

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	<i>Note(s)</i>	<b>30th June, 2001 Unaudited</b>	31st December, 2000 <i>(Note 31)</i>
<b>Current assets:</b>			
Cash and bank deposits	28	951,815,347	789,195,199
Bills receivable		<b>57,064,580</b>	15,805,000
Accounts receivable	3, 12a	<b>484,105,857</b>	382,921,919
Other receivables	3, 13a	<b>466,845,388</b>	363,795,427
Less: Provision for bad debts	12a, 13a	<b>(246,637,542)</b>	(137,626,776)
Receivables, net		<b>704,313,703</b>	609,090,570
Prepayments and deposits	3, 14a	<b>82,187,637</b>	66,602,553
Subsidies receivable		<b>2,682,436</b>	12,231,741
Inventories	15	<b>996,355,552</b>	736,014,556
Less: Provision for diminution in value of inventories	15	<b>(43,468,193)</b>	(4,063,013)
Inventories, net		<b>952,887,359</b>	731,951,543
Deferred expenses	16	<b>34,109,631</b>	8,677,127
<b>Total current assets</b>		<b>2,785,060,693</b>	2,233,553,733
<b>Long-term investments:</b>			
Long-term equity investments	17a	<b>42,339,585</b>	27,161,389
Goodwill/Negative goodwill on acquisition	17a	<b>(293,134,391)</b>	(228,973,210)
Long-term debt investments	18a	<b>35,614,354</b>	36,181,015
Less: Provision for impairment of long-term investment		<b>(3,249,000)</b>	-
<b>Total long-term investments</b>		<b>(218,429,452)</b>	(165,630,806)
<b>Fixed assets:</b>			
At cost		<b>7,006,535,644</b>	6,014,292,303
Less: Accumulated depreciation		<b>(2,303,256,230)</b>	(1,937,854,289)
Less: Provision for impairment of fixed assets		<b>(19,963,744)</b>	-
Fixed assets, net	19	<b>4,683,315,670</b>	4,076,438,014
Construction-in-progress	20	<b>544,177,857</b>	336,200,404
Fixed assets in suspense		<b>4,046,089</b>	186,562
<b>Total fixed assets</b>		<b>5,231,539,616</b>	4,412,824,980
<b>Intangible and other assets:</b>			
Intangible assets	21a	<b>671,702,749</b>	484,336,555
Long-term deferred expenses	22	<b>14,201,735</b>	7,863,912
<b>Total intangible and other assets</b>		<b>685,904,484</b>	492,200,467
<b>Deferred tax:</b>			
Deferred tax asset		<b>6,009,744</b>	6,009,744
<b>Total assets</b>		<b>8,490,085,085</b>	6,978,958,118

The accompanying notes form an integral part of these financial statements.

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEET (CONT'D)**

AS AT 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note(s)	<b>30th June, 2001 Unaudited</b>	31st December, 2000 (Note 31)
Current liabilities:			
Short-term loans	3, 19, 23a	<b>2,219,802,577</b>	1,979,367,680
Bills payable	28	<b>151,076,175</b>	91,003,613
Accounts payable	3	<b>586,218,282</b>	296,476,847
Advances from customers	3	<b>101,393,328</b>	59,942,050
Salary payables		<b>12,772,366</b>	16,004,431
Staff welfare payables		<b>11,901,240</b>	2,308,268
Taxes payable	9, 24	<b>252,559,090</b>	143,099,456
Dividends payable		<b>100,000,000</b>	100,000,000
Other payables	3	<b>676,685,714</b>	662,653,507
Other liabilities		<b>6,696,086</b>	6,601,375
Accruals	25	<b>88,260,474</b>	26,588,687
Current portion of long-term loans	3, 23a	<b>97,568,146</b>	79,878,877
Other current liabilities		<b>210,000</b>	210,000
		<b>4,305,143,478</b>	3,464,134,791
Long-term liabilities:			
Long-term loans	3, 19, 23b	<b>329,449,973</b>	728,243,568
Long-term payables		<b>79,236,245</b>	66,698,380
		<b>408,686,218</b>	794,941,948
Total long-term liabilities			
		<b>4,713,829,696</b>	4,259,076,739
Minority interests:			
		<b>734,484,272</b>	515,053,481
Shareholders' equity			
Share capital	26	<b>1,000,000,000</b>	900,000,000
Share premium	27	<b>1,573,449,048</b>	907,339,314
Statutory surplus reserve		<b>103,916,246</b>	103,916,246
Statutory public welfare fund		<b>74,647,025</b>	74,647,025
Unappropriated profits		<b>289,769,667</b>	218,934,012
Cumulative translation adjustment		<b>(10,869)</b>	(8,699)
		<b>3,041,771,117</b>	2,204,827,898
Total shareholders' equity			
		<b>8,490,085,085</b>	6,978,958,118

**Li Gui Rong**  
Legal representative

**Sun Yu Guo**  
Chief financial officer

**Wang Xiu Yun**  
Accounting supervisor

The accompanying notes form an integral part of these financial statements.

# TSINGTAO BREWERY COMPANY LIMITED

## BALANCE SHEET

AS AT 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note(s)	<b>30th June, 2001 Unaudited</b>	31st December, 2000 (Note 31)
<b>Current assets:</b>			
Cash and bank deposits		377,441,300	491,602,035
Bills receivable		4,570,000	5,000,000
Accounts receivable	3, 12b	<b>365,828,161</b>	374,809,841
Other receivables	3, 13b	<b>1,054,536,661</b>	867,982,191
Less: Provision for bad debts	12b, 13b	<b>(156,341,802)</b>	(119,027,701)
		<b>1,264,023,020</b>	1,123,764,331
Receivables, net			
Prepayments and deposits	3, 14b	<b>12,780,687</b>	18,629,461
Inventories	15	<b>276,244,795</b>	294,843,794
Less: Provision for diminution in value of inventories	15	<b>(3,423,226)</b>	(4,063,013)
		<b>272,821,569</b>	290,780,781
Inventories, net			
Deferred expenses	16	<b>7,961,492</b>	187,511
		<b>1,939,598,068</b>	1,929,964,119
<b>Total current assets</b>		<b>1,939,598,068</b>	1,929,964,119
<b>Long-term investments:</b>			
Long-term equity investments	17b	<b>1,432,890,870</b>	1,013,563,620
Long-term debt investments	18b	<b>35,611,354</b>	36,027,262
		<b>1,468,502,224</b>	1,049,590,882
<b>Total long-term investments</b>		<b>1,468,502,224</b>	1,049,590,882
<b>Fixed assets:</b>			
At cost		<b>1,912,325,537</b>	2,030,080,701
Less: Accumulated depreciation		<b>(836,513,444)</b>	(792,396,811)
		<b>1,075,812,093</b>	1,237,683,890
Fixed assets, net	19		
Construction-in-progress	20	<b>100,723,328</b>	88,249,830
Fixed assets in suspense		<b>(6,366)</b>	43,716
		<b>1,176,529,055</b>	1,325,977,436
<b>Total fixed assets</b>		<b>1,176,529,055</b>	1,325,977,436
Intangible assets	21b	<b>157,342,469</b>	157,787,341
Deferred tax:			
Deferred tax asset		<b>6,009,744</b>	6,009,744
		<b>4,747,981,560</b>	4,469,329,522
<b>Total assets</b>		<b>4,747,981,560</b>	4,469,329,522

The accompanying notes form an integral part of these financial statements.

**TSINGTAO BREWERY COMPANY LIMITED****BALANCE SHEET (CONT'D)**

AS AT 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note(s)	<b>30th June, 2001 Unaudited</b>	31st December, 2000 (Note 31)
Current liabilities:			
Short-term loans	3, 19, 23a	<b>820,500,000</b>	975,500,000
Bills payable	28	<b>90,660,249</b>	59,610,746
Accounts payable	3	<b>124,454,648</b>	139,684,571
Advances from customers	3	<b>31,453,539</b>	40,666,493
Salary payables		<b>718,305</b>	4,027,321
Staff welfare payables		<b>(13,928,678)</b>	(14,881,449)
Taxes payable	9, 24	<b>43,356,723</b>	22,216,708
Dividends payable		<b>100,000,000</b>	100,000,000
Other payables	3	<b>234,635,949</b>	265,883,926
Other liabilities		<b>1,124,108</b>	1,900,813
Accruals	25	<b>30,396,265</b>	14,248,980
Current portion of long-term loans	3, 23a	<b>20,405,146</b>	22,715,877
		<b>1,483,776,254</b>	1,631,573,986
Long-term liabilities:			
Long-term loans	3, 19, 23b	<b>173,588,256</b>	601,041,694
Long-term payables		<b>550,000</b>	550,000
		<b>174,138,256</b>	601,591,694
		<b>1,657,914,510</b>	2,233,165,680
Shareholders' equity			
Share capital	26	<b>1,000,000,000</b>	900,000,000
Share premium	27	<b>1,623,188,148</b>	935,968,414
Statutory surplus reserve		<b>95,005,876</b>	95,005,876
Statutory public welfare fund		<b>65,736,655</b>	65,736,655
Unappropriated profits		<b>306,136,371</b>	239,452,897
		<b>3,090,067,050</b>	2,236,163,842
		<b>4,747,981,560</b>	4,469,329,522

**Li Gui Rong**  
*Legal representative*

**Sun Yu Guo**  
*Chief financial officer*

**Wang Xiu Yun**  
*Accounting supervisor*

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**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF INCOME AND PROFIT**  
**APPROPRIATION**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001  
(Prepared in accordance with PRC accounting standards)  
(UNIT: RMB)

		<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 <i>(Note 31)</i>	For the year ended 31st December, 2000 <i>(Note 31)</i>
Turnover	3, 5	<b>2,693,133,930</b>	1,863,539,345	3,766,259,130
Less: Cost of sales	3	<b>(1,642,328,404)</b>	(1,133,676,543)	(2,245,392,927)
Taxes and surcharges	9c	<b>(277,715,753)</b>	(161,807,279)	(333,716,163)
Gross profit		<b>773,089,773</b>	568,055,523	1,187,150,040
Add: Profit from other operations		<b>3,622,398</b>	9,271,594	12,900,524
Less: Selling expenses		<b>(381,611,885)</b>	(307,954,055)	(675,384,471)
General and administrative expenses		<b>(244,963,422)</b>	(155,563,543)	(340,924,959)
Finance costs, net	6	<b>(57,472,461)</b>	(41,167,164)	(95,363,483)
Operating profit		<b>92,664,403</b>	72,642,355	88,377,651
Add: Investment income	7	<b>16,416,465</b>	5,178,102	16,090,060
Subsidy income	8	<b>18,260,244</b>	11,768,167	53,277,980
Non-operating income		<b>3,936,269</b>	1,868,716	13,781,408
Less: Non-operating expenses		<b>(2,932,904)</b>	(1,078,800)	(13,635,008)
Profit before tax		<b>128,344,477</b>	90,378,540	157,892,091
Less: Enterprise income tax	9a	<b>(39,077,581)</b>	(20,499,113)	(46,910,855)
Profit before minority interests		<b>89,266,896</b>	69,879,427	110,981,236
Less: Current period/year minority interests		<b>(18,431,241)</b>	(9,984,787)	(19,283,984)
Net profit		<b>70,835,655</b>	59,894,640	91,697,252
Add: Unappropriated profits brought forward, as reported		<b>243,120,432</b>	276,358,921	276,358,921
Less: Prior year adjustments	2d	<b>(24,186,420)</b>	(21,339,481)	(21,339,481)
Unappropriated profits brought forward, as restated		<b>218,934,012</b>	255,019,440	255,019,440
Unappropriated profits		<b>289,769,667</b>	314,914,080	346,716,692
Less: Transfer to statutory surplus reserve		-	-	(13,891,340)
Transfer to statutory public welfare fund		-	-	(13,891,340)
Profit distributable to shareholders		<b>289,769,667</b>	314,914,080	318,934,012
Less: Dividends	10	-	-	(100,000,000)
Unappropriated profits carried forward		<b>289,769,667</b>	314,914,080	218,934,012
Earnings per share – weighted average	11	<b>0.0733</b>	0.0665	0.1019
Earnings per share – fully diluted	11	<b>0.0708</b>	0.0665	0.1019

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*Legal representative*

**Sun Yu Guo**  
*Chief financial officer*

**Wang Xiu Yun**  
*Accounting supervisor*

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**TSINGTAO BREWERY COMPANY LIMITED**  
**STATEMENT OF INCOME AND PROFIT APPROPRIATION**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001  
 (Prepared in accordance with PRC accounting standards)  
 (UNIT: RMB)

	Note(s)	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000 (Note 31)	For the year ended 31st December, 2000 (Note 31)
Turnover	3, 5	999,235,723	930,377,520	1,818,068,929
Less: Cost of sales	3	(608,905,919)	(550,845,618)	(1,058,740,746)
Taxes and surcharges	9c	(53,173,357)	(54,054,729)	(105,987,349)
Gross profit		337,156,447	325,477,173	653,340,834
Add: (Loss) Profit from other operations		(1,193,270)	1,802,905	1,449,527
Less: Selling expenses		(127,407,546)	(150,477,759)	(308,571,054)
General and administrative expenses		(113,405,432)	(88,104,328)	(158,561,399)
Finance costs, net	6	(24,727,434)	(20,444,247)	(51,354,979)
Operating profit		70,422,765	68,253,744	136,302,929
Add: Investment income (losses)	7	16,456,376	6,042,739	(14,274,023)
Non-operating income		308,839	300,243	804,493
Less: Non-operating expenses		(952,638)	(342,104)	(2,309,380)
Profit before tax		86,235,342	74,254,622	120,524,019
Less: Enterprise income tax	9a	(19,551,868)	(14,198,080)	(27,726,578)
Net profit		66,683,474	60,056,542	92,797,441
Add: Unappropriated profits brought forward, as reported		263,893,489	286,851,928	286,851,928
Less: Prior year adjustments	2d	(24,440,592)	(21,636,984)	(21,636,984)
Unappropriated profits brought forward, as restated		239,452,897	265,214,944	265,214,944
Unappropriated profits		306,136,371	325,271,486	358,012,385
Less: Transfer to statutory surplus reserve		—	—	(9,279,744)
Transfer to statutory public welfare fund		—	—	(9,279,744)
Profit distributable to shareholders		306,136,371	325,271,486	339,452,897
Less: Dividends	10	—	—	(100,000,000)
Unappropriated profits carried forward		306,136,371	325,271,486	239,452,897

**Li Gui Rong**  
*Legal representative*

**Sun Yu Guo**  
*Chief financial officer*

**Wang Xiu Yun**  
*Accounting supervisor*

The accompanying notes form an integral part of these financial statements.

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## RETURN ON EQUITY AND EARNINGS PER SHARE INDEX

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

	Group				Company			
	Return on Equity ("ROE")		Earnings Per Share ("EPS")		Return on Equity ("ROE")		Earnings Per Share ("EPS")	
	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average	Fully Diluted	Weighted Average
<b>Profit for the period</b>								
For the six months ended 30th June, 2001 (unaudited)								
Gross profit	25.42%	28.16%	0.7731	0.7997	10.91%	12.15%	0.3372	0.3488
Operating profit	3.05%	3.38%	0.0927	0.0959	2.28%	2.54%	0.0704	0.0729
Net profit	2.33%	2.58%	0.0708	0.0733	2.16%	2.40%	0.0667	0.0690
Net profit before extraordinary items	1.75%	1.94%	0.0532	0.0550	2.16%	2.40%	0.0667	0.0690
For the six months ended 30th June, 2000 (Note 31)								
Gross profit	24.97%	25.02%	0.6312	0.6312	14.18%	14.21%	0.3616	0.3616
Operating profit	3.19%	3.20%	0.0807	0.0807	2.97%	2.98%	0.0758	0.0758
Net profit	2.63%	2.64%	0.0665	0.0665	2.62%	2.62%	0.0667	0.0667
Net profit before extraordinary items	2.12%	2.12%	0.0535	0.0535	2.62%	2.62%	0.0667	0.0667

ROE and EPS are calculated based on the method specified in "Listed Companies Disclosure Regulation No. 9 – Computation and Disclosure of ROE and EPS".

- Fully diluted ROE and EPS are computed as follows:

Fully diluted ROE = Profit for the period ÷ Net asset as at end of period

Fully diluted EPS = Profit for the period ÷ Number of shares as at end of period

- Weighted average ROE is computed as follows:

$$ROE = \frac{P}{E0 + NP + 2 + Ei \times Mi + M0 - Ej \times Mj + M0}$$

P = Profit for the period

NP = Net profit for the period

E0 = Net asset as at beginning of the period

Ei = Increase in net asset due to issuance of new shares or conversion from bonds/debts to new shares during the period

Ej = Decrease in net asset due to repurchase of shares or cash dividend declared during the period

M0 = Number of months during the period

Mi = Number of months between the net asset increase and end of the period.

Mj = Number of months between the net asset decrease and end of the period.

- Weighted average EPS is computed as follows:

$$EPS = \frac{P}{S0 + S1 + Si \times Mi + Mo - Sj \times Mj + M0}$$

P = Profit for the period

S0 = Number of shares as at beginning of the period

S1 = Increase in number of shares due to transferral from reserves or declaration of stock dividend during the period

Si = Increase in number of shares due to issuance of new shares or conversion from bonds/debts to new shares during the period.

Sj = Decrease in number of shares due to repurchase or reduction of share capital during the period.

M0 = Number of months during the period.

Mi = Number of months between the increase in number of shares and end of the period

Mj = Number of months between the decrease in number of shares and end of the period

- Net profit before extraordinary items represents net profit excluding subsidy income and fixed asset impairment loss or write off.

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## CONSOLIDATED CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	<i>Note</i>	<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 <i>(Note 31)</i>
<b>Cash Flows from Operating Activities:</b>			
Cash received from sales of goods and rendering of services		3,294,522,709	2,149,882,945
Refund of taxes		47,102,237	9,353,526
Cash received relating to other operating activities		8,908,967	149,604,474
		<b>3,350,533,913</b>	<b>2,308,840,945</b>
Cash paid for purchases of goods and services		(1,828,633,718)	(1,437,834,587)
Cash paid for salaries and on behalf of employees		(213,402,613)	(130,419,602)
Cash paid for various taxes		(472,167,676)	(268,549,647)
Cash paid relating to other operating activities		(424,912,269)	(360,253,565)
		<b>(2,939,116,276)</b>	<b>(2,197,057,401)</b>
Net cash flows from operating activities	(a)	<b>411,417,637</b>	<b>111,783,544</b>
<b>Cash Flows from Investing Activities:</b>			
Proceeds from realisation of investments		34,087,489	–
Return on investment		650,859	14,234
Proceeds from disposal of fixed assets		115,918,721	480,333
Cash received relating to other investing activities		5,535,714	–
		<b>156,192,783</b>	<b>494,567</b>
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(555,027,574)	(361,845,330)
Cash paid for investments		(156,808,719)	(1,760,422)
Cash paid relating to other investing activities		(54,210,612)	–
		<b>(766,046,905)</b>	<b>(363,605,752)</b>
Net cash flows from investing activities		<b>(609,854,122)</b>	<b>(363,111,185)</b>

The accompanying notes form an integral part of these financial statements.



**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED CASH FLOW STATEMENT (CONT'D)**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000 (Note 31)
<b>Cash Flows from Financing Activities:</b>			
Net proceeds from issuance of shares and equity investments		757,728,570	18,534,841
Proceeds from borrowings		1,477,750,113	759,416,550
Other cash received relating to financing activities		18,745,066	-
Sub-total of cash inflows		<u>2,254,223,749</u>	<u>777,951,391</u>
Repayment of borrowings		(1,765,832,097)	(367,021,573)
Dividend and interest paid		(70,581,912)	(50,636,367)
Other cash paid relating to financing activities		(5,037,326)	-
Sub-total of cash outflows		<u>(1,841,451,335)</u>	<u>(417,657,940)</u>
Net cash flows from financing activities		<u>412,772,414</u>	<u>360,293,451</u>
Effect of changes in foreign exchange rate on cash		(15,830)	279,046
Net increase in Cash and Cash Equivalents	(b)	<u><u>214,320,099</u></u>	<u><u>109,244,856</u></u>
<b>(a) Reconciliation of Net Profit to Cash Flows from Operating Activities:</b>			
Net profit		70,835,655	59,894,640
Provision for and write-off of bad debts		46,289,552	11,914,141
Minority interest for the current period		18,431,241	9,984,787
Provision for diminution in inventory value and inventory obsolescence		-	5,057,415
Depreciation of fixed assets		186,546,895	119,571,559
Amortisation of intangible assets		9,499,717	7,811,460
Amortisation of long-term deferred expenses		2,923,263	787,775
Amortisation of deferred expenses		(25,432,504)	(16,755,357)
Amortisation of low-value consumables		25,831,419	13,394,421
(Gain) Loss on disposal of fixed assets		(1,223,898)	69,100
Finance costs, net		57,472,461	41,167,164
Investment income		(16,416,465)	(5,178,102)
Increase in inventories		(142,849,200)	(206,227,894)
Decrease (Increase) in operating receivables		32,323,874	(64,255,458)
Increase in operating payables		147,185,627	134,547,893
Net cash flows from operating activities		<u><u>411,417,637</u></u>	<u><u>111,783,544</u></u>
<b>(b) Net Increase in Cash and Cash Equivalents:</b>			
Cash on hand and in banks, end of period		801,604,837	592,726,711
Less: Cash on hand and in banks, beginning of period		(586,427,981)	(449,108,660)
Add: Cash equivalents, end of period		84,963,742	9,118,906
Less: Cash equivalents, beginning of period		(85,820,499)	(43,492,101)
Net increase in Cash and Cash Equivalents		<u><u>214,320,099</u></u>	<u><u>109,244,856</u></u>
<b>Cash and bank deposits</b>			
Cash and cash equivalents, net		886,568,579	601,845,617
Other bank balances		65,246,768	97,169,380
Cash and bank deposits, end of period		<u><u>951,815,347</u></u>	<u><u>699,014,997</u></u>

**Li Gui Rong**  
Legal representative

**Sun Yu Guo**  
Chief financial officer

**Wang Xiu Yun**  
Accounting supervisor

The accompanying notes form an integral part of these financial statements.

# TSINGTAO BREWERY COMPANY LIMITED

## CASH FLOW STATEMENT

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000 (Note 31)
<b>Cash Flows from Operating Activities:</b>		
Cash received from sales and rendering of services	1,187,845,629	1,096,973,897
Refund of taxes	20,872,819	–
Other cash received relating to operating activities	30,607,469	92,310,163
	<u>1,239,325,917</u>	<u>1,189,284,060</u>
Sub-total of cash inflows		
	<u>1,239,325,917</u>	<u>1,189,284,060</u>
Cash paid for purchases of goods and services	(631,841,748)	(773,219,384)
Cash paid for salaries and on behalf of employees	(83,256,564)	(71,230,215)
Cash paid for various taxes	(142,528,434)	(147,012,712)
Other cash paid relating to operating activities	(300,066,170)	(167,960,427)
	<u>(1,157,692,916)</u>	<u>(1,159,422,738)</u>
Sub-total of cash outflows		
	<u>(1,157,692,916)</u>	<u>(1,159,422,738)</u>
Net cash flows from operating activities	(a) <u>81,633,001</u>	<u>29,861,322</u>
<b>Cash Flows from Investing Activities:</b>		
Proceeds from realisation of investments	33,932,765	–
Return on investment	58,202	2,867,000
Proceeds from disposal of fixed assets	90,548,204	220,200
Other cash received relating to investing activities	1,594,780	–
	<u>126,133,951</u>	<u>3,087,200</u>
Sub-total of cash inflows		
	<u>126,133,951</u>	<u>3,087,200</u>
Cash paid to acquire fixed assets, intangible assets and other long-term assets	(35,854,093)	(62,410,554)
Cash paid for investments	(407,391,034)	(131,387,702)
Other cash paid relating to investing activities	(25,060,222)	–
	<u>(468,305,349)</u>	<u>(193,798,256)</u>
Sub-total of cash outflows		
	<u>(468,305,349)</u>	<u>(193,798,256)</u>
Net cash flows from investing activities	<u>(342,171,398)</u>	<u>(190,711,056)</u>

The accompanying notes form an integral part of these financial statements.

# TSINGTAO BREWERY COMPANY LIMITED

## CASH FLOW STATEMENT (CONT'D)

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(UNIT: RMB)

	Note	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000 (Note 31)
<b>Cash Flows from Financing Activities:</b>			
Net proceeds from issuance of shares and equity investment		757,728,570	–
Proceeds from borrowings		465,000,000	300,000,000
Other cash paid received relating to financing activities		11,382,661	–
		<u>1,234,111,231</u>	<u>300,000,000</u>
Sub-total of cash inflows		<u>1,234,111,231</u>	<u>300,000,000</u>
Repayment of borrowings		(1,047,699,939)	(127,893,857)
Dividend and Interests paid		(31,059,450)	(28,419,254)
		<u>(1,078,759,389)</u>	<u>(156,313,111)</u>
Sub-total of cash outflows		<u>(1,078,759,389)</u>	<u>(156,313,111)</u>
Net cash flows from financing activities		<u>155,351,842</u>	<u>143,686,889</u>
Effect of changes in foreign exchange rate on cash		(26,513)	291,749
Net decrease in Cash and Cash Equivalents	(b)	<u>(105,213,068)</u>	<u>(16,871,096)</u>
<b>(a) Reconciliation of Net Profit to Cash Flows from Operating Activities:</b>			
Net profit		66,638,474	60,056,542
Provision for and write-off of bad debts		37,314,101	(4,901,825)
Provision for diminution in inventory value and inventory obsolescence		–	5,057,415
Depreciation of fixed assets		57,094,909	52,405,644
Amortisation of intangible assets		2,233,072	2,129,746
Increase in deferred expenses		(7,773,981)	(2,111,582)
Amortisation of low-value consumables		5,229,924	3,972,743
(Gain) Loss on disposal of fixed assets		(42,205)	223,005
Finance costs, net		24,727,434	20,444,247
Investment gain		(16,456,376)	(6,042,739)
Decrease (Increase) in inventories		18,598,999	(55,821,000)
Increase in operating receivables		(103,858,629)	(71,213,822)
Increase in operating payables		(2,072,721)	25,662,948
		<u>81,633,001</u>	<u>29,861,322</u>
Net cash flows from operating activities		<u>81,633,001</u>	<u>29,861,322</u>
<b>(b) Net decrease in Cash and Cash Equivalents:</b>			
Cash on hand and in banks, end of period		272,552,140	178,971,338
Less: Cash on hand and in banks, beginning of period		(313,757,652)	(161,159,239)
Add: Cash equivalents, end of period		22,176,543	8,808,906
Less: Cash equivalents, beginning of period		(86,184,099)	(43,492,101)
		<u>(105,213,068)</u>	<u>(16,871,096)</u>
Net decrease in Cash and Cash Equivalents		<u>(105,213,068)</u>	<u>(16,871,096)</u>
<b>Cash and bank deposits</b>			
Cash and cash equivalents, net		294,728,683	187,780,244
Other bank balances		82,712,617	100,997,521
		<u>377,441,300</u>	<u>288,777,765</u>
Cash and bank deposits, end of period		<u>377,441,300</u>	<u>288,777,765</u>

The accompanying notes form an integral part of these financial statements.

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS'**  
**EQUITY**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001  
(Prepared in accordance with PRC accounting standards)  
(UNIT: RMB)

	Note	30th June, 2001 Unaudited	31st December, 2000 (Note 31)
<b>Share Capital</b>			
Beginning of period/year		900,000,000	900,000,000
Add: Issuance of new shares		100,000,000	–
End of period/year	26	<u>1,000,000,000</u>	<u>900,000,000</u>
<b>Share Premium</b>			
Beginning of period/year		907,339,314	907,339,314
Add: Waived payables of a subsidiary		8,381,164	–
Add: Premium on issuance of new shares		657,728,570	–
End of period/year	27	<u>1,573,449,048</u>	<u>907,339,314</u>
<b>Statutory Surplus Reserve:</b>			
Beginning of period/year, as reported		107,098,404	92,878,280
Less: Prior period/year adjustment	2d	(3,182,158)	(2,853,374)
Beginning of period/year, as restated		103,916,246	90,024,906
Add: Current period/year appropriation		–	13,891,340
End of period/year		<u>103,916,246</u>	<u>103,916,246</u>
<b>Statutory Public Welfare Fund:</b>			
Beginning of period/year, as reported		77,829,183	63,609,059
Less: Prior period/year adjustment	2d	(3,182,158)	(2,853,374)
Beginning of period/year, as restated		74,647,025	60,755,685
Add: Current period/year appropriation		–	13,891,340
End of period/year		<u>74,647,025</u>	<u>74,647,025</u>
<b>Unappropriated Profits:</b>			
Beginning of period/year, as reported		243,120,432	276,358,921
Less: Prior period/year adjustments	2d	(24,186,420)	(21,339,481)
Beginning of period/year, as restated		218,934,012	255,019,440
Add: Current period/year net profit		70,835,655	91,697,252
Less: Current period/year appropriation		–	(27,782,680)
Less: Dividends declared	10	–	(100,000,000)
End of period/year		<u>289,769,667</u>	<u>218,934,012</u>

**Li Gui Rong**  
Legal representative

**Sun Yu Guo**  
Chief financial officer

**Wang Xiu Yun**  
Accounting supervisor

The accompanying notes form an integral part of these financial statements.

**TSINGTAO BREWERY COMPANY LIMITED**  
**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001  
(Prepared in accordance with PRC accounting standards)  
(UNIT: RMB)

	Note	<b>30th June, 2001 Unaudited</b>	31st December, 2000 (Note 31)
<b>Share Capital</b>			
Beginning of period/year		<b>900,000,000</b>	900,000,000
Add: Issuance of new shares		<b>100,000,000</b>	–
End of period/year	26	<b><u>1,000,000,000</u></b>	<b><u>900,000,000</u></b>
<b>Share Premium:</b>			
Beginning of period/year		<b>935,968,414</b>	925,968,414
Add: Surplus on revaluation of assets		<b>21,110,000</b>	10,000,000
Add: Waived payables of a subsidiary		<b>8,381,164</b>	–
Add: Premium on issuance of new shares		<b>657,728,570</b>	–
End of period/year	27	<b><u>1,623,188,148</u></b>	<b><u>935,968,414</u></b>
<b>Statutory Surplus Reserve:</b>			
Beginning of period/year, as reported		<b>98,060,949</b>	88,430,754
Less: Prior period/year adjustment	2d	<b>(3,055,073)</b>	(2,704,622)
Beginning of period/year, as restated		<b>95,005,876</b>	85,726,132
Add: Current period/year appropriation		–	9,279,744
End of period/year		<b><u>95,005,876</u></b>	<b><u>95,005,876</u></b>
<b>Statutory Public Welfare Fund:</b>			
Beginning of period/year, as reported		<b>68,791,728</b>	59,161,533
Less: Prior period/year adjustment	2d	<b>(3,055,073)</b>	(2,704,622)
Beginning of period/year, as restated		<b>65,736,655</b>	59,456,911
Add: Current period/year appropriation		–	9,279,744
End of period/year		<b><u>65,736,655</u></b>	<b><u>65,736,655</u></b>
<b>Unappropriated Profits:</b>			
Beginning of period/year, as reported		<b>263,893,489</b>	286,851,928
Less: Prior period/year adjustments	2d	<b>(24,440,592)</b>	(21,636,984)
Beginning of period/year, as restated		<b>239,452,897</b>	265,214,944
Add: Current period/year net profit		<b>66,683,474</b>	92,797,441
Less: Current period/year appropriation		–	(18,559,488)
Less: Dividends declared	10	–	(100,000,000)
End of period/year		<b><u>306,136,371</u></b>	<b><u>239,452,897</u></b>

**Li Gui Rong**  
*Legal representative*

**Sun Yu Guo**  
*Chief financial officer*

**Wang Xiu Yun**  
*Accounting supervisor*

The accompanying notes form an integral part of these financial statements.

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS

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FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

(Prepared in accordance with PRC accounting standards)

(Amounts expressed in RMB unless otherwise stated)

### 1. COMPANY BACKGROUND

Tsingtao Brewery Company Limited (the “Company”) was established in accordance with the requirements of the “Company Law”, the “Standard Opinion on Joint Stock Limited Companies”, the “Addendum thereto in relation to the implementation of the “Standard Opinion on Joint Stock Limited Companies” by companies listed in Hong Kong” and other relevant laws, regulations and administrative rules of the People’s Republic of China (the “PRC”). With the approval of the Qingdao Municipal People’s Government, the Company was established on 16th June, 1993 and obtained the Sino-foreign Joint Stock Company business license on 27th December, 1995. The H shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 15th July, 1993 and the A shares were listed on The Shanghai Stock Exchange on 27th August, 1993.

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 the 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 proceeds of approximately RMB757,729,000 after deducting related issue expenses of approximately RMB29,271,000. The net proceeds of the issuance have been verified by Shandang Huide Certified Public Accountants.

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

### 2. PRINCIPAL ACCOUNTING POLICIES

#### a. Financial year

The financial year runs from 1st January to 31st December of each calendar year.

#### b. Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed during the period 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.

#### c. Accounting standards and basis of recording

The Company and its subsidiaries (collectively referred to as the “Group”) have adopted the “Accounting Regulations for Business Enterprises” of the PRC. The books and records are maintained on the accrual basis using the historical cost convention.

Except for the changes in accounting policies due to adoption of “Accounting Regulations for Business Enterprises” as discussed below, the accounting policies adopted by the Company and the Group during the six months ended 30th June, 2001 are basically in line with those adopted in previous years.

Pursuant to the requirements of Caikuai [2000] No. 25, the Notice for Promulgation of Accounting Regulation for Business Enterprise and Caikuai [2001] No. 17, the Notice for the Transitional Arrangement on the implementation of Accounting Regulation for Business Enterprises, the Company adopted the Accounting Regulations for Business Enterprises, Accounting Standards for Business Enterprises and related regulations starting from 1st January, 2001. Pursuant to the related statements and regulations, certain changes in accounting policies have been applied retrospectively and the comparative figures have been restated accordingly.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### d. Changes in accounting policies

The impact of changes in accounting policies are as follows:

#### (i) Pre-operating expenses

Pre-operating expenses represent the expenses incurred during the period prior to the establishment of subsidiaries and during the transfer of assets into subsidiaries. Prior to 1st January, 2001, pre-operating expenses were capitalized and amortised into general and administration expenses over five years using the straight-line method, starting from the commencement of normal production. Pursuant to the new "Accounting Regulation for Business Enterprises", pre-operating expenses are capitalised initially and expensed off on commencement of production.

This change in accounting policy has been applied retrospectively in accordance with the requirements of Accounting Regulations for Business Enterprises and the comparative figures have also been restated accordingly. As a result of this change in accounting policies, the Group's net profits for the six months ended 30th June, 2000 and for the year ended 31st December, 2000 were increased and decreased by approximately RMB681,000 and RMB858,000 respectively. The Group's net profits for 1999 and prior years and the beginning retained earnings for the year 2000 were decreased by approximately RMB3,862,000. For the six months ended 30th June, 2001, the Group's net profit was decreased by approximately RMB2,572,000 and the beginning retained earnings was decreased by approximately RMB4,549,000.

As a result of this change in accounting policy, the Company's net profits for the six months ended 30th June, 2000 and for the year ended 2000 were increased and decreased by approximately RMB681,000 and RMB858,000 respectively. The Company's net profits for 1999 and prior years and the beginning retained earnings for the year 2000 were decreased by approximately RMB3,956,000. For the six months ended 30th June, 2001, the Company's net profit was increased by approximately RMB923,000 and the beginning retained earnings was decreased by approximately RMB4,643,000.

#### (ii) Housing fund

Prior to 1st January, 2001, pursuant to the relevant PRC accounting standards, all repair and maintenance expenses 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. The Group's and the Company's housing fund balances as of 31st December, 2000 were debit balances of RMB22,194,515 and RMB22,856,589 respectively.

According to Caiqi [2000] No.295, the "Notice for the Financial Treatment related to Housing Reform" and Caikuai [2001] No. 5, the "Regulations for the Accounting Treatment of Housing Reform" issued by the Ministry of Finance of the PRC, the housing fund balance should be eliminated against beginning retained earnings as at 1 January, 2001. All related expenses and income incurred by the Group and the Company for the current and future periods will be charged to the income statement as incurred.

This change in accounting policy is applied retrospectively and the comparative figures are adjusted accordingly. The change resulted in a decrease of the Group's net profits for the six months ended 30th June, 2000 and for the year ended 31st December, 2000 by approximately RMB3,662,000 and RMB2,646,000 respectively. The Group's net profit in 1999 and prior years and the beginning retained earnings of 2000 have also decreased by approximately RMB17,477,000. For the six months ended 30th June, 2001, the Group's net profit has decreased by approximately RMB6,680,000 and the beginning retained earnings has decreased by approximately RMB19,638,000.

The change in accounting policy has resulted in a decrease of the Company's net profits for the six months ended 30th June, 2000 and for the year ended 31st December, 2000 by approximately RMB3,662,000 and RMB2,646,000 respectively. The Company's net profit in 1999 and prior years and the beginning retained earnings of 2000 have decreased by approximately RMB17,681,000. As at 30th June, 2001, the Company's net profit has decreased by approximately RMB5,138,000 and the beginning retained earnings has decreased by approximately RMB19,798,000.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### d. Changes in accounting policies (Cont'd)

Except for the impact stated above, the newly issued and revised "Accounting Regulations for Business Enterprises" and "Accounting Standards for Business Enterprises" have no material impact on the Company's and the Group's financial position and operating results. The revised accounting policies resulting from the adoption of the new regulations and standards are detailed as follows:

#### (i) 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. The cost includes the cost of construction, machinery and equipment and other direct costs plus interest expenses from specific loans during the construction period. Construction-in-progress is depreciated at such time when the assets are completed and are ready for their intended use.

When there is evidence indicating an impairment in construction-in-progress, a provision for the impairment loss is made. When there is evidence that the value of the construction-in-progress has recovered, the provision is written back to the extent of the original provision.

#### (ii) Intangible assets

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
Land use rights	50 years
Technology know-how	10 years

When there is evidence indicating an impairment in the intangible assets, a provision for the impairment loss is made. When there is evidence indicating that the value of intangible assets has recovered, the provision is written back to the extent of the original provision.

#### (iii) Borrowing costs

Borrowing costs include interest expenses, discounts or premiums, exchange differences and other costs incurred in connection with the borrowings of funds. Specific loans are loans borrowed specifically for the construction of fixed assets.

The interest expenses, discounts or premiums and exchange differences arising from specific loans are capitalized when the borrowing costs and the expenditures for the specified construction are being incurred and activities that are necessary to prepare the asset for its intended use or sales are in progress.

Borrowing costs are capitalized at the weighted average cost of the specific loans until the asset is ready for its intended use.

#### (iv) Contingent liabilities

When it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the amount of the obligation can be measured with sufficient reliability, the obligation arising from contingencies is recognised as a liability.

The amount of the liability is recognised at the best estimate of the required payment. When all or part of the obligation is reimbursed by third parties or other parties, this reimbursement is recognised as an asset to the extent of the related liabilities recognised when it is probable of receipt.



### 3. RELATED PARTY TRANSACTIONS

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

Other than the subsidiaries and associated companies, particulars of the principal related companies or the Group are as follows:

<b>Name of company</b>	<b>Place of establishment</b>	<b>Registered capital</b>	<b>Principal activities</b>	<b>Relationship</b>
Tsingtao Brewery Group Co., Ltd.	Qingdao, the PRC	RMB399,820,000	Investment and administration of state-owned assets	Same major shareholder
Tsingtao Brewery Shi Ye Co., Ltd.	Qingdao, the PRC	RMB1,000,000	Domestic trading	Same major shareholder
Tsingtao Brewery Industrial Zone Co., Ltd.	Qingdao, the PRC	USD12,000,000	Construction and operation of factories	Same major shareholder
Tsingtao Brewery Real Estate Co., Ltd.	Qingdao, the PRC	USD2,100,000	Real estate development and operation	Same major shareholder
Tsingtao Brewery Engineering Co., Ltd.	Qingdao, the PRC	RMB1,000,000	Installation of electrical appliances	Same major shareholder
Tsingtao Brewery Property Management Co., Ltd.	Qingdao, the PRC	RMB500,000	Property management	Same major shareholder
Tsingtao Brewery Advertising Co., Ltd.	Qingdao, the PRC	RMB500,000	Advertising	Same major shareholder
Tsingtao Brewery Trading Co., Ltd.	Qingdao, the PRC	RMB500,000	Wholesale and retail	Same major shareholder
Xi'an Hans Beverages Company Limited	Xi'an, the PRC	RMB125,000,000	Beverage production and technical consulting	Minority shareholder of a subsidiary
Asahi Breweries Limited	Japan	YEN177,644,000,000	Manufacturing and trading of beer	Minority shareholder of a subsidiary
Itochu Corporation	Japan	YEN174,711,000,000	Conglomerate	Minority shareholder of a subsidiary
Sumikin Bussan Corporation	Japan	YEN5,971,000,000	Conglomerate	Minority shareholder of a subsidiary
Shangdong Zaozhuang City, Xuecheng District State Owned Operations Centre	Xuecheng, the PRC	RMB3,600,000	Investment in industrial enterprise	Minority shareholder of a subsidiary
Shangdong Rongcheng City, First Light Industrial Co., Ltd.	Rongcheng, the PRC	RMB13,850,000	Paper manufacturing, printing and pharmaceuticals manufacturing	Minority shareholder of a subsidiary
Zhuhai Doumen Huangmei Enterprise Group	Doumen, the PRC	RMB90,000,000	Manufacturing and trading of beer	Minority shareholder of a subsidiary

### 3. RELATED PARTY TRANSACTIONS (CONT'D)

Name of company	Place of establishment	Registered capital	Principal activities	Relationship
Penglai Heilangou Gold Industry Company	Penglai, the PRC	RMB64,000,000	Exploration of gold mines	Minority shareholder of a subsidiary
Peixian State Owned Operations Centre	Peixian, the PRC	RMB5,000,000	Investment and administration of stated-owned assets	Minority shareholder of a subsidiary
Canada EVG Brewery Company	Foshan, the PRC	USD5,000,000	Manufacturing and trading of beer	Minority shareholder of a subsidiary
Shanghai Qifan Enterprise Limited	Shanghai, the PRC	RMB10,200,000	Storage and transportation	Minority shareholder of a subsidiary
China Railway Construction Company Railway Transportation Division	Neimenggu, the PRC	RMB31,010,000	Railway construction	Minority shareholder of a subsidiary
Xuzhou City, Hui Fu Group	Xuzhou, the PRC	RMB5,000,000	Manufacturing and trading of white wine	Minority shareholder of a subsidiary
Tsingtao Beverage Company Limited	Hong Kong	HKD2,000,000	Trading of beer	Same management
Shandong Weifang Lanzai Brewery Company Limited	Weifang, the PRC	RMB1,400,000	Manufacturing and trading of beer	Minority shareholder of a subsidiary
Carlsberg Brewery Hong Kong Limited	Hong Kong	HKD250,000,000	Trading of beer	Minority shareholder of a subsidiary
Asahi Beer (China) Investment Co. Limited	Shanghai, PRC	USD30,000,000	Investment enterprise	Minority shareholder of a subsidiary
Sichuan Huo Ju Hua Gong Company Limited	Luzhou, PRC	RMB103,246,000	Production and trading of chemical products	Minority shareholder of a subsidiary
Shanxi Lixiang Chemical Company Limited	Hanzhong, PRC	RMB23,605,350	Production and trading of fertilizers and chemicals	Minority shareholder of a subsidiary
Beijing Asia Shuang He Sheng Five Star Beer Company Limited	Beijing, PRC	RMB164,980,000	Manufacturing and trading of beer	Minority shareholder of a subsidiary
Beijing Three Ring Asia Pacific Beer Company Limited	Beijing, PRC	RMB166,734,500	Manufacturing and trading of beer	Minority shareholder of a subsidiary
Hong Kong Fu Yun Shu Investment Co., Ltd.	Hong Kong	USD3,000,000	Investment trading and technical support	Minority shareholder of a subsidiary

None of the above related companies own shares in the Company during the period.

### 3. RELATED PARTY TRANSACTIONS (CONT'D)

- a. For the six months ended 30th June, 2001, the Group had the following material transactions with related and associated companies:

	<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 <i>(Note 31)</i>
Included in turnover:		
Tsingtao Beverage Company Limited	32,546,412	23,433,666
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd.	–	15,800,481
Beijing Tsingtao Brewery General Agency Co., Ltd.	91,300	3,304,361
Qinghua International Trade Development Corporation	2,063,658	2,327,841
Tsingtao Brewery (Yangzhou) Company Limited	1,148,120	–
Xian Hans Beverages Company Limited	331,153	–
<b>Total</b>	<b>36,180,643</b>	<b>44,866,349</b>
Included in cost of sales:		
Tsingtao Brewery Shi Ye Co., Ltd.	180,843	8,133,808
Tsingtao Brewery (Yangzhou) Company Limited	1,767,838	8,808,444
Tsingtao Brewery Trading Co., Ltd.	11,527,659	2,874,619
Shandong Weifang Lanzai Brewery Company Limited	1,442,080	–
Xian Hans Beverages Company Limited	222,999	–
<b>Total</b>	<b>15,141,419</b>	<b>19,816,871</b>
Equipment installation services provided by a related company:		
Tsingtao Brewery Engineering Co., Ltd.	12,971,454	1,731,797
Guarantees provided by related companies for the Group's bank loans:		
Asahi Breweries Limited, Itochu Corporation, Sumikin Bussan Corporation	244,000,000	379,047,000
Tsingtao Brewery Group Co., Ltd.	1,048,103,000	1,461,586,000
<b>Total</b>	<b>1,292,103,000</b>	<b>1,840,633,000</b>

- b. As of 30th June, 2001, the Group had the following significant current balances with related and associated companies:

	<b>Group</b>		<b>Company</b>	
	<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 <i>(Note 31)</i>	<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 <i>(Note 31)</i>
Included in accounts receivable:				
Amount due from subsidiaries	–	–	73,888,182	64,155,521
Tsingtao Beverage Company Limited	33,070,497	4,923,943	441,699	–
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd.	103,928,435	114,928,436	103,928,435	114,928,436
Beijing Tsingtao Brewery General Agency Co., Ltd.	11,245,784	11,245,784	11,245,784	11,245,784
Tsingtao Brewery Trading Co., Ltd.	3,625,855	805,423	3,625,855	805,423
Tsingtao Brewery Shi Ye Co., Ltd.	330,429	330,429	330,429	330,429
Qinghua International Trade Development Corporation	2,405,034	1,676,076	2,405,034	1,676,076
Tsingtao Brewery Real Estate Co., Ltd.	801,679	805,230	801,679	805,230
<b>Total</b>	<b>155,407,713</b>	<b>134,715,321</b>	<b>196,667,097</b>	<b>193,946,899</b>

### 3. RELATED PARTY TRANSACTIONS (CONT'D)

#### b. (Cont'd)

	Group		Company	
	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000 (Note 31)	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000 (Note 31)
Included in other receivables:				
Amount due from subsidiaries	–	–	723,733,302	568,466,473
Tsingtao Brewery Shi Ye Co., Ltd.	13,452,918	11,287,932	13,452,918	11,287,932
Xi'an Hans Beverages Co., Ltd.	–	1,281,965	–	–
Tsingtao Brewery (Yangzhou) Co., Ltd.	97,536,544	107,256,544	97,536,544	107,256,544
Tsingtao Brewery Group Co., Ltd	6,852,179	–	1,852,179	–
Tsingtao Brewery Property Management Co., Ltd	1,003,856	–	1,003,856	–
Tsingtao Brewery Advertising Co., Ltd	2,334,123	–	1,874,123	–
Shandong Zaozhuang City, Xuecheing District State Owned Operations Centre	3,000,000	–	3,000,000	–
Total	<u>124,179,620</u>	<u>119,826,441</u>	<u>842,452,922</u>	<u>687,010,949</u>
Included in prepayments:				
Tsingtao Brewery Engineering Co., Ltd.	<u>3,206,632</u>	<u>180,000</u>	<u>–</u>	<u>–</u>
Included in advances from customers:				
Advances from subsidiaries	–	–	4,890,000	1,191,508
Tsingtao Brewery Trading Co., Ltd.	–	–	–	–
Total	<u>–</u>	<u>–</u>	<u>4,890,000</u>	<u>1,191,508</u>
Included in other payables:				
Amount due to subsidiaries	–	–	13,105,004	20,765,008
Tsingtao Brewery Engineering Co., Ltd.	3,541,938	893,080	–	893,080
Tsingtao Brewery Group Co., Ltd.	16,145,315	37,887,034	16,145,315	37,887,034
Tsingtao Brewery (Yangzhou) Company Limited	14,283,362	6,638,731	–	–
Pexian State Owned Operations Centre	4,000,000	–	–	–
Sichuan Huo Ju Hua Gong Company Limited	2,786,423	–	–	–
Tsingtao Brewery Shi Ye Co., Ltd	419,491	–	419,491	–
Total	<u>41,176,529</u>	<u>45,418,845</u>	<u>29,669,810</u>	<u>59,545,122</u>
Included in accounts payable:				
Amount due to subsidiaries	–	–	10,006,561	19,038,063
Tsingtao Brewery Trading Co., Ltd.	2,612,387	3,115,443	2,612,387	3,115,443
Tsingtao Brewery Shi Ye Co. Ltd.	–	1,915,222	–	1,915,222
Tsingtao Brewery (Yangzhou) Company Limited	136,500	5,430,284	–	–
Total	<u>2,748,887</u>	<u>10,460,949</u>	<u>12,618,948</u>	<u>24,068,728</u>

#### 4. NON-CASH TRANSACTION

During the six months ended 30th June, 2001, there was no significant non-cash transaction for the Group and the Company, except for the establishment and acquisition of new subsidiaries as detailed in Note 17.

#### 5. SEASONAL/CYCLICAL REVENUE

The summer season (May to October) is the peak season for beer sales. The sales volume during the summer season is normally 1 to 2 times the sales volume during slack season (November to April).

#### 6. FINANCE COSTS, NET

	Group		Company	
	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000
Interest expenses	(69,610,534)	(48,945,709)	(31,012,168)	(24,553,265)
Interest income – associated company	508,584	–	508,584	–
Interest income – others	6,714,412	6,915,156	3,539,096	3,008,218
Exchange differences, net	4,537,425	1,175,300	1,935,644	1,158,682
Others	377,652	(311,911)	301,410	(57,882)
Total	<u>(57,472,461)</u>	<u>(41,167,164)</u>	<u>(24,727,434)</u>	<u>(20,444,247)</u>

The increase in finance costs in the current period mainly resulted from the increased amount of long-term and short-term loans outstanding during the year.

The capitalised borrowing costs for the Group amounted to RMB1,839,575 in the current period (for the six months ended 30th June, 2000: RMB633,913) (Note 20).

#### 7. INVESTMENT INCOME (LOSS)

	Group		Company	
	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000	For the six months ended 30th June, 2001 Unaudited	For the six months ended 30th June, 2000
Equity share in losses of subsidiaries	–	–	2,185,744	19,661
Equity share in profit of an associated company	1,078,575	395,964	1,078,575	395,964
Income from debt investments	983,652	983,652	983,652	983,652
Amortisation of goodwill/negative goodwill on acquisitions	15,167,072	3,798,486	12,784,709	4,643,462
Others	(812,834)	–	(576,304)	–
Total	<u>16,416,465</u>	<u>5,178,102</u>	<u>16,456,376</u>	<u>6,042,739</u>

The increase in the Group's investment income is mainly due to increase in amortisation of goodwill.

#### 8. SUBSIDY INCOME

As part of the acquisition of subsidiaries by the Group in the current period and prior years, the Group had entered into various agreements with the relevant municipal governments. Under the terms of the agreements, these subsidiaries will enjoy various financial incentives granted by the relevant municipal governments, including financial subsidies based on the amount of tax paid by the subsidiaries.

Pursuant to Guofa [2000] No.2 issued by State Council of the PRC in January 2000 and Caishui [2000] No.99 issued by the 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.

The increase in subsidy income for the current period was mainly due to the subsidies received by the newly acquired/established subsidiaries.

## 9. TAXATION

### a. Profits tax

#### (i) PRC enterprise income tax

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

In accordance with an approval document dated 18th April, 1994 issued by the State Administration for Taxation ("SAT"), net profit earned by the Company is subject to profits tax at 15% effective from the date of establishment of the Company. This 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 ("Xi'an Company") 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 Xi'an Company will be subject to EIT at a rate of 33%.

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

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

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

#### (ii) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16% (30th June, 2000: 16%) on the estimated assessable profit for the period. No Hong Kong profits tax was provided as the Group did not earn any income assessable to Hong Kong profits tax during the period.

### 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 customers 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 original regulations of the SAT, consumption tax of RMB220 per ton is charged on the sale of beer. In May, 2001, the Ministry of Finance of the PRC and the SAT had issued the Notice for the changes of consumption tax (Cai Shui [2001] No.84). For beer with a factory price (including packaging material and its deposits) of RMB3,000 or above per ton, the consumption tax is RMB250 per ton. For the other beer sales, the consumption tax remains at RMB220 per ton.

## 10. DIVIDENDS

The directors do not recommend an interim dividend for the six months ended 30th June, 2001 (corresponding period of 2000: Nil).

## 11. EARNINGS PER SHARE

The calculation of weighted average earnings per share for the six months ended 30th June, 2001 is based on the consolidated net profit of RMB70,835,655 (30th June, 2000: RMB59,894,640) and on the weighted average number of 966,666,666 (30th June, 2000: 900,000,000) shares in issue during the period. Diluted earnings per share is calculated based on the 1,000,000,000 (30th June, 2000: 900,000,000) shares in issue at the end of the period.

## 12. ACCOUNTS RECEIVABLE

The aging analysis of accounts receivable is as follows:

### a. Group

	30th June, 2001 Unaudited			31st December, 2000		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	225,106,465	46.50%	(20,255,700)	165,766,468	43.29%	(9,109,919)
Within one to two years	91,621,238	18.93%	(23,100,949)	123,821,803	32.34%	(22,388,514)
Within two to three years	99,728,618	20.60%	(62,037,525)	58,411,184	15.25%	(34,989,090)
Over three years	67,649,536	13.97%	(65,199,822)	34,922,464	9.12%	(31,925,329)
<b>Total</b>	<b>484,105,857</b>	<b>100.00%</b>	<b>(170,593,996)</b>	<b>382,921,919</b>	<b>100.00%</b>	<b>(98,412,852)</b>

#### The Group's five largest accounts receivable as at 30th June, 2001

	Outstanding Balance	Outstanding Period	Outstanding Reason
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd.	103,928,435	Within 1 – 3 years	Purchase of beer
France Tsingtao Brewery Co., Ltd	17,925,668	Within 1 year	Purchase of beer
Beijing Tsingtao Brewery General Agency Co., Ltd.	11,245,784	Within 1 – 3 years	Purchase of beer
Nanjing Jia Hong Da Beer Company Limited	8,960,740	Within 1 – 2 years	Purchase of beer
Da Lian Alcohol and Food Purchasing Company	8,511,644	Within 1 year	Purchase of beer

### b. Company

	30th June, 2001 Unaudited			31st December, 2000		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	192,034,089	52.49%	(10,636,686)	179,403,203	47.87%	(4,053,074)
Within one to two years	73,142,269	19.99%	(11,000,066)	110,327,072	29.43%	(15,469,279)
Within two to three years	81,528,097	22.29%	(45,760,654)	52,676,655	14.05%	(33,462,411)
Over three years	19,123,706	5.23%	(17,201,318)	32,402,911	8.65%	(28,956,338)
<b>Total</b>	<b>365,828,161</b>	<b>100.00%</b>	<b>(84,598,724)</b>	<b>374,809,841</b>	<b>100.00%</b>	<b>(81,941,102)</b>

#### The Company's five largest accounts receivable as at 30th June, 2001

	Outstanding Balance	Outstanding Period	Outstanding Reason
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd.	103,928,435	Within 1 – 3 years	Purchase of beer
Tsingtao Brewery (Douman) Company Ltd.	26,041,562	Within 1 year	Purchase of raw materials
France Tsingtao Brewery Company Ltd.	17,925,668	Within 1 year	Purchase of beer
Shenzhen Tsingtao Beer Asahi Company Ltd.	13,664,510	Within 1 year	Purchase of raw materials
Beijing Tsingtao Brewery General Agency Co., Ltd.	11,245,784	Within 1 – 3 years	Purchase of beer

Balances with subsidiaries and associated companies are unsecured, non-interest bearing and have no fixed repayment term.

The Group and the Company do not have any receivable balances which are owed from parties with 5% or above shareholdings in the Company.

### 13. OTHER RECEIVABLES

The aging analysis of other receivables is as follows:

#### a. Group

	30th June, 2001			31st December, 2000		
	Unaudited					
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	226,900,695	48.60%	(4,023,185)	159,569,626	43.86%	(4,567,477)
Within one to two years	40,706,964	8.72%	(4,405,632)	56,829,513	15.62%	(2,737,666)
Within two to three years	39,528,115	8.47%	(10,223,217)	25,563,800	7.03%	(9,265,934)
Over three years	159,709,614	34.21%	(57,391,512)	121,832,488	33.49%	(22,642,847)
<b>Total</b>	<b>466,845,388</b>	<b>100.00%</b>	<b>(76,043,546)</b>	<b>363,795,427</b>	<b>100.00%</b>	<b>(39,213,924)</b>

#### The Group's five largest other receivables as at 30th June, 2001

	Outstanding Balance	Outstanding Period	Outstanding Reason
Tsingtao Brewery (Yangzhou) Company Limited	97,536,544	Within 1 – 3 years	Operating loan
Tsingtao Local Tax Bureau Second Division	18,000,000	Within 2 years	Housing loan
Tsingtao Brewery Shi Ye Co. Ltd.	13,452,918	Within 1 – 3 years	Purchase of bottles
Tsingtao State Tax Bureau Import/Export Tax Division	12,126,537	Within 1 year	Tax refund on export
Tsingtao Xiaocheng Trust Investment Co., Ltd.	6,107,851	Within 3 years	Long-term deposit

The increase in other receivables is mainly due to the acquisition/establishment of new subsidiaries.

#### b. Company

	30th June, 2001			31st December, 2000		
	Unaudited					
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	669,279,183	63.47%	(3,982,035)	556,907,166	64.16%	(3,738,734)
Within one to two years	89,559,242	8.49%	(3,009,965)	175,003,175	20.16%	(1,577,683)
Within two to three years	37,599,342	3.57%	(8,580,300)	22,869,570	2.64%	(9,127,335)
Over three years	258,098,894	24.47%	(56,170,778)	113,202,280	13.04%	(22,642,847)
<b>Total</b>	<b>1,054,536,661</b>	<b>100.00%</b>	<b>(71,743,078)</b>	<b>867,982,191</b>	<b>100.00%</b>	<b>(37,086,599)</b>

#### The Company's five largest other receivables as at 30th June, 2001

	Outstanding Balance	Outstanding Period	Outstanding Reason
Tsingtao Brewery (Yangzhou) Company Limited	97,536,544	Within 1 – 3 years	Operating loan
Tsingtao Brewery (Xing Kai Hu) Company Limited	77,006,309	Within 1 – 3 years	Operating loan
Tsingtao Brewery (Xuecheng) Company Limited	53,533,078	Within 1 – 3 years	Operating loan
Tsingtao Brewery (No. 5) Company Limited	50,992,488	Within 1 – 2 years	Operating loan
Tsingtao Brewery (Huangshi) Company Limited	50,860,000	Within 1 – 3 years	Operating loan

Balances with subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

Balance with an associated company bears interest at 5.85% per annum, is unsecured and has no fixed repayment terms.

The Group and the Company do not have any receivable balances which are owed from parties with 5% or above shareholding in the Company.



## 14. PREPAYMENTS AND DEPOSITS

The aging analysis of prepayments and deposits is as follows:

### a. Group

	30th June, 2001 Unaudited		31st December, 2000	
	Amount	Proportion	Amount	Proportion
Within one year	78,690,600	95.75%	52,247,813	78.45%
Within one to two years	1,546,405	1.88%	12,521,546	18.80%
Within two to three years	308,378	0.37%	454,027	0.68%
Over three years	1,642,254	2.00%	1,379,167	2.07%
Total	<u>82,187,637</u>	<u>100.00%</u>	<u>66,602,553</u>	<u>100.00%</u>

The Group's five largest prepayments and deposits as at 30th June, 2001	Outstanding Balance	Outstanding Period	Outstanding Reason
Yan Tai Yin He Company Limited	4,571,545	Within 1 year	Purchase of raw materials
Ri Zhao City Land Administrative Bureau	4,000,000	Within 1 year	Land use right
Yan Tai Malt Factory	3,087,171	Within 1 year	Purchase of raw materials
Shan Dong Jiu Fa Shi Yong Jun Company Limited	2,700,000	Within 1 year	Purchase of raw materials
Jiao Zhou Kang Yuan Fu Li Factory	2,340,714	Within 1 year	Purchase of bottles

### b. Company

	30th June, 2001 Unaudited		31st December, 2000	
	Amount	Proportion	Amount	Proportion
Within one year	11,139,470	87.16%	7,264,899	39.00%
Within one to two years	–	–	9,700,000	52.07%
Within two to three years	183,078	1.43%	380,506	2.04%
Over three years	1,458,139	11.41%	1,284,056	6.89%
Total	<u>12,780,687</u>	<u>100.00%</u>	<u>18,629,461</u>	<u>100.00%</u>

The Company's five largest prepayments and deposits as at 30th June, 2001	Outstanding Balance	Outstanding Period	Outstanding Reason
Jiao Zhou Kang Yuan Fu Li Cheng	2,340,714	Within 1 year	Purchase of bottles
Qing Dao Bei Hui Bo Li Company Limited	2,320,000	Within 1 year	Purchase of bottles
An Qiu An Tai Bo Li Company Limited	1,163,769	Within 1 year	Purchase of bottles
Cai Zhou Brewery Company	837,807	Within 1 year	Purchase of raw materials
Qing Dao City Electricity Bureau	642,500	Within 1 year	Purchase of bottles

The Group and the Company do not have any prepayments and deposits balances which are made to parties with 5% or above shareholdings in the Company.

## 15. INVENTORIES

	Group		Company	
	30th June, 2001 Unaudited	31st December, 2000	30th June, 2001 Unaudited	31st December, 2000
Raw materials, packaging materials and auxiliary materials	688,833,452	532,702,795	163,625,739	198,410,198
Work-in-progress	126,855,820	94,118,274	28,047,460	31,823,411
Finished goods	180,666,280	109,193,487	84,571,596	64,610,185
<b>Total</b>	<b>996,355,552</b>	<b>736,014,556</b>	<b>276,244,795</b>	<b>294,843,794</b>
Less: Provision for diminution in value of inventories				
Raw materials, packaging materials and auxiliary materials	(24,378,877)	(1,000,000)	(360,213)	(1,000,000)
Finished goods	(19,089,316)	(3,063,013)	(3,063,013)	(3,063,013)
<b>Total</b>	<b>(43,468,193)</b>	<b>(4,063,013)</b>	<b>(3,423,226)</b>	<b>(4,063,013)</b>
<b>Inventories, net</b>	<b>952,887,359</b>	<b>731,951,543</b>	<b>272,821,569</b>	<b>290,780,781</b>

The increase in inventories is mainly due to the acquisitions/establishments of new subsidiaries.

## 16. DEFERRED EXPENSES

	Group		Company	
	30th June, 2001 Unaudited	31st December, 2000	30th June, 2001 Unaudited	31st December, 2000
Insurance	9,489,322	1,482,735	5,785,765	–
Advertising	8,631,904	1,104,766	1,728,000	–
Repair and maintenance	2,064,645	247,532	–	–
Others	13,923,760	5,842,154	447,727	187,511
<b>Total</b>	<b>34,109,631</b>	<b>8,677,127</b>	<b>7,961,492</b>	<b>187,511</b>

## 17. LONG-TERM EQUITY INVESTMENTS

### a. Group

	Beginning of period	Addition/ Reduction	Amortisation/ Equity share	End of period
Goodwill/Negative goodwill on acquisition	(228,973,210)	(79,328,253)	15,167,072	(293,134,391)
Investment in associated companies				
Unlisted shares, at cost	6,496,167	10,089,620	–	16,585,787
Share premium	3,230	–	–	3,230
Equity share of results	(979,513)	1,078,575	–	99,062
	5,519,884	11,168,195	–	16,688,079
Other equity investments	21,641,505	4,010,001	–	25,651,506
<b>Total</b>	<b>27,161,389</b>	<b>15,178,196</b>	<b>–</b>	<b>42,339,585</b>

## 17. LONG-TERM EQUITY INVESTMENTS (CONT'D)

### b. Company

	Beginning of period <i>(Note 31)</i>	Addition/ Reduction	Amortisation/ Equity share	End of period
Investment in subsidiaries				
Unlisted shares, at cost	880,611,121	145,493,716	–	1,026,104,837
Share premium	294,822,168	114,045,419	–	408,867,587
Equity share of results	(52,201,865)	(5,283,964)	2,185,744	(55,300,085)
Cash received from dividends	(20,067,000)	–	–	(20,067,000)
Advances/loans to subsidiaries	122,383,276	139,829,631	–	262,212,907
Goodwill/Negative goodwill on acquisition	(235,473,526)	9,193,420	12,784,709	(213,495,397)
	<u>990,074,174</u>	<u>403,278,222</u>	<u>14,970,453</u>	<u>1,408,322,849</u>
Investment in associated companies				
Unlisted shares, at cost	6,496,167	–	–	6,496,167
Share premium	3,230	–	–	3,230
Equity share of results	(979,513)	1,078,575	–	99,062
	<u>5,519,884</u>	<u>1,078,575</u>	<u>–</u>	<u>6,598,459</u>
Other equity investments	17,969,562	–	–	17,969,562
Total	<u>1,013,563,620</u>	<u>404,356,797</u>	<u>14,970,453</u>	<u>1,432,890,870</u>

c. As at 30th June, 2001, particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery Shanghai Songjiang Company Limited	Shanghai, the PRC	USD36,640,000	75%	–	Manufacturing and domestic trading of beer
Shenzhen Tsingtao Beer Asahi Company Limited	Shenzhen, the PRC	USD30,000,000	51%	–	Manufacturing and trading of beer
Tsingtao Brewery Xi'an Company Limited	Xi'an, the PRC	RMB156,640,000	57.34%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Shouguang) Company Limited	Weifang, the PRC	RMB60,606,060	99%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Sanshui) Company Limited	Sanshui, the PRC	RMB60,000,000	75%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Zhuhai) Company Limited	Zhuhai, the PRC	RMB60,000,000	60%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Shanghai) Company Limited	Shanghai, the PRC	RMB50,000,000	–	90.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Anshan) Company Limited	Liaoning, the PRC	RMB50,000,000	60%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Weinan Company Limited	Xi'an, the PRC	RMB50,000,000	–	41.28%	Manufacturing and domestic trading of beer
Tsingtao Brewery (No. 5) Company Limited	Qingdao, the PRC	RMB3,000,000	95%	–	Manufacturing and domestic trading of beer

## 17. LONG-TERM EQUITY INVESTMENTS (CONT'D)

c. (Cont'd)

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery (Haerbin) Company Limited	Haerbin, the PRC	RMB22,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xingkaihu) Company Limited	Jixi, the PRC	RMB20,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Mishan) Company Limited	Heilongjiang, the PRC	RMB20,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Wuhu) Company Limited	Wuhu, the PRC	RMB20,000,000	–	85.5%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Rongcheng) Company Limited	Rongcheng, the PRC	RMB20,000,000	70%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tengzhou) Company Limited	Tengzhou, the PRC	RMB15,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Rizhao) Co., Ltd	Rizhao, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery No. 3 Company Limited	Pingdu, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Langfang) Company Limited	Beijing, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Taizhou) Company Limited	Zhejiang, the PRC	RMB10,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Heze) Company Limited	Heze, the PRC	RMB10,000,000	90%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Penglai) Company Limited	Penglai, the PRC	RMB10,000,000	80%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xuecheng) Company Limited	Xuecheng, the PRC	RMB10,000,000	70%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xuzhou) Company Limited	Peixian, the PRC	RMB10,000,000	60%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Chongqing) Company Limited	Chongqing, the PRC	RMB7,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Huangshi) Company Limited	Huangshi, the PRC	RMB5,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Maanshan) Company Limited	Maanshan, the PRC	RMB5,000,000	–	91.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Yingcheng) Company Limited	Yingcheng, the PRC	RMB5,000,000	95%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Pingyuan) Company Limited	Pingyuan, the PRC	RMB5,000,000	90%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Anqiu) Company Limited	Anqiu, the PRC	RMB5,000,000	95%	–	Manufacturing and domestic trading of beer

## 17. LONG-TERM EQUITY INVESTMENTS (CONT'D)

c. (Cont'd)

Name of subsidiaries	Place of establishment and principal operation	Registered capital	Equity interest held		Principal activities
			Directly held	Indirectly held	
Tsingtao Brewery (Xuzhou Pangcheng) Company Limited	Pangcheng, the PRC	RMB5,000,000	90%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Chenzhou) Company Limited	Chenzhou, the PRC	RMB5,000,000	70%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery (Weifang) Company Limited	Weifang, the PRC	RMB5,000,000	70%	–	Manufacturing and domestic trading of beer
Tsingtao Brewery Huadong Shanghai Sales Company Limited	Shanghai, the PRC	RMB3,000,000	–	95%	Domestic trading of beer
Shenzhen Tsingtao Brewery Sales Company Limited	Shenzhen, the PRC	RMB2,500,000	95%	–	Domestic trading of beer
Jiangsu Tsingtao Brewery Sales Co., Ltd.	Jiangsu, the PRC	RMB2,000,000	90%	–	Domestic trading of beer
Tsingtao Brewery Kai Fa Co., Ltd.	Qingdao, the PRC	RMB1,320,000	100%	–	Domestic trading of beer
Tsingtao Brewery Huadong Nanjing Sales Company Limited	Nanjing, the PRC	RMB1,000,000	–	95%	Domestic trading of beer
Shanghai Tsingtao Brewery Sales Company Limited	Shanghai, the PRC	RMB1,000,000	35%	–	Domestic trading of beer
Tsingtao Brewery (Taierzhuang) Malt Company Limited	Taierzhuang, the PRC	RMB500,000	–	87.5%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Hong Kong) Trading Company Limited	Hong Kong	HKD500,000	100%	–	Trading of Tsingtao beer in Hong Kong
Tsingtao Brewery Huadong Holding Company Limited	Shanghai, the PRC	RMB100,000,000	95%	–	Investment holding
Tsingtao Brewery Group Sales Company Limited	Qingdao, the PRC	RMB5,000,000	95%	–	Not yet commenced business
Tsingtao Brewery Import/Export Company Limited	Qingdao, the PRC	RMB5,000,000	95%	–	Not yet commenced business
Tsingtao Brewery (Wuhan) Company Limited	Wuhan, the PRC	RMB1,000,000	51%	46.55%	Not yet commenced business

During the six months ended 30th June, 2001, the Group had acquired/established new beer production enterprises using different acquisition methods. As part of these acquisitions, the Group established new subsidiaries through taking over the existing beer production assets, assumption of current and long term loans, taking over of the existing employees of the the predecessor brewery companies and the payment of cash. Various financial incentives were also granted by local municipal governments to certain newly acquired/established subsidiaries.

## 17. LONG-TERM EQUITY INVESTMENTS (CONT'D)

### c. (Cont'd)

When compared to the prior year's financial statements, the scope of consolidation in these interim financial statements has increased as a result of the following acquisitions/establishment.

- i. In August 2000, the Company had 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 the relevant government authorities in March 2001.
- ii. In August 2000, the Company had 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"). The equity transfer was approved by the relevant government authorities in March 2001.

### (iii) Other newly acquired/established subsidiaries

Name of subsidiaries	Name of minority interests	Total consideration	Date of establishment	Place of establishment and principal operation	Registered capital	Equity interest		Principal activities
						Directly held	Indirectly held	
Tsingtao Brewery (Doumen) Company Limited	Tsingtao Brewery (Zhuhai) Company Limited, Tsingtao Brewery (Sanshui) Company Limited	RMB 32,905,500	February 2001	Doumen, PRC	RMB 10,000,000	60%	27%	Manufacturing and domestic trading of malt
Tsingtao Brewery (Luzhou) Company Limited	Sichuan Huoju Chemicals Company Limited	RMB 61,110,000	February 2001	Luzhou, PRC	RMB 111,110,000	55%	-	Manufacturing and domestic trading of beer
Tsingtao Brewery (Beifang) Sales Company Limited	Tsingtao Brewery Group Company Limited, Tsingtao Brewery (Langfang) Company Limited	RMB 28,481,000	March 2001	Beijing, PRC	RMB 29,980,000	80%	14.25%	Domestic trading of beer
Tsingtao Brewery (Hanzhong) Company Limited	Hanzhong Lixiang Chemical Group	RMB 19,410,000	January 2001	Hanzhong, PRC	RMB 29,410,000	-	37.84%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Suqian) Company Limited	Tsingtao Brewery Group Company Limited	RMB 9,500,000	March 2001	Suqian, PRC	RMB 10,000,000	95%	-	Manufacturing and domestic trading of beer
Tsingtao Brewery (Nanjing) Company Limited	Hong Kong Fu Yun Shu Investment Company Limited	USD 3,750,000	March 2001	Nanjing, PRC	USD 5,000,000	75%	-	Manufacturing and domestic trading of beer
Tsingtao Brewery (Suzhou) Company Limited	Tsingtao Brewery Huadong Holding Company Limited	RMB 5,000,000	May 2001	Dacang, PRC	RMB 5,000,000	10%	85.5%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tengzhou) Hunhai Sales Company Limited	Tsingtao Brewery (Tengzhou) Company Limited, Tsingtao Brewery (Xuecheng) Company Limited	RMB 500,000	November 2000	Tengzhou, PRC	RMB 500,000	-	82.5%	Domestic trading of beer
Tsingtao Brewery Haerbin Northeast Sales Company	Tsingtao Brewery (Haerbin) Company Limited	RMB 10,000,000	April 2001	Haerbin, PRC	RMB 10,000,000	85%	14.25%	Domestic trading of beer

## 17. LONG-TERM EQUITY INVESTMENTS (CONT'D)

### d. i. Top five long-term equity investment as at 30th June, 2001

Name of Investees	Investment Amount (RMB)	Equity interest	Current period equity pick up (RMB)	Accumulated equity pick up (RMB)
Tsingtao Brewery Shanghai Songjiang Company Limited	286,605,033	75.00%	(625,408)	(234,677,249)
Tsingtao Brwery Xi'an Company Limited	183,895,141	57.34%	14,850,680	56,100,048
Beijing Five Star Tsingtao Beer Co. Ltd.	134,597,041	62.64%	(214,982)	(405,359,759)
Shenzhen Tsingtao Beer Asahi Company Limited	131,809,648	51.00%	10,370,483	5,062,967
Tsingtao Brewery Huadong Holding Company Limited	91,501,140	95.00%	(1,472,700)	(3,498,860)

### ii. Top five goodwill/negative goodwill on acquisition as at 30th June, 2001

Name of Investees	Original amount (RMB)	Reason	Amortisation life (years)	Current period amortisation (RMB)	Unamortised balance (RMB)
Tsingtao Brewery Shanghai Songjiang Company Limited	133,483,335	Acquisitions	10	78,791,934	149,704,677
Beijing Five Star Tsintao Beer Co. Limited	31,275,453	Acquisitions	10	–	31,275,453
Tsingtao Brewery (Xingkaihu) Company Limited	29,432,291	Acquisitions	10	1,375,065	17,875,840
Tsingtao (Taizhou) Company Limited	13,659,389	Acquisitions	10	682,969	11,610,480
Tsingtao (Pingyuan) Company Limited	13,611,443	Acquisitions	10	641,973	8,345,645

### e. As at 30th June, 2001, particulars of the principal associated companies of the Group are as follows:

Name of associated companies	Place of establishment and principal operation	Registered Capital	Equity Interest (directly held)	Principal Activities
Tsingtao Brewery (Yangzhou) Company Limited ("Yangzhou Company")	Yangzhou, the PRC	RMB5,000,000	20%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Guangzhou) General Agency Co., Ltd.	Guangzhou, the PRC	RMB2,000,000	40%	Trading of Tsingtao beer
Tsingtao Brewery Huale Industrial and Trading Co., Ltd.	Qingdao, the PRC	RMB3,450,000	21.7%	Trading and investment
Beijing Tsingtao Brewery General Agency Co., Ltd.	Beijing, the PRC	RMB2,000,000	21%	Trading of Tsingtao beer
Qinghua International Trade Development Corporation	Canada	USD500,000	50%	Trading of Tsingtao beer
Tsingtao Brewery Shishi Sales Company	Shishi, the PRC	RMB1,000,000	30%	Domestic trading of beer
Tsingtao Beer and Asahi Beverage Company Limited	Qingdao, the PRC	RMB70,000,000	40%	Manufacturing and domestic trading of beverage

The operating results of the above associated companies have been included in the consolidated and company-only financial statements using the equity method if they are material to the operating results or financial position of the Group or the Company.

## 18. LONG-TERM DEBT INVESTMENTS

### a. Group

Types	Purchase price	Face value	Annual interest rate	Maturity date	Current period interest
Government bonds	39,998,088	32,700,000	8.56%	December 2004	1,389,560
Others	3,000	3,000	–	–	–
	<u>40,001,088</u>	<u>32,703,000</u>			<u>1,389,560</u>
Accumulated amortisation of premium	<u>(4,386,734)</u>				
	<u><u>35,614,354</u></u>				

### b. Company

Types	Purchase price	Face value	Annual interest rate	Maturity date	Current period interest
Government Bonds	39,998,088	<u>32,700,000</u>	8.56%	December 2004	<u>1,389,560</u>
Accumulated amortisation of premium	<u>(4,386,734)</u>				
	<u><u>35,611,354</u></u>				

In the opinion of the Company's directors, the underlying value of long-term debt investments are not less than the carrying value of such investments as at 30th June, 2001.

## 19. FIXED ASSETS

The Group's, buildings, plant and machinery and motor vehicles with aggregated carrying value of approximately RMB224,784,400 (31st December, 2000: RMB117,186,000) were pledged as security for certain loans of the Group.

In the 2000 fiscal year, the Company had entered into agreements with various employees to sell to the employees existing staff quarters in accordance with "Qingdao Municipal Temporary Guideline for Public Housing Disposal". The agreements had not been completed as of 31st December, 2000. Subsequently, 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 of to employees as contracted by the above agreements) at their book value of approximately RMB114,770,000. Furthermore, QEI took over all the rights and obligations relating 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, a related company, 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.

The Company had received the cash consideration from the sales of the staff quarters in April 2001.

The increase in net book value of fixed assets in current period was mainly due to the acquisitions/establishments of new subsidiaries and the completion and transfer of construction-in-progress.

## 20. CONSTRUCTION-IN-PROGRESS

Construction works	Beginning of period	Effect of		Transfer-out	End of period	Source of financing
		acquisitions of subsidiaries	Addition			
Plant 1 production line improvement	17,872,063	–	1,411,475	–	19,283,538	Internal capital
Plant 2 production line improvement	13,175,439	–	6,431,857	11,022,671	8,584,625	Internal capital
Plant 4 production line improvement	1,890,000	–	18,143,802	5,075,968	14,957,834	Internal capital



## 20. CONSTRUCTION-IN-PROGRESS (CONT'D)

Construction works	Beginning of period	Effect of acquisitions of subsidiaries	Addition	Transfer-out	End of period	Source of financing
New factory plant	52,456,079	–	–	–	52,456,079	Internal capital
Malt production line improvement	1,794,631	–	2,524,323	558,000	3,760,954	Internal capital
Others	1,061,618	–	12,323,724	11,705,044	1,680,298	Internal capital
Company total	88,249,830	–	40,835,181	28,361,683	100,723,328	
Xi'an Company production line improvement	4,486,586	–	14,297,825	5,178,192	13,606,219	Internal capital
Rizhao Company production line improvement	2,869,125	–	7,424,824	244,024	10,049,925	Bank loans
Xingkaihu Company production line improvement	1,237,926	–	3,763,544	1,093,902	3,907,568	Internal capital
Rongcheng Company production line improvement	18,665,890	–	3,880,804	620,283	21,926,411	Internal capital
Xuecheng Company production line improvement	73,197,990	–	8,829,649	81,164,917	862,722	Bank loans
Anqiu Company production line improvement	629,510	–	2,393,817	206,649	2,816,678	Internal capital
Huangshi Company production line improvement	19,400,751	–	38,062,997	22,435,842	35,027,906	Internal capital and bank loans
Sanshui Company production line improvement	27,242,628	–	58,257,974	10,152,814	75,347,788	Internal capital
Heze Company production line improvement	2,660,611	–	14,693,876	12,212,102	5,142,385	Internal capital
Maanshan Company production line improvement	2,333,327	–	16,681,536	528,567	18,486,296	Internal capital and bank loans
Yingcheng Company production line improvement	8,871,765	–	4,387,907	–	13,259,672	Internal capital
Tengzhou Company production line improvement	12,919,151	–	7,974,668	3,817,573	17,076,246	Bank loans
Zhuhai Company production line improvement	19,397,818	–	26,379,153	–	45,776,971	Internal capital
No. 5 Company production line improvement	7,247,340	–	1,006,309	2,435,439	5,818,210	Internal capital
Penglai Company production line improvement	2,635,722	–	11,688,334	1,366,447	12,957,609	Internal capital
Chenzhou Company production line improvement	10,912,069	–	43,774,257	–	54,686,326	Internal capital
Weifang Company production line improvement	2,277,610	–	1,263,877	2,935,481	606,006	Internal capital
Xuzhou Company production line improvement	7,710,215	–	5,556,878	–	13,267,093	Internal capital
Pangcheng Company production line improvement	8,002,662	–	4,671,235	–	12,673,897	Internal capital

## 20. CONSTRUCTION-IN-PROGRESS (CONT'D)

Construction works	Beginning of period	Effect of acquisitions of subsidiaries	Addition	Transfer-out	End of period	Source of financing
Weinan Company production line improvement	3,624,941	–	791,581	4,299,428	117,094	Internal capital
Chongqing Company production line improvement	5,188,561	–	2,223,843	78,000	7,334,404	Internal capital
Mishan Company production line improvement	4,281,724	–	1,844,103	54,666	6,071,161	Internal capital
Anshan Company production line improvement	879,106	–	4,942,832	–	5,821,938	Internal capital
Shougang Company production line improvement	–	–	4,478,279	3,143,776	1,334,503	Internal capital
Beijing Three Rings Company production line improvement	–	1,747,974	20,435,037	486,742	21,696,269	Internal capital
Beijing Five Star Company production line improvement	–	782,271	708,823	133,457	1,357,637	Internal capital
Shanghai Songjiang Company production line improvement	–	–	30,104,182	18,670,067	11,434,115	Internal capital
Taizhou Company production line improvement	–	–	8,783,469	–	8,783,469	Internal capital and bank loans
Nanjing Company production line improvement	–	–	4,458,446	–	4,458,446	Internal capital
Shenzhen Asahi Company production line improvement	–	–	9,381,866	–	9,381,866	Internal capital
Production line of other subsidiaries	1,277,546	–	6,219,735	5,129,582	2,367,699	Internal capital
Group total	<u>336,200,404</u>	<u>2,530,245</u>	<u>410,196,841</u>	<u>204,749,633</u>	<u>544,177,857</u>	

The increase in construction-in-progress in the current period was mainly due to the inclusion of construction-in-progress costs of the newly acquired subsidiaries. In addition, to cope with the increasing sales volume, some of the subsidiaries underwent production expansion to enhance their production capacity.

To the extent that funds are borrowed generally and are 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 8.20% (31st December, 2000: interest-free to 7.31%) for the period. (Note 6).

## 21. INTANGIBLE ASSETS

### a. Group

Items	Original cost	Beginning of period	Effect of acquisitions of subsidiaries	Addition	Amortisation	End of period	Remaining years of amortisation
Trademarks	107,799,783	84,477,264	4,410,000	–	(1,444,634)	87,442,630	32.5 years
Land use rights	606,165,790	373,175,113	173,804,267	15,376,585	(6,471,580)	555,884,385	42.5-49 years
Technology know-how	18,629,100	15,834,736	–	–	(931,453)	14,903,283	8 years
Others	14,256,883	10,849,442	841,600	2,433,459	(652,050)	13,472,451	1 - 50 years
Total	<u>746,851,556</u>	<u>484,336,555</u>	<u>179,055,867</u>	<u>17,810,044</u>	<u>(9,499,717)</u>	<u>671,702,749</u>	

## 21. INTANGIBLE ASSETS (CONT'D)

### b. Company

Items	Original cost	Beginning of period	Effect of acquisitions of subsidiaries	Addition	Amortisation	End of period	Remaining years of amortisation
Items	Original cost	Beginning of period	Additions	Amortisation	End of period	Remaining years of amortisation	
Trademarks	100,000,000	81,250,028	–	(1,249,999)	80,000,029	32.5 years	
Land use rights	87,975,035	74,890,312	–	(879,748)	74,010,564	42.5 years	
Others	3,479,368	1,647,001	1,788,200	(103,325)	3,331,876	1-10 years	
Total	<u>191,454,403</u>	<u>157,787,341</u>	<u>1,788,200</u>	<u>(2,233,072)</u>	<u>157,342,469</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 certain subsidiaries and are amortised over their estimated useful lives ranging from 5-10 years.

#### (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.

## 22. LONG-TERM DEFERRED ASSETS

Items	Beginning of period	Effect of acquisitions of new subsidiaries	Additions	Amortisation	End of period
Beijing Three Rings Company repair and maintenance cost	–	7,197,570	–	(696,458)	6,501,112
Shanghai Company repair and maintenance cost	2,683,060	–	300,000	(300,000)	2,683,060
Yingcheng Company repair and maintenance cost	1,833,330	–	200,117	(241,524)	1,791,923
Anqiu Company building usage rights	1,099,425	–	182,080	(91,319)	1,190,186
Others	2,248,097	187,282	1,194,037	(1,593,962)	2,035,454
Total	<u>7,863,912</u>	<u>7,384,852</u>	<u>1,876,234</u>	<u>(2,923,263)</u>	<u>14,201,735</u>

## 23. LOANS

Loans of the Group and the Company mainly include bank loans bearing interest at rates determined by the People's Bank of China.

### a. Short-term loans and current portion of long-term loans

Types	Group		Company	
	30th June, 2001 Unaudited	31st December, 2000	30th June, 2001 Unaudited	31st December, 2000
Secured loans	99,400,000	14,000,000	–	–
Guaranteed loans	1,910,248,588	1,821,696,557	600,405,146	813,715,877
Credit loans	307,722,135	223,550,000	240,500,000	184,500,000
Total	<u>2,317,370,723</u>	<u>2,059,246,557</u>	<u>840,905,146</u>	<u>998,215,877</u>
Short-term loans	2,219,802,577	1,979,367,680	820,500,000	975,500,000
Current portion of long-term loans	97,568,146	79,878,877	20,405,146	22,715,877
Total	<u>2,317,370,723</u>	<u>2,059,246,557</u>	<u>840,905,146</u>	<u>998,215,877</u>

### b. Long-term loans

Loan terms	Group			Company		
	Foreign currency balances	Exchange rate	Exchange equivalents	Foreign currency balances	Exchange rate	RMB equivalents
Maturity within one to two years						
– Yen	119,520,000	0.0664	7,936,128	119,520,000	0.0664	7,936,128
– Denmark Francs	1,200,000	0.9384	1,126,080			
– Belgium Francs	25,594,476	0.1744	4,463,677			12,374,000
– RMB			84,905,356			
Maturity within two to three years						
– Yen	19,520,000	0.0664	7,936,128	119,520,000	0.0664	7,936,128
– Denmark Francs	800,000	0.9384	750,720			
– Belgium Francs	12,797,238	0.1744	2,231,838			
– RMB			136,154,000			105,578,000
Maturity within three to five years						
– Denmark Francs	800,000	0.9384	750,720			
– Belgium Francs	12,797,238	0.1744	2,231,838			
– RMB			64,764,000			39,764,000
Maturity over five years						
– Denmark Francs	6,000,000	0.9384	5,630,400			
– Belgium Francs	60,602,571	0.1744	10,569,088			
Total			<u>329,449,973</u>			<u>173,588,256</u>

The increase in short-term and long-term bank loans in the current period were mainly due to additional loans raised for capital expenditure of subsidiaries to enhance their production capacity.

## 23. LOANS (CONT'D)

- c. 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 RMB216,681,000 (31st December, 2000: RMB241,265,000) and RMB90,076,000 (31st December, 2000: RMB97,790,000) respectively were waived. The remaining loans as at 30th June, 2001 bear interest at rates ranging from 0% to 8.20% per annum (31st December, 2000: 0% to 8.19%).

Loans of the Group and the Company amounting to approximately RMB1,048,103,000 (31st December, 2000: RMB2,031,505,000) and RMB579,166,000 respectively (31st December, 2000: RMB1,419,258,000) were guaranteed by related companies. Loans of the Group amounting to approximately RMB244,000,000 (31st December, 2000: RMB244,000,000) were guaranteed by certain minority shareholders of subsidiaries.

Approximately RMB130,995,000 (31st December, 2000: RMB77,190,000) of the Group's loans was secured by the following assets:

- (i) All (31st December, 2000: All) assets of Xi'an Company with carrying value of approximately RMB548,544,000 (31st December, 2000: RMB405,141,000).
- (ii) Buildings, plant and machinery and motor vehicles with a net carrying value of approximately RMB224,784,000 (31st December, 2000: RMB117,186,000).

## 24. VAT PAYABLE

	30th June, 2001 Unaudited	31st December, 2000
<b>a. ACCRUED VAT</b>		
1. Unutilised input VAT credit, beginning of the period/year	(7,947,216)	(10,329,686)
2. Input VAT	571,838,363	758,480,587
VAT return on export	(10,537,822)	(20,117,611)
Input VAT transfer out	(6,450,407)	(11,163,179)
Input VAT refundable	-	-
3. Output VAT	(361,607,691)	(501,791,781)
VAT paid	(165,979)	(379,113)
Exemption or Deduction of output VAT	-	-
Output VAT on export	-	-
VAT payable	<u>(191,259,196)</u>	<u>(222,648,433)</u>
4. Unutilised input VAT credit, end of the period/year	<u>(6,129,948)</u>	<u>(7,949,216)</u>
<b>b. VAT PAYABLE</b>		
1. VAT payable, beginning of the period/year	56,519,931	37,629,849
2. VAT payable	191,259,196	222,648,433
3. VAT paid	<u>(191,747,692)</u>	<u>(203,758,351)</u>
4. VAT payable, end of the period/year	<u>56,031,435</u>	<u>56,519,931</u>

## 25. ACCRUALS

Particulars	Group		Company	
	30th June, 2001 Unaudited	31st December, 2000	30th June, 2001 Unaudited	31st December, 2000
Import duties on materials	7,180,609	7,833,359	7,180,609	7,833,359
Selling expenses	29,875,824	1,507,977	9,812,764	-
Audit fee	1,687,133	5,148,591	1,687,133	5,148,591
Finance costs	7,718,078	1,268,529	101,435	633,825
Repairs and maintenance	18,410,806	609,946	9,075,433	-
Utility changes	4,580,700	1,299,998	416,215	-
Welfare expenses	5,128,900	44,599	-	-
Others	13,678,424	8,875,688	2,122,676	633,205
Total	<u>88,260,474</u>	<u>26,588,687</u>	<u>30,396,265</u>	<u>14,248,980</u>

The increase in the Group's accruals in the current period was mainly due to the accruals made for selling expense in peak season and repairs and maintenance expense in the middle of the year.

## 26. SHARE CAPITAL

The authorised, issued and fully paid up share capital of the Company is RMB1,000,000,000 (31st December, 2000: RMB900,000,000) divided into RMB1,000,000,000 shares (31st December, 2000: RMB900,000,000 shares) of RMB1 each. A summary of the share capital is set out as follows:

	30th June, 2001		31st December, 2000	
	Unaudited			
	RMB	Percentage (%)	RMB	Percentage (%)
State shares	399,820,000	39.98%	399,820,000	44.42%
PRC legal person shares	53,330,000	5.33%	53,330,000	5.93%
PRC public shares	200,000,000	20.00%	100,000,000	11.11%
Overseas public shares	346,850,000	34.69%	346,850,000	38.54%
<b>Total</b>	<b>1,000,000,000</b>	<b>100.00%</b>	<b>900,000,000</b>	<b>100.00%</b>

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 the 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 proceeds of approximately RMB757,729,000 after deducting related issue expenses of approximately RMB29,271,000. The net proceeds of the issuance have been verified by the Shangdong Huide Certified Public Accountants.

## 27. SHARE PREMIUM

Particulars	Group		Company	
	30th June, 2001 Unaudited	31st December, 2000	30th June, 2001 Unaudited	31st December, 2000
Additional paid-in capital	1,549,707,949	891,979,092	1,549,707,949	891,979,092
Upward revaluation of assets	6,304,398	6,304,398	56,043,498	34,933,498
Donation	4,238,603	4,238,603	4,238,603	4,238,603
Other transfer-in	13,198,098	4,817,221	13,198,098	4,817,221
<b>Total</b>	<b>1,573,449,048</b>	<b>907,339,314</b>	<b>1,623,188,148</b>	<b>935,968,414</b>

## 28. CONTINGENT LIABILITIES

- a. Pursuant to the related policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, allocation of living quarters as staff housing welfare was terminated. Instead, qualified employees are to be compensated in the form of monetary housing subsidies. In this respect, the Group and the Company are in the process of studying the requirements of the policies issued by the authorities and will formulate a plan for such monetary housing subsidies. The financial impact of the plan will be reflected in the financial statements of the relevant year when the plan is formulated and approved by the relevant authorities.

As at 30th June, 2001, no formal plan has yet been developed by the Group and the Company. Moreover, the Group and the Company have not announced any plans to their employees in respect of such housing subsidies. The Directors are of the opinion that the Group and the Company had no obligation to make any payment or provision for such monetary housing subsidies as at 30th June, 2001.

The Ministry of Finance issued Document Caiqi [2000] No. 295 on 6th September, 2000 which became effective on the same date, announcing the accounting treatment in relation to such housing reform. The Company's Board of Directors has evaluated the policies referred to in the document and believes that except for the impact of the above mentioned monetary housing subsidies, other related policies will not have a material impact on the Group and the Company.

- b. Bank deposit of RMB37,033,000 was pledged as security for the Group's bills payable.

## 29. CAPITAL COMMITMENTS

The Group's and the Company's capital commitments which were authorised but not contracted and provided for were as follows:

	Group		Company	
	30th June, 2001 Unaudited	31st December, 2000	30th June, 2001 Unaudited	31st December, 2000
Construction projects	–	68,000,000	–	–

The Group's and the Company's capital and rental commitments which were contracted but not provided for were as follows:

	Group		Company	
	30th June, 2001 Unaudited	31st December, 2000	30th June, 2001 Unaudited	31st December, 2000
Capital commitments				
– Construction projects	169,547,719	160,191,498	4,146,090	17,136,252
– Investments and acquisitions	12,669,537	316,610,000	–	316,610,000
	<b>182,217,256</b>	476,801,498	<b>4,146,090</b>	333,746,252
Rental commitments	449,553	936,000	306,663	836,000
Total	<b>182,666,809</b>	477,737,498	<b>4,452,753</b>	334,582,252

## 30. SUBSEQUENT EVENTS

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

- (i) In March, June and July 2001, the Company had reached three agreements with the minority shareholders of Tsingtao Brewery (Xian) Co., Ltd. ("Xian Company") to acquire an additional 19.78% shareholding in Xian Company in exchange for payment of cash consideration of RMB23,442,000, RMB11,840,000 and RMB16,945,000 to the three minority shareholders respectively. As at August 2001, the shareholding changes are awaiting the approval from the local government.
- (ii) In May 2001, the Company entered into an agreement with China Railway Construction Company Railway Transportation Division, minority shareholder of Tsingtao Brewery (Chenzhou) Co., Ltd. to inject additional capital of RMB56,650,000 in cash to the subsidiary and transfer the existing share premium of RMB2,624,100 to the share capital. As a result, the Company's ownership in the subsidiary increased from 70% to 88.8% and the share capital of the subsidiary increased from RMB10,728,956 to RMB70,003,056. The change in shareholding is awaiting the approval from the local government.
- (iii) In June 2001, the Company reached an equity transfer agreement with Fujian Brewery (Singapore) Private Company ("Fujian Brewery"). Pursuant to the agreement, the Company would pay RMB85,000,000 to acquire a 51% equity interest in Di I Jia (Fujian) Brewery Company ("Fujian Company"). The name of Fujian Company would be changed to Tsingtao Brewery (Fuzhou) Company Limited ("Fuzhou Company"). The change in shareholding is awaiting the approval from the local government.
- (iv) In July 2001, the Company reached an equity transfer agreement with the minority shareholder of Tsingtao Brewery (Weinan) Company Limited ("Weinan Company") to acquire an additional 28% equity interest in Weinan Company at consideration of RMB14,000,000. As of August 2001, the equity transfer has not yet completed.

## 31. COMPARATIVE FIGURES

The Group has prepared the accounts in accordance with the Notice for the Transitional Arrangement for the Implementation of the Accounting Regulation for Business Enterprise (Caikuai [2001] No. 17) and the Notice for the Promulgation of Accounting Standards for Business Enterprise (Caikuai [2001] No. 7) (the "Notices") issued by the Ministry of Finance of the PRC. The Notices stipulate certain accounting requirements for business enterprises to retrospectively adjust the fixed assets, intangible assets and construction-in-progress. The Notices also require business enterprises to apply new accounting policies to finance lease receivables, non-monetary transactions and debt restructuring transactions retrospectively. The above requirements are considered to be changes in accounting policies. According to the provisions of the Notices, they should be applied retrospectively and related comparative information has been restated accordingly.

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED INCOME STATEMENT**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

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

(EXPRESSED IN THOUSANDS OF RMB EXCEPT FOR PER SHARE DATA)

	<i>Note(s)</i>	<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 <i>(Note 24)</i>
Turnover	3, 4, 7	2,422,579	1,702,021
Cost of sales	3	<u>(1,642,328)</u>	<u>(1,133,677)</u>
Gross profit		780,251	568,344
Other income, net		19,402	14,126
Distribution and selling expenses		(381,612)	(307,954)
General and administrative expenses		<u>(240,847)</u>	<u>(160,174)</u>
Profit from operations		177,194	114,342
Finance income		7,223	6,915
Finance costs		(64,695)	(48,082)
Share of profit of associated companies		<u>1,079</u>	<u>396</u>
Profit before taxation	5	120,801	73,571
Taxation	6	<u>(35,367)</u>	<u>(16,182)</u>
Profit before minority interests		85,434	57,389
Minority interests		<u>(16,532)</u>	<u>(7,608)</u>
Profit attributable to shareholders		68,902	49,781
Accumulated deficit brought forward		(93,964)	(28,879)
Less: Prior year adjustments	2d	<u>104,237</u>	<u>90,221</u>
Unappropriated profits brought forward, as restated	20	10,273	61,342
Transfer from reserves		6,364	5,706
Profit available for distribution		85,539	116,829
Dividends	8	<u>(100,000)</u>	<u>(90,000)</u>
(Accumulated deficit) Unappropriated profit carried forward	20	<u>(14,461)</u>	<u>26,829</u>
Earnings per share – Basic	9	<u>RMB0.0712</u>	<u>RMB0.0553</u>
Earnings per share – Fully Diluted	9	<u>N/A</u>	<u>N/A</u>



**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENT OF RECOGNISED GAINS**  
**AND LOSSES**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

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

(EXPRESSED IN THOUSANDS OF RMB)

	<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 <i>(Note 24)</i>
Profit attributable to shareholders	<b>68,902</b>	49,781
Translation difference for the period	<u>(2)</u>	<u>(4)</u>
Total recognised gains	<u><b>68,900</b></u>	<u>49,777</u>
Effect of changes in accounting policies on adoption of SSAP 9 and SSAP 30 <i>(note 2)</i>		
– increase in unappropriated profits as at 1st January, 2000		<u>90,221</u>

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## CONDENSED CONSOLIDATED BALANCE SHEET

AS AT 30TH JUNE, 2001

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

(EXPRESSED IN THOUSANDS OF RMB)

	<i>Note(s)</i>	<b>30th June, 2001 Unaudited</b>	31st December, 2000 <i>(Note 24)</i>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	10	4,925,706	4,250,194
Construction-in-progress		539,133	331,352
Intangible assets	11a	115,818	109,961
Long-term investments		58,017	57,822
Investment in associated companies		16,688	5,520
Goodwill	13	18,386	6,173
Negative goodwill	14	(38,021)	(38,962)
Deferred tax assets		6,010	6,010
Other long-term assets		12,605	6,176
		<b>5,654,342</b>	<b>4,734,246</b>
<b>Current assets</b>			
Cash and cash equivalent		886,568	499,012
Short-term bank deposits		28,214	285,036
Pledged bank deposits	21	37,033	5,147
Bills receivable		57,066	15,805
Accounts receivable, net	3, 15a	313,512	284,509
Deposits and prepayments	3	116,297	74,442
Other receivables	3	384,497	317,833
Subsidies receivable		2,682	12,231
Inventories, net	16	952,897	731,952
Amount due from a minority shareholder of a subsidiary	3	-	1,282
		<b>2,778,766</b>	<b>2,227,249</b>
<b>Current liabilities</b>			
Short-term loans	10, 17a	2,219,803	1,979,368
Current portion of long-term loans	17a	97,568	79,879
Accounts payable	3, 18	586,218	296,477
Bills payable		151,076	91,003
Advances from customers	3	101,393	59,942
Accruals		88,260	26,589
Taxes payable	6	252,559	143,100
Dividends payable	8	100,000	-
Other payables	3	726,118	703,001
		<b>4,322,995</b>	<b>3,379,359</b>
<b>Net current liabilities</b>		<b>(1,544,229)</b>	<b>(1,152,110)</b>
<b>Total assets less current liabilities</b>		<b>4,110,113</b>	<b>3,582,136</b>
<b>Long-term liabilities</b>			
Long-term loans	10, 17a	329,450	728,244
Other long-term liabilities	17a	78,686	69,799
		<b>408,136</b>	<b>798,043</b>
<b>Minority interests</b>		<b>644,059</b>	<b>452,804</b>
<b>NET ASSETS</b>		<b>3,057,918</b>	<b>2,331,289</b>
<b>Shareholders' equity</b>			
Share capital	19	1,000,000	900,000
Reserves	20a	2,057,918	1,331,289
Proposed dividends	8, 20a	-	100,000
		<b>3,057,918</b>	<b>2,331,289</b>

# TSINGTAO BREWERY COMPANY LIMITED

## CONDENSED BALANCE SHEET

AS AT 30TH JUNE, 2001

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

(EXPRESSED IN THOUSANDS OF RMB)

	Note(s)	<b>30th June, 2001 Unaudited</b>	31st December, 2000 (Note 24)
<b>ASSETS</b>			
<b>Non-current assets</b>			
Fixed assets	10	1,215,760	1,384,251
Construction-in-progress		100,680	88,250
Intangible assets	11b	83,332	82,897
Long-term investments		53,584	53,997
Investment in subsidiaries	12	1,399,560	1,024,806
Investment in associated companies		6,496	6,496
Deferred tax assets		6,010	6,010
		<b>2,865,422</b>	<b>2,646,707</b>
<b>Current assets</b>			
Cash and cash equivalents		294,728	399,942
Short-term bank deposits		82,713	91,660
Bills receivable		4,570	5,000
Accounts receivable, net	3, 15b	281,229	292,869
Deposits and prepayments	3	20,742	17,978
Other receivables	3	976,489	825,429
Inventories, net	16	272,822	290,781
		<b>1,933,293</b>	<b>1,923,659</b>
<b>Current liabilities</b>			
Short-term loans	10, 17b	820,500	975,500
Current portion of long-term loans	17b	20,405	22,716
Accounts payable	3, 18	124,455	139,685
Bills payable		90,660	59,611
Advances from customers	3	31,454	40,666
Accruals		30,396	14,249
Taxes payable	6	43,357	22,217
Dividends payable	8	100,000	-
Other payables	3	240,352	274,731
		<b>1,501,579</b>	<b>1,549,375</b>
<b>Net current assets</b>		<b>431,714</b>	<b>374,284</b>
<b>Total assets less current liabilities</b>		<b>3,297,136</b>	<b>3,020,991</b>
<b>Long-term liabilities</b>			
Long-term loans	10, 17b	173,588	601,042
<b>NET ASSETS</b>		<b>3,123,548</b>	<b>2,419,949</b>
<b>Shareholders' equity</b>			
Share capital	19	1,000,000	900,000
Reserves	20b	2,123,548	1,419,949
Proposed dividends	8, 20b	-	100,000
		<b>3,123,548</b>	<b>2,419,949</b>

**TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED CASH FLOW STATEMENT**

FOR THE SIX MONTHS ENDED 30TH JUNE, 2001

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

(EXPRESSED IN THOUSANDS OF RMB)

	<b>For the six months ended 30th June, 2001 Unaudited</b>	For the six months ended 30th June, 2000 (Note 24)
Net cash inflow from operating activities	<b>383,805</b>	101,999
Returns on investments and servicing of finance	<b>(51,401)</b>	(41,933)
Profits tax paid	<b>(34,822)</b>	(17,160)
Net cash outflow from investing activities (a)	<b>(387,911)</b>	(343,292)
Net cash outflow before financing activities	<b>(90,329)</b>	(300,386)
Net cash inflow from financing activities	<b>477,885</b>	409,631
Increase in cash and cash equivalents	<b>387,556</b>	109,245
Cash and cash equivalents, beginning of period	<b>499,012</b>	492,601
Cash and cash equivalents, end of period	<b>886,568</b>	601,846
<b>(a) Impact of acquisitions of subsidiaries</b>		
Acquired net assets comprised:		
Fixed assets	747,483	145,878
Construction-in-progress	2,432	9,375
Intangible assets and other long-term assets	20,837	–
Long-term investments	361	–
Cash and bank deposits	15,913	1,299
Other current assets	151,288	17,600
Current liabilities	(553,508)	(46,535)
Long-term liabilities	(54,352)	–
Minority interests	(121,718)	(56,563)
	<b>208,736</b>	71,054
Goodwill	<b>12,467</b>	–
	<b>221,203</b>	71,054
Satisfied by:		
Cash	221,203	48,436
Assumption of long-term loans	–	22,618
	<b>221,203</b>	71,054
Net outflow of cash and cash equivalents from acquisitions of subsidiaries:		
Cash paid	221,203	48,436
Cash and bank deposits acquired	(15,913)	(1,299)
Net outflow of cash and cash equivalents	<b>205,290</b>	47,137

# TSINGTAO BREWERY COMPANY LIMITED AND SUBSIDIARIES

## NOTES TO THE FINANCIAL STATEMENTS

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*(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 its “A” shares have been listed on The Shanghai Stock Exchange since 27th August, 1993.

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 the issuance of 100,000,000 A shares to the public and institutional investors at RMB7.87 per share. The issuance raised net proceeds of approximately RMB757,729,000 after deducting related issue expenses of approximately RMB29,271,000. The net proceeds of the issuance have been verified by Shandong Huide Certified Public Accountants.

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

### 2. PRINCIPAL ACCOUNTING POLICIES

#### a. Basis of presentation

The condensed interim consolidated financial statements of the Company and its subsidiaries (collectively referred to as the “Group”) are prepared in accordance with Statements of Standard Accounting Practice No.25 “Interim Financial Reporting” promulgated by the Hong Kong Society of Accountants and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The condensed consolidated financial statements include the financial statements of the Company and its subsidiaries. The results of subsidiaries acquired or disposed of during the period are included in the condensed 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. Accounting policies

Except for the changes in accounting policies discussed below, the accounting policies adopted by the Company and the Group during the six months ended 30th June, 2001 are consistent with those adopted in previous years.

In the current period, the Group has adopted, for the first time, the following Statements of Standard Accounting Practice (“SSAPs”) issued by the Hong Kong Society of Accountants:

SSAP 9 (revised)	Events after the balance sheet date
SSAP 14 (revised)	Leases
SSAP 26	Segment reporting
SSAP 28	Provisions, contingent liabilities and contingent assets
SSAP 29	Intangible assets
SSAP 30	Business combinations
SSAP 31	Impairment of assets
SSAP 32	Consolidated financial statements and accounting for investments in subsidiaries

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### b. Accounting policy (Cont'd)

The effects of the adoption of the above accounting standards are as follows:

#### (i) Proposed dividends

The adoption of SSAP 9 (Revised) "Events after the balance sheet date" results in a change in accounting policy whereby dividends proposed after the balance sheet date are no longer recognised as a liability at the balance sheet date, while the dividends proposed or declared by the subsidiaries after the balance sheet date are no longer recognised as income. Proposed dividends are now separately disclosed on the face of the balance sheet within shareholders' funds. This change in accounting policy has been applied retrospectively and comparative figures have been restated. As a result of this change in accounting policy, the beginning retained earnings of the Group as at 1st January, 2000 and 1st January, 2001 have increased by RMB87,867,000 and RMB100,000,000 respectively. The beginning retained earnings of the Company as at 1st January, 2000 and 1st January, 2001 have increased by RMB87,133,000 and RMB100,000,000 respectively.

#### (ii) Goodwill/negative goodwill

Goodwill and negative goodwill arising on consolidation represents, respectively, the excess and shortfall of the acquisition cost of the subsidiaries and associated companies over the Group's share of the fair value of the separable net assets of the subsidiary/associated company at the date of acquisition. Prior to 1st January, 2001, negative goodwill was written off to reserves in the year in which it arose. With the adoption of SSAP 30 "Business Combinations", the Group recognises negative goodwill as a deduction from assets and amortises it on a straight line basis over the weighted average remaining useful lives of the acquired identifiable depreciable assets or recognised as income under certain circumstances.

This change in accounting policy has been accounted for retrospectively and the comparative figures have been restated. As a result of this change in accounting policy, the operating profit for the six months ended 30th June, 2000 increased by RMB941,000 and the beginning retained earnings of the Group as at 1st January, 2000 and 1st January, 2001 increased by RMB2,355,000 and RMB4,237,000 respectively. The amortisation of negative goodwill for the six months ended 30th June, 2001 is RMB941,000.

Except for effects as described above, the adoption of SSAP 14 (revised), SSAP 26, SSAP 28, SSAP 29, SSAP 31 and SSAP 32 had no material impact on the reported financial position or results of the Group. A brief description of the accounting policies resulting from the adoption of SSAP 14 (revised), SSAP 26, SSAP 28, SSAP 29, SSAP 30, SSAP 31 and SSAP 32 is as follows:

#### (i) Subsidiaries and associated companies

The consolidated financial statements of the Group include the accounts of the Company and the enterprises that it controls. This control is normally evidenced when the Group has the power to govern the financial and operating policies of an enterprise so as to benefit from its activities. The results of subsidiaries acquired or disposed of during the period are consolidated from or to their effective dates of acquisition or disposal. All significant intra-group transactions and balances have been eliminated on consolidation.

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 its 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 investments in associated companies are 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.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### b. Accounting policy (Cont'd)

#### (i) Subsidiaries and associated companies (Cont'd)

Goodwill and negative goodwill arising on consolidation represents, respectively, the excess and shortfall of the cost of subsidiaries and associated companies over the Group's share of the fair value of the separable net assets of the subsidiary/associated company at the date of acquisition. Goodwill is carried at cost less accumulated amortisation and accumulated impairment losses. Goodwill is amortised on a straight-line basis over its useful life. The amortisation period and the amortisation method are reviewed annually at each financial year-end.

Negative goodwill is recognised in the income statement to the extent that negative goodwill relates to expected future losses and expenses that are identified in the Company's plan for the acquisition and can be measured reliably. The portion of negative goodwill so identified is recognised as income when the future losses and expenses are recognised.

The amount of negative goodwill not exceeding the fair value of acquired identifiable non-monetary assets is recognised as income on a systematic basis over the remaining weighted average useful life of the identifiable acquired depreciable/amortisable assets. To the extent that negative goodwill does not relate to identifiable expected future losses and expenses, the amount of negative goodwill in excess of the fair values of acquired identifiable non-monetary assets is recognised as income immediately.

With the adoption of SAAP 30 "Business Combination", the Group has retrospectively restated the negative goodwill for all acquisitions, and the cost is stated at the amount that would have been recognised at the date of acquisition and the accumulated amortization has been determined from the date of acquisitions.

In the Company's balance sheet, investments in subsidiaries and associated companies are stated at cost less provision for impairment in value, which is 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.

#### (ii) 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. Internally generated intangible assets are charged against the income statement in the period incurred except for development costs which comply with the following criteria:

- the product or process is clearly defined and the costs are separately identifiable and can be measured reliably;
- the technical feasibility of the product or process is demonstrated;
- the product or process will be sold or used in-house;
- a potential market exists for the product or process or its usefulness in the case of internal use is demonstrated; and
- adequate technical, financial and other resources required for completion of the product or process are available.

Subsequent expenditure on an intangible asset after its purchase or its completion is recognised as an expense when it is incurred unless it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and can be measured and attributed to the asset reliably in which case it will be added to the cost of the intangible asset.

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.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONT'D)

### b. Accounting policy (Cont'd)

#### (iii) Impairment of assets

Property, plant and equipment, investments in subsidiaries and associates, goodwill and intangible assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Whenever the carrying amount of an asset exceeds its recoverable amount, an impairment loss is recognised in the income statement for items carried at cost. The recoverable amount is the higher of an asset's net selling price and value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit.

Reversal of impairment losses recognised in prior years is recorded when there is an indication that the impairment losses recognised for the asset no longer exist or have decreased.

#### (iv) Provisions and contingencies

A provision is recognised when the Group has a present legal or constructive obligation as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

Contingent liabilities are not recognised but disclosed in the financial statements.

A contingent asset is not recognised in the financial statements but disclosed when an inflow of economic benefits is probable.

## 3. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one company has the ability, directly or indirectly, to control the other company 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 six months ended 30th June, 2001, the Group had the following material transactions with related parties:

	<b>For the six months ended 30th June, 2001 RMB'000 Unaudited</b>	For the six months ended 30th June, 2000 RMB'000
Sales to associated companies	<b>3,303</b>	21,432
Sales to related companies (under the same management as the Group)	<b>32,878</b>	23,434
Purchases from an associated company	<b>1,768</b>	8,808
Purchases from related companies (with the same major shareholder as the Group)	<b>13,374</b>	11,008
Equipment and installation services provided by a related company (with the same major shareholder as the Group)	<b>12,971</b>	1,732

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 and the related parties.



### 3. RELATED PARTY TRANSACTIONS (CONT'D)

- b. As at 30th June, 2001, the Group and the Company had the following significant current balances with related parties:

	<b>Group</b>		<b>Company</b>	
	<b>30th June, 2001</b>	31st December, 2000	<b>30th June, 2001</b>	31st December, 2000
	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>	<i>RMB'000</i>
	<b>Unaudited</b>		<b>Unaudited</b>	
Included in:				
Accounts receivable	<b>155,408</b>	134,715	<b>196,667</b>	193,947
Deposits and prepayments	<b>3,207</b>	180	–	–
Other receivables	<b>124,179</b>	118,544	<b>842,453</b>	687,011
Advances from customers	–	–	<b>4,890</b>	1,192
Other payables	<b>41,177</b>	45,419	<b>29,670</b>	59,545
Accounts payable	<b>2,749</b>	10,461	<b>12,619</b>	24,069

- c. The Group and the Company have loans amounting to RMB1,048,103,000 (31st December, 2000: RMB2,031,505,000) and RMB579,166,000 (31st December, 2000: RMB1,419,258,000) respectively which are guaranteed by a related company with the same major shareholder as the Group.

- d. The Group has loans amounting to RMB244,000,000 (31st December, 2000: RMB244,000,000) which are guaranteed by certain minority shareholders of a subsidiary.

### 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 the operations of the Group are attributed to markets outside the PRC, or business segments other than the production and sales of beer.

### 5. PROFIT BEFORE TAXATION

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

	<b>For the six months ended 30th June, 2001</b>	For the six months ended 30th June, 2000
	<i>RMB'000</i>	<i>RMB'000</i>
	<b>Unaudited</b>	<i>(Note 24)</i>
Amortisation of intangible assets	<b>2,879</b>	2,181
Depreciation of fixed assets	<b>197,249</b>	117,441
Amortisation of goodwill	<b>254</b>	136
Amortisation of negative goodwill	<b>(941)</b>	(941)
Provision for doubtful debt	<b>46,290</b>	3,428
Net realisable value provision for inventories	–	5,579
Interest expenses (a)	<b>69,611</b>	48,946
Staff costs (including directors' emoluments)	<b>189,758</b>	127,035
Directors' emoluments	<b>434</b>	145

## 5. PROFIT BEFORE TAXATION (CONT'D)

### a. Interest expenses

	<b>For the six months ended 30th June, 2001 RMB'000 Unaudited</b>	For the six months ended 30th June, 2000 RMB'000
Interest expenses on bank and other loans		
– wholly repayable within 5 years	71,450	49,580
– not wholly repayable within 5 years	–	–
	<u>71,450</u>	<u>49,580</u>
Less: Interest capitalised	<u>(1,839)</u>	<u>(634)</u>
Total	<u><u>69,611</u></u>	<u><u>48,946</u></u>

## 6. TAXATION

### a. Profits tax

	<b>For the six months ended 30th June, 2001 RMB'000 Unaudited</b>	For the six months ended 30th June, 2000 RMB'000
PRC Enterprise Income Tax ("EIT") (i)	39,078	20,499
Less: Subsidy income (ii)	<u>(3,711)</u>	<u>(4,317)</u>
	<u><u>35,367</u></u>	<u><u>16,182</u></u>

#### (i) PRC enterprise income tax

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

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 ("Xi'an Company") 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 Xi'an Company will be subject to EIT at a rate of 33%.

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

Tsingtao Brewery (Zhuhai) Company Limited was established and operates 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%.

## 6. TAXATION (CONT'D)

### a. Profits tax (Cont'd)

#### (ii) Subsidy income

As part of the merger with or acquisition of subsidiaries undertaken by the Group in the current period and in prior years, the Group had entered into agreements with relevant municipal governments. Under the terms of these 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 period, such financial subsidies amounted to approximately RMB3,711,000 (30th June, 2000: RMB4,317,000).

Other subsidies, based on other taxes paid by the Group, of approximately RMB7,986,000 (30th June, 2000: RMB300,000) 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 existing financial subsidies will not be available to the subsidiaries.

#### (iii) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 16% (30th June, 2000: 16%) on the estimated assessable profit for the period. No Hong Kong profits tax was provided as the Group did not earn any income assessable to Hong Kong profits tax during the period.

### 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

Prior to May 2001, pursuant to the SAT regulations, consumption tax of RMB220 per ton is charged on the sales of beer. In May 2001, the Ministry of Finance of the PRC and the SAT had issued the Notice for the changes of consumption tax (Caishui [2001] No. 84). For beers with a factory price (including packaging materials and its deposits) over RMB3,000 per ton, the consumption tax is RMB250 per ton. For the other beer sales, the consumption tax remains at RMB220 per ton.

## 7. SEASONAL/CYCLICAL REVENUE

The summer season (May to October) is the peak season for beer sales. The sales volume during the summer season is normally 1-2 times the sales volume during slack season (November to April).

## 8. DIVIDENDS

During this interim reporting period, the dividend appropriation of RMB100,000,000 (dividend per share: RMB0.1) for the year 2000 was approved by the shareholders. The directors do not recommend the payment of an interim dividend for the six months ended 30th June, 2001 (30th June 2000: nil).

	<b>30th June, 2001</b>	30th June, 2000
	<b>RMB'000</b>	RMB'000
	<b>Unaudited</b>	<i>(Note 24)</i>
Dividend paid:		
RMB0.1 per share (2000: RMB0.1 per share)	<u>          —</u>	<u>          —</u>
Dividend proposed:		
Final dividend for year 2000 of RMB0.1 per share (1999 final dividend: RMB0.1 per share)	<u>          <b>100,000</b></u>	<u>          <b>90,000</b></u>

The final dividend for the 2000 fiscal year of RMB0.1 per share was proposed on 18th April, 2001 and paid in August 2001. The final dividend of RMB0.1 per share for the 1999 fiscal year was proposed on 17th April, 2000 and was paid in August 2000.

## 9. EARNINGS PER SHARE

The calculation of earnings per share for the six months ended 30th June, 2001 is based on consolidated profit attributable to shareholders of approximately RMB68,902,000 (30th June, 2000: RMB49,781,000) and on the weighted average number of shares issued during the current period. For the six months ended 30th June, 2001, the weighted average number of shares issued is approximately 967,403,000 shares (30th June, 2000: 900,000,000 shares).

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

## 10. FIXED ASSETS

The Group's buildings, plant and machinery and motor vehicles with a carrying value of approximately RMB224,784,000 (31st December, 2000: RMB117,186,000) were pledged as security for certain loans of the Group.

In the 2000 fiscal year, the Company had entered into agreements with various employees to sell to the employees existing staff quarters in accordance with "Qingdao Municipal Temporary Guideline for Public Housing Disposal". The agreements had not been completed as of 31st December, 2000. Subsequently, 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 of to employees as contracted by the above agreements) at their book value of approximately RMB114,770,000. Furthermore, QEI took over all the rights and obligations relating 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, a related company, 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.

The Company had received the cash consideration from the sales of the staff quarters in April 2001.

## 11. INTANGIBLE ASSETS

### a. Group

	30th June, 2001 Unaudited			31st December, 2000	
	Trademarks <i>RMB'000</i>	Technology know-how <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>	Total <i>RMB'000</i>
Beginning of period	84,478	15,835	9,648	109,961	101,448
Effect of acquisitions of subsidiaries	4,410	–	842	5,252	11,083
Addition	–	–	3,484	3,484	2,749
Amortisation	(1,445)	(932)	(502)	(2,879)	(5,319)
End of period	<u>87,443</u>	<u>14,903</u>	<u>13,472</u>	<u>115,818</u>	<u>109,961</u>

### b. Company

	30th June, 2001 Unaudited			31st December, 2000	
	Trademarks <i>RMB'000</i>	Others <i>RMB'000</i>	Total <i>RMB'000</i>	Total <i>RMB'000</i>	Total <i>RMB'000</i>
Beginning of period	81,250	1,647	82,897	83,750	83,750
Addition	–	1,788	1,788	1,691	1,691
Amortisation	(1,250)	(103)	(1,353)	(2,544)	(2,544)
End of period	<u>80,000</u>	<u>3,332</u>	<u>83,332</u>	<u>82,897</u>	<u>82,897</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.

Since the above trademark is essential to the operation of the Company and is expected to bring economic benefits to the Group and the Company on a continuing basis, it is amortised over a period of 40 years, longer than the presumed 20 years under SSAP 29.

Other trademarks were acquired as part of the acquisitions of certain subsidiaries and are amortised over their estimated useful lives ranging from 5-10 years. The cost of these intangible assets are based on their fair value at the date of acquisition.

#### (ii) Technology know-how

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

## 12. INVESTMENT IN SUBSIDIARIES

	<b>Company</b>	
	<b>30th June, 2001</b>	31st December, 2000
	<b>RMB'000</b>	<b>RMB'000</b>
	<b>Unaudited</b>	
Unlisted shares, at cost	<b>1,137,347</b>	851,982
Loans to subsidiaries	<b>262,213</b>	172,824
<b>Total</b>	<b><u>1,399,560</u></b>	<b><u>1,024,806</u></b>

Loans to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

In the opinion of the Company's directors, the underlying values of the investment in subsidiaries are not less than the carrying value of such investments in the books of the Company as at 30th June, 2001.

None of the subsidiaries had any loan capital outstanding at 30th June, 2001 or at any time during the period.

During the six months ended 30th June, 2001, the Group had acquired/established new beer production enterprises using different acquisition methods. As part of these acquisitions, the Group established new subsidiaries through taking over the existing beer production assets, assumption of current and long term loans, taking over of the existing employees of the the predecessor brewery companies and the payment of cash. Various financial incentives were also granted by local municipal governments to certain newly acquired/established subsidiaries.

When compared to the prior year's financial statements, the scope of consolidation in these interim financial statements has increased as a result of the following acquisitions/establishment.

- i. In August 2000, the Company had 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 the relevant government authorities in March 2001.
- ii. In August 2000, the Company had 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"). The equity transfer was approved by the relevant government authorities in March 2001.
- iii. Other newly acquired/established subsidiaries

Name of subsidiaries	Name of minority interests	Total consideration	Date of establishment	Place of establishment and principal operation	Registered capital	Equity interest		Principal activities
						Directly held	Indirectly held	
Tsingtao Brewery (Doumen) Company Limited	Tsingtao Brewery (Zhuhai) Company Limited Tsingtao Brewery (Sanshui) Company Limited	RMB32,905,000	February 2001	Doumen, PRC	RMB10,000,000	60%	27%	Manufacturing and domestic trading of malt
Tsingtao Brewery (Luzhou) Company Limited	Sichuan Huoju Chemicals Company Limited	RMB61,110,000	February 2001	Luzhou, PRC	RMB111,110,000	55%	-	Manufacturing and domestic trading of beer
Tsingtao Brewery (Beifang) Sales Company Limited	Tsingtao Brewery Group Company Limited, Tsingtao Brewery (Langfang) Company Limited	RMB28,481,000	March 2001	Beijing, PRC	RMB29,980,000	80%	14.25%	Domestic trading of beer

## 12. INVESTMENT IN SUBSIDIARIES (CONT'D)

Name of subsidiaries	Name of minority interests	Total consideration	Date of establishment	Place of establishment and principal operation	Registered capital	Equity interest		Principal activities
						Directly held	Indirectly held	
Tsingtao Brewery (Hanzhong) Company Limited	Hanzhong Lixiang Chemical Group	RMB19,410,000	January 2001	Hanzhong PRC	RMB29,410,000	-	37.84%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Suqian) Company Limited	Tsingtao Brewery Group Company Limited	RMB9,500,000	March 2001	Suqian PRC	RMB10,000,000	95%	-	Manufacturing and domestic trading of beer
Tsingtao Brewery (Nanjing) Company Limited	Hong Kong Fu Yun Shu Investment Company Ltd	USD3,750,000	March 2001	Nanjing, PRC	USD5,000,000	75%	-	Manufacturing and domestic trading of beer
Tsingtao Brewery (Suzhou) Company Limited	Tsingtao Brewery Huadong Holding Company Limited	RMB5,000,000	May 2001	Dacang, PRC	RMB5,000,000	10%	85.5%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tengzhou) Hunhai Sales Company Limited	Tsingtao Brewery (Tengzhou) Company Limited, Tsingtao Brewery (Xuecheng) Company Limited	RMB500,000	November 2000	Tengzhou, PRC	RMB500,000	-	82.5%	Domestic trading of beer
Tsingtao Brewery Haerbin Northeast Sales Company	Tsingtao Brewery (Haerbin) Company Limited	RMB10,000,000	April 2001	Haerbin, PRC	RMB10,000,000	85%	14.25%	Domestic trading of beer

(b) Summarised financial information on the above acquired subsidiaries is as follows:

	<b>As at 30th June, 2001 RMB'000 Unaudited</b>	As at 31st December, 2000 RMB'000
<b>Balance sheet</b>		
Current assets	355,538	274,979
Total assets	<b>1,315,652</b>	1,435,524
Current liabilities	<b>(673,288)</b>	(636,904)
Total liabilities	<b>(722,245)</b>	(695,180)
	<b>As at 30th June, 2001 RMB'000 Unaudited</b>	As at 30th June, 2000 RMB'000
<b>Income statement</b>		
Turnover	<b>337,322</b>	109,181
Cost of sales	<b>(266,629)</b>	(79,425)
Net loss	<b>(23,541)</b>	(26,307)

### 13. GOODWILL

	<b>Group</b>	
	<b>As at 30th June, 2001 RMB'000 Unaudited</b>	<b>As at 31st December, 2000 RMB'000 (Note 24)</b>
<b>Cost</b>		
Beginning of period	6,444	6,444
Addition	12,467	—
	<hr/>	<hr/>
End of period	18,911	6,444
	<hr/>	<hr/>
<b>Accumulated Amortisation</b>		
Beginning of period	271	—
Current period amortisation	254	271
	<hr/>	<hr/>
End of period	525	271
	<hr/>	<hr/>
<b>Net Book Value</b>		
End of period	18,386	6,173
	<hr/> <hr/>	<hr/> <hr/>
Beginning of period	6,173	6,444
	<hr/> <hr/>	<hr/> <hr/>

### 14. NEGATIVE GOODWILL

	<b>Group</b>	
	<b>As at 30th June, 2001 RMB'000 Unaudited</b>	<b>As at 31st December, 2000 RMB'000 (Note 24)</b>
<b>Cost</b>		
Beginning of period	—	—
Effect of changes in accounting policy	(43,199)	(43,199)
	<hr/>	<hr/>
Beginning of year, restated	(43,199)	(43,199)
Addition	—	—
Disposals	—	—
	<hr/>	<hr/>
End of period	(43,199)	(43,199)
	<hr/>	<hr/>
<b>Accumulated Amortisation</b>		
Beginning of period	—	—
Effect of changes in accounting policy	4,237	2,355
	<hr/>	<hr/>
Beginning of period, restated	4,237	2,355
Current period amortisation	941	1,882
	<hr/>	<hr/>
End of period	5,178	4,237
	<hr/>	<hr/>
<b>Net Book Value</b>		
End of period	(38,021)	(38,962)
	<hr/> <hr/>	<hr/> <hr/>
Beginning of period, restated	(38,962)	(40,844)
	<hr/> <hr/>	<hr/> <hr/>



## 15. ACCOUNTS RECEIVABLES, NET

The aging analysis of accounts receivable is as follows:

### a. Group

	30th June, 2001			31st December, 2000		
	Unaudited			Unaudited		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	225,106	46.50%	(20,255)	165,766	43.29%	(19,110)
Within one to two years	91,621	18.93%	(23,101)	123,822	32.34%	(22,389)
Within two to three years	99,729	20.60%	(62,038)	58,411	15.25%	(34,989)
Over three years	67,650	13.97%	(65,200)	34,923	9.12%	(21,925)
Total	<u>484,106</u>	<u>100.00%</u>	<u>(170,594)</u>	<u>382,922</u>	<u>100.00%</u>	<u>(98,413)</u>

### b. Company

	30th June, 2001			31st December, 2000		
	Unaudited			Unaudited		
	Amount	Proportion	Provision for bad debts	Amount	Proportion	Provision for bad debts
Within one year	192,034	52.49%	(10,637)	179,403	47.87%	(14,053)
Within one to two years	73,142	19.99%	(11,000)	110,327	29.43%	(15,469)
Within two to three years	81,528	22.29%	(45,761)	52,677	14.05%	(33,463)
Over three years	19,124	5.23%	(17,201)	32,403	8.65%	(18,956)
Total	<u>365,828</u>	<u>100.00%</u>	<u>(84,599)</u>	<u>374,810</u>	<u>100.00%</u>	<u>(81,941)</u>

Based on the local market environment and an assessment of individual customers' financial situation, credit limits are selectively granted to major customers. Where credit risk has been revealed, trading on cash basis is required by the Company and the Group. Specific designated team has been assigned by the Group to monitor the collection of accounts receivable.

## 16. INVENTORIES

	Group		Company	
	30th June, 2001	31st December, 2000	30th June, 2001	31st December, 2000
	RMB'000	RMB'000	RMB'000	RMB'000
	Unaudited		Unaudited	
Raw materials, packaging and auxiliary materials	688,833	532,703	163,626	198,410
Work-in-progress	126,856	94,118	28,047	31,824
Finished goods	180,676	109,194	84,572	64,610
	<u>996,365</u>	<u>736,015</u>	<u>276,245</u>	<u>294,844</u>
Provision for net realisable value of inventories	(43,468)	(4,063)	(3,423)	(4,063)
Inventories, net	<u>952,897</u>	<u>731,952</u>	<u>272,822</u>	<u>290,781</u>

## 17. LOANS

### a. Group

	30th June, 2001 Unaudited			31st December, 2000	
	Short-term Loans RMB'000	Long-term Loans RMB'000	Other long- term loan RMB'000	Total RMB'000	Total RMB'000
Repayable:					
within one year	2,219,803	97,568	–	2,317,371	2,059,247
within two to five years	–	313,250	78,686	391,936	795,488
over five years	–	16,200	–	16,200	2,555
Total	2,219,803	427,018	78,686	2,725,507	2,857,290
Less: Portion due within one year	(2,219,803)	(97,568)	–	(2,317,371)	(2,059,247)
Long-term portion	–	329,450	78,686	408,136	798,043

### b. Company

	30th June, 2001 Unaudited			31st December, 2000	
	Short-term Loans RMB'000	Long-term Loans RMB'000	Total RMB'000	Total RMB'000	Total RMB'000
Repayable:					
within one year	820,500	20,405	840,905	998,216	
within two to five years	–	173,588	173,588	601,042	
Total	820,500	193,993	1,014,493	1,599,258	
Less: Portion due within one year	(820,500)	(20,405)	(840,905)	(998,216)	
Long-term portion	–	173,588	173,588	601,042	

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 RMB216,681,000 (31st December, 2000: RMB241,265,000) and RMB90,076,000 (31st December, 2000: RMB97,790,000) respectively were waived. The remaining loans bear interest at rates ranging from 0% to 8.20% (31st December, 2000: 0% to 8.19%) per annum.

Loans of the Group and the Company amounting to approximately RMB1,048,103,000 (31st December, 2000: RMB2,031,505,000) and RMB579,166,000 (31st December, 2000: RMB1,419,258,000) respectively were guaranteed by a related company. In addition, loans of the Group amounting to approximately RMB244,000,000 (31st December, 2000: RMB244,000,000) were guaranteed by the minority shareholders of a subsidiary.

Approximately RMB130,995,000 (31st December, 2000: RMB77,190,000) of the Group's loans was secured by the following assets:

- All (31st December, 2000: All) assets of Xi'an Company with carrying value of approximately RMB548,544,000 (31st December, 2000: RMB405,141,000); and
- Buildings, plant and machinery and motor vehicles with carrying value of approximately RMB224,784,000 (31st December, 2000: RMB117,186,000).

## 18. ACCOUNTS PAYABLE

The aging analysis of accounts payable is as follows:

	Group		Company	
	30th June, 2001 RMB'000 Unaudited	31st December, 2000 RMB'000	30th June, 2001 RMB'000 Unaudited	31st December, 2000 RMB'000
Within one year	495,510	279,023	124,455	138,213
Within one to two years	52,521	15,022	–	312
Within two to three years	26,132	1,494	–	511
Over three years	12,055	938	–	649
Total	<u>586,218</u>	<u>296,477</u>	<u>124,455</u>	<u>139,685</u>

## 19. SHARE CAPITAL

The authorised, issued and fully paid up share capital of the Company is RMB1,000,000,000 (31st December, 2000: RMB900,000,000) divided into 1,000,000,000 shares (31st December, 2000: 900,000,000 shares) of RMB1 each. A summary of share capital is set out as follows:

	30th June, 2001 Unaudited		31st December, 2000	
	RMB	Percentage	RMB	Percentage
State shares	399,820,000	39.98%	399,820,000	44.42%
PRC legal person shares	53,330,000	5.33%	53,330,000	5.93%
PRC public shares	200,000,000	20.00%	100,000,000	11.11%
Overseas public shares	346,850,000	34.69%	346,850,000	38.54%
Total	<u>1,000,000,000</u>	<u>100.00%</u>	<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 the issuance of 100,000,000 A shares to the public and institutional investors at RMB7.87 per share. The issuance raised net proceeds of approximately RMB757,729,000 after deducting related issue expenses of approximately RMB29,271,000. The net proceeds of the issuance have been verified by Shandong Hunide Certified Public Accountants.

## 20. RESERVES

### a. Group

	Share premium	Statutory surplus reserve	Statutory public welfare fund	Capital reserve	Cumulative translation adjustment	Proposed dividend	Unappropri- ated profits (accumulated deficit)	Total
	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000	RMB '000
As at 1st January, 2000	1,236,097	93,561	64,291	43,198	-	-	(28,879)	1,408,268
Cumulative effect of changes in accounting policies	-	-	-	(43,198)	-	-	90,221	47,023
Proposed dividends	-	-	-	-	-	90,000	(90,000)	-
Beginning balance, as restated	1,236,097	93,561	64,291	-	-	90,000	(28,658)	1,455,291
Transfer from statutory surplus reserve	-	(2,853)	-	-	-	-	2,853	-
Transfer from statutory public welfare fund	-	-	(2,853)	-	-	-	2,853	-
Profit attributable to shareholders	-	-	-	-	-	-	49,781	49,781
Dividends (Note 8)	-	-	-	-	-	(90,000)	-	(90,000)
Cumulative translation difference	-	-	-	-	(4)	-	-	(4)
As at 30th June, 2000	<u>1,236,097</u>	<u>90,708</u>	<u>61,438</u>	<u>-</u>	<u>(4)</u>	<u>-</u>	<u>26,829</u>	<u>1,415,068</u>
As at 1st January, 2001	1,236,097	107,099	77,829	43,198	(9)	-	(93,964)	1,370,250
Cumulative effect of changes in accounting policies	-	-	-	(43,198)	-	-	104,237	61,039
Proposed dividends	-	-	-	-	-	100,000	(100,000)	-
Beginning balance, as restated	1,236,097	107,099	77,829	-	(9)	100,000	(89,727)	1,431,289
Transfer from statutory surplus reserve	-	(3,182)	-	-	-	-	3,182	-
Transfer from statutory public welfare fund	-	-	(3,182)	-	-	-	3,182	-
Profit attributable to shareholders	-	-	-	-	-	-	68,902	68,902
Dividends (Note 8)	-	-	-	-	-	(100,000)	-	(100,000)
Premium on issuance of new shares	657,729	-	-	-	-	-	-	657,729
Cumulative translation difference	-	-	-	-	(2)	-	-	(2)
As at 30th June, 2001	<u>1,893,826</u>	<u>103,917</u>	<u>74,647</u>	<u>-</u>	<u>(11)</u>	<u>-</u>	<u>(14,461)</u>	<u>2,057,918</u>

## 20. RESERVES (CONT'D)

### b. Company

	Share premium RMB'000	Statutory surplus reserve RMB'000	Statutory public welfare fund RMB'000	Proposed dividend RMB'000	Unappropriated profits RMB'000	Total RMB'000
As at 1st January, 2000	1,236,097	87,665	59,843	–	37,918	1,421,523
Cumulative effect of changes in accounting policy	–	–	–	–	87,133	87,133
Proposed dividends	–	–	–	90,000	(90,000)	–
Beginning balance, as restated	1,236,097	87,665	59,843	90,000	35,051	1,508,656
Transfer from statutory surplus reserve	–	(2,704)	–	–	2,704	–
Transfer from statutory public welfare fund	–	–	(2,704)	–	2,704	–
Profit attributable to shareholders	–	–	–	–	48,830	48,830
Dividends (Note 8)	–	–	–	(90,000)	–	(90,000)
As at 30th June, 2000	<u>1,236,097</u>	<u>84,961</u>	<u>57,139</u>	<u>–</u>	<u>89,289</u>	<u>1,467,486</u>
As at 1st January, 2001	1,236,097	96,613	68,791	–	18,448	1,419,949
Cumulative effect of changes in accounting policy	–	–	–	–	100,000	100,000
Proposed dividends	–	–	–	100,000	(100,000)	–
Beginning balance, as restated	1,236,097	96,613	68,791	100,000	18,448	1,519,949
Transfer from statutory surplus reserve	–	(3,055)	–	–	3,055	–
Transfer from statutory public welfare fund	–	–	(3,055)	–	3,055	–
Profit attributable to shareholders	–	–	–	–	45,870	45,870
Dividends (Note 8)	–	–	–	(100,000)	–	(100,000)
Premium on issuance of new shares	657,729	–	–	–	–	657,729
As at 30th June, 2001	<u>1,893,826</u>	<u>93,558</u>	<u>65,736</u>	<u>–</u>	<u>70,428</u>	<u>2,123,548</u>

#### (i) Statutory reserves

According to the Articles of Association of the Company, when distributing net profit of each period, the Company shall set aside 10% of its net profit after taxation for the statutory surplus reserve (except when the reserve balance has reached 50% of the Company's paid-up share capital), and for the statutory public welfare fund at a percentage determined by the directors. These reserves cannot be used for purposes other than those for which they are created and are not distributable as cash dividends.

The directors have resolved that the statutory public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's employees, and cannot be used to pay for staff welfare expenses. Title to these capital items will remain with the Company.

Pursuant to document Cai Hui Zi 1995 [14] issued by the State Ministry of Finance, when the Company purchases staff quarters, a transfer of the amount used to purchase such quarters should be made from the statutory public welfare fund to the statutory surplus reserve.

## 20. RESERVES (CONT'D)

### b. Company (Cont'd)

#### (ii) Basis for profit distribution and appropriation

In accordance with the Company's Articles of Association and a document (Cai Hui Zi 1995 [31]) issued by the State Ministry of Finance, appropriation to statutory surplus reserves, statutory public welfare fund and discretionary surplus reserves should be based on the financial statements prepared in accordance with PRC accounting standards and regulations. In the current period, the appropriations to reserves were made pursuant to the requirements stated in the document. In accordance with the Company's Articles of Association, the Group declares dividends based on the lower of retained earnings as reported in accordance with the PRC accounting standards and regulations and that reported in accordance with the accounting principles generally accepted in Hong Kong after deduction of the current year's appropriation to the statutory reserves. The unappropriated profits available for distribution to shareholders as at 30th June, 2001 was RMB70,428,000 (31st December, 2000: RMB18,448,000).

## 21. CONTINGENT LIABILITIES

- a. Pursuant to the related policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, allocation of living quarters as staff housing welfare was terminated. Instead, qualified employees are to be compensated in the form of monetary housing subsidies. In this respect, the Group and the Company are in the process of studying the requirements of the policies issued by the authorities and will formulate a plan for such monetary housing subsidies. The financial impact of the plan will be reflected in the financial statements of the relevant year when the plan is formulated and approved by the relevant authorities.

As at 30th June, 2001, no formal plan has yet been developed by the Group and the Company. Moreover, the Group and the Company have not announced any plans to their employees in respect of such housing subsidies. After seeking legal advice, the Directors are of the opinion that the Group and the Company had no obligation to make any payment or provision for such monetary housing subsidies as at 30th June, 2001.

The Ministry of Finance issued Document Caiqi [2000] No. 295 on 6th September, 2000 which became effective on the same date, announcing the accounting treatment in relation to such housing reform. The Company's Board of Directors has evaluated the policies referred to in the document and believes that except for the impact of the above mentioned monetary housing subsidies, other related policies will not have a material impact on the Group and the Company.

- b. Amounting to approximately RMB37,033,000 of the Group's deposits have been pledged as security for bills payable.

## 22. CAPITAL COMMITMENTS

As at 30th June, 2001, the Group and the Company have commitments as follows:

### Capital commitments

The Group's and the Company's capital commitments which were authorised but not contracted and provided for during the period were as follows:

	Group		Company	
	30th June, 2001 RMB'000 Unaudited	31st December, 2000 RMB'000	30th June, 2001 RMB'000 Unaudited	31st December, 2000 RMB'000
Construction projects	—	68,000	—	—

## 22. CAPITAL COMMITMENTS (CONT'D)

The Group's and the Company's capital commitments which were contracted but not provided for during the period were as follows:

	Group		Company	
	30th June, 2001 RMB'000 Unaudited	31st December, 2000 RMB'000	30th June, 2001 RMB'000 Unaudited	31st December, 2000 RMB'000
Construction projects	169,547	160,191	4,146	17,136
Investments and acquisitions	12,670	316,610	—	316,610
Total	<u>182,217</u>	<u>476,801</u>	<u>4,146</u>	<u>333,746</u>

## 23. SUBSEQUENT EVENTS

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

- (i) In March, June and July 2001, the Company had reached three agreements with the minority shareholders of Tsingtao Brewery (Xian) Co., Ltd. ("Xian Company") to acquire an additional 19.78% shareholding in Xian Company in exchange for payment of cash consideration of RMB23,442,000, RMB11,840,000 and RMB16,945,000 to the three minority shareholders respectively. As at August 2001, the shareholding changes are awaiting the approval from the local government.
- (ii) In May 2001, the Company entered into an agreement with China Railway Construction Company Railway Transportation Division, minority shareholder of Tsingtao Brewery (Chenzhou) Co., Ltd. to inject additional capital of RMB56,650,000 in cash to the subsidiary and transfer the existing share premium of RMB2,624,100 to the share capital. As a result, the Company's ownership in the subsidiary increased from 70% to 88.8% and the share capital of the subsidiary increased from RMB10,728,956 to RMB70,003,056. The change in shareholding is awaiting the approval from the local government.
- (iii) In June 2001, the Company reached an equity transfer agreement with Fujian Brewery (Singapore) Private Company ("Fujian Brewery"). Pursuant to the agreement, the Company would pay RMB85,000,000 to acquire a 51% equity interest in Di I Jia (Fujian) Brewery Company ("Fujian Company"). The name of Fujian Company would be changed to Tsingtao Brewery (Fuzhou) Company Limited ("Fuzhou Company"). The change in shareholding is awaiting the approval from the local government.
- (iv) In July 2001, the Company reached an equity transfer agreement with the minority shareholder of Tsingtao Brewery (Weinan) Company Limited ("Weinan Company") to acquire an additional 28% equity interest in Weinan Company at consideration of RMB14,000,000. As of August 2001, the equity transfer has not yet completed.

## 24. PRIOR YEAR COMPARATIVE FIGURES

The Group has adopted the following new accounting standards: SSAP 9 (revised) "Events after the balance sheet date", SSAP 14 (revised) "Leases", SSAP 26 "Segmental reporting", SSAP 28 "Provisions, contingent liabilities and contingent assets", SSAP 29 "Intangible assets", SSAP 30 "Business combination", SSAP 31 "Impairment of assets" and SSAP 32 "Consolidated financial statements and accounting for investments in subsidiaries" recently issued by the Hong Kong Society of Accountants. This has resulted in changes to the presentation of various items and comparative financial information has been restated accordingly.

## 25. COMPARISON OF PRC GAAP AND HK GAAP

The Group has prepared a separate set of statutory financial statements for the period ended 30th June, 2001 in accordance with PRC accounting standards and regulations ("PRC GAAP").

Differences between PRC GAAP and HK GAAP 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 HK GAAP are summarised and explained in the following table:

	<b>30th June, 2001</b> <b>RMB'000</b> <b>Unaudited</b>	Audited 30th June, 2000 <i>RMB'000</i> <i>(Note 24)</i>
Profit attributable to shareholders under PRC GAAP	<b>70,835</b>	59,895
HK GAAP adjustments:		
Additional depreciation charges under HK GAAP (a)	<b>(5,740)</b>	(5,740)
Additional staff welfare expenses under HK GAAP (b)	-	(833)
Research and development expense incurred in current period under HK GAAP (c)	-	(2,787)
Amortisation of negative goodwill under PRC GAAP (d)	<b>(6,306)</b>	(2,857)
Exempted other payables (e)	<b>8,381</b>	-
Others	<b>1,732</b>	2,103
	<hr/> <b>68,902</b> <hr/>	<hr/> 49,781 <hr/>
Profit attributable to shareholders under HK GAAP		<b>49,781</b>

(a) As a result of the different foreign exchange rates adopted in preparing the financial statements of 1993 under HK GAAP and PRC GAAP, the cost of fixed assets denominated in foreign currency acquired up to 31st December, 1993 was different between the two sets of accounts. This has resulted in an additional depreciation charge of RMB5,740,000 (30th June, 2000: RMB5,740,000) in the accounts prepared in accordance with HK GAAP up to 30th June, 2001.

(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.

(c) 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 1997 to 2000, the actual research and development expenses were offset against the accrual made under PRC GAAP, while the actual research and development expenses incurred were included in the income statement prepared under HK GAAP. The accrual under PRC GAAP has been fully utilised as of 31st December, 2000.

(d) Under PRC GAAP, the negative goodwill arising from the excess of the Group's shares 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 negative goodwill recognised is amortised on a straight line basis over the weighted average remaining useful lives of the acquired identifiable depreciable assets. As a result of the difference in accounting treatment, net income was reduced by approximately RMB6,306,000 (30th June, 2000: RMB2,857,000) under HK GAAP.

(e) During the period, a subsidiary of the Company received a waiver from a creditor on a payable balance of approximately RMB8,381,000. Pursuant to the requirements under PRC GAAP, such amount is credited directly to reserves while under HK GAAP, the amount waived is recognised as other income.