NOTES TO THE FINANCIAL STATEMENTS

(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)

(Amounts expressed in RMB unless otherwise stated)

1. ORGANISATION AND PRINCIPAL ACTIVITIES

Tsingtao Brewery Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 16th June, 1993 and obtained a Sino-foreign Joint Stock Company business license on 27th December, 1995. Its "H" shares have been listed on The Stock Exchange of Hong Kong Limited since 15th July, 1993 and the "A" shares have been listed on the Shanghai Stock Exchange since 27th August, 1993.

The Company is principally engaged in the production and distribution of beer products. The subsidiaries and associated companies are principally engaged in the production and domestic trading of beer products.

2. PRINCIPAL ACCOUNTING POLICIES

a. Basis of presentation

The financial statements of the Company and its subsidiaries (collectively referred to as the "Group") have been prepared under the historical cost convention as modified by the valuation of certain fixed assets and intangible assets, in accordance with Statements of Standard Accounting Practice issued by the Hong Kong Society of Accountants and accounting principles generally accepted in Hong Kong, the disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements include the audited financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal as appropriate. All significant intra-group transactions and balances have been eliminated on consolidation.

b. Turnover

Turnover represents sales at invoiced value of goods supplied to customers net of the applicable consumption tax and discounts and returns.

c. Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the Company and the revenue and costs, if applicable, can be measured reliably, turnover and other revenues are recognised on the following bases:

(i) Sale of goods

Sale of goods is recognised when the significant risks and rewards of ownership of the goods has been transferred to customers.

(ii) Interest income

Interest income from bank deposits is recognised on a time proportion basis on the principal outstanding and at the rate applicable. Interest income from investments in securities is accounted for to the extent of interest received or receivable.

(iii) Dividend income

Dividend income is recognised when the right to receive payment is established.

(iv) Subsidy income

Subsidy income is recognised when the right to receive payment is established.

d. Fixed assets and depreciation

Fixed assets are stated at cost or valuation amount less accumulated depreciation. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the income statement in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets, the expenditure is capitalised as an additional cost of the fixed assets. Except for land use rights which has no estimated residual value, depreciation is provided on a straight-line basis to write off the cost or valuation of the assets over their estimated useful lives, after taking into account their estimated residual value of 3% of cost. The estimated useful lives of fixed assets are as follows:

(Amounts expressed in RMB unless otherwise stated)

Land use rights	Terms of the rights (50 years)
Buildings	20 - 40 years
Plant and machinery	10 - 14 years
Motor vehicles	5 - 12 years

As a result of a group reorganisation on 16th June, 1993, certain fixed assets were injected by the founding shareholders into the Company at the value agreed amongst the founding shareholders and as approved by the State Owned Assets Administration Bureau of the PRC. Since that date, depreciation of these fixed assets is provided on a straight-line basis to write off the revalued amount of the assets over their remaining estimated useful lives. All fixed assets acquired or constructed subsequent to that date are stated at cost.

The Company has taken advantage of the transitional provisions set out in paragraph 72 of Statement of Standard Accounting Practice 17, "Property, Plant and Equipment" issued by the Hong Kong Society of Accountants, with the effect that certain fixed assets are stated at revalued amount, which was determined prior to 30th September, 1995, and has not been updated to reflect its fair value at the balance sheet date.

A write-down will be made if the recoverable amount of fixed assets is below the carrying amount. The write-down will be charged to the income statement as expense unless it reverses a previous revaluation increase, in which case, it is charged directly against any related revaluation reserve to the extent that the reduction does not exceed the amount held in the revaluation reserve in respect of the same item. In determining the recoverable amount, expected future cash flows are discounted to their present values. A subsequent increase in the recoverable amount of an asset carried at depreciated cost is written back when the circumstances that led to the write-down cease to exist. The amount written back is reduced by the amount that would have been recognised as depreciation had the write-down not occurred.

Gains and losses on disposal of fixed assets are recognised in the income statement based on the net disposal proceeds less the then carrying amount of the assets.

e. Construction-in-progress

Construction-in-progress represents buildings and plants under construction and machinery and equipment under installation and testing, and is stated at cost. This includes cost of construction, machinery and equipment and other direct costs plus interest charges used to finance these projects during the construction period.

Construction-in-progress is not depreciated until such time as the assets are completed and are ready for its intended use.

f. Long-term investments

Held-to-maturity securities

Held-to-maturity securities are bond investments which the Company has the expressed intention and ability to hold to maturity. They are carried at amortised cost less any provision for impairment in value.

The carrying amounts of held-to-maturity securities are reviewed at each balance sheet date to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when the carrying amounts are not expected to be recovered and are recognised as an expense in the income statement.

Provisions against the carrying value of held-to-maturity securities are reversed to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of held-to-maturity securities, any profit and loss thereon is accounted for in the income statement.

Investment securities

Securities, which include both debt and equity securities, intended to be held on a continuing basis, are classified as investment securities and are included in the balance sheet at cost less any provision for impaiment in value.

The carrying amounts of investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When such a decline has occurred, the carrying amounts are reduced and the reduction is recognised as an expense in the income statement unless there is evidence that the decline is temporary.

Provisions against the carrying value of investment securities are reversed to the income statement when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of the investment securities, any profit and loss thereon is accounted for in the income statement.

g. Subsidiaries and associated companies

A subsidiary is a company in which the Company holds, directly or indirectly, more than 50% of its issued share capital, or has control over its board of directors.

An associated company is an enterprise in which the Company has significant influence, but not control or joint control, and thereby has the ability to participate in their financial and operating policy decisions. In the consolidated financial statements, associated companies which have a material impact on the financial position or operating results of the Group are accounted for using the equity method of accounting whereby the investment in associated companies is initially recorded at cost and the carrying amount is adjusted to recognise the Group's share of the post-acquisition profits or losses of the associated companies, distributions received from the associated companies and other necessary alterations in the Group's proportionate interest in the associated companies arising from changes in the equity of the associated companies. The consolidated income statement reflects the Group's share of the operations of the associated companies.

Goodwill and capital reserve represent respectively the excess or shortfall of the purchase consideration over the fair value of the Group's share of identifiable net assets of subsidiaries or associated companies acquired. Goodwill is amortised over ten years starting from the year of acquisition while capital reserve is credited directly to reserves in the year of acquisition. On the disposal of an interest in subsidiary or associated company, the gain or loss on disposal is calculated as the difference between the sale proceeds and the Group's share of the net assets of the subsidiary or associated company disposed of, together with any attributable amounts of goodwill or capital reserve which remains unamortised or have previously been dealt with in reserves and not in the income statement.

In the Company's balance sheet, investments in subsidiaries and associated companies are stated at cost less provision for impairment in value, other than temporary, where considered necessary by the directors. The results of the subsidiaries and associated companies are recorded in the financial statements of the Company to the extent of dividends declared.

h. Intangible assets

Intangible assets are measured initially at cost. Intangible assets are recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the enterprise; and the cost of the asset can be measured reliably. After initial recognition, intangible assets are measured at cost less accumulated amortisation and any accumulated impairment losses.

Amortisation is provided on a straight-line basis to write off the cost of the intangible assets over their estimated useful lives. The estimated useful lives of intangible assets are as follows:

Trademarks	40 years
Technology know-how	10 years

The carrying value of intangible assets are reviewed at each financial year end. If the expected useful life of the asset is significantly different from previous estimates the amortisation period will be changed accordingly.

i. Inventories

Inventories are carried at the lower of cost and net realisable value. Cost is based on the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Low-value consumables are amortised into expenses over 2-5 years using the straight-line method.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

j. Operating leases

Leases where substantially all the risks and rewards of ownership of the assets remain with the leasing company are accounted for as operating leases. Operating lease rentals are charged to the income statement on a straight-line basis over the period of the relevant leases.

k. Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the asset. Interest is capitalised at the weighted