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TSINGTAO BREWERY COMPANY LIMITED
(a Sino-foreign joint stock limited company established in the People's Republic of China)
(Stock Code: 168)

ANNOUNCEMENT OF 2011 INTERIM RESULTS

The Board of Directors 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 China Accounting Standard for Business Enterprises (“CAS”) for the six months ended 30 June 2011 (the “Reporting Period”).

I. FINANCIAL INFORMATION

(All amounts in RMB Yuan unless otherwise stated)

Consolidated Balance Sheet

	<i>Note</i>	30 June 2011 (Unaudited)	31 December 2010
ASSETS			
Current assets			
Cash at bank and on hand		7,542,134,054	7,597,958,091
Notes receivable		22,649,000	12,605,000
Accounts receivable	4	198,980,553	89,810,071
Advances to suppliers		126,242,843	49,775,991
Other receivables		171,123,593	188,917,414
Inventories		2,365,216,663	1,942,413,649
Other current assets		9,572,497	13,157,293
Total current assets		10,435,919,203	9,894,637,509
Non-Current assets			
Long-term receivables		2,000,000	2,000,000
Long-term equity investments		154,992,900	153,017,377
Fixed assets		5,868,739,700	5,511,053,295
Construction in progress		955,383,078	282,565,821
Fixed assets pending for disposal		5,895,625	3,148,488
Intangible assets		2,173,987,545	1,318,785,832
Goodwill		1,081,684,918	122,816,301
Long-term prepaid expenses		7,118,690	7,906,289
Deferred tax assets		462,328,722	332,191,308
Other non-current assets		477,605,271	148,993,638
Total Non-Current assets		11,189,736,449	7,882,478,349
TOTAL ASSETS		21,625,655,652	17,777,115,858

	<i>Note</i>	30 June 2011 (Unaudited)	31 December 2010
LIABILITIES AND OWNERS' EQUITY			
Current liabilities			
Short-term borrowings		173,372,514	196,216,646
Notes payable		112,713,201	70,711,200
Accounts payable	5	1,911,078,721	1,262,629,805
Advances from customers		400,920,397	775,414,619
Employee benefits payable		720,641,573	648,993,939
Taxes payable		832,165,782	514,219,277
Dividends payable		251,976,903	9,549,729
Other payables		3,684,452,444	2,520,112,525
Current portion of non-current liabilities		5,689,209	17,930,254
Total current liabilities		8,093,010,744	6,015,777,994
Non-current liabilities			
Long-term borrowings		468,530,577	10,722,061
Debentures payable		1,293,124,093	1,264,646,258
Long-term payables		1,000,000	1,625,414
Payables for specific projects		322,924,661	184,215,175
Deferred tax liabilities		221,415,399	31,094,094
Other non-current liabilities		709,657,592	549,289,390
Total non-current liabilities		3,016,652,322	2,041,592,392
Total liabilities		11,109,663,066	8,057,370,386
Owners' equity			
Share capital		1,350,982,795	1,350,982,795
Capital surplus		4,016,839,641	4,016,839,641
Surplus reserve		691,825,740	691,825,740
Undistributed profits	6	4,284,545,565	3,537,820,385
Difference on translation of foreign currency financial statements		6,264,587	5,643,471
Total equity attributable to equity holders of the Company		10,350,458,328	9,603,112,032
Minority interests		165,534,258	116,633,440
Total owners' equity		10,515,992,586	9,719,745,472
TOTAL LIABILITIES AND OWNERS' EQUITY		21,625,655,652	17,777,115,858

Consolidated Income Statement

		Six months ended 30 June	
	Note	2011	2010
		(Unaudited)	(Unaudited)
			(Restated)
ITEMS			
Revenue	7	12,049,983,553	9,927,822,034
<i>Less:</i> Cost of sales	7	(6,840,298,683)	(5,535,579,316)
Taxes and surcharges		(1,055,938,143)	(824,071,739)
Selling and distribution expenses		(2,375,755,752)	(2,135,152,543)
General and administrative expenses		(494,642,260)	(406,860,909)
Financial expenses — net		(2,373,512)	(28,930,300)
Asset impairment losses		(1,445,070)	4,430,862
<i>Add:</i> Investment income		1,975,523	5,804,544
Including: Share of profit of associates and jointly controlled entities		1,975,523	5,804,544
Operating profit		1,281,505,656	1,007,462,633
<i>Add:</i> Non-operating income		124,562,972	118,068,064
<i>Less:</i> Non-operating expenses		(14,675,952)	(13,688,764)
Including: Losses on disposal of non-current assets		(6,718,195)	(9,414,622)
Total profit		1,391,392,676	1,111,841,933
<i>Less:</i> Income tax expenses	8	(344,557,300)	(241,330,393)
Net profit		1,046,835,376	870,511,540
Attributable to equity holders of the Company		989,902,083	813,916,373
Minority interests		56,933,293	56,595,167
Earnings per share			
Basic earnings per share	9	0.733	0.602
Diluted earnings per share	9	0.733	0.602
Other comprehensive income		621,116	2,025,974
Total comprehensive income		1,047,456,492	872,537,514
Attributable to equity holders of the Company		990,523,199	815,942,347
Minority interests		56,933,293	56,595,167

Notes:

1. Basis of preparation

The financial statements were prepared in accordance with the Basic Standard and 38 specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006, and the Application Guidance for Accounting Standard for Business Enterprises, Interpretations of Accounting Standards for Business Enterprises and other relevant regulations issued thereafter (“the Accounting Standards for Business Enterprises”) and the disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 — General Provisions on Financial Reporting (revised 2010) issued by the China Securities Regulatory Commission.

2. Accounting policies

Changes in significant accounting policy in prior year that impact the comparing figures

Details and reasons for the changes	Procedures for approval	Affected items	Amount
<i>Treatment of minority shareholders of a subsidiary over losses in the financial statements</i>			
Before 1 January 2010, where the amount of loss for the current year attributed to the minority shareholders of a subsidiary exceeds the minority shareholders’ portion of the opening balance of owners’ equity of the subsidiary, the excess amount is allocated against owners’ equity attributed to the parent unless the minority shareholders have a binding obligation and are able to cover the loss.	There is no need for the approval of the Group since the change is required by CAS Interpretation No. 4.	Increase undistributed profit of the Group as of 1 January 2010, decrease minority interests and capital surplus of the Group as of 1 January 2010.	RMB256,571,094, RMB167,719,365 and RMB88,851,729, respectively.
Under CAS Interpretation No.4 issued by Ministry of Finance on 14 July 2010, where the amount of losses for the current year attributed to the minority shareholders of a subsidiary exceeds the minority shareholders’ portion of the opening balance of owners’ equity of the subsidiary, the excess amount is allocated against minority interests from 1 January 2010.		Increase minority interests of the Group, decrease net profit attributed to equity holders of the Company for six months ended 30 June 2010.	RMB16,119,949 respectively.

The aforesaid change in accounting policies is applied retrospectively, and has been disclosed in the financial statement for the year ended 31 December 2010.

The accounting policies adopted by the Group are consistent with those of the annual financial statements for the year ended 31 December 2010, as described in those annual financial statements.

3. Business combination involving entities not under common control

The significant business combination involving entities not under common control occurred during the period is disclosed as follows:

	Amount of goodwill	Calculation of goodwill
Shandong Xin Immense Brewery Company Limited (“Immense Brewery”)	958,868,617	The amount of the cost of combination over the acquirer’s interests in the fair value of the acquiree’s identifiable net assets acquired is recognised as goodwill. The calculation is as follow.

On 7 December 2010, the Company and its wholly owned subsidiary Tsingtao Brewery (Hong Kong) Trading Company Limited (“Hong Kong Company”) entered into an agreement with Xin Immense Brewery (Hong Kong) Company and China Skill Limited (collectively as the “Transferors”) to acquire 75% and 25% equity interest in Immense Brewery held by the Transferors respectively. The acquisition date of this transaction is 31 March 2011, on which the Group effectively obtains the rights to control Immense Brewery.

(i) Details of the cost of combination and goodwill recognised are as follows:

Cost of combination — Cash paid	1,874,866,697
<i>Less:</i> Fair value of the identifiable net assets acquired	<u>(915,998,080)</u>
Goodwill	<u><u>958,868,617</u></u>

(ii) The revenue, net profit and cash flows of Immense Brewery for the period from the acquisition date to 30 June 2011 are as follows:

Revenue	330,015,064
Net profit	16,242,863
Cash flows from operating activities	39,358,910
Net cash flows	39,263,068

4. Accounts receivable

	30 June 2011 (unaudited)	31 December 2010
Accounts receivable	447,209,019	337,912,495
<i>Less:</i> provision for bad debts	(248,228,466)	(248,102,424)
	<u><u>198,980,553</u></u>	<u><u>89,810,071</u></u>

The majority of the Group’s domestic sales are transacted at cash on delivery terms. The remaining transactions are settled by letters of credit or granted to customers with credit terms of 30 to 150 days.

The ageing of accounts receivable is analysed below:

	30 June 2011 (unaudited)	31 December 2010
Within 6 months	194,619,020	88,718,287
6 months to 1 year	4,394,375	329,036
1 to 2 years	373,754	1,558,400
2 to 3 years	1,482,107	1,891,312
Over 3 years	246,339,763	245,415,460
	447,209,019	337,912,495

5. Accounts payable

The ageing of accounts payable is analysed below:

	30 June 2011 (unaudited)	31 December 2010
Within 1 year	1,883,038,651	1,241,636,171
1 to 2 years	10,747,110	6,420,787
2 to 3 years	4,677,202	2,713,839
Over 3 years	12,615,758	11,859,008
	1,911,078,721	1,262,629,805

6. Undistributed profits

In accordance with the resolution at the Annual General Meeting dated on 16 June 2011, the Company proposed a cash dividend to equity holders of the Company of RMB243,176,903 (RMB0.18 per share (pre-tax)), based on total numbers of shares 1,350,982,795 (2010: cash dividend for 2009 RMB0.16 per share (pre-tax) at RMB216,157,247). As at 30 June 2011, the dividend has not been paid yet.

7. Revenue and cost of sales

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
Revenue from main operation	11,873,127,931	9,805,457,102
Revenue from other operation	176,855,622	122,364,932
	<u>12,049,983,553</u>	<u>9,927,822,034</u>
	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
Cost of main operation	(6,719,638,039)	(5,440,459,376)
Cost of other operation	(120,660,644)	(95,119,940)
	<u>(6,840,298,683)</u>	<u>(5,535,579,316)</u>

8. Income tax expenses

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
Current income tax calculated according to tax law and related regulations in mainland China	477,971,754	392,835,388
Current profits tax calculated according to tax law and related regulations in Hong Kong	3,597,585	2,029,705
Current profits tax calculated according to tax law and related regulations in Macau	807,336	—
Deferred income tax	(137,819,375)	(153,534,700)
	<u>344,557,300</u>	<u>241,330,393</u>

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

	Six months ended 30 June	
	2011	2010
	(unaudited)	(unaudited)
Total profit	1,391,392,676	1,111,841,933
Income tax expenses calculated at applicable tax rates	338,059,174	263,333,117
Expenses not deductible for tax purposes	25,196,654	8,509,880
Income not subject to tax	(5,604,445)	(12,242,506)
Utilisation of previously unrecognised deferred tax assets	(25,937,872)	(22,918,963)
Tax influence for which no deferred tax assets were recognised	12,843,789	4,648,865
	<u>344,557,300</u>	<u>241,330,393</u>

(1) Corporate income tax

(i) Corporate income tax of the Company

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 corporate income tax at 15%, which was effective from the date of establishment of the Company 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. For this purpose, the Company issued an announcement in relation to such matter on the websites of stock exchanges in the PRC and overseas, and in domestic newspapers on 6 July 2007.

On April 2008, the Company was informed by the governing local tax bureau that the applicable corporate income tax rate for the year ended 31 December 2007 was adjusted from 15% to 33%. 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 corporate income tax exposure in prior years had been made in the financial statements.

The applicable corporate income tax rate of the Company for the current year is 25%.

(ii) Corporate income tax of the subsidiaries

The applicable corporate income tax rate of the subsidiaries incorporated and operated in mainland China is 25% except for certain subsidiaries which are taxed at preferential tax rate of 12.5% or 24% based on the relevant PRC tax laws and regulations.

(2) Hong Kong profits tax and Macau profits tax

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profit for the period. Macau profits tax is imposed on the estimated taxable profits for the period at a progressive rate scale ranging from 3% to 12%.

9. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing consolidated net profit for the current period attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited) (Restated)
Consolidated net profit attributable to ordinary shareholders of the Company	989,902,083	813,916,373
Weighted average number of ordinary shares outstanding	1,350,982,795	1,350,982,795
Basic earnings per share	<u>0.733</u>	<u>0.602</u>
Including:		
— Basic earnings per share relating to continuing operations	0.733	0.602

(b) Diluted earnings per share

Diluted earnings per share is calculated by adjusted net profit for the current period attributable to ordinary shareholders by the adjusted weighted average number of ordinary shares outstanding. As there were no potential ordinary shares for the periods ended 30 June 2011 and 30 June 2010, diluted earnings per share are equal to basic earnings per share.

10. Segment information

As the Group is mainly engaged in the production and distribution of beer, the reportable segments of the Group are business units operating in different regions. Each region requires different marketing strategy, the Group, therefore, separately manages the production and operation of each reportable segment and evaluates their operating results respectively, in order to make decisions about resources to be allocated to these segments and to assess their performance.

Inter-segment transfer prices are based on mutually-agreed prices. Assets are allocated based on the location of segment operation and location of assets. Liabilities are allocated based on the location of segment operation. Expenses attributable indirectly to each segment are allocated among segments based on the proportion of revenue.

(a) Segment information as at and for the six months ended 30 June 2011 is as follow (unaudited):

	Shandong Region	Huanan Region	Huabei Region	Huadong Region	Dongnan Region	Hong Kong, Macau and other overseas	Unallocated	Elimination	Total
Revenue from external customers	5,994,655,353	2,240,327,440	1,863,049,009	921,361,900	802,762,642	227,827,209	—	—	12,049,983,553
Inter-segment revenue	1,109,793,564	117,748,165	347,934,681	73,068,187	30,640,924	57,642,071	—	(1,736,827,592)	—
Selling and distribution expenses	(1,316,257,901)	(480,846,927)	(195,235,549)	(153,013,324)	(178,032,254)	(52,369,797)	—	—	(2,375,755,752)
Interest income	5,402,549	3,880,082	7,249,795	1,206,487	658,269	58,608	30,536,232	—	48,992,022
Interest expenses	(228,118)	(4,133,211)	(14,753,256)	(3,731,486)	—	(63,156)	(40,477,835)	19,597,922	(43,789,140)
Share of profit of associates and jointly controlled entity	—	—	—	—	—	—	1,975,523	—	1,975,523
Asset impairment losses	(1,537,636)	24,071	394,657	(225,005)	(63,365)	(37,792)	—	—	(1,445,070)
Depreciation and amortisation	(112,921,764)	(81,861,393)	(54,152,193)	(34,893,140)	(11,634,631)	(915,370)	(20,746,530)	—	(317,125,021)
Total profit	831,532,417	310,351,202	206,289,650	14,825,918	62,488,928	58,797,059	(82,445,825)	(10,446,673)	1,391,392,676
Income tax expenses	(186,128,622)	(88,297,312)	(45,008,420)	142,527	(14,949,515)	(10,108,806)	(207,152)	—	(344,557,300)
Net profit	645,403,795	222,053,890	161,281,230	14,968,445	47,539,413	48,688,253	(82,652,977)	(10,446,673)	1,046,835,376
Total assets	8,433,263,689	3,577,573,861	3,078,682,845	1,784,519,870	974,409,032	172,822,391	5,022,234,819	(1,417,850,855)	21,625,655,652
Total liabilities	4,614,009,759	2,237,407,000	2,092,293,564	866,052,409	616,688,109	460,135,054	1,620,905,452	(1,397,828,281)	11,109,663,066
Long-term equity investments in associates and jointly controlled entity	—	—	—	—	—	—	153,684,258	—	153,684,258
Additions to non-current assets other than long-term equity investments	1,699,371,282	317,673,183	188,904,986	201,972,075	96,341,030	9,202,335	47,596,736	—	2,561,061,627

(b) Segment information as at and for the six months ended 30 June 2010 is as follow (unaudited):

	Shandong Region	Huanan Region	Huabei Region	Huadong Region	Dongnan Region	Hong Kong, Macau and other overseas	Unallocated	Elimination	Total
Revenue from external customers	4,809,927,715	1,883,467,071	1,540,248,302	910,432,545	590,224,037	193,522,364	—	—	9,927,822,034
Inter-segment revenue	475,637,034	104,642,249	271,167,393	25,454,571	41,019,106	83,991,963	—	(1,001,912,316)	—
Selling and distribution expenses	(1,213,221,112)	(405,272,160)	(173,364,929)	(171,779,325)	(115,914,053)	(55,600,964)	—	—	(2,135,152,543)
Interest income	13,435,300	3,072,767	4,005,241	415,026	344,501	63,923	—	—	21,336,758
Interest expenses	(98,010)	(2,441,908)	(14,945,181)	(3,035,659)	—	(184,351)	(38,363,161)	17,877,496	(41,190,774)
Share of profit of associates and jointly controlled entity	—	—	—	—	—	—	5,804,544	—	5,804,544
Asset impairment losses	3,278,878	567,539	319,045	(411,197)	682,597	(6,000)	—	—	4,430,862
Depreciation and amortisation	(91,320,858)	(82,706,084)	(49,057,624)	(30,011,843)	(11,706,314)	(627,573)	(14,287,388)	—	(279,717,684)
Total profit	654,536,115	258,593,957	145,769,649	31,996,415	64,425,182	27,924,179	(89,761,615)	18,358,051	1,111,841,933
Income tax expenses	(135,508,351)	(64,871,094)	(24,871,413)	(929,920)	(9,220,503)	(5,929,112)	—	—	(241,330,393)
Net profit	519,027,764	193,722,863	120,898,236	31,066,495	55,204,679	21,995,067	(89,761,615)	18,358,051	870,511,540
Total assets	4,766,575,875	3,417,176,185	2,575,481,778	1,443,959,257	644,247,694	233,728,174	5,493,484,960	(1,283,076,358)	17,291,577,565
Total liabilities	3,080,409,270	1,749,379,415	1,862,273,645	780,744,488	383,804,509	45,660,796	1,750,896,835	(1,376,757,762)	8,276,411,196
Long-term equity investments in associates and jointly controlled entity	—	—	—	—	—	—	147,822,768	—	147,822,768
Additions to non-current assets other than long-term equity investments	117,023,325	34,983,521	26,312,520	75,852,335	7,686,638	2,100	11,946,293	—	273,806,732

The Group's revenue from external customers in domestic and overseas, and the total non-current assets other than financial assets and deferred tax assets located domestically and in foreign countries or geographical areas are summarised as follows:

	Six months ended 30 June 2011 (unaudited)	Six months ended 30 June 2010 (unaudited)
Revenue from external customers		
Domestic	11,761,161,164	9,707,644,620
Hong Kong & Macau	131,236,764	104,930,580
Other overseas	157,585,625	115,246,834
	<u>12,049,983,553</u>	<u>9,927,822,034</u>
Total non-current assets		
Domestic	10,714,822,892	7,017,432,307
Hong Kong & Macau	10,584,835	2,071,899
	<u>10,725,407,727</u>	<u>7,019,504,206</u>
11. Net current assets		
	30 June 2011 (unaudited)	31 December 2010
Current assets	10,435,919,203	9,894,637,509
Less: Current liabilities	<u>(8,093,010,744)</u>	<u>(6,015,777,994)</u>
Net current assets	<u>2,342,908,459</u>	<u>3,878,859,515</u>
12. Total assets less current liabilities		
	30 June 2011 (unaudited)	31 December 2010
Total assets	21,625,655,652	17,777,115,858
Less: Current liability	<u>(8,093,010,744)</u>	<u>(6,015,777,994)</u>
Total assets less current liabilities	<u>13,532,644,908</u>	<u>11,761,337,864</u>
13. Contingencies		

As described in Note 8(1)(i), the Group's potential risk of income tax liabilities related to prior years has not been settled. The directors are of the view that the potential income tax liabilities could not be reliably estimated and therefore, no provision was made in these financial statements.

II. DIVIDENDS

The Company shall not distribute interim dividends for the six months ended 30 June 2011 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 2011

In the first half of 2011, the domestic beer market grew more rapidly with the continuous rapid growth of China's economy. The whole industry's output reached 235 million hl in aggregate, increasing 11.4% comparing with that of the same period in the previous year, and the growth rate increased 6 percentage points (statistics from the National Bureau of Statistics).

In the first half year, the Company continued to carry out its work guideline of "To explore the market with full efforts, to reduce the costs with full efforts, and to embrace the opportunities and prevent from the inflation with full efforts", firmly promoted and implemented the "Strategy of dual drivers", consolidated the core base markets, actively carried out the development strategies driven by the brands and the brand promotion strategy of "Three-in-one", and increased the efficiency of supply chain and the systematic competitiveness, all of which promoted the rapid growth of the Company's market size. In the first half year, the Company totally sold 37.5 million hl of beer, increasing 20.6% comparing with that of the same period in the previous year; sales revenues reached RMB11.87 billion, increasing 21.1% comparing with that of the same period in the previous year; net profits attributable to the shareholders of the parent company reached RMB0.99 billion, increasing 21.6% comparing with that of the same period in the previous year.

To resolve the rising pressure of the cost, the Company appositely adjusted the price of mid-high-end products in the first half year to keep the trend of the market sale's continuous growth. The sales volume of its principle brand, Tsingtao Beer, reached 20.3 million hl, increasing 23% comparing with that of the same period in the previous year.

In the first half year, the Company made further progress in the size expansion and improvement of domestic market layouts. The newly acquired Immense Brewery had begun to reveal its synergistic role in the market. In the second quarter, its sales volume reached 1.5 million hl, increasing 23% comparing with that of the same period in the previous year. The Company had started the technical reconstruction and expansion project for an annual output of 2 million hl after it acquired 80% equity interests in Hangzhou Zijintan Wine Co., Ltd. in March 2011. In the first half year, the Company had also started a new construction of beer project for an annual output of 2.5 million hl in Jieyang, Guangdong Province, and the relocation and expansion projects of Wuwei Company and Langfang Company, which established a sound foundation for the continuous growth in the future market.

(II) Analysis to Principal Financials during the Reporting Period (Calculated in accordance with CAS)

1. Analysis to the principal business and operational situations

Unit: RMB'000

Profit Items	Six months ended 30 June 2011	Six months ended 30 June 2010	Increased/ (Decreased) amount	Increase/ (Decrease) (%)
Revenue	12,049,984	9,927,822	2,122,162	21.4
Cost of sales	6,840,299	5,535,579	1,304,720	23.6
Selling and distribution costs	2,375,756	2,135,153	240,603	11.3
General and administrative expenses	494,642	406,861	87,781	21.6
Finance expenses — net	2,374	28,930	(26,556)	(91.8)
Investment incomes	1,976	5,805	(3,829)	(66.0)

(1) The revenue increased 21.4% comparing with that of the same period in the previous year, which was mainly due to the increase of the 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	Revenue	Cost of sales	Operating profit rate (%)	Increase of revenue (%)	Increase of cost of sales (%)	Decrease of operating profit rate (%)
By industries						
Beer	11,873,128	6,719,638	34.51	21.09	23.51	(1.60)
By products						
Beer	11,873,128	6,719,638	34.51	21.09	23.51	(1.60)

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

(ii) Table of principal business by geographical markets

Unit: RMB'000

Region	Incomes of principal business	Increase (%)
Shandong Province	6,290,846	24.5
South China	2,321,187	18.0
North China	2,189,875	21.7
East China	977,386	5.6
South-East China	826,550	32.4
Hong Kong, Macau and other overseas	218,639	20.1
Sub-total	12,824,483	21.5
<i>Less: Eliminations</i>	<u>(951,355)</u>	27.3
Total	<u><u>11,873,128</u></u>	21.1

(2) *Cost of sales*

In the first half of 2011, the cost of sales of the Group increased 23.6% comparing with that of the same period in the previous year, which was mainly due to the expansion of sales scale and the price-hike of raw materials during the Reporting Period.

(3) *Expenses during the period*

- (i) In the first half of 2011, the selling and distribution expenses increased 11.3% comparing with that of the same period in the previous year, which was mainly due to the higher growth of sales volume, the increase of loading and transportation fees, employees' remunerations and promotional expenses during the Reporting Period.
- (ii) In the first half of 2011, the general and administrative expenses increased 21.6% 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 employees' remunerations during the Reporting Period.
- (iii) In the first half of 2011, the net financial expenses decreased 91.8% comparing with that of the same period in the previous year, which was mainly due to the increase of interests received during the Reporting Period.

(4) *Investment incomes*

In the first half of 2011, the investment incomes decreased 66.0% comparing with that of the same period in the previous year, which was mainly due to the decrease of net profits from the Company's associates during the Reporting Period.

2. *Interpretation of composition of assets/liabilities*

Items	30 June 2011	31 December 2010	Unit: RMB'000	
			Increased/ (Decreased) amount	Increase/ (Decrease) (%)
Notes receivable	22,649	12,605	10,044	79.7
Accounts receivable	198,981	89,810	109,171	121.6
Advances to suppliers	126,243	49,776	76,467	153.6
Construction in progress	955,383	282,566	672,817	238.1
Intangible assets	2,173,988	1,318,786	855,202	64.8
Goodwill	1,081,685	122,816	958,869	780.7
Deferred tax assets	462,329	332,191	130,138	39.2
Other non-current assets	477,605	148,994	328,611	220.6
Notes payable	112,713	70,711	42,002	59.4
Accounts payable	1,911,079	1,262,630	648,449	51.4
Advances from customers	400,920	775,415	(374,495)	(48.3)
Taxes payable	832,166	514,219	317,947	61.8
Other payables	3,684,452	2,520,113	1,164,339	46.2
Current portion of non-current liabilities	5,689	17,930	(12,241)	(68.3)
Long-term borrowings	468,531	10,722	457,809	4,269.8
Long-term payables	1,000	1,625	(625)	(38.5)
Payables for specific projects	322,925	184,215	138,710	75.3
Deferred tax liabilities	221,415	31,094	190,321	612.1
Minority interests	165,534	116,633	48,901	41.9

(1) *Notes receivable*

By the end of the Reporting Period, the notes receivable increased 79.7% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of accepted bank bills of exchange received from some subsidiaries as the growth of sales during the Reporting Period.

(2) *Accounts receivable*

By the end of the Reporting Period, the accounts receivable increased 121.6% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of account receivables contributed by the newly merged and acquired subsidiaries during the Reporting Period.

(3) *Advances to suppliers*

By the end of the Reporting Period, the advances to suppliers increased 153.6% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of prepayments made by some subsidiaries for the purchase of raw materials during the Reporting Period.

(4) *Construction in progress*

By the end of the Reporting Period, the construction in progress increased 238.1% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of the investments for the technical reconstruction and expansion, and the construction of the relocated plants of some subsidiaries.

(5) *Intangible assets*

By the end of the Reporting Period, intangible assets increased 64.8% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of intangible assets including brands and sales network from the newly acquired subsidiaries, land utilization right of the relocated plants.

(6) *Goodwill*

By the end of the Reporting Period, the goodwill increased 780.7% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of goodwill from the acquisition of equity interests in Immense Brewery during the Reporting Period.

(7) *Deferred tax assets*

By the end of the Reporting Period, the deferred tax assets increased 39.2% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of the deferred income tax assets recognized as a result of increased accrued expenses.

(8) *Other non-current assets*

By the end of the Reporting Period, the other non-current assets increased 220.6% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of prepayments for the investments to the relocated plants and new constructions.

(9) *Notes payable*

By the end of the Reporting Period, the notes payable increased 59.4% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of purchase of raw materials for the production in the peak seasons of the year.

(10) *Accounts payable*

By the end of the Reporting Period, the accounts payable increased 51.4% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of purchase of raw materials for the production in the peak seasons of the year.

(11) Advances from customers

By the end of the Reporting Period, the advances from customers decreased 48.3% comparing with that at the beginning of the Reporting Period, which was mainly due to the decrease of goods sold by way of receiving advance from the customers.

(12) Taxes payable

By the end of the Reporting Period, the taxes payable increased 61.8% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of value-added taxes payable and income taxes payable caused by the increase of total amount of sales revenues and profits during the Reporting Period.

(13) Other payables

By the end of the Reporting Period, the other payables increased 46.2% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of sales volume leading to the increase of accruals of some subsidiaries.

(14) Banking facilities

By the end of the Reporting Period, the short-term borrowings decreased 11.6% comparing with that at the beginning of the Reporting Period, which was mainly due to the repayment of matured bank borrowings made by some subsidiaries.

By the end of the Reporting Period, the current portion of non-current liabilities decreased 68.3% comparing with that at the beginning of the Reporting Period, which was mainly due to the maturity of the Hong Kong Company's long-term borrowings to mature within 1 year.

By the end of the Reporting Period, the long-term borrowings increased 4,269.8% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of bank borrowings of the Hong Kong Company.

By the end of the Reporting Period, the total amount of banking facilities of the Group was RMB645,763,000, which included RMB173,373,000 of short-term borrowings and RMB472,390,000 of long-term borrowings. Among the long-term borrowings, those would mature within 1 year were amounted to RMB3,859,000, those would mature in 1-5 years were amounted to RMB465,074,000, and those would mature over 5 years were amounted to RMB3,457,000.

By the end of the Reporting Period, the borrowings in Renminbi were amounted to RMB67,000,000, borrowings in Hong Kong dollar were amounted to RMB565,681,000, borrowings in Euro were amounted to RMB8,075,000, and borrowings in Danish krone were amounted to RMB5,007,000.

All borrowings of the Group were affected by the fluctuation of the interest rate in the market. As at the settlement date, the effective annual interest rate of Renminbi and Hong Kong dollar were 5.454% and 1.01% respectively.

(15) Payables for specific projects

By the end of the Reporting Period, the payables for specific projects increased 75.3% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of the compensations received by some subsidiaries from the local governments for the relocation.

(16) *Deferred tax liabilities*

By the end of the Reporting Period, the deferred tax liabilities increased 612.1% comparing with that at the beginning of the Reporting Period, which was mainly due to the recognition of deferred tax liabilities on the differences between the fair value and the carrying amount of the identifiable net assets obtained in business combination involving entities not under common control.

(17) *Minority interests*

By the end of the Reporting Period, the minority interests increased 41.9% comparing with that at the beginning of the Reporting Period, which was mainly due to the increase of minority interests of the newly merged subsidiaries, and the increase of investment made by the minority shareholders.

3. *Analysis of cash flow*

Items	<i>Unit: RMB'000</i>			
	Six months ended 30 June 2011	Six months ended 30 June 2010	Increased/ (Decreased) amount	Increase/ (Decrease) (%)
Cash flow from operating activities — net	2,127,011	2,657,933	(530,922)	(20.0)
Cash flow from investing activities — net	(2,503,082)	(288,943)	(2,214,139)	(766.3)
Cash flow from financing activities — net	319,678	(50,911)	370,589	727.9
Net increase in cash and cash equivalents	(58,409)	2,316,487	(2,374,896)	(102.5)

- (1) The cash flow from operating activities decreased 20.0% comparing with that of the same period in the previous year, which was mainly due to the growth of cash out-flow from operating activities higher than that of cash in-flow from operating activities as the price-hike of raw materials and labor costs during the Reporting Period.
- (2) The cash flow from investing activities decreased 766.3% comparing with that of the same period in the previous year, which was mainly due to that, firstly, the increase of cash paid for the acquisition of some subsidiaries during the Reporting Period comparing with that of the same period in the previous year; secondly, the increase of cash paid for the expenses for the technical reconstruction and expansion for some subsidiaries, and for the fixed assets of the new constructions during Reporting Period comparing with that of the same period in the previous year;.
- (3) The cash flow from financing activities increased 727.9% comparing with that of the same period in the previous year, which was mainly due to the increase of cash as the Hong Kong Company obtained bank borrowings during the Reporting Period.

4. Interpretation for other operational situations

(1) Debt/Capital ratio

On 30 June 2011, the Group's debt/capital ratio was 14.5% (11.7% on 31 December 2010). 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 at 30 June 2011, none of the bank borrowings of the Group was with mortgage (Nil as at 31 December 2009).

(3) Risk of fluctuation of exchange rate

As the balance of the borrowings dominated in foreign currencies is mainly in Hong Kong dollar, and the business transactions settled in foreign currencies are not material, the directors of the Group are of the view that the Group's exposure to foreign exchange risk would be immaterial.

(4) Capital expenses

In 2011, the Company continues to 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 in-flow of operational cash flow to satisfy the needs for funds for the Company's capital projects.

(5) Investments

For details please refer to the enclosed Notes to Financial Statements.

(6) Contingent liabilities

For details please refer to the enclosed Notes to Financial Statements.

(III) Outlook for the Second Half of 2011

In June 2011, the Company successfully elected a new Board. The 7th Board and the management team, based on the analysis on the trend of industry competition, with the ambition and motivation, timely adjusted and improved the Company's development strategies, and raised and determined a goal of striving to make its beer sales reach 100 million hl in 2014, and reserving and raising its leading position in the industry.

The Company will, with the opportunities, continue to expand its size and improve the market layout through relocation and expansion, mergers and acquisitions, and new constructions to strengthen its competitiveness in the domestic market, and meanwhile continue to improve its market sales networks, strengthen its cultivation of the key distributors, set up the concept of full-staff marketing and strengthen its implementation, which to realize the Company's continuous and fast growth of the market sale.

IV. SIGNIFICANT EVENTS

(I) Acquisition of Equity Interests and Investments in Target Companies during the Reporting Period

1. As approved by the Board, on 7 December 2010, the Company and Hong Kong Company, entered into an equity transfer contract with Immense Brewery (Hong Kong) Limited and China Skill Limited (collectively, the “Vendor”), whereby the Company and Hong Kong Company agreed to respectively acquire 75% and 25% equity interests held by the Vendor in Immense Brewery. For details of the acquisition, please refer to the announcement published on 7 December 2010 on the websites of the stock exchanges on which the Company is listed. The change of registration at the industrial and commercial administration for the aforesaid acquired equity interests in Immense Brewery has been completed on 31 March 2011, and Immense Brewery thus became a wholly-owned subsidiary of the Group.
2. As approved by the Board, on 26 March 2011, the Company acquired 80% equity interests in Hangzhou Zijintan Wine Co., Ltd. (the “Target Company”) for a consideration of sixty six million Renminbi, and invested one hundred and fifty million Renminbi to increase the Target Company’s capital, and for the technical reconstruction and expansion for an annual output of 2 million hl. The Board is of the view that, the acquisition of the Target Company’s equity interests is beneficial for the Company to improve its strategic layout in the east China market, helps improve the Company’s competitiveness in the market in Zhejiang Province. As at 2 April 2011, the change of registration at the industrial and commercial administration for the aforesaid acquisition of the Target Company’s equity interest had been completed, the Target Company thus became a wholly-controlled subsidiary of the Company and was renamed as Tsingtao Brewery (Hangzhou) Company Limited.

(II) Information on the Approval for the Company to Establish a Group Finance Company

To fully utilize the Company’s advantages at the centralized management of the funds, and to improve the Company’s finance management and capital operations, as approved by the Board, the Company established Tsingtao Brewery Finance Company Liability Limited (“Finance Company”) with sole investment of capital fund of RMB300 million. During the Reporting Period, the Company had completed the preparation and opening work of the Finance Company. The Finance Company had been permitted to open after receiving on 26 May 2011 from China Banking Regulatory Commission (“CBRC”) the *Reply by CBRC on the Opening of Tsingtao Brewery Finance Company Liability Limited* (No. YJF[2011]155), receiving the license of business corporation on 31 May 2011 issued by the State Administration for Industry and Commerce of Qingdao, and receiving the Financial License for the non-banking financial institutes issued by CBRC.

(III) 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 supplementary agreement entered between the Company and Tsingtao Brewery Group Company Limited (“Group Company”), the Company went on to manage the Group Company’s 80% equity interests in Tsingtao Brewery (Yangzhou) Company Limited (“Yangzhou Company”) as its custodian and included into the consolidating scope of financial statements 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.
4. As approved by the Board, on 8 July 2011, Tsingtao Brewery (Jieyang) Company Limited was established with the capital fund of RMB150 million as solely invested by the Company. The Company had started the project of the new construction of a brewery with the annual output of 2.5 million hl in the economic development zone in Jieyang, Guangdong Province. It is planned to invest approximately RMB401.46 million for the construction of fixed assets in this project. At present, the project of the construction of the brewery is in planning and designing.

V. REVIEW OF THE UNAUDITED INTERIM RESULTS

The Audit & Finance Committee under the Board has reviewed the unaudited interim results of the Group for the six months ended 30 June 2011.

VI. CODE OF CORPORATE GOVERNANCE PRACTICE

The Company has been committing 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 its shareholders can obtain rewards from sound corporate governance.

During the Reporting Period, the Company had been in compliance with the *Code of Corporate Governance Practice*, Appendix 14 to the *Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited*.

By order of the Board
Tsingtao Brewery Company Limited
Chairman
JIN Zhi Guo

Qingdao, the People's Republic of China
12 August 2011

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, Ms. JIANG Hong and Mr. SUN Yu Guo

Non-executive Directors: Mr. Fumio YAMAZAKI and Mr. CHEN Zhi Cheng

Independent Non-executive Directors: Mr. WANG Xue Zheng, Mr. ZHAO Chang Wen, Mr. WU Xiao Bo
and Mr. MA Hai Tao