

**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)

**15. INVESTMENT IN ASSOCIATED COMPANIES**

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Unlisted share, at cost	6,496	5,896	6,496	5,896
Advances/loans to associated companies	—	102,412	—	102,412
Equity share of share premium of an associated company	3	—	—	—
Equity share of results of an associated company	(979)	(1,766)	—	—
	<b>5,520</b>	<b>106,542</b>	<b>6,496</b>	<b>108,308</b>

The decrease in investment in associated companies of the Group and the Company in current year was because the long-term loan to an associated company amounted to approximately RMB107,257,000 was reclassified as short-term advances in accordance with the repayment terms of an agreement entered into by the Company and the associated company. The short-term advances will be interest-bearing from January 2001, and is repayable within 1 year.

In the opinion of the Company's directors, the underlying values of the investments in associated companies are not less than the carrying amount of such investment in the books of the Company and the Group as at 31st December, 2000.

As at 31st December, 2000, particulars of the principal associated companies are as follows:

Name of associated companies	Place of establishment and principal operation	Equity interest (directly held)	Registered capital	Principal activities
Tsingtao Brewery (Yangzhou) Co., Ltd.	Yangzhou, the PRC	20%	RMB 5,000,000	Manufacturing and domestic trading of beer
Tsingtao Brewery (Guangzhou) General Agency Co. Ltd.	Guangzhou, the PRC	40%	RMB 2,000,000	Trading of Tsingtao Beer
Tsingtao Huale Industrial and Trading Co., Ltd.	Qingdao, the PRC	21.7%	RMB 3,450,000	Trading and investment
Beijing Tsingtao Brewery General Agency Co. Ltd.	Beijing, the PRC	21%	RMB 2,000,000	Trading of Tsingtao Beer
Qinghua International Trade Development Corporation	Canada	50%	USD 500,000	Trading of Tsingtao Beer
Tsingtao Brewery Shishi Sales Company	Shishi, the PRC	30%	RMB 1,000,000	Domestic trading of beer

The operating results of the above associated companies have been included in the consolidated financial statements if they are material to the operating results or financial position of the Group.

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**16. ACCOUNTS RECEIVABLES, NET**

The aging analysis of accounts receivable is as follows:

**a. Group**

	2000			1999		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	165,766	43.29%	(19,110)	222,417	44.97%	(9,569)
Within one to two years	123,822	32.34%	(22,389)	146,870	29.69%	(29,308)
Within two to three years	58,411	15.25%	(34,989)	63,166	12.77%	(50,391)
Over three years	34,923	9.12%	(21,925)	62,186	12.57%	(9,941)
Total	<u>382,922</u>	<u>100.00%</u>	<u>(98,413)</u>	<u>494,639</u>	<u>100.00%</u>	<u>(99,209)</u>

**b. Company**

	2000			1999		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	179,403	47.87%	(14,053)	200,923	44.49%	—
Within one to two years	110,327	29.43%	(15,469)	130,654	28.93%	(19,135)
Within two to three years	52,677	14.05%	(33,463)	60,752	13.45%	(48,531)
Over three years	32,403	8.65%	(18,956)	59,309	13.13%	(7,515)
Total	<u>374,810</u>	<u>100.00%</u>	<u>(81,941)</u>	<u>451,638</u>	<u>100.00%</u>	<u>(75,181)</u>

The credit terms on sales of beer products is agreed upon on an individual customer basis.

In April 2000, the Company agreed with a third party to sell accounts receivables balances aged over 3 years with a book value of approximately RMB47,887,000 to the third party at a 10% discount (RMB43,098,000). The consideration for the sale was fully received by the Company during the year. The 10% discount was fully provided for by the Company in the prior year.

In August 2000, the Company acquired a 56.21% ownership in the beer production assets and liabilities originally owned by Laoshan Brewery from the Group Co. in exchange for certain aged accounts receivable balances at their book value at their book value of approximately RMB29,619,000.

In December 2000, the Company entered into an agreement with the 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.

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*(Amounts expressed in RMB unless otherwise stated)***17. INVENTORIES**

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Raw materials, packaging and auxiliary materials	<b>532,703</b>	300,841	<b>198,410</b>	155,247
Work-in-progress	<b>94,118</b>	56,720	<b>31,824</b>	30,479
Finished goods	<b>109,194</b>	61,879	<b>64,610</b>	47,497
	<b>736,015</b>	419,440	<b>294,844</b>	233,223
Net realisable value provision for inventories	<b>(4,063)</b>	(2,670)	<b>(4,063)</b>	(2,670)
Inventories, net	<b>731,952</b>	416,770	<b>290,781</b>	230,553

The amount of inventories (included above) of the Group and the Company carried at net realisable value is RMB1,910,000 (1999: Nil).

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**18. LOANS****a. Group**

	2000			1999	
	Short-term Loans	Long-term Loans	Other long- term loan	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Repayable :					
within one year	1,979,368	79,879	—	2,059,247	1,469,741
within two to five years	—	725,689	69,799	795,488	226,594
over five years	—	2,555	—	2,555	46,352
Total	1,979,368	808,123	69,799	2,857,290	1,742,687
Less: Portion due within one year	(1,979,368)	(79,879)	—	(2,059,247)	(1,469,741)
Long-term portion	—	728,244	69,799	798,043	272,946

**b. Company**

	2000			1999	
	Short-term Loans	Long-term Loans	Total	Total	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Repayable :					
within one year	975,500	22,716	998,216	891,430	
within two to five years	—	601,042	601,042	83,546	
over five years	—	—	—	43,064	
Total	975,500	623,758	1,599,258	1,018,040	
Less: Portion due within one year	(975,500)	(22,716)	(998,216)	(891,430)	
Long-term portion	—	601,042	601,042	126,610	

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Pursuant to the debt restructuring agreements or acquisition agreements of the relevant subsidiaries, interest on the Group's and the Company's loans of approximately RMB241,265,000 (1999: RMB272,269,000) and RMB97,790,000 (1999: RMB99,820,000) respectively were waived. The remaining loans bear interest at rates ranging from 0% to 8.19% per annum.

Loans of the Group and the Company amounting to approximately RMB2,031,505,000 (1999: RMB844,555,000) and RMB1,419,258,000 (1999: RMB768,720,000) respectively were guaranteed by a related company. In addition, loans of the Group amounting to approximately RMB244,000,000 (1999: RMB255,071,000) were guaranteed by the minority shareholders of a subsidiary.

Approximately RMB77,190,000 (1999: RMB164,490,000) of the Group's loans was secured by the following assets:

- (a) All (1999: All) assets of Xi'an Company with carrying value of approximately RMB405,141,000 (1999: RMB345,524,000); and
- (b) Buildings, plant and machinery and motor vehicles with carrying value of approximately RMB117,186,000 (1999: RMB271,371,000).

**19. ACCOUNTS PAYABLE**

The aging analysis of accounts payable is as follows:

	Group		Company	
	2000 RMB'000	1999 RMB'000	2000 RMB'000	1999 RMB'000
Within 1 year	279,023	282,502	138,213	173,477
Within one to two years	15,022	5,318	312	635
Within two to three years	1,494	1,812	511	1,639
Over three years	938	1,199	649	1,044
Total	296,477	290,831	139,685	176,795

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**20. DEFERRED TAXATION**

The balance of deferred tax assets as at 31st December, 2000 amounted to approximately RMB6,010,000 (1999: Nil) arose from the advertising expenses which are not deductible in the current year but can be carried forward indefinitely for deduction in future years.

As at 31st December, 2000, unprovided deferred tax assets (liabilities) for the Group and the Company are analysed as follows:

	Group		Company	
	2000	1999	2000	1999
	RMB'000	RMB'000	RMB'000	RMB'000
Timing differences arising from:				
Provision for and write-off of doubtful debts, deposits, prepayments and other receivables	<b>28,659</b>	22,853	<b>21,732</b>	18,719
Additional staff welfare expenses and housing expenses recorded in the H share financial statements	<b>6,031</b>	5,656	<b>5,661</b>	5,286
Accumulated losses of subsidiaries	<b>43,197</b>	29,228	—	—
Others	<b>2,060</b>	(1,020)	—	(1,020)
Unprovided deferred tax assets, end of year	<b>79,947</b>	56,717	<b>27,393</b>	22,985

Deferred taxation income (expense) of the Group not recognised for the current year are attributable to the following:

	2000	1999
	RMB'000	RMB'000
Provision for and write-off of doubtful debts, deposits, prepayments and other receivables	<b>5,806</b>	8,937
Additional staff welfare expenses and housing expenses recorded in the H share financial statements	<b>375</b>	1,999
Losses of subsidiaries in the current year	<b>13,969</b>	26,598
Others	<b>3,080</b>	(1,795)
Total	<b>23,230</b>	35,739

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*(Amounts expressed in RMB unless otherwise stated)***21. SHARE CAPITAL**

The authorised, issued and fully paid share capital of the Company is RMB900,000,000 (1999: RMB900,000,000) divided into 900,000,000 (1999: 900,000,000) shares of RMB1 each. A summary of share capital is set out below:

	<u>2000</u>	<u>1999</u>
	RMB'000	Percentage
State shares	399,820,000	44.42%
PRC legal person shares	53,330,000	5.93%
PRC public shares	100,000,000	11.11%
Overseas public shares	<u>346,850,000</u>	<u>38.54%</u>
Total	<u>900,000,000</u>	<u>100.00%</u>

By a special resolution passed on 28th February, 2001, the authorised ordinary share capital was increased from RMB900,000,000 to RMB1,000,000,000 by the creation of 100,000,000 shares of RMB1 each.

On 7th March, 2001, the issued share capital was increased to RMB1,000,000,000 by an issuance of 100,000,000 A shares to the public and institutional investors at a price of RMB7.87 per share. The issuance raised net proceed of approximately RMB759,108,000 after deduction of estimated issuance expenditure of approximately RMB27,892,000.