

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)**(Prepared in accordance with Generally Accepted Accounting Principles in Hong Kong)***(Amounts expressed in RMB unless otherwise stated)*

rectly 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

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average cost of the related borrowings up to the date of completion of the assets. All other borrowing costs are charged to the income statement in the year in which they are incurred.

l. Retirement benefits

Retirement benefits to retired employees and contributions to a government retirement benefit scheme are charged to the income statement as incurred.

m. Taxation

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

Deferred taxation is provided for using the liability method, at the current tax rate, in respect of timing differences between profit as computed for taxation purposes and profit as stated in the financial statements, except where it is considered that no liability will arise in the foreseeable future. A deferred tax asset is not recognised unless the related benefits are expected to crystallise in the foreseeable future.

n. Foreign currency translation

Individual companies within the Group maintain their books and records in the primary currencies of their respective operations ("functional currencies"). In the accounts of the individual companies, transactions in other currencies during the year are translated into the respective functional currencies at the applicable rates of exchange prevailing at the time of the transactions; monetary assets and liabilities denominated in other currencies are translated into their respective functional currencies at the applicable rates of exchange in effect at the balance sheet date. Exchange gains or losses are dealt with in the income statements of the individual companies.

The Group prepares consolidated financial statements in Renminbi ("RMB"). For the purpose of consolidation, assets and liabilities of subsidiaries with functional currencies other than RMB are translated into RMB at the applicable rates of exchange in effect at the balance sheet date; shareholders' equity items are translated into RMB at historical rates; income and expense items are translated into RMB at the average applicable rates during the year. Exchange differences arising from such translations are dealt with as movements of the cumulative translation adjustment account.

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*(Amounts expressed in RMB unless otherwise stated)***3. RELATED PARTY TRANSACTIONS**

Parties are considered to be related if one company has the ability, directly or indirectly, to control or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence.

- a. For the year ended 31st December, 2000, the Group and the Company had the following material transactions with related parties:

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Sales to associated companies	22,388	82,434
Sales to related companies under the same management as the Group	60,831	—
Purchases from an associated company	27,461	7,410
Purchases from related companies with the same major shareholder as the Group	32,304	22,953
Equipment and installation services provided by a related company with the same major shareholder as the Group	4,132	7,037

All transactions with related parties are made in the ordinary course of business and on the basis of estimated market value of the transactions as determined by the directors of the Group companies and the related parties.

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- b. As at 31st December, 2000, the Group and the Company had the following significant current balances with related parties:

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Included in:				
Accounts receivable	134,715	136,542	193,947	155,910
Deposits and prepayments	180	3,304	—	—
Other receivables	118,544	14,024	687,011	261,627
Advances from customers	—	3,670	1,192	4,004
Other payables	45,419	11,058	59,545	16,012
Accounts payable	10,461	—	24,069	1,542

The Group's and the Company's current balances with related parties are unsecured, non-interest bearing and have no fixed repayment term.

- c. In August 2000, the Company acquired a 56.21% ownership in the beer production assets and liabilities originally owned by Laoshan Brewery from Tsingtao Brewery Group Co. Limited ("Group Co.") in exchange for certain aged accounts receivable balances at their book value of approximately RMB29,619,000.
- d. In December 2000, the Company entered into an agreement with Group Co. to sell certain accounts receivable balances aged over 3 years to the Group Co. at their book value of approximately RMB29,760,000. The consideration for the sale was fully settled in the same month.
- e. Amount due from a minority shareholder of a subsidiary was unsecured, non-interest bearing and has no fixed repayment term.
- f. The Group and the Company have loans amounting to RMB2,031,505,000 (1999: RMB844,555,000) and RMB1,419,258,000 (1999: RMB768,720,000) respectively which are guaranteed by a related company with the same major shareholder as the Group.
- g. The Group has loans amounting to RMB244,000,000 (1999: RMB255,071,000) which are guaranteed by the minority shareholders of a subsidiary.

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4. TURNOVER AND OTHER REVENUES

No geographical or business segmentation analysis is provided as less than 10% of the consolidated turnover and less than 10% of the consolidated trading results from operations of the Group are attributed to markets outside the PRC, or business segments other than production and sale of beer.

5. PROFIT BEFORE TAXATION

The consolidated profit before taxation was determined after charging (crediting) the following items:

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Amortisation of intangible assets	5,319	3,431
Depreciation of fixed assets	264,597	176,922
Amortisation of goodwill	271	—
Loss on disposal of fixed assets	7,985	6,985
Auditors' remuneration	2,461	2,900
Operating lease rentals	13,766	11,422
Provision for doubtful debts	76,185	64,063
Write back of provision for doubtful debts	(59,379)	(43,098)
Net realisable value provision for inventories	1,393	2,670
Interest income on		
-Bank deposits	(17,431)	(9,844)
-Held-to-maturity bond investments	(2,799)	(2,799)
Interest expenses (a)	114,004	58,395
Amortisation of bond premium	832	832
Exchange (gain) loss, net	(3,405)	4,567
Staff costs (including directors' emoluments)	287,862	179,474
Directors' emoluments (b)	301	271
Pension and retirement fund contributions	<u>27,590</u>	<u>19,598</u>

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a. Interest expenses

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Interest expenses on bank and other loans		
-wholly repayable within 5 years	120,660	58,395
-not wholly repayable within 5 years	—	—
	<u>120,660</u>	<u>58,395</u>
Less: Interest capitalised	(6,656)	—
Total	<u>114,004</u>	<u>58,395</u>

b. Directors' and management's emoluments**Directors' emoluments**

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Directors' fees	—	—
Salaries, allowances and benefits-in-kind	282	252
Performance related bonuses	—	—
Retirement fund contributions	19	19
Compensation paid for loss of office	—	—
Total	<u>301</u>	<u>271</u>

Management's emoluments

Details of emoluments paid to the five highest paid individuals (including directors and employees) are as follows:

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Salaries, allowances and benefits-in-kind	449	340
Performance related bonuses	—	—
Retirement fund contributions	19	32
Compensation paid for loss of office	—	—
Total	<u>468</u>	<u>372</u>

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Supervisory committee members' emoluments

The aggregate amount of the five existing and former committee members' emoluments are as follows:

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Salaries, allowances and benefits-in-kind	150	134
Performance related bonuses	—	—
Retirement fund contributions	19	19
Compensation paid for loss of office	—	—
Total	<u>169</u>	<u>153</u>

Out of the five highest paid individuals, two were directors of the Company, whose emoluments have been included in the disclosures above. For the year ended 31st December, 2000, emoluments of each of the five highest paid individuals (including directors, supervisory committee members and employees) were less than RMB1,000,000 and no director has waived or agreed to waive any emoluments. During the year, no emoluments were paid to the five highest paid individuals (including directors, supervisory committee members and employees) as an inducement to join the Company or as compensation for loss of office. No emoluments were paid to non-executive directors.

6. TAXATION**a. Profits tax**

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Hong Kong profits tax (i)	686	—
PRC Enterprise Income Tax ("EIT") (ii)	52,234	37,837
Deferred taxation (iii)	(6,010)	—
Less: Subsidy income (iv)	<u>(13,257)</u>	<u>(8,933)</u>
	<u>33,653</u>	<u>28,904</u>