

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)***26. SIGNIFICANT SUBSEQUENT EVENTS**

Other than as stated in other notes, the following subsequent events occurred:

- (i) In December 2000, the Company reached an acquisition agreement with Doumen Southern Cross Malting Company Limited ("DSCM"). Pursuant to the agreement, the Company acquired all fixed assets related to malt production of DSCM for cash of RMB28,905,500 and the taking over of the existing employees of the plant. Thereafter, in February 2001, the Company, Tsingtao Brewery (Sanshui) Company Limited ("Sanshui Company") and Tsingtao Brewery (Zhuhai) Company Limited ("Zhuhai Company") jointly established Tsingtao Brewery (Doumen) Company Limited ("Doumen Company"). The Company will contribute the fixed assets acquired from DSCM in return for a 60% equity interest in Doumen Company; while each of Sanshui Company and Zhuhai Company injected cash of RMB2,000,000 for a 20% equity interest each in Doumen Company.
- (ii) In February 2001, the Company and Sichuan Huoju Chemicals Company Limited ("Huoju") contributed RMB61,110,000 and RMB50,000,000 respectively to establish Tsingtao Brewery (Luzhou) Company Limited ("Luzhou Company"). Pursuant to the agreement, the Company will contribute cash of RMB40,000,000 and intangible assets of RMB21,110,000 in return for a 55% equity interest in Luzhou Company. Huoju will inject assets and the 50-year land use right of the original Luzhou Brewery in return for the remaining 45% equity interest in Luzhou Company. In addition, Luzhou Company is required to take over the existing employees of the Luzhou Brewery and it will also enjoy certain financial incentives granted by the local municipal government.
- (iii) In March 2001, the Company entered into an agreement with Tsingtao Brewery (Langfang) Company Limited and Group Co. to jointly establish Tsingtao Brewery (Beifang) Sales Company Limited, with cash injection of RMB23,984,000, RMB4,497,000 and RMB1,499,000 for 80%, 15% and 5% equity interest respectively.
- (iv) In August 2000, Tsingtao Brewery (No. 5) Company Limited ("TB (No.5)") entered into an agreement with Asahi Beer (China) Investment Company Limited ("ABCI") to establish Tsingtao Beer and Asahi Beverage Company Limited ("TBAB"). Pursuant to the agreement, TB (No. 5) will contribute cash, land use right and machinery valued at RMB28,000,000 in return for a 40% equity interest in TBAB. ABCI will inject cash of RMB42,000,000 in return for the remaining 60% equity interest in

TBAB. The capital injection was completed in February 2001.

- (v) In August 2000, the Company reached an equity transfer agreement with ASIMCO Eighth Investment Company ("ASIMCO VIII"). Pursuant to the agreement, the Company paid USD12,500,000 to acquire a 54% equity interest in Beijing Three Ring Asia Pacific Beer Company Limited ("BJTR"). The equity transfer was approved by Beijing Municipal Committee of Foreign Economic Trade in March 2001.
- (vi) In August 2000, the Company reached an equity transfer agreement with ASIMCO First Investment Company ("ASIMCO I") and Tsingtao Brewery (Hong Kong) Trading Company Limited ("HK Company"). Pursuant to the agreement, the Company and HK Company will contribute USD6,010,000 and USD3,990,000 respectively to acquire a 37.64% and 25% equity interest in Beijing Asia Shuang He Sheng Five Star Beer Company Limited ("BJFS").

Furthermore, the Company and ASIMCO I entered into a transitional arrangement whereby the Company managed BJFS on behalf of ASIMCO I prior to obtaining the relevant approvals for the acquisition. As at 31st December 2000, an advance of RMB17 million was made to BJFS for working capital purposes.

The equity transfer was approved by the Ministry of Foreign Trade Economic Cooperation in March 2001.

- (vii) In December 2000, Tsingtao Brewery Xi'an Company Limited ("Xi'an Company") entered into an agreement with Shanxi Lixiang Chemical Group ("Lixiang") to establish Tsingtao Brewery (Hanzhong) Company Limited. Pursuant to the agreement, Xi'an Company would inject fixed assets, including a 50-year land use right, acquired from Hanzhong Brewery Liquidation Committee and an intangible asset in return for a 66% equity interest in Hanzhong Company, while Lixiang will contribute cash of RMB10,000,000 in return for the remaining 34% of equity interest in Hanzhong Company. In addition, Hanzhong Company will enjoy certain financial incentives granted by the local municipal government. The above capital injection was completed in January 2001.
- (viii) In March 2001, the Company and Group Co. contributed cash of RMB9,500,000 and RMB500,000 respectively to establish Tsingtao Brewery (Suqian) Company Limited ("Suqian Company"). Subsequently, Suqian Company entered into an agreement with Suqian Brewery Liquidation Committee to acquire the assets of Suqian Brewery for cash of RMB5,000,000 and by selectively taking over existing employees of Suqian Brewery.

NOTES TO THE FINANCIAL STATEMENTS (Cont'd)

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*(Amounts expressed in RMB unless otherwise stated)***27. COMPARISON OF PRC GAAP AND HK GAAP**

The Group has prepared a separate set of statutory financial statements for the year ended 31st December, 2000 in accordance with PRC accounting standards and regulations ("PRC GAAP").

Differences between PRC GAAP and HKGAAP give rise to differences in the reported balances of assets, liabilities and net profit of the Group. The financial effect of the material differences between PRC GAAP and HKGAAP are summarised and explained in the following table:

	<u>2000</u>	<u>1999</u>
	RMB'000	RMB'000
Net profit under PRC GAAP	95,202	82,651
HKGAAP adjustments:		
Additional depreciation charges under HKGAAP (a)	(11,480)	(11,480)
Additional staff welfare expenses under HKGAAP (b)	(2,041)	(3,286)
Additional staff housing fund under HKGAAP (c)	(2,326)	(9,791)
Research and development expense incurred in current year (d)	(6,796)	(7,977)
Adjustment on pre-operating expenses under HK GAAP (e)	(1,481)	(812)
Amortisation of negative goodwill under PRC GAAP (f)	(11,606)	(7,196)
Others	2,519	(1,450)
Profit attributable to shareholders under HKGAAP	61,991	40,659

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- a. As a result of the difference between foreign exchange rates adopted in preparing the financial statements of 1993 under HKGAAP and PRC GAAP, the cost of fixed assets denominated in foreign currency as at 31st December, 1993 was different between the two sets of accounts. This has resulted in an additional depreciation charge of RMB11,480,000 in the financial statements prepared in accordance with HKGAAP for 1999.
- b. Pursuant to the regulations of the Ministry of Finance and PRC GAAP, only provisions for staff welfare fund calculated at 14% of staff payroll is charged to the income statement. Under HK GAAP, actual welfare expenses are charged to the income statement, resulting in additional expenses of RMB2,041,000 being charged.
- c. Pursuant to the regulations of the Ministry of Finance and PRC GAAP, all current year repair and maintenance of staff quarters, staff housing allowances and subsidies and loss on disposals of staff quarters for the Group and the Company are charged to the staff housing fund. Rental income from staff housing rentals, rental deposits, capital transfer from reserves, interest income earned on the staff housing fund are all credited to the staff housing fund. Under HK GAAP, all current year related expenses and income for the Group and the Company should be included in the income statement. Net additional expenses under HK GAAP was approximately RMB2,326,000.
- d. Pursuant to Qing Cai Gong [1997] document 83 issued by Qingdao Ministry of Finance, the Company recorded an accrual for research and development expense of approximately RMB19,879,000 in 1997 which remained unused as at 31st December, 1997. Under HK GAAP, the accrual was reversed in the 1997 financial statements.
- During 2000, actual research and development expenses of approximately RMB6,796,000 was incurred and was offset against the accrual made in prior years under PRC GAAP. The actual research and development expenses incurred in the current year was included in the income statement prepared under HK GAAP, resulting in an additional expense of approximately RMB6,796,000.
- e. Under PRC GAAP, pre-operating expenses were capitalised and amortised into expenses over five years using the straight line method. Under HK GAAP, such expenses are charged to the income statement as incurred. As a result, net additional expenses under HK GAAP was approximately RMB1,481,000.
- f. Under PRC GAAP, the negative goodwill arising from the excess of the Group's share of the net assets of the subsidiaries acquired over the acquisition cost are amortised into the income statement over 10 years. Under HK GAAP, the difference is recorded as capital reserve and is not amortised. As a result, net income was reduced by approximately RMB11,606,000 under HK GAAP.

28. PRIOR YEAR COMPARATIVE FIGURES

Since finance income and finance costs are separately presented in current year, certain 1999 comparative figures were reclassified to conform with the presentation in the current year.