1,334)	—	—	—	(1,334)
Finance income	9,349	1,033	2,736	469	173	75	—	—	13,835
Finance costs	(6,166)	(7,404)	(19,544)	(4,286)	(2,484)	(2,760)	(36,378)	28,453	(50,569)
Income tax expense	(89,609)	(59,610)	(19,216)	4,013	1,191	(6,067)	—	—	(169,298)
Share of profit from jointly controlled entity and associates	—	—	—	—	—	—	(808)	—	(808)
Total assets	**4,642,234**	**3,391,562**	**2,366,359**	**1,392,008**	**606,801**	**301,102**	**3,198,402**	**(1,428,929)**	**14,469,539**
Total assets include:									
Interests in jointly controlled entity and associates	—	—	—	—	—	—	144,691	—	144,691
Additions to non-current assets (other than financial instruments and deferred tax assets)	120,381	97,715	21,504	33,057	4,811	210	227,616	—	505,294
Total liabilities	**2,483,410**	**1,864,551**	**1,984,215**	**759,765**	**438,093**	**139,667**	**1,650,917**	**(1,525,135)**	**7,795,483**

Reportable segments' profit before tax is reconciled to total profit before tax as follows:	**Six months ended 30 June**	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total segment profit before tax	**1,201,603**	932,991
Share of profits/(losses) of jointly controlled entity and associates	**5,805**	(808)
Interest expense on convertible bond	**(38,363)**	(36,378)
Corporate overhead	**(57,204)**	(66,784)
Other gains from derivative instruments	**—**	6,571
Other unallocated gains	**—**	42
Profit before income tax	**1,111,841**	835,634

Reportable segments' assets are reconciled to total assets as follows:	**30 June 2010**	30 June 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total segment assets	**11,798,093**	11,271,137
Deferred income tax assets	**392,756**	238,551
Interests in jointly controlled entity and associates	**147,823**	144,691
Available-for-sale financial assets	**5,369**	5,369
Derivative financial instruments	**—**	1,040
Corporate pledged bank deposits	**28,646**	29,734
Corporate cash and equivalents	**4,560,331**	2,340,199
Corporate property, plant and equipment, intangible assets and leasehold land and land use rights	**358,560**	438,818
Total assets per balance sheet	**17,291,578**	**14,469,539**

Reportable segments' liabilities are reconciled to total liabilities as follows:	**30 June 2010**	30 June 2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Total segment liabilities	**6,525,514**	6,144,566
Deferred income tax liabilities	**32,660**	12,299
Convertible bonds payable	**1,225,259**	1,161,557
Dividends payable	**216,157**	327,055
Other unallocated corporate liabilities	**276,821**	150,006
Total liabilities per balance sheet	**8,276,411**	7,795,483

4. Trade and other receivables

	As at 30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000
Trade receivables *(a)*	**124,497**	92,595
Bills receivables	**1,200**	10,750
Prepayments *(b)*	**214,264**	139,233
Deposits and other receivables *(b)*	**163,773**	133,243
	503,734	375,821

(a) Trade receivables

The Group has a policy in place that sales are on cash on delivery terms for most of the domestic customers, and letters of credit have to be received for overseas customers. Only certain long-term overseas distributors with good credit history and certain domestic distributors are granted credit terms less than 1 year. At 30 June 2010 and 31 December 2009, the ageing analysis of the trade receivables based on invoiced date was as follows:

	As at 30 June 2010 (Unaudited)			As at 31 December 2009		
	Amount RMB'000	Provision for impairment of receivables RMB'000	Balance after provision RMB'000	Amount RMB'000	Provision for impairment of receivables RMB'000	Balance after provision RMB'000
Less than 1 year	**122,854**	**(835)**	**122,019**	90,932	(804)	90,128
1 to less than 2 years	**266**	**(193)**	**73**	2,134	(1,029)	1,105
2 to less than 3 years	**2,124**	**(963)**	**1,161**	633	(394)	239
Over 3 years	**251,108**	**(249,864)**	**1,244**	250,931	(249,808)	1,123
	376,352	**(251,855)**	**124,497**	344,630	(252,035)	92,595

(b) Prepayment, deposits and other receivables

	As at 30 June 2010 RMB'000 (Unaudited)	31 December 2009 RMB'000
Prepayments	**214,264**	139,233
Staff advance	**31,919**	24,306
Prepayment of land use rights	**27,442**	35,434
Deposits	**29,530**	15,053
VAT refund	**4,507**	3,085
Others	**144,578**	129,596
	452,240	346,707
Less: provision for impairment	**(74,203)**	(74,231)
	378,037	272,476

5. Borrowings

	As at	
	30 June 2010	30 June 2010
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Non-current		
Bank borrowings *(a)*	**13,815**	28,267
Convertible bonds *(b)*	**1,225,259**	1,198,896
Finance lease liabilities	**1,830**	2,976
	1,240,904	1,230,139
Current		
Bank borrowings *(a)*	**202,636**	179,686
Finance lease liabilities	**2,236**	2,126
	204,872	181,812
Total borrowings	**1,445,776**	1,411,951

(a) Bank borrowings

Movements of bank borrowings were analysed as follows:

	RMB'000
	(Unaudited)
Six months ended 30 June 2009	
Opening amount as at 1 January 2009	432,811
New borrowings	280,060
Repayments of borrowings	(164,716)
Currency translation differences	(67)
Closing amount as at 30 June 2009	**548,088**
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	207,953
New borrowings	173,528
Acquisition of a subsidiary	20,000
Repayments of borrowings	(181,688)
Currency translation differences	(3,342)
Closing amount as at 30 June 2010	**216,451**

The carrying amounts of both current borrowings and non-current borrowings approximate to their fair values, as the impact of discounting is not significant.

The table below analysed the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period as at 30 June 2010 to the contractual maturity date. The amounts disclosed in the table were the contractual undiscounted cash flows:

	(Unaudited)			
	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**Over 5 years**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
At 30 June 2010				
Borrowings excluding finance lease liabilities	202,636	3,754	1,505,269	4,792
Finance lease liabilities	2,565	1,924	—	—
Trade and other payables excluding deposits and advances from customers	5,510,931	—	11,168	—
Total	**5,716,132**	**5,678**	**1,516,437**	**4,792**
At 31 December 2009				
Borrowings excluding finance lease liabilities	179,686	16,315	1,506,242	5,710
Finance lease liabilities	2,565	2,565	640	—
Trade and other payables excluding deposits and advances from customers	4,178,789	—	11,168	—
Total	**4,361,040**	**18,880**	**1,518,050**	**5,710**

The Group has no derivative financial liabilities at 30 June 2010.

(b) Convertible bond

	RMB'000
	(Unaudited)
Six months ended 30 June 2009	
Opening amount as at 1 January 2009	1,137,179
Interest expenses	36,378
Interest paid	(12,000)
Closing amount as at 30 June 2009	**1,161,557**
Six months ended 30 June 2010	
Opening amount as at 1 January 2010	1,198,896
Interest expenses	38,363
Interest paid	(12,000)
Closing amount as at 30 June 2010	**1,225,259**

The fair value of the liability component of the convertible bond at 30 June 2010 amounted to approximately RMB1,225,259,000. The fair value was calculated using cash flow discounted at the rate of 6.1%.

Interest expense on borrowings for the six months ended 30 June 2010 is approximately RMB43,946,000 (30 June 2009: RMB49,741,000).

The Group had the following undrawn borrowing facilities:

	As at	
	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	
Floating rate:		
— expiring within one year (bank loan and bills facility)	**5,960,000**	4,855,000

6. Trade and other payables

	As at	
	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	
Trade payables *(a)*	**1,459,043**	1,057,842
Bills payables	**86,656**	89,828
Deposits and advances from customers	**323,781**	271,016
Accruals and other payables *(b)*	**3,960,822**	3,031,119
	5,830,302	4,449,805

(a) Trade payables

At 30 June 2010 and 31 December 2009, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) based on invoiced date were as follows:

	As at	
	30 June 2010	31 December 2009
	RMB'000	*RMB'000*
	(Unaudited)	
Less than 1 year	**1,435,900**	1,007,559
1 to less than 2 years	**8,433**	37,367
2 to less than 3 years	**2,665**	2,835
Over 3 years	**12,045**	10,081
	1,459,043	1,057,842

(b) Accruals and other payables

The analysis of accruals and other payables by nature were as follows:

	As at	
	30 June	31 December
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	
Accruals for marketing and advertising expenses	**1,602,238**	1,012,308
Guarantee deposits for recycled bottles	**640,209**	576,221
Accrued payroll and other staff costs	**544,262**	541,062
Payables to vendors of PP&E	**137,300**	198,904
VAT and other duties and taxes	**455,291**	254,106
Accruals for transportation expenses	**151,002**	65,596
Accruals for administrative expenses	**42,033**	25,202
Accruals for electricity expenses	**15,234**	8,071
Others	**373,253**	349,649
	3,960,822	3,031,119

7. Income tax expense

	Six months ended 30 June	
	2010	2009
	RMB'000	*RMB'000*
	(Unaudited)	(Unaudited)
Current income tax		
— Hong Kong profits tax *(i)*	**2,030**	3,117
— PRC corporate income tax *(ii)*	**392,834**	309,748
Deferred income tax	**(153,534)**	(143,567)
	241,330	169,298

(i) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year.

(ii) PRC corporate income tax ("CIT")

Applicable income tax rate of entities within the Group is subject to 25% from 1 January 2008 except that 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.

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 was subject to CIT at 15%, which was 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 were 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.

On 15 April 2008, the Company was informed by the governing local tax bureau that the applicable CIT rate for the year ended 31 December 2007 was adjusted from 15% to 33%. The PRC CIT for the year ended 31 December 2007 of the Company was hence provided at 33% in the financial statements of the Company and the Group. Up to the date of the approval of this condensed consolidated interim financial information, 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 CIT exposure in prior years had been made in the financial statements.

8. Earnings per share — basic and diluted

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

	Six months ended 30 June	
	2010	2009
	(Unaudited)	(Unaudited)
Profit attributable to equity holders of the Company *(RMB'000)*	**830,036**	639,784
Number of ordinary shares in issue *(thousands)*	**1,350,983**	1,308,219
Basic earnings per share *(RMB per share)*	**0.614**	0.489

The diluted earnings per share information were the same as basic for the six months ended 30 June 2010 and 2009 as there were no dilutive potential ordinary shares as of 30 June 2010 and 2009.

9. Dividends

During the period, a final dividend of RMB0.16 per share, amounting to an aggregate amount of approximately RMB216,157,000(2009: final dividend for 2008 at RMB327,055,000), were approved in Annual General Meeting held on 17 June 2010. The Board of Directors does not recommend the payment of an interim dividend for the period (30 June 2009: nil).

10. Contingencies

As described in Note 7(ii), 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.

II. DIVIDENDS

The Company shall not distribute interim dividends for the 6 months ended 30 June 2010 pursuant to the provisions in the articles of association of the Company.

III. MANAGEMENT DISCUSSIONS AND ANALYSIS

(I) Review of Operational Results for the First Half of 2010

In the first half of 2010, China's economy maintained a steady growth based on the expedited adjustments towards the economic structure, while the national beer industry also continued to grow steadily. As a result, the total output of the industry in the first half year reached 211.8 million hl, increasing by 4.77% comparing with that of the same period in the previous year.

In the first half year, under the annual working guideline determined at the year beginning, the Company actively carried out various work to strengthen its brand promotion and marketing, and continued to promote the construction of its marketing system of "Big customer + Micro operations", which made the sales of its principal brand maintain a rapid growth. At the same time, the Company promoted the optimization of its supply chain to improve the efficiency of supply plan, realize the purchase in large scale, reduce the purchasing cost and improve the utilization ratio of production capacity in its plants, so as to promote the continuous improvement of the Company's operating results. In the first half of 2010, the Company totally sold 31.1 million hl of beer, increasing by 2.9% comparing with that of the same period in the previous year, in which 16.5 million hl of Tsingtao beer were sold, increasing by 14.9% comparing with that of the same period in the previous year, the sales volume of high-end products of Tsingtao draft, small-bottled and canned beer rose 26.7%, and the sales volume of the newly developed Tsingtao "Bingchun" series grew so rapidly that reached 1.49 million hl in the first half year.

During the reporting period, the profitability was further improved as the mid-high-end products continued to keep a rapid growth trend, and the product mix was further optimized, the Company realized its net sales incomes of RMB9,805 million, increasing by 9.3% comparing with that of the same period in the previous year; and net profits attributable to the shareholders of the parent company of RMB830 million, increasing by 29.74% comparing with that of the same period in the previous year.

(II) Analysis to Principal Financials during the Reporting Period

1. *Analysis to the principal business and operational situations*

Unit: RMB'000

Profit Items	Six months ended 30 June 2010	Six months ended 30 June 2009	Increased/ (Decreased) Amount	Increased/ (Decreased) Percent %
Sales	9,805,457	8,969,485	835,972	9.3
Cost of goods sold	(6,260,905)	(5,933,303)	(327,602)	5.5
Distribution costs	(2,134,348)	(1,857,528)	(276,820)	14.9
Administrative expenses	(409,233)	(387,869)	(21,364)	5.5
Other gains — net	125,593	76,110	49,483	65.0
Income tax expense	(241,330)	(169,298)	(72,032)	42.6

(1) The sales increased by 9.3% comparing with that of the same period in the previous year, which was mainly due to that, firstly, the ratio of the sales volume of principal brand increased during the period as the optimization of its product sales structure; secondly, the sales increased as the increase of sales volume of principal products during the reporting period.

(i) Table of principal business by industries and products

Unit: RMB'000

By industries or products	Sales	Cost of goods sold	Gross profits rate *(%)*	Increase of sales *(%)*	Increase of cost of goods sold *(%)*	Increase of gross profits rate *(%)*
By industries						
Beer	9,805,457	6,260,905	36.1	9.32	5.52	2.3
By products						
Beer	9,805,457	6,260,905	36.1	9.32	5.52	2.3

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

(ii) Table of principal business by geographical markets

Unit: RMB'000

Region	**Sales**	**Increased/ (Decreased)** *(%)*
Shandong area	5,054,450	17.4
South China	1,967,452	7.6
North China	1,799,118	2.2
East China	925,787	(0.4)
South-East China	624,195	10.8
Hong Kong and overseas	181,977	10.2
Sub-total	10,552,979	10.5
Less: Eliminations	(747,522)	27.9
Total	9,805,457	9.3

(2) Cost of goods sold

In the first half of 2010, the cost of goods sold of the Group increased by 5.5% comparing with that of the same period in the previous year, which was mainly due to the increase of the cost of goods sold as the expansion of sales scale and the optimization of its product mix during the reporting period.

(3) Expenses during the period

(i) In the first half of 2010, the distribution costs increased by 14.9% comparing with that of the same period in the previous year, which was mainly due to the increase of promotional expenses as the growth of sales volume of high-end products resulted from the optimization of product mix during the reporting period.

(ii) In the first half of 2010, the administrative costs increased by 5.5% comparing with that of the same period in the previous year, which was mainly due to the increase of operating costs as the growth of output and sales volume and the increase of staff's remunerations during the reporting period.

(4) Other gains — net

In the first half of 2010, the other gains increased by 65.0% comparing with that of the same period in the previous year, which was mainly due to the increase of government grants received by its subsidiaries in the year and the increase of interests income during the reporting period.

(5) Income tax expenses

In the first half of 2010, the income tax expense increased by 42.6% comparing with that of the same period in the previous year, which was mainly due to the increased sales and the decrease of the accumulated tax losses of certain subsidiaries.

2. Interpretation of composition of assets/liabilities

Unit: RMB'000

Item	As At 30 June 2010	As At 31 December 2009	Increased/ (Decreased) amount	Increased/ (Decreased) percent
Cash and cash equivalents	7,624,062	5,307,575	2,316,487	43.6
Trade and other receivables	503,734	375,821	127,913	34.0
Deferred income tax assets	392,756	240,843	151,913	63.1
Trade and other payables	5,830,302	4,449,805	1,380,497	31.0
Current income tax liabilities	371,612	212,925	158,687	74.5
Dividends payable	216,157	—	216,157	—
Deferred government grants	368,736	184,169	184,567	100.2

(1) Cash and cash equivalents

By the end of the reporting period, the cash and cash equivalents increased by 43.6% comparing with that at the beginning of the reporting period, which was mainly due to the increase of net cash flow from operating activities during the reporting period.

(2) Trade and other receivables

By the end of the reporting period, the trade and other receivables increased by 34.0% comparing with that at the beginning of the reporting period, which was mainly due to the increase of accounts receivable of some subsidiaries as the growth of sales, and the increase of prepayments for the purchase of raw materials and the lands during the reporting period.

(3) Deferred income tax assets

By the end of the reporting period, the deferred income tax assets increased by 63.1% comparing with that at the beginning of the reporting period, which was mainly due to the increase of deferred income tax assets as the increase of expenses pending for payment during the reporting period.

(4) Trade and other payables

By the end of the reporting period, the trade and other payables increased by 31.0% comparing with that at the beginning of the reporting period, which was mainly due to the increase of the unmatured accounts payable, and the increase of distribution costs pending for payment by the end of the reporting period.

(5) Current income tax liabilities

By the end of the reporting period, the current income tax liabilities increased by 74.5% comparing with that at the beginning of the reporting period, which was mainly due to the increase of sales incomes and total profits during the reporting period.

(6) Dividends payable

By the end of the reporting period, the dividends payable increased approximately RMB216,157,000 comparing with that at the beginning of the reporting period, which was mainly due to that the payment for the profits attributable for 2009 had not been made by the end of the reporting period.

(7) Deferred government grants

By the end of the reporting period, the deferred government grants increased by 100.2% comparing with that at the beginning of the reporting period, which was mainly due to the increase of governmental relocation subsidies and the government grants received by some subsidiaries during the reporting period.

3. Analysis of cash flow

Unit: RMB'000

	Six months ended 30 June		**Increased/ (Decreased)**	**Increased/ (Decreased)**
Item	**2010**	**2009**	**amount**	**percent** *(%)*
Cash flow from operating activities — net	2,657,933	2,591,222	66,711	2.6
Cash flow from investing activities — net	(288,943)	(600,864)	311,921	51.9
Cash flow from fund-raising activities — net	(50,911)	323,758	(374,669)	(115.7)
Net increase in cash and cash equivalents	2,318,079	2,314,116	3,963	0.17

(1) The cash flow from operating activities increased by 2.6% comparing with that of the same period in the previous year, which was mainly due to the increase of the cash flow-in from the sales as the satisfying sales of its principal products resulted from the optimization of product mix.

(2) The cash flow from investing activities increased by 51.9% comparing with that of the same period in the previous year, which was mainly due to that, firstly, the expenses for the technical reconstruction and expansion for some subsidiaries, and the cash paid for the fixed assets of the new plants decreased during the reporting period comparing with that of the same period in the previous year; secondly, the relocation subsidies received by the subsidiaries during the reporting period increased comparing with that of the same period in the previous year.

(3) The cash flow from fund raising activities decreased by 115.7% comparing with that of the same period in the previous year, which was mainly due to that, firstly, the cash received from the borrowings decreased during the reporting period; secondly, the cash received from the discounting of bills decreased.

4. Interpretation for other operational situations

(1) Debt/Capital Ratio

On 30 June 2010, the Group's debt/capital ratio was 12.4% (13.0% on 31 December 2009). The calculation of debt/capital is: total amount of long-term borrowings/(total amount of long-term borrowings + shareholders' interests attributable to the parent company).

(2) Assets mortgage

As of 30 June 2010, none of the bank borrowings of the Group was with mortgage (Nil as at 31 December 2009).

(3) Risk of fluctuations of exchange rate

As at present, the Group mainly relies on the imported barley among the raw materials in its production of principal brand, the changes of exchange rate would indirectly affect the price of raw materials used by the Group, so as to bring certain impacts to the profitability of the Group.

(4) Capital expenses

In 2010, the Company will focus on the control over the capital expenses, and strive to improve the efficiency in utilizing the existing assets. According to the Company's current situation in funds and profitability, it has sufficient funds and continuous net in-flow of operational cash to satisfy its needs for funds for the capital projects of the Company.

(5) Contingent liabilities

For details please refer to the enclosed Note 10 of condensed consolidated interim financial information.

(III) Outlook for the Second Half of 2010

Despite the unfavorable situation of the huge pressure from the market in the first half year, the Company will insist on its annual working guideline of "To strengthen the position as industry leader as directed by the strategies and under integrated operations; to improve the efficiency of the systematic operations as promoted by the market and with the optimization of the supplying chain", continue to carry out its brand strategy of "1+3" (Tsingtao and Shanhui, Laoshan and Hans), actively enlarge its market share in the second half year. It will pay full attention to and expedite the development of its secondary brands based on the influence and leadership of Tsingtao beer, its principal brand, and strive to realize its annual growth target of sales volume. At the same time, with the Company's advantages such as brands, technology and funds, it will increase its production capacity through the methods such as technical re-construction, new constructions and expansions, and actively seek for appropriate opportunities of mergers and acquisitions to further improve the Company's strategic layout and increase its market share.

IV SIGNIFICANT EVENTS

(I) Purchase of non-controlling interests during the Reporting Period

As approved by the Board, on 1 March 2010, the Company and Tsingtao Brewery Group Company Limited ("Tsingtao Group") entered into an equity transfer agreement, whereby the Company shall acquire the entire equity of Tsingtao Brewery (Jinan) Baotuquan Sales Company Limited ("Target Company") held by Tsingtao Group through Qingdao Property Rights Exchanges by way of public bidding ("Share Transfer"). The consideration of the Share Transfer was RMB174.16 million which was arrived at with reference to the valuation of the net assets and the bidding price of the Target Company. The Company must make full payment of total amount of considerations for the acquired equities to the designated account of Tsingtao Group in Qingdao Property Rights Exchanges within 5 working days after the agreement taking into effect. The Company and Tsingtao Group had entered into an equity custodian agreement ("*Custodian Agreement*") in July 2009, whereby to operate the Target Company in custody, and thus the Target Company was consolidated from the date on which control is transferred to the Company. The *Custodian Agreement* will be terminated immediately upon the completion of this Share Transfer. The Board (including the independent non-executive directors) were of the view that the Share Transfer was beneficial for the long term development of the Company's business in the beer market in Jinan, Shandong Province, the PRC, consistent with the business strategies of the Company to build a core base market in Jinan. The pricing of the Share Transfer was fair and reasonable and in the interests of the Company and its shareholders as a whole. For details of the Share Transfer, please refer to the announcement published by the Company on 1 March 2010 and 2 March 2010 respectively on the websites of the stock exchanges in Hong Kong and Shanghai.

During the reporting period, the procedures for the change of registration at the industry and commercial administration for the acquisition of the aforesaid equities of the Target Company had been completed, and the Target Company had become a wholly-owned subsidiary of the Company.

(II) Other Issues

1. During the reporting period, the Company was not involved in any new significant litigations and arbitration.

2. Under the *Entrusted Operation and Management Agreement* and its supplemental agreement entered into between the Company and Tsingtao Group, the Company went on to manage Tsingtao Group's 80% interests in Tsingtao Brewery (Yangzhou) Company Limited ("Yangzhou Company") as its custodian and included it into the consolidating scope of financial statements of the Company during the reporting period.

3. Neither the Company nor any of its subsidiaries ever purchased, sold or redeemed any of its listed securities during the reporting period.

V CONTINUING CONNECTED TRANSACTIONS OF THE COMPANY

(I) Continuing Connected Transactions occurred during the Reporting Period

As approved by the Board, on 2 March 2010, Shenzhen Tsingtao-Asahi Company Limited ("Tsingtao Shenzhen"), a controlling subsidiary of the Company, entered into two supplemental agreements of *Products Sales Agreement* ("*Supplemental Agreements*") respectively with Asahi Breweries, Ltd. ("Asahi Breweries") and one of its wholly-owned subsidiaries, whereby Asahi Breweries and the subsidiary agreed to continue to purchase beer products of "Asahi" brand from Tsingtao Shenzhen for an additional period from 1 January 2010 to 31 December 2010. The total purchase amount to be paid by Asahi Breweries and its subsidiary for 2010 will not exceed RMB74.62 million.

As Asahi Breweries is a substantial shareholder of the Company (held a 19.74% interest in the entire issued share capital of the Company as at of the date of entering into the *Supplemental Agreements*), Asahi Breweries and the subsidiary are connected persons of the Company, and the applicable percentage ratios for the transactions that Tsingtao Shenzhen selling products to Asahi Breweries and its subsidiary are expected to be lower than 2.5%, thus constituting continuing connected transactions of the Company which must comply with the reporting and announcement requirement, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited* ("*Listing Rules*"). For details of the connected transaction, please refer to the announcement published by the Company on 2 March 2010 on the websites of the stock exchanges in which it was listed.

(II) Continuing Connected Transactions after the Reporting Period

1. As approved by the Board, on 26 July 2010, the Company and Beijing Beer Asahi Co., Ltd. ("Beijing Asahi") entered into a *Product Sales Agreement* ("*Product Sales Agreement*"), whereby the Company or its designated distributors shall purchase all beer products produced by Beijing Asahi with the use of the trademarks as permitted by the Company ("Tsingtao Beer Products"), and have the exclusive right to sell the Tsingtao Beer Products for a period from 26 July 2010 to 31 December 2010. For the year ended 31 December 2010, the estimated total purchase amount payable by the Company and its subsidiaries shall not exceed RMB50 million. The Board had made full consideration of the factors including market demands for the products, production costs and sales plan when determining the annual cap for the year.

   As at the date of entering into the *Product Sales Agreement*, Asahi Breweries held a 72.82% interest in Beijing Asahi and had an equity of approximately 19.99% in the entire issued share capital of the Company, Beijing Asahi was a connected person of the Company under Chapter 14A of the *Listing Rules*. The entering into of and the transactions contemplated under the *Product Sales Agreement* thus constituted continuing connected transactions of the Company under Chapter 14A of the *Listing Rules*.

   As the applicable percentage ratios in relation to the transactions contemplated under the *Product Sales Agreement* are to be more than 0.1% but less than 2.5% on an annual basis, such transactions are subject to the reporting, annual review and announcement requirements, but are exempt from the independent shareholders' approval requirement under Chapter 14A of the *Listing Rules*. For details of the continuing connected transaction, please refer to the announcement published by the Company on 26 July 2010 on the websites of the stock exchanges in which it was listed.

2. On 30 July 2010, the Company had entered into an *Entrusted Processing Agreement* ("*Entrusted Processing Agreement*") with Hangzhou Xihu Beer Asahi Co., Ltd. ("Hangzhou Asahi"), whereby the Company shall purchase all Tsingtao Beer Products produced by Hangzhou Asahi with the use of the trademarks as permitted by the Company, and have the exclusive right to sell the Tsingtao Beer Products for a period from 30 July 2010 to 31 December 2010. For the year ended 31 December 2010, the estimated total purchase amount payable by the Company shall not exceed RMB14 million.

   As at the date of entering into the *Entrusted Processing Agreement*, Asahi Breweries indirectly controlled Hangzhou Asahi (held a 55% interest in it) and had an equity of approximately 19.99% in the entire issued share capital of the Company, Hangzhou Asahi was a connected person of the Company under Chapter 14A of the *Listing Rules*. The entering into of and the transactions contemplated under the *Entrusted Processing Agreement* thus constituted continuing connected transactions of the Company under Chapter 14A of the *Listing Rules*. As the applicable percentage ratios in relation to the transactions contemplated under the *Entrusted Processing Agreement* are to be less than 0.1% on an annual basis, such transactions are exempted under Chapter 14A of the *Listing Rules* being de minimis transactions.

VI REVIEW OF THE UNAUDITED INTERIM RESULTS

The Audit & Finance Committee under the Board has reviewed the Company's unaudited 2010 interim results.

VII CODE OF CORPORATE GOVERNANCE PRACTICE

The Company had been paying attention to the corporate governance and the transparency of it. 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 its shareholders can obtain rewards from sound corporate governance.

During the reporting period, the Company had been in compliance with Appendix 14 *Code of Corporate Governance Practice* of *the Listing Rules*.

Tsingtao Brewery Company Limited
Board of Directors

Qingdao, the People's Republic of China
13 August, 2010

The directors of the Company as at the date hereof are:

Executive Directors:	*Mr. JIN Zhi Guo (Chairman), Mr. WANG Fan (Vice-Chairman), Mr. SUN Ming Bo, Mr. LIU Ying Di and Mr. SUN Yu Guo*
Non-executive Directors:	*Mr. Fumio YAMAZAKI and Mr. TANG Jun*
Independent Non-executive Directors:	*Mr. FU Yang, Ms. LI Yan, Mr. POON Chiu Kwok and Ms. WANG Shu Wen*