

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)

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>

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(i) Hong Kong profits tax has been provided at the rate of 16% (1999: 16%) on the estimated assessable profit for the year. No Hong Kong profits tax was provided for in 1999 as the Group did not earn any income assessable under Hong Kong profits tax in 1999.

(ii) In accordance with an approval document dated 18th April, 1994 issued by the State Administration for Taxation ("SAT") of the PRC, net profit earned by the Company is subject to profits tax at 15% effective from the date of establishment of the Company. This rate will remain effective until and unless the enterprise income tax law and regulations provide otherwise. The Company received confirmation of the preferential tax rate from the Qingdao Ministry of Finance on 23rd March, 1997.

According to an approval received from Xi'an Municipal People's Government at the time of its acquisition, Tsingtao Brewery Xi'an Company Limited is subject to EIT at a rate of 15%. Pursuant to Shi Cai Fa [2000] No. 1282 issued by Xi'an Municipal Finance Department, the tax benefit will be terminated in year 2002 at which time the company will be subjected to EIT at a rate of 33%.

Shenzhen Tsingtao Sales Company Limited is established and operating in the Shenzhen Special Economic Zone and accordingly is subject to EIT at a rate of 15%.

Tsingtao Brewery (Zhuhai) Company Limited is established and operating in the Zhuhai Special Economic Zone and accordingly is subject to EIT at a rate of 15%.

Other subsidiaries are subject to EIT at a rate of 33%.

(iii) According to current PRC enterprise income tax regulations, the deductible advertising expenses are limited to 2% of turnover and all undeducted amounts can be carried forward indefinitely for deduction in future years. As at 31st December 2000, the Company had recognised a deferred tax asset of approximately RMB 6,010,000 (1999: Nil) in the financial statements, which represents the tax effect of the undeducted advertising expenses of the current year where the tax benefits are expected to crystallise in the foreseeable future.

(iv) As part of the merger with or acquisition of subsidiaries undertaken by the Group in the current year and in prior years, the Group entered into agreements with relevant municipal governments. Under the terms of the agreements, the newly established subsidiaries will enjoy various financial incentives granted by the relevant municipal governments, including financial subsidies based on the amount of EIT paid by the subsidiaries. In the current year, such financial subsidies amounted to approximately RMB13,257,000 (1999: RMB8,933,000).

Other subsidies, based on other taxes paid by the Group, of approximately RMB40,021,000 (1999: RMB29,603,

000) were recognised as a reduction of the corresponding tax expenses or as other revenues.

Pursuant to Guofa [2000] No.2 issued by State Council of the PRC in January 2000 and CaiShui [2000] No.99 issued by Ministry of Finance of the PRC in July 2000, the above financial subsidies granted by municipal governments to the subsidiaries might cease to be available to the subsidiaries in the future. The Company's directors are not aware of any reasons that the said financial subsidies will not be available to the subsidiaries.

b. Value-added tax

The Company is subject to value-added tax ("VAT") which is the principal indirect tax on the sales of tangible goods and the provision of certain specified services ("output VAT"). Output VAT is calculated at 17% of the invoiced value of sales and is payable by the customer in addition to the invoiced value of sales. The Company pays VAT on its purchases ("input VAT") which is deducted against output VAT in arriving at the net VAT amount payable to the PRC Government. All VAT paid and collected are recorded through the VAT payable account included in tax payable on the balance sheet.

c. Consumption tax

Pursuant to the SAT regulations, consumption tax of RMB220 per ton is charged on the sales of beer.

7. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

Approximately RMB98,426,000 (1999: RMB86,663,000) of the consolidated profit attributable to shareholders was dealt with in the financial statements of the Company.

8. DIVIDEND

The directors recommend the payment of a final dividend of RMB0.1 per share, based on 1,000,000,000 issued shares of the Company as at the date of the approval of the financial statements, totalling RMB100,000,000 (1999: RMB90,000,000). The proposed dividend is subject to approval by shareholders at the next annual general meeting.

9. EARNINGS PER SHARE

The calculation of earnings per share for the year ended 31st December, 2000 is based on earnings of approximately RMB61,991,000 (1999: RMB40,659,000) and on the 900,000,000 (1999: 900,000,000) shares in issue during the year.

Diluted earnings per share have not been presented as there was no dilutive potential ordinary share outstanding.

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(Amounts expressed in RMB unless otherwise stated)

10. FIXED ASSETS

The movements in fixed assets were as follows:

a. Group

	2000				Total RMB'000
	Land use rights RMB'000	Buildings RMB'000	Plant and machinery RMB'000	Motor vehicles RMB'000	
<u>Cost or valuation</u>					
Beginning of year	227,477	1,264,862	2,141,219	216,182	3,849,740
Effect of acquisitions of subsidiaries	160,013	265,499	405,566	17,858	848,936
Additions	—	143,241	342,396	105,727	591,364
Disposal	—	(20,178)	(35,500)	(14,478)	(70,156)
End of year	<u>387,490</u>	<u>1,653,424</u>	<u>2,853,681</u>	<u>325,289</u>	<u>5,219,884</u>
<u>Representing:</u>					
At cost	263,978	1,364,344	2,426,343	317,474	4,372,139
At valuation	<u>123,512</u>	<u>289,080</u>	<u>427,338</u>	<u>7,815</u>	<u>847,745</u>
	<u>387,490</u>	<u>1,653,424</u>	<u>2,853,681</u>	<u>325,289</u>	<u>5,219,884</u>
<u>Accumulated depreciation</u>					
Beginning of year	16,011	123,049	565,882	37,858	742,800
Charge for the year	8,247	23,417	201,321	31,612	264,597
Write-back on disposal	—	(1,918)	(30,841)	(4,948)	(37,707)
End of year	<u>24,258</u>	<u>144,548</u>	<u>736,362</u>	<u>64,522</u>	<u>969,690</u>
<u>Net book value</u>					
End of year	<u>363,232</u>	<u>1,508,876</u>	<u>2,117,319</u>	<u>260,767</u>	<u>4,250,194</u>
Beginning of year	<u>211,466</u>	<u>1,141,813</u>	<u>1,575,337</u>	<u>178,324</u>	<u>3,106,940</u>

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(Amounts expressed in RMB unless otherwise stated)

b. Company

	2000				
	Land use rights	Buildings	Plant and machinery	Motor vehicles	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<u>Cost or valuation</u>					
Beginning of year	87,975	640,502	1,134,067	146,987	2,009,531
Additions	—	27,541	87,085	36,314	150,940
Disposal	—	(2,111)	(4,962)	(1,820)	(8,893)
End of year	<u>87,975</u>	<u>665,932</u>	<u>1,216,190</u>	<u>181,481</u>	<u>2,151,578</u>
<u>Representing:</u>					
At cost	5,575	446,056	846,306	176,639	1,474,576
At valuation	<u>82,400</u>	<u>219,876</u>	<u>369,884</u>	<u>4,842</u>	<u>677,002</u>
	<u>87,975</u>	<u>665,932</u>	<u>1,216,190</u>	<u>181,481</u>	<u>2,151,578</u>
<u>Accumulated depreciation</u>					
Beginning of year	11,325	102,045	501,263	32,507	647,140
Charge for the year	1,759	1,481	103,668	18,480	125,388
Write-back on disposal	—	—	(3,739)	(1,462)	(5,201)
End of year	<u>13,084</u>	<u>103,526</u>	<u>601,192</u>	<u>49,525</u>	<u>767,327</u>
<u>Net book value</u>					
End of year	<u>74,891</u>	<u>562,406</u>	<u>614,998</u>	<u>131,956</u>	<u>1,384,251</u>
Beginning of year	<u>76,650</u>	<u>538,457</u>	<u>632,804</u>	<u>114,480</u>	<u>1,362,391</u>

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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All land and buildings of the Group and the Company are situated in the PRC. The remaining useful lives of the land use rights of the Group and the Company range from 43 to 50 years.

The Group's buildings, plant and machinery and motor vehicles with a carrying value of approximately RMB117,186,000 (1999: RMB271,371,000) have been pledged as security for certain loans of the Group.

During the year, the Company had entered into agreements with various employees to sell to the employees the existing staff quarters in accordance with "Qingdao Municipal Temporary Guideline for Public Housing Disposal". The agreements had not been completed as at the end of the current year. Subsequent to 31st December, 2000, the Company entered into an agreement with Qingdao Enterprise Investment Company Limited ("QEI") in April, 2001 to sell all the existing staff

quarters of the Company (including those to be disposed to employees as contracted by the above agreements) at book value of approximately RMB114,770,000. Furthermore, QEI took over all the rights and obligations in relation to the staff quarters disposal agreements signed between the Company and the employees in 2000. QEI is also responsible for the completion of sales of the staff quarters to the employees. Tsingtao Brewery Group Company Limited will ultimately bear all losses resulting from the above staff quarter disposal transactions of approximately RMB91,910,000 in the future. Thus, the Company will no longer bear any responsibilities or losses related thereto.

Subsequent to 31st December, 2000, the Company has received cash consideration of approximately RMB42,860,000, and the remaining is expected to be received by end of April 2001.

11. CONSTRUCTION-IN PROGRESS

The movements in construction-in-progress were as follows:

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year	216,901	208,120	116,850	191,262
Effect of acquisitions of new subsidiaries	55,381	466,210	—	—
Additions	636,221	570,581	114,595	79,743
Interest capitalised	6,656	—	—	—
Transfer-out	(583,807)	(1,028,010)	(143,195)	(154,155)
End of year	331,352	216,901	88,250	116,850

To the extent that funds are borrowed generally and used for the purpose of financing the construction of fixed assets, the capitalisation rates used to determine the amount of borrowing costs eligible for capitalisation as part of the costs of these assets ranged from interest free to 7.31% (1999: Nil) for the year.

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12. INTANGIBLE ASSETS**a. Group**

	2000			1999
	Trademarks	Technology know-how	Others	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year	83,750	17,698	—	101,448
Effect of acquisitions of subsidiaries	3,346	—	7,737	11,083
Addition	—	—	2,749	2,749
Amortisation	(2,618)	(1,863)	(838)	(5,319)
End of year	<u>84,478</u>	<u>15,835</u>	<u>9,648</u>	<u>109,961</u>

b. Company

	2000			1999
	Trademarks	Others	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000
Beginning of year	83,750	—	83,750	86,250
Addition	—	1,691	1,691	—
Amortisation	(2,500)	(44)	(2,544)	(2,500)
End of year	<u>81,250</u>	<u>1,647</u>	<u>82,897</u>	<u>83,750</u>

(i) Trademarks

Trademarks mainly represent the "TSINGTAO BEER" trademark injected by the founding shareholders into the Company on 16th June, 1993 as capital. The recorded value of the trademark was based on the valuation amount approved by the State Owned Assets Administration Bureau of the PRC. Since then, amortisation of the trademark is provided on a straight-line basis to write off the revalued amount of the trademark over its estimated useful live of 40 years.

Other trademarks were acquired during acquisitions of respective subsidiaries and are amortised over their estimated useful lives.

(ii) Technology know-how

Technology know-how injected by a minority shareholder of a subsidiary as a part of the reorganisation of the subsidiary was recorded at the value agreed among all shareholders of the subsidiary and is being amortised over the expected economic benefit period of 10 years.