

NOTES TO THE ACCOUNTS

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

1. Organisation and principal activities

Tsingtao Brewery Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 16 June 1993. It obtained the business license of a Sino-foreign joint stock company on 27 December 1995. Its "H" Shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 15 July 1993 and its "A" Shares have been listed on the Shanghai Stock Exchange since 27 August 1993.

The Company and its subsidiaries (collectively referred to as the "Group") are principally engaged in the production and distribution of beer products.

Major acquisitions of the Group and the Company during the year are detailed in Note 17.

2. Principal accounting policies

The principal accounting policies adopted in the preparation of these accounts are set out below:

(a) Basis of preparation

The accounts have been prepared in accordance with accounting principles generally accepted in Hong Kong ("HK GAAP") and comply with accounting standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). This basis of accounting differs in certain material respects from that used in the preparation of the Company's statutory accounts in the PRC. The PRC statutory accounts of the Company and its subsidiaries comprising the Group have been prepared in accordance with accounting principles and financial regulations applicable to them, as appropriate, in the PRC. Appropriate restatements have been made to the PRC statutory accounts to conform with HK GAAP. Differences arising from the restatements are not incorporated in the Group's accounting records. The accounts have been prepared under the historical cost convention except that certain fixed assets are stated at valuation and held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date.

HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

The names of some of the companies referred to in the notes to the accounts represent management's translation of the Chinese names of these companies as no English names have been registered.

(b) Group accounting

(i) Consolidation

The consolidated accounts include the accounts of the Company and all its subsidiaries made up to 31 December.

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove the majority of the members of the board of directors; or to cast majority of votes at the meetings of the board of directors.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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2. Principal accounting policies (Continued)

(b) Group accounting (Continued)

(i) Consolidation (Continued)

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

The gain or loss on the disposal of a subsidiary represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill or negative goodwill and which was not previously charged or recognised in the consolidated profit and loss account and related accumulated foreign currency translation reserve.

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

Particulars of subsidiaries of the Group are disclosed in Note 17.

(ii) Associated companies

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of associated companies for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated companies and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interests in the associated company; unrealised losses are eliminated unless the transactions provide evidence of an impairment of the assets transferred.

In the Company's balance sheet, the investments in associated companies are stated at cost less provision for impairment losses. The results of associated companies are accounted for by the Company on the basis of dividends received and receivable.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

2. Principal accounting policies (Continued)

(b) Group accounting (Continued)

(iii) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the profit and loss account.

The balance sheets of subsidiaries expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at an average rate. Exchange differences are dealt with as a movement in reserves.

(c) Intangible assets

(i) Trademarks, technology know-how and software

Trademarks, technology know-how and software are measured initially at cost, and are recognised if it is probable that future economic benefits that are attributable to the assets will flow to the Group, and the cost of the assets can be measured reliably. After initial recognition, they are recorded at cost less accumulated amortisation and any accumulated impairment losses.

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

Trademarks, technology know-how and software are amortised on a straight-line basis over their estimated useful lives. The amortisation period and the amortisation method are reviewed annually at each financial year end. The estimated useful lives are as follows:

Trademark of Tsingtao Beer	40 years
Other trademarks	5 — 10 years
Technology know-how	10 years
Software and others	5 — 10 years

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

2. Principal accounting policies (Continued)

(c) Intangible assets (Continued)

(ii) Research and development costs

Research costs are expensed as incurred. Costs incurred on development projects relating to the design and testing of new or improved products are recognised as an intangible asset where the technical feasibility and intention of completing the product under development has been demonstrated and the resources are available to do so, costs are identifiable and there is an ability to sell or use the asset that will generate probable future economic benefits. Such development costs are recognised as an asset and amortised on a straight-line basis over a period of not more than 5 years to reflect the pattern in which the related economic benefits are recognised. Development costs that do not meet the above criteria are expensed as incurred. Development costs previously recognised as an expense are not recognised as an asset in a subsequent period. No development costs were capitalised during the year.

(iii) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group share of the net assets of the acquired subsidiary/associated company at the date of the acquisition. With respect to investments in associated companies accounted for under the equity method of accounting, goodwill is included in the carrying amount of the investments. Goodwill is amortised on a straight-line basis over its estimated life of 10 years. Any impairment arising on such goodwill is accounted for in the consolidated profit and loss account.

(iv) Impairment of intangible assets

Where an indication of impairment exists, the carrying amount of any intangible asset is assessed and written down immediately to its recoverable amount.

(d) Negative goodwill

Negative goodwill represents the excess of the fair value of the Group's share of the net assets acquired over the cost of the acquisition.

To the extent that negative goodwill relates to expectations of future losses and expenses that are identified in the Group's plan for the acquisition and can be measured reliably, but which do not represent identifiable liabilities at the date of acquisition, that portion of negative goodwill is recognised in the consolidated profit and loss account when the future losses and expenses are recognised. Any remaining negative goodwill, not exceeding the fair values of the non-monetary assets acquired, is recognised in the consolidated profit and loss account over the weighted average useful lives of the identifiable acquired depreciable or amortisable assets; and the amount of negative goodwill in excess of the fair value of the acquired identifiable non-monetary assets is recognised as income immediately.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

2. Principal accounting policies (Continued)

(e) Fixed assets and depreciation

(i) Fixed assets

Fixed assets are stated at cost or valuation amount less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Fixed assets stated at valuation are mainly fixed assets injected by the founding shareholders as a result of the reorganisation of the Group on 16 June 1993 and the value was agreed among the founding shareholders and approved by the State-Owned Assets Administration Bureau of the PRC. Expenditure incurred after the fixed assets have been put into operation, such as repairs and maintenance and overhaul costs, is normally charged to the profit and loss account in the year in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed assets beyond its originally assessed standard of performance, the expenditure is capitalised as an additional cost of the fixed assets.

The Group has taken advantage of the transitional provisions set out in paragraph 72 of SSAP 17, "Property, Plant and Equipment" issued by the HKSA, with the effect that certain fixed assets which are stated at revalued amounts, determined prior to 30 September 1995, have not been updated to reflect their respective fair values at the balance sheet date.

Improvements are capitalised and depreciated over their expected useful lives to the Group.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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2. Principal accounting policies (Continued)

(e) Fixed assets and depreciation (Continued)

(ii) Depreciation

Except for land use rights which have no estimated residual value, depreciation is provided on a straight-line basis to write off the cost or valuation of the fixed assets less accumulated impairment losses over their estimated useful lives, after taking into account their estimated residual value of 3% of cost. The estimated useful lives of fixed assets are as follows:

Land use rights	Terms of the rights
Plants and buildings	20 — 40 years
Machinery	5 — 14 years
Motor vehicles	5 — 12 years
Other equipment	5 — 10 years

The useful lives of fixed assets and depreciation method are reviewed periodically.

The plant components are depreciated over the period to overhaul. Major costs incurred in restoring the plant components to their normal working conditions to allow continued use of the overall asset are capitalised and depreciated over the period to the next overhaul.

(iii) Impairment and gain or loss on sale

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment loss is recognised in the profit and loss account.

The gain or loss on disposal of a fixed asset is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(f) Operating leases

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease period.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

2. Principal accounting policies (Continued)

(g) Long-term investments

Held-to-maturity securities are stated in the balance sheet at cost plus/less any discount/premium amortised to date. The discount or premium is amortised over the period to maturity and included as interest income/expense in the profit and loss account. Provision is made when there is a diminution in value other than temporary.

The carrying amounts of individual held-to-maturity securities or holdings of the same securities are reviewed at the balance sheet date in order to assess the credit risk and whether the carrying amounts are expected to be recovered. Provisions are made when carrying amounts are not expected to be recovered and are recognised in the profit and loss account as an expense immediately.

(i) Investment securities

Investments in debt (other than held-to-maturity securities) and equity securities which are intended to be held for an identified long-term purpose on a continuing basis, are classified as investment securities and are included in the balance sheet at cost less any provision for impairment in value.

The carrying amounts of investment securities are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such securities are reduced to their fair values. The impairment losses are recognised as expenses in the profit and loss account. These impairment losses are written back to the profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

Upon disposal or transfer of the investment securities, any gain or loss thereon is accounted for in the profit and loss account.

(ii) Other investments

Securities other than investment securities or held-to-maturity securities are classified as other investments and are carried at fair value in the balance sheet. Any unrealised holding gain or loss on other investments is recognised in the profit and loss account in the period when it arises.

Upon disposal or transfer of other investments, any gain or loss thereon is accounted for in the profit and loss account.

(h) Inventories

Inventories mainly include raw materials, work-in-progress, packaging materials, auxiliary materials, low value consumables and finished goods. Inventories are stated at the lower of cost and net realisable value. Cost, calculated on the weighted average cost basis, comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Low-value consumables and certain packaging materials are amortised over their estimated useful lives, using the straight-line method.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

2. Principal accounting policies (Continued)

(i) Construction-in-progress

Construction-in-progress represents plant and properties under construction and machinery and equipment under installation and testing, and is stated at cost less accumulated impairment losses. The cost includes cost of construction, machinery and equipment and other direct costs plus borrowing costs used to finance these projects during the construction period. Construction-in-progress is not depreciated until such time when the assets are completed and ready for their intended use.

(j) Trade and other receivables

Provision is made against trade and other receivables to the extent they are considered to be doubtful. Trade and other receivables are stated at cost net of such provision.

(k) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(l) Provisions

Provisions are 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 of the amount can be made. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. 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.

(m) Employee benefits

(i) Employee leave entitlements

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave, maternity leave and paternity leave are not recognised until the time of leave.

(ii) Bonus plans

The expected cost of bonus payments are recognised as a liability when the Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

Liabilities for bonus plans are expected to be settled within 12 months and are measured at the amounts expected to be paid when they are settled.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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2. Principal accounting policies (Continued)

(m) Employee benefits (Continued)

(iii) Pension obligations

Pursuant to "Temporary Regulations on Municipal Enterprise Employee Pensions and Retirement Protection for Qingdao" which became effective on 1 October 1994, the Company has provided a government-sponsored defined contribution retirement scheme ("the Scheme") for its full-time employees. Contributions to the basic retirement insurance for the Group's local employees are made monthly to a government agency based on 28.5% to 33.5% of the standard salary set by the respective provincial governments, of which 25.5% is borne by the Group and the remainder is borne by the employees. The government agency is responsible for meeting the obligations of these pension liabilities upon retirement of the employees. The Group accounts for the contributions made/to be made to the plan on an accrual basis.

A subsidiary operating in Hong Kong has established a defined contribution mandatory provident fund scheme in accordance with the Mandatory Provident Fund legislation of the government of Hong Kong. It makes monthly contributions to the scheme based on 5% of the employees' basic salaries with the maximum amount of contribution made by the subsidiary and the employees being limited to HK\$12,000 (equivalent to RMB12,720) per annum per employee. The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(n) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred taxation is provided on temporary differences arising on investments in subsidiaries and associated companies except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

(o) Contingent liabilities

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that the outflow becomes probable, it will then be recognised as a provision.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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2. Principal accounting policies (Continued)

(p) Convertible bonds

The principal amount of the mandatory convertible bond (net of related issuance transaction cost), is recorded as equity in the balance sheet. The estimated cash flows of the expected annual interest payments payable by the Company to the bondholder, and the expected refunds from the bondholder receivable by the Company upon conversion of the bonds (assuming mandatory conversion occurs upon the expiry of the contracted conversion period) are discounted into their respective net present values using the average borrowing rate of the Company. The difference between the two net present values ("Discounted Net Present Value") has been offset against the principal amount of the bonds issued and is presented as a deferred liability under long-term liabilities in the balance sheet. The deferred liability is amortised on a straight-line basis and recognised as income of the Company throughout the expected conversion period. Actual bond interest expenses paid and payable by the Company before conversion are presented as deposits, prepayment and other receivable in the balance sheet.

(q) Revenue recognition

Provided it is probable that the economic benefits associated with a transaction will flow to the Group and the Company and the revenue and costs, if applicable, can be measured reliably, revenue is recognised on the following bases:

- (i) Sale of goods is recognised when the significant risks and rewards of ownership of the goods have been transferred to customers.
- (ii) Interest income from bank deposits and investment is recognised on a time proportion basis on the principal outstanding and at the rate applicable.
- (iii) Dividend income is recognised when the right to receive payment is established.
- (iv) Operating lease rental income is recognised on a straight-line basis.

(r) Government grants

A government grant is recognised as other revenue, when there is reasonable assurance that the Group will comply with the conditions attaching with it and the right to receive is established.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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2. Principal accounting policies (Continued)

(s) Borrowing costs

Borrowing costs include interest charges and other costs incurred in connection with the borrowing of funds, including amortisation of discounts or premiums relating to borrowings, amortisation of ancillary costs incurred in connection with arranging borrowings and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except when they are directly attributable to the acquisition, construction or production of the assets that necessarily takes a substantial period of time to prepare for its intended use in which case they are capitalised as part of the cost of that asset. Capitalisation of borrowing costs commences when expenditures for the asset and borrowing costs are being incurred and the activities to prepare the asset for its intended use are in progress. Borrowing costs are capitalised at the weighted average cost of the related borrowings until the asset is ready for its intended use. If the resulting carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

(t) Segments

The Group is principally engaged in the production and distribution of beer products. Hence, no business segment information is prepared. In accordance with the Group's internal financial reporting structure, the operations of the Group can be classified into 5 primary geographical segments. These segments are the basis upon which the Group reports its primary segment information. Financial information on geographical segments is presented in Note 3.

Segment revenues, segment expenses and segment results include transfers between geographical segments. Such transfers are accounted for in the ordinary course of business and eliminated on consolidation.

Unallocated assets and liabilities represent corporate assets and liabilities.

Unallocated costs represent corporate expenses. Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in securities. Segment liabilities comprise operating liabilities and exclude items such as certain corporate borrowings. Capital expenditures comprise additions to intangible assets (excluding goodwill) and fixed assets, including additions arising from acquisitions of subsidiaries.

In respect of geographical segment reporting, sales are based on the region in which the customer is located. Total assets and capital expenditures are where the assets are located.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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3. Segmental reporting

The Group is mainly engaged in the production and distribution of beer products. Accordingly, no analysis of business segment information is provided.

The Group's activities are conducted in the PRC. An analysis by geographical segment is as follows:

	2004						Consolidated RMB'000
	Qing Dao Region RMB'000	Other Shan Dong Region RMB'000	Hua Bei Region RMB'000	Hua Nan Region RMB'000	Overseas segment RMB'000	Eliminations RMB'000	
TURNOVER							
External sales	2,213,397	817,146	1,866,312	2,513,009	293,092	—	7,702,956
Inter-segment sales	255,957	172,964	55,060	26,522	522	(511,025)	—
Total turnover	2,469,354	990,110	1,921,372	2,539,531	293,614	(511,025)	7,702,956
RESULTS							
Segment results	422,013	(35,393)	42,983	152,823	82,744	—	665,170
Unallocated expenses, net							(104,129)
Operating profit							561,041
Finance costs							(45,251)
Share of profits less losses of associated companies	(25,325)	—	—	—	—	—	(25,325)
Profit before taxation							490,465
Taxation							(186,391)
Profit after taxation							304,074
Minority interests							(18,911)
Profit attributable to shareholders							285,163

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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3. Segmental reporting (Continued)

	2004						Consolidated RMB'000
	Qing Dao Region RMB'000	Other Shan Dong Region RMB'000	Hua Bei Region RMB'000	Hua Nan Region RMB'000	Overseas segment RMB'000	Eliminations RMB'000	
<i>(Note a)</i>							
ASSETS							
Segment assets	6,087,513	1,207,272	2,283,693	4,105,188	—	(4,809,010)	8,874,656
Interests in associated companies	71,641	—	—	—	—	—	71,641
Unallocated assets							874,236
Total assets							9,820,533
LIABILITIES							
Segment liabilities	1,383,194	992,204	1,615,106	2,671,255	—	(2,795,823)	3,865,936
Unallocated liabilities							656,136
Total liabilities							4,522,072
OTHER INFORMATION							
Capital expenditure	121,747	46,227	660,992	573,756	—	—	1,402,722
Depreciation	111,604	84,516	139,488	186,785	—	—	522,393
Amortisation	7,306	180	692	2,686	—	—	10,864
Impairment charge recognised in profit and loss account							
— fixed assets	5,175	3,805	31,579	21,942	—	—	62,501

NOTES TO THE ACCOUNTS (Continued)

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3. Segmental reporting (Continued)

	2003						Consolidated RMB'000
	Qingdao Region RMB'000	Other Shandong Region RMB'000	Hua Bei Region RMB'000	Hua Nan Region RMB'000	Overseas segment RMB'000 (Note a)	Eliminations RMB'000	
TURNOVER							
External sales	1,795,540	934,537	1,426,702	2,177,342	379,664	—	6,713,785
Inter-segment sales	208,957	2,330	91,123	219,289	—	(521,699)	—
Total turnover	2,004,497	936,867	1,517,825	2,396,631	379,664	(521,699)	6,713,785
Results							
Segment results	348,685	(27,959)	35,192	156,136	125,116	—	637,170
Unallocated expenses, net							(110,756)
Operating profit							526,414
Finance costs							(101,799)
Share of profits less losses of associated companies	(7,251)	—	—	—	—	—	(7,251)
Profit before taxation							417,364
Taxation							(134,988)
Profit after taxation							282,376
Minority interests							(37,331)
Profit attributable to shareholders							245,045

NOTES TO THE ACCOUNTS (Continued)

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3. Segmental reporting (Continued)

	2003						Consolidated RMB'000
	Qingdao Region RMB'000	Other Shandong Region RMB'000	Hua Bei Region RMB'000	Hua Nan Region RMB'000	Overseas segment RMB'000 (Note a)	Eliminations RMB'000	
ASSETS							
Segment assets	5,383,778	1,284,197	1,837,337	3,942,517	—	(3,981,235)	8,466,594
Interests in associated companies	21,197	—	—	—	—	—	21,197
Unallocated assets							435,778
Total assets							8,923,569
LIABILITIES							
Segment liabilities	904,606	1,030,757	1,206,927	2,442,646	—	(2,092,823)	3,492,113
Unallocated liabilities							437,165
Total liabilities							3,929,278
OTHER INFORMATION							
Capital expenditure	105,398	114,383	96,344	234,748	—	—	550,873
Depreciation	130,466	66,801	109,307	214,276	—	—	520,850
Amortisation	11,499	84	773	2,502	—	—	14,858
Impairment charge recognised in profit and loss accounts							
— fixed assets	8,839	12,141	18,793	6,529	—	—	46,302

Note a: The segment represented sales of goods to regions (including Hong Kong) out of the PRC through the Group's overseas subsidiary or the Group's PRC branch and subsidiary established for overseas sales. Separable segment assets and liabilities are insignificant to the Group as a whole.

NOTES TO THE ACCOUNTS (Continued)

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4. Turnover and other revenues

Net revenues recognised during the year are as follows:

	2004	2003
	RMB'000	RMB'000
Turnover from sales of goods	7,702,956	6,713,785
Other revenues, net:		
— Government grants (i)	75,586	62,885
— Profits from sales of scrap materials	13,789	10,836
— Other expenses	(85,862)	(51,032)
	3,513	22,689
Total net revenues	7,706,469	6,736,474

- (i) In connection with the acquisitions of certain subsidiaries of the Group in prior years, the Group had entered into various agreements with the relevant municipal governments that these subsidiaries could enjoy certain financial incentives granted by the governments, mainly including financial subsidies determined with reference to the amounts of taxes paid by these subsidiaries.

NOTES TO THE ACCOUNTS (Continued)

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5. Operating profit

Operating profit is stated after charging/(crediting) the following:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Crediting		
Net exchange gain	(6,211)	—
Amortisation of negative goodwill (included in other revenues, net)	(19,260)	(10,244)
Charging		
Cost of inventories (including direct materials, direct labor and overheads)	5,027,430	4,326,079
Staff costs (including directors' emoluments) (<i>Note 11</i>)	552,985	586,847
Depreciation of owned fixed assets (<i>Note 14</i>)	522,393	520,850
Amortisation of intangible assets (<i>Note 13</i>)		
— Trademarks (included in administrative expenses)	2,606	2,584
— Technology know-how (included in administrative expenses)	2,196	1,863
— Software and others (included in administrative expenses)	2,159	1,497
— Goodwill (included in administrative expenses)	23,163	17,494
Auditors' remuneration	6,010	5,861
Operating lease rentals on land and buildings	9,593	8,747
Provision for doubtful accounts	25,054	16,168
Provision for outstanding litigation (<i>Note 26(a)</i>)	27,000	—
Impairment losses on fixed assets (included in other revenues, net)	62,501	46,302
Loss on disposal of fixed assets, net	5,700	12,645
Write-down of inventories to net realisable value	19,819	2,550
Compensation costs due to closure of a plant (<i>Note 17(ii)</i>)	3,630	—
Net exchange loss	—	7,081
Research and development costs	4,175	3,357

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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6. Finance costs

	2004	2003
	RMB'000	RMB'000
Interest on bank loans and overdrafts (wholly repayable within 5 years)	45,251	103,614
Less: amounts capitalised in construction-in-progress	—	(1,815)
Total	45,251	101,799

7. Taxation

(a) Profits tax

	2004	2003
	RMB'000	RMB'000
Current taxation		
— Hong Kong profits tax (i)	1,635	1,514
— PRC Enterprise Income Tax (ii)	169,262	128,971
Write-off of deferred tax assets previously recognised	—	5,101
Less: Deferred taxation relating to utilisation/(reversal) of temporary differences	15,494	(598)
Total	186,391	134,988

Reconciliation of statutory tax rate to effective tax rate:

	2004	2003
Statutory tax rate	33%	33%
Loss sustained by subsidiaries of which no deferred tax assets have been recognised	18%	19%
Effect of different taxation rates in different regions	(15%)	(18%)
Others	2%	(2%)
Effective tax rate	38%	32%

(i) Hong Kong profits tax

Hong Kong profits tax has been provided at the rate of 17.5% (2003: 17.5%) on the estimated assessable profit for the year.

NOTES TO THE ACCOUNTS (Continued)

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7. Taxation (Continued)

(a) Profits tax (Continued)

(ii) PRC Enterprise Income Tax ("EIT")

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

In accordance with an approval document dated 18 April 1994 issued by the State Administration of Taxation ("SAT") of the PRC, net profit earned by the Company is subject to EIT 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 change otherwise. The Company received a confirmation from the Ministry of Finance of Qingdao on 23 March 1997, stating that this preferential tax treatment would not be terminated until further notice.

Tsingtao Brewery (Sanshui) Company Limited ("Sanshui Company"), Tsingtao Brewery (Chenzhou) Company Limited ("Chenzhou Company") and Shenzhen Tsingtao Beer Asahi Company Limited ("Shenzhen Company") were approved as enterprises with foreign investment and therefore, they are exempt from EIT for two years starting from the first profit-making year after offsetting prior year tax losses, followed by a 50% reduction for the next three consecutive years thereafter. The current year was the fifth profitable year of Sanshui Company, the third profitable year for Chenzhou Company and the fourth profitable year for Shenzhen Company. Accordingly, EIT for Sanshui Company, Chenzhou Company and Shenzhen Company were provided at reduced rates of 12%, 16.5% and 7.5%, respectively.

Shenzhen Tsingtao Brewery Sales Company Limited, Tsingtao Brewery Huanan Holding Company Limited, Tsingtao Brewery (Zhuhai) Company Limited, Tsingtao Brewery (Doumen) Melt Company Limited, Tsingtao Brewery (Xiamen) Company Limited and Tsingtao Brewery (Xiamen) Sales Company Limited were established in the Shenzhen, Zhuhai and Xiamen Special Economic Zones, respectively, where they conduct their operations. Accordingly, they are subject to EIT at a reduced rate of 15%.

Other subsidiaries of the Group which are established and operating in the PRC are subject to EIT at a standard rate of 33% based on their respective assessable income for the year.

(b) Value-added tax ("VAT")

According to "The People's Republic of China Value-added Tax Temporary Regulations", the Group is subject to output VAT which is calculated at 17% of the domestic sales amount of tangible goods and the "exempt, credit, refund" method on goods exported providing a tax refund at the rate of 13%. The Group also pays input VAT on its purchases of raw materials and auxiliary materials which is deducted against output VAT in arriving at the net VAT amount payable to the PRC Government.

(c) Consumption tax

The Ministry of Finance of the PRC and the SAT issued the "Notice for changes in consumption tax for alcoholic products" (Cai Shui [2001] No. 84), which states that for beer products with an ex-factory price (including packaging materials and related deposits) of RMB3,000 or above per ton, the consumption tax is RMB250 per ton. For all other beer products sold below that price, the consumption tax is levied at RMB220 per ton.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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8. Profit attributable to shareholders

The profit attributable to shareholders includes profit of approximately RMB329,045,000 (2003: RMB406,748,000) which has been dealt with in the accounts of the Company.

9. Dividends

	2004 RMB'000	2003 RMB'000
Dividends paid:		
Dividends for 2003 of RMB0.20 per ordinary share (2003: dividends for 2002 at RMB0.22 per ordinary share)	211,000	218,900
Dividends proposed:		
Final dividends for 2004 of RMB0.15 per ordinary share proposed in 2005 (2003: RMB0.20 per ordinary share proposed in 2004)	196,233	212,000

At a board meeting held on 11 April 2005, the directors proposed a final dividend of RMB0.15 per share for 2004. This proposed dividends have not been reflected as dividends payable in these accounts, but will be reflected as an appropriation of retained earnings for the year ending 31 December 2005.

10. Earnings per share

The calculation of basic earnings per share and diluted earnings per share are based on the Group's profit attributable to shareholders of approximately RMB 285,163,000 (2003: RMB245,045,000).

The basic earnings per share is based on the weighted average number of 1,060,000,000 (2003: 1,030,000,000 ordinary shares) ordinary shares in issue during the year. The diluted earnings per share is based on 1,294,137,362 (2003: 1,140,018,000) ordinary shares which is the weighted average number of ordinary shares in issue during the year plus the weighted average number of 234,137,362 (2003: 110,018,000) ordinary shares deemed to be issued if all outstanding convertible bonds (*mentioned in Note 28*) had been converted into shares as at 1 January 2004.

11. Staff costs (including directors' emoluments)

	2004 RMB'000	2003 RMB'000
Wages and salaries	451,351	474,766
Social security costs	33,216	47,325
Pension costs — defined contribution plans	67,133	62,577
Staff employment medical benefits	1,285	2,179
Total	552,985	586,847

NOTES TO THE ACCOUNTS (Continued)

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12. Emoluments of directors, supervisory committee members and the five highest paid individuals

(a) Directors' emoluments

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Non-executive directors		
— Directors' fees	—	—
— Other emoluments	230	200
Executive directors		
— Directors' fees	—	—
— Salaries, allowances and benefits-in-kind	934	613
— Retirement fund contributions	34	26
Total	1,198	839

(b) Five highest paid individuals

Details of emoluments paid to the five highest paid individuals are summarised below. Four of these personnel (2003: Nil) are directors or supervisory committee members of the Company:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Basic salaries, allowances and benefits-in-kind	1,153	1,024
Retirement fund contributions	42	26
Total	1,195	1,050

(c) Supervisory committee members' emoluments

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

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Basic salaries, allowances and benefits-in-kind	514	526
Retirement fund contributions	34	35
Total	548	561

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

12. Emoluments of directors, supervisory committee members and the five highest paid individuals (Continued)

(c) Supervisory committee members' emoluments (Continued)

For the year ended 31 December 2004, emoluments of each of the directors and the five highest paid individuals (including directors, supervisory committee members and employees) were less than RMB1,060,000 (equivalent to HK\$1,000,000) (2003: same) and no (2003: no) director has waived or agreed to waive any emoluments. During the year, no emoluments (2003: nil) were paid to the five highest paid individuals as an inducement to join the Company or as compensation for loss of office. In addition, emoluments of RMB230,000 (2003: RMB200,000) were paid to non-executive directors.

13. Intangible assets

(a) Group

	2004				Total RMB'000
	Goodwill RMB'000	Trademarks RMB'000	Technology know-how RMB'000	Software and others RMB'000	
Year ended 31 December 2004					
Opening net book amount	151,306	76,726	10,246	18,763	257,041
Additions	85,858*	151	—	9,637	95,646
Additions from subsidiaries acquired	—	—	—	60	60
Amortisation	(23,163)	(2,606)	(2,196)	(2,159)	(30,124)
Closing net book amount	214,001	74,271	8,050	26,301	322,623
At 31 December 2004					
Cost	280,378	103,497	18,629	33,386	435,890
Accumulated amortisation	(66,377)	(29,226)	(10,579)	(7,085)	(113,267)
Net book amount	214,001	74,271	8,050	26,301	322,623
At 31 December 2003					
Cost	194,520	103,346	18,629	23,689	340,184
Accumulated amortisation	(43,214)	(26,620)	(8,383)	(5,104)	(83,321)
Written back on disposals	—	—	—	178	178
Net book amount	151,306	76,726	10,246	18,763	257,041

* Additions of goodwill in 2004 mainly arose from acquisitions of new subsidiaries (see Notes 17 (ii) (c) and (d) for details) and a new associated company (see Note 18 (b) for details).

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

13. Intangible assets (Continued)

(b) Company

	2004		Total RMB'000
	Trademarks RMB'000	Software and others RMB'000	
Year ended 31 December 2004			
Opening net book amount	73,750	7,618	81,368
Additions	—	1,166	1,166
Amortisation	(2,437)	(966)	(3,403)
Closing net book amount	71,313	7,818	79,131
At 31 December 2004			
Cost	100,000	10,088	110,088
Accumulated amortisation	(28,687)	(2,270)	(30,957)
Net book amount	71,313	7,818	79,131
At 31 December 2003			
Cost	100,000	8,922	108,922
Accumulated amortisation	(26,250)	(1,304)	(27,554)
Net book amount	73,750	7,618	81,368

(i) Trademarks

Trademarks mainly include the "TSINGTAO BEER" trademark which was injected by the founding shareholders into the Company on 16 June 1993 as their capital contributions. The recorded value of the trademark was assessed based on the results of a valuation approved by the State-Owned Assets Administration Bureau of the PRC.

In the opinion of the directors, the above trademark is essential to the operations of the Company and it is expected to bring enduring economic benefits to the Group and the Company continuously. Therefore, it is amortised over a period of 40 years, which is longer than the presumed period of 20 years prescribed by SSAP 29.

Other trademarks were acquired as a result of acquisitions of certain subsidiaries. They are amortised over their estimated useful lives ranging from 5 to 10 years. The costs of these intangible assets were determined based on their fair value at the respective dates of acquisition.

(ii) Technology know-how

Technology know-how was injected by a minority shareholder of a subsidiary into that subsidiary during its reorganisation. It was recorded at a value agreed among all the shareholders of the subsidiary and is amortised over an expected period of inflow of economic benefits of 10 years.

In the opinion of the directors, the underlying value of these assets was not less than their carrying values in the books of the Company and of the Group as at 31 December 2004.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

14. Fixed assets

(a) Group

The movements in fixed assets are as follows:

	2004					Total RMB'000
	Land use rights RMB'000	Plants and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	
Cost or valuation						
At 1 January 2004	647,189	2,391,588	4,602,799	413,170	230,486	8,285,232
Transfer-in from construction-in-progress	—	79,655	263,485	502	8,441	352,083
Additions	3,583	125,054	157,872	38,615	55,958	381,082
Acquisitions of subsidiaries	111,948	227,867	412,282	31,945	6,942	790,984
Disposal of subsidiaries	—	—	(7,974)	(21,626)	(1,243)	(30,843)
Other disposals	(54,599)	(106,632)	(152,605)	(64,788)	(20,094)	(398,718)
At 31 December 2004	708,121	2,717,532	5,275,859	397,818	280,490	9,379,820
Accumulated depreciation, amortisation and impairment loss						
At 1 January 2004	110,912	522,263	1,895,316	170,119	119,075	2,817,685
Charge for the year	13,644	68,842	358,615	41,540	39,752	522,393
Acquisitions of subsidiaries	2,612	78,153	195,424	15,210	3,499	294,898
Disposal of subsidiaries	—	—	(540)	(2,159)	(228)	(2,927)
Written back on disposal	(14,640)	(23,971)	(78,305)	(31,660)	(5,987)	(154,563)
Impairment charge for the year	—	10,334	45,864	6,303	—	62,501
Write-back of impairment charge*	—	(26,184)	(15,286)	(1,286)	—	(42,756)
At 31 December 2004	112,528	629,437	2,401,088	198,067	156,111	3,497,231
Net book value						
At 31 December 2004	595,593	2,088,095	2,874,771	199,751	124,379	5,882,589
At 1 January 2004	536,277	1,869,325	2,707,483	243,051	111,411	5,467,547

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

14. Fixed assets (Continued)

(a) Group (Continued)

The analysis of the above assets at cost or valuation as at 31 December 2004 is as follows:

	2004					Total RMB'000
	Land use rights RMB'000	Plants and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	
At cost	584,609	2,428,452	4,848,521	390,003	280,490	8,532,075
At valuation	123,512	289,080	427,338	7,815	—	847,745
	708,121	2,717,532	5,275,859	397,818	280,490	9,379,820

The analysis of the above assets at cost or valuation as at 31 December 2003 is as follows:

	2003					Total RMB'000
	Land use rights RMB'000	Plants and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	
At cost	523,677	2,102,508	4,175,461	405,355	230,486	7,437,487
At valuation	123,512	289,080	427,338	7,815	—	847,745
	647,189	2,391,588	4,602,799	413,170	230,486	8,285,232

* During the year ended 31 December 2004, certain plants and buildings, machinery and motor vehicles were disposed. Accordingly, the associated impairment losses of the aforesaid fixed assets were written back.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

14. Fixed assets (Continued)

(b) Company

The movements in fixed assets are as follows:

	2004					Total RMB'000
	Land use rights RMB'000	Plants and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	
Cost or valuation						
At 1 January 2004	87,411	528,375	1,257,860	139,670	99,070	2,112,386
Transfer-in from construction-in-progress	—	17,607	45,747	—	5,350	68,704
Additions	—	9,259	22,602	8,951	24,456	65,268
Disposals	—	(935)	(24,731)	(41,219)	(4,901)	(71,786)
At 31 December 2004	87,411	554,306	1,301,478	107,402	123,975	2,174,572
Accumulated depreciation, amortisation and impairment loss						
At 1 January 2004	18,264	137,023	756,365	87,639	48,651	1,047,942
Charge for the year	1,811	13,381	74,438	12,792	17,440	119,862
Written back on disposal	—	(850)	(17,740)	(20,121)	(4,532)	(43,243)
Impairment charge for the year	—	1,180	3,946	—	—	5,126
At 31 December 2004	20,075	150,734	817,009	80,310	61,559	1,129,687
Net book value						
At 31 December 2004	67,336	403,572	484,469	27,092	62,416	1,044,885
At 1 January 2004	69,147	391,352	501,495	52,031	50,419	1,064,444

NOTES TO THE ACCOUNTS (Continued)

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14. Fixed assets (Continued)

(b) Company (Continued)

The analysis of the above assets at cost or valuation as at 31 December 2004 is as follows:

	2004					Total RMB'000
	Land use rights RMB'000	Plants and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	
At cost	5,011	334,430	931,594	102,560	123,975	1,497,570
At valuation	82,400	219,876	369,884	4,842	—	677,002
	87,411	554,306	1,301,478	107,402	123,975	2,174,572

The analysis of the above assets at cost or valuation as at 31 December 2003 is as follows:

	2003					Total RMB'000
	Land use rights RMB'000	Plants and buildings RMB'000	Machinery RMB'000	Motor vehicles RMB'000	Other equipment RMB'000	
At cost	5,011	308,500	887,976	134,828	99,069	1,435,384
At valuation	82,400	219,876	369,884	4,842	—	677,002
	87,411	528,376	1,257,860	139,670	99,069	2,112,386

All the land and buildings of the Group and of the Company are located in the PRC. The useful lives of the land use rights of the Group and of the Company are 50 years.

An aggregate carrying value of approximately RMB275,570,000 (2003: Nil) of the Group's land use right, buildings, machinery and equipment and motor vehicles as at 31 December 2004 have been pledged as security for certain bank loans of approximately RMB165,500,000 (2003: Nil) of the Group (Note 25).

As at 31 December 2004, land use right certificates ("Land Certificates") of certain parcels of land of the Group with an aggregate carrying value of approximately RMB35,072,000 (2003: RMB35,499,000) and ownership certificates of certain buildings ("Building Ownership Certificates") of the Group with an aggregate carrying value of approximately RMB310,844,000 (2003: RMB356,360,000) had not yet been obtained by the Group. After consultation made with the Company's legal counsel, the directors consider that there is no legal restriction for the Group and the Company to apply for and obtain the Land Certificates and Building Ownership Certificates and it should not lead to any significant adverse impact on the operations of the Group and the Company. Accordingly, no provision for fixed assets impairment was considered necessary.

NOTES TO THE ACCOUNTS (Continued)

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14. Fixed assets (Continued)

In addition, as at 31 December 2004, the operating facilities of certain subsidiaries of the Group were located on parcels of allocated land ("Allocated Lands") owned by certain local municipal governments. The carrying values of the associated buildings and facilities constructed thereon were approximately RMB21,885,000 (2003: RMB136,317,000). The Group is in the process of applying for the transfer of the legal title of these Allocated Lands to the Group.

The carrying amount of revalued assets of the Group would have been approximately RMB321,000,000 (2003: RMB355,000,000) had they been stated at cost less accumulated depreciation.

15. Construction-in-progress

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

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
At 1 January	210,144	208,575	68,347	70,009
Additions	220,808	378,226	38,733	62,197
Interest expenses capitalised	—	1,815	—	—
Transfer to fixed assets	(352,083)	(357,898)	(68,704)	(56,493)
Other transfers	(16,258)	(20,574)	(10,996)	(7,366)
At 31 December	62,611	210,144	27,380	68,347

There were no (2003: RMB1,815,000 with capitalisation rate 4.78%) borrowing costs eligible for capitalisation as part of the costs of the related assets during the year.

16. Long-term investments

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Investment securities, unlisted and at cost	17,880	17,930	17,693	16,853

In the opinion of the directors, the underlying values of long-term investments as at 31 December 2004 were not less than the carrying amounts of such investments in the books of the Company and of the Group as at that date.

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17. Investments in subsidiaries

	Company	
	2004	2003
	RMB'000	RMB'000
Unlisted investments, at cost	1,884,750	1,653,555

Amounts due from subsidiaries as at 31 December 2004 are unsecured, non-interest bearing and have no fixed repayment terms.

As at 31 December 2004, the Company had arranged advances and loans, amounting to approximately RMB2,345,371,000 (2003: RMB1,820,972,000) to subsidiaries through entrusted loan arrangement made with banks in the PRC. All these entrusted loans are unsecured and will mature within one year. Entrusted loans amounted to approximately RMB1,428,320,000 (2003: RMB1,026,210,000) are interest-free, and the remaining outstanding entrusted loan balances are interest-bearing at rates ranging from 2% to 5.02% per annum (2003: 2% to 4.78% per annum).

None of the subsidiaries had any loan capital outstanding at 31 December 2004 or at any time during the year.

In the opinion of the directors, the underlying value of each of the investment in subsidiaries as at 31 December 2004 was not less than their carrying value as at that date.

(i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Tsingtao Brewery Huanan Holding Company Limited ("Huanan Holding Company") <i>(iii) (b) and Note 18(b)</i>	Shenzhen, the PRC	limited liability company	RMB200,000,000	95%	—	Investment holding
Tsingtao Brewery (Zhuhai) Company Limited	Zhuhai, the PRC	limited liability company	RMB60,000,000	—	72.83%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Sanshui) Company Limited	Sanshui, the PRC	limited liability company	RMB41,335,505	—	71.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Chenzhou) Company Limited	Chenzhou, the PRC	limited liability company	RMB70,000,000	—	84.36%	Manufacturing and domestic trading of beer

NOTES TO THE ACCOUNTS (Continued)

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17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Tsingtao Brewery (Huangshi) Company Limited	Huangshi, the PRC	limited liability company	RMB5,000,000	—	90.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Yingcheng) Company Limited	Yingcheng, the PRC	limited liability company	RMB5,000,000	—	90.25%	Manufacturing and domestic trading of beer
Shenzhen Tsingtao Beer Asahi Company Limited	Shenzhen, the PRC	limited liability company	US\$30,000,000	51%	—	Manufacturing and trading of beer
Shenzhen Tsingtao Brewery Sales Company Limited	Shenzhen, the PRC	limited liability company	RMB20,000,000	95%	—	Domestic trading of beer
Tsingtao Brewery Huadong Holding Company Limited ("Huadong Holding Company") (c)	Shanghai, the PRC	limited liability company	RMB100,000,000	95%	—	Investment holding
Tsingtao Brewery Huadong Shanghai Sales Company Limited	Shanghai, the PRC	limited liability company	RMB3,000,000	—	94.05%	Domestic trading of beer
Tsingtao Brewery Huadong Nanjing Sales Company Limited	Nanjing, the PRC	limited liability company	RMB1,000,000	—	93.88%	Domestic trading of beer
Tsingtao Brewery (Shanghai) Company Limited	Shanghai, the PRC	limited liability company	RMB50,000,000	—	90.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Wuhu) Limited Company	Wuhu, the PRC	limited liability company	RMB20,000,000	—	85.50%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Maanshan) Company Limited	Maanshan, the PRC	limited liability company	RMB5,000,000	—	91.25%	Manufacturing and domestic trading of beer

NOTES TO THE ACCOUNTS (Continued)

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17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Tsingtao Brewery Shanghai Songjiang Company Limited	Shanghai, the PRC	limited liability company	US\$36,640,000	75%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Shouguang) Company Limited	Shouguang, the PRC	limited liability company	RMB60,606,060	99%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Weifang) Company Limited	Weifang, the PRC	limited liability company	RMB5,000,000	70%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery No. 3 Company Limited	Pingdu, the PRC	limited liability company	RMB10,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xuzhou) Company Limited ("Xuzhou Company") (ii) (a)	Peixian, the PRC	limited liability company	RMB39,336,899	66%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xuzhou Pengcheng) Company Limited ("Xuzhou Pengcheng") (ii) (a)	Pengcheng, the PRC	limited liability company	RMB5,000,000	90%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xuecheng) Company Limited	Xuecheng, the PRC	limited liability company	RMB45,000,000	85%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tengzhou) Company Limited	Tengzhou, the PRC	limited liability company	RMB15,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Taierzhuang) Malt Company Limited	Taierzhuang, the PRC	limited liability company	RMB5,000,000	—	86.20%	Manufacturing and domestic trading of malt

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Beijing Three Ring Asia Pacific Beer Company Limited ("Beijing Three Ring") (a)	Beijing, the PRC	limited liability company	US\$28,900,000	29%	25%	Manufacturing and domestic trading of beer
Beijing Five Star Tsingtao Brewery Company Limited	Beijing, the PRC	limited liability company	RMB862,000,000	37.64%	25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Fuzhou) Company Limited	Fuzhou, the PRC	limited liability company	US\$26,828,100	75%	25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Langfang) Company Limited ("Langfang Company") (b)	Langfang, the PRC	limited liability company	RMB20,000,000	—	72.30%	Manufacturing and domestic trading of beer
Tsingtao Brewery Xian Company Limited ("Xian Company") (g)	Xian, the PRC	limited liability company	RMB222,200,000	76.10%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Weinan Company Limited	Weinan, the PRC	limited liability company	RMB50,000,000	28%	54.79%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Anshan) Company Limited	Anshan, the PRC	limited liability company	RMB50,000,000	60%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Xingkaihu) Company Limited	Jixi, the PRC	limited liability company	RMB20,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Mishan) Company Limited	Mishan, the PRC	limited liability company	RMB20,000,000	95%	—	Manufacturing and domestic trading of beer

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Tsingtao Brewery (Haerbin) Company Limited	Haerbin, the PRC	limited liability company	RMB22,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Penglai) Company Limited	Penglai, the PRC	limited liability company	RMB37,500,000	80%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Rongcheng) Company Limited	Rongcheng, the PRC	limited liability company	RMB20,000,000	70%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Import/Export Company Limited	Qingdao, the PRC	limited liability company	RMB11,000,000	97.73%	—	Import/Export trading of beer
Tsingtao Brewery (No. 5) Company Limited ("No.5 Company") (Note 18 (a))	Qingdao, the PRC	limited liability company	RMB34,610,000	93.79%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Kai Fa Company Limited	Qingdao, the PRC	limited liability company	RMB1,320,000	100%	—	Domestic trading of beer
Tsingtao Brewery (Pingyuan) Company Limited	Pingyuan, the PRC	limited liability company	RMB5,000,000	90%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Rizhao) Company Limited	Rizhao, the PRC	limited liability company	RMB10,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Heze) Company Limited	Heze, the PRC	limited liability company	RMB10,000,000	90%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Chongqing) Company Limited	Chongqing, the PRC	limited liability company	RMB7,000,000	95%	—	Manufacturing and domestic trading of beer

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Tsingtao Brewery (Taizhou) Company Limited ("Taizhou Company") (c)	Taizhou, the PRC	limited liability company	RMB10,000,000	—	90.25%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Hong Kong) Trading Company Limited ("Hong Kong Company") (a), (e)	Hong Kong	limited liability company	HK\$500,000	100%	—	Trading of Tsingtao beer in Hong Kong
Tsingtao Brewery (Hanzhong) Company Limited	Hanzhong, the PRC	limited liability company	RMB29,410,000	—	50.23%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Doumen) Malt Company Limited ("Doumen Melt") (Note 35 (c))	Zuhai, the PRC	limited liability company	RMB10,000,000	—	85.82%	Manufacturing and domestic trading of malt
Tsingtao Brewery (Luzhou) Company Limited ("Luzhou Company") (d)	Luzhou, the PRC	limited liability company	RMB111,110,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Nanjing) Company Limited	Nanjing, the PRC	limited liability company	US\$5,000,000	75%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Suqian) Company Limited ("Suqian Company") (ii) (a)	Suqian, the PRC	limited liability company	RMB10,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery Beifang Sales Company Limited	Beijing, the PRC	limited liability company	RMB29,980,000	80%	10.84%	Domestic trading of beer
Tsingtao Brewery Haerbin Northeast Sales Company Limited	Haerbin, the PRC	limited liability company	RMB10,000,000	85%	14.25%	Domestic trading of beer

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Tsingtao Brewery (Laoshan) Company Limited	Qingdao, the PRC	limited liability company	RMB16,635,592	50%	46.90%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Tengzhou) Huaihai Sales Company Limited	Tengzhou, the PRC	limited liability company	RMB500,000	—	90%	Domestic trading of beer
Tsingtao Brewery (Suzhou) Company Limited	Taicang, the PRC	limited liability company	RMB5,000,000	10%	85.50%	Manufacturing and domestic trading of beer
Tsingtao Brewery Huadong Hangzhou Sales Company Limited	Hangzhou, the PRC	limited liability company	RMB1,000,000	—	94.05%	Domestic trading of beer
Tsingtao Brewery Huadong Suzhou Sales Company Limited	Suzhou, the PRC	limited liability company	RMB3,000,000	—	76.10%	Domestic trading of beer
Tsingtao Brewery Xinan Sales Company Limited	Chengdu, the PRC	limited liability company	RMB2,000,000	60%	38%	Domestic trading of beer
Tsingtao Brewery (Suizhou) Company Limited	Suizhou, the PRC	limited liability company	RMB24,000,000	—	85.50%	Manufacturing and domestic trading of beer
Tsingtao Xianghong Shangwu Company Limited	Qingdao, the PRC	limited liability company	RMB1,000,000	95%	—	Car rental services
Tsingtao Brewery Chenzhou Sales Company Limited	Chenzhou, the PRC	limited liability company	RMB1,000,000	—	94.47%	Domestic trading of beer
Tsingtao Brewery Luzhong (Weifang) Sales Company Limited	Weifang, the PRC	limited liability company	RMB2,000,000	—	90.30%	Domestic trading of beer

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)

Name of subsidiaries	Place of establishment and principal operation	Legal status	Registered capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Tsingtao Brewery (Xiamen) Company Limited ("Xiamen Company") (e)	Xiamen, the PRC	limited liability company	RMB90,000,000	75%	25%	Manufacturing and Domestic trading of beer
Tsingtao Brewery (Xiamen) Sales Company Limited ("Xiamen Sales") (f)	Xiamen, the PRC	limited liability company	RMB1,000,000	—	95%	Domestic trading of beer
Tsingtao Brewery Taizhou Sales Company Limited ("Taizhou Sales") (j)	Taizhou, the PRC	limited liability company	RMB6,800,000	—	48.45%	Domestic trading of beer
Tsingtao Brewery (Tianmen) Company Limited ("Tianmen Company") (h)	Tianmen, the PRC	limited liability company	RMB18,000,000	—	85.50%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Anqiu) Company Limited ("Anqiu Company") (i)	Anqiu, the PRC	limited liability company	RMB5,000,000	95%	—	Manufacturing and domestic trading of beer
Tsingtao Beer Haifeng Warehouse Company Limited	Qingdao, The PRC	limited liability company	RMB10,000,000	—	53.75%	Warehousing, packaging and logistics

- (a) In November 2001, the Company entered into an equity transfer agreement (the "Transfer Agreement") with Canada EVG Enterprises Inc. ("EVG") that EVG had undertaken to acquire 25% equity interest of Beijing Three Ring owned by the Company. In February 2004, the Company entered into another agreement with EVG to terminate and cancel the Transfer Agreement. Instead, the Company and Hong Kong Company executed an equity transfer agreement that the Company transferred its 25% equity interest in Beijing Three Ring to Hong Kong Company at a consideration of US\$850,000. This transaction in relation to the change of foreign equity interests has been approved by the government authorities. After the transaction, the Company and Hong Kong Company hold 29% and 25% equity interests of Beijing Three Ring, respectively.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)
- (b) In December 2003, the Company entered into an equity transfer agreement with Tsingtao Brewery Group Company ("TB Group Company"), pursuant to which the Company and TB Group Company made additional investment to Langfang Company amounting to RMB9,500,000 and RMB500,000 in the forms of cash injection and capitalisation of debts, respectively. After the transaction, the registered capital of Langfang Company has been changed from RMB10,000,000 to RMB20,000,000. The equity interests of Langfang Company held by the Company and TB Group Company remain unchanged and the relevant legal procedure was completed in March 2004. In April 2004, the Company entered into an agreement with Xian Company, a subsidiary, that 95% of the equity interests held by the Company was transferred to Xian Company. The legal procedure was completed in October 2004. After the transaction, Xian Company and TB Group Company hold 95% and 5% the equity interests in Langfang Company, respectively.
- (c) In June 2004, the Company entered into an equity transfer agreement with Huadong Holding Company, a subsidiary, pursuant to which, 95% equity interest of Taizhou Company held by the Company was transferred to Huadong Holding Company. The legal procedure was completed in December 2004. After the transaction, Huadong Holding Company and TB Group Company hold 95% and 5% equity interests in that subsidiary, respectively.
- (d) In May 2004, the Company entered into agreement with Si Chuan Huo Ju Hua Gong Company Limited ("Si Chuan Huo Ju") that the Company acquired 40% interests of Luzhou Company held by Si Chuan Huo Ju at a consideration of approximately RMB34,296,000. After the transaction, the equity interest of Luzhou Company held by the Company increased from 55% to 95%.
- (e) In May 2004, Hong Kong Company acquired 5% and 20% interests of Xiamen Company held by the Company and Ou Mei Investment Group Company Limited, respectively. In addition, both the Company and Hong Kong Company increased their capital contribution in the company by RMB60,000,000 and RMB20,000,000 into Xiamen Company, respectively. The transaction was approved by Xiamen Foreign Investment Bureau and the change of business registration was completed in July 2004. After the additional capital injection, the registered capital of Xiamen Company was increased from RMB10,000,000 to RMB90,000,000 without any changes made in the percentage of equity interests held by the Company and Hong Kong Company.
- (f) In 2003, the Company indirectly held 40% equity interests of Xiamen Sales via its subsidiary, Xiamen Company. In 2004, the Company increased its equity interests of Xiamen Sales to 95% via the arrangements described in Notes 17 (i)(e) and 17 (ii)(c).
- (g) In September 2004, the Company, Xian Company and Baoji Yucai Glass Company Limited ("Yucai Glass"), an independent third party, entered into an agreement, pursuant to which, Yucai Glass injected additional cash capital of RMB11,000,000 in Tsingtao Brewery (Baoji) Company Limited ("Baoji Company"). After the capital injection, the registered capital of Baoji Company was increased from RMB1,000,000 to RMB12,000,000. The equity interests held by the Company and Xian Company was then decreased from 30% and 70% to 2.5% and 5.83%, respectively. Accordingly, Baoji Company was not consolidated in the Group in 2004.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

- (i) As at 31 December 2004, particulars of the principal subsidiaries of the Company are as follows:
(Continued)
- (h) Tianmen Company was in process of deregistration in 2004. As at 31 December 2004, the legal procedure of the deregistration had not yet been completed. Tianmen Company was still consolidated in the Group after adequate impairment was accrued by management.
- (i) Anqiu Company has stopped production for significant loss since October 2004. The Company's investment cost in Anqiu Company as at 31 December 2004 had been fully set off by its share of net accumulated losses while the Company has provided in full an entrusted loan of approximately RMB22,306,000 extended to it.
- (j) Taizhou Sales is consolidated as a subsidiary of the Group as the Group has control over the financial and operating policies of Taizhou Sales.
- (k) In November 2004, the dissolution process of Tsingtao Brewery Group Sales Company Limited, which was originally 95% held by the Company, was completed. Accordingly, it has not been consolidated as a subsidiary of the Group from then onwards.
- (ii) For the year ended 31 December 2004, the details of newly acquired/established subsidiaries are as follows:

Name of new subsidiaries	Date of acquisition/ establishment	Place of establishment	Registered and paid-in capital	Equity interest held by the Company (%)		Principal activities
				Directly	Indirectly	
Xuzhou Pengcheng Brewery Sales Company Limited ("Xuzhou Pengcheng Sales") (a)	February 2004	Xuzhou, the PRC	RMB5,000,000	—	83.80%	Trading of beer
Tsingtao Brewery (Changsha) Company Limited ("Changsha Company") (b)	January 2004	Changsha, the PRC	RMB68,000,000	70%	28.50%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Zhangzhou) Company Limited ("Zhangzhou Company") (c)	September 2004	Zhangzhou, the PRC	RMB38,880,000	90%	—	Manufacturing and domestic trading of beer
Tsingtao Brewery (Gansu) Company Limited (d)	July 2004	Lanzhou, the PRC	RMB174,420,800	50%	5.06%	Manufacturing and domestic trading of beer
Tsingtao Brewery Wuwei Company Limited ("Wuwei Company") (d)	July 2004	Lanzhou, the PRC	RMB36,100,000	—	54.90%	Manufacturing and domestic trading of beer
Tsingtao Brewery (Yangzhou) Company Limited ("Yangzhou Company") (e)	December 2004	Yangzhou, the PRC	RMB5,000,000	20%	—	Manufacturing and domestic trading of beer

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

(ii) For the year ended 31 December 2004, the details of newly acquired/established subsidiaries are as follows: (Continued)

- (a) In February 2004, Xuzhou Company, Xuzhou Pengcheng and Suqian Company, the subsidiaries of the Company, jointly invested in a newly established company, Xuzhou Pengcheng Sales. Xuzhou Company injected the capital in the form of cash and property at RMB470,500 and RMB2,029,500, respectively, which accounted for 50% of the total paid-in capital. Xuzhou Pengcheng injected cash and property at RMB277,490 and RMB1,222,510, respectively, which accounted for 30% of the total paid-in capital. Suqian Company injected cash capital of RMB1,000,000, which accounted for the remaining 20% of the equity interests.
- (b) In January 2004, the Company and Huanan Holding Company, a subsidiary of the Company, jointly agreed to set up Changsha Company with a registered capital of RMB10,000,000. Both the Company and Huanan Holding Company invested RMB7,000,000 and RMB3,000,000 in return for 70% and 30% of the equity interests in of Changsha Company, respectively. In March 2004, the Company and Huanan Holding Company further injected additional capital of RMB40,600,000 and RMB17,400,000 into Changsha Company. After these additional capital injections, the paid-in capital of Changsha Company was increased from RMB10,000,000 to RMB68,000,000. The equity interests of Changsha Company held by the Company and Huanan Holding Company remain unchanged.
- (c) In August 2004, the Company and TB Group Company entered into an agreement to acquire 90% equity interest of Zhangzhou Company held by TB Group Company at a cash consideration of approximately RMB26,355,000. The legal procedure was completed in September 2004. After the transaction, the equity interests held by the Company and the minority equity owner was 90% and 10%, respectively. As described in Note 17 (i) (f), Zhangzhou Company held 50% equity interests of Xiamen Sales.
- (d) In May and June 2004, the Company entered into an agreement and a supplementary agreement with Gansu Nongken Brewery Company Limited ("Nongken Brewery") and its then existing equity owners that the Company undertook to invest approximately RMB60,480,800 into Nongken Brewery in return for its 50% equity interest. The legal procedure was completed in July 2004 and the name of Nongken Brewery has been changed to Tsingtao Brewery (Gansu) Nongken Company Limited ("Gansu Nongken") accordingly. In addition, the Company also appointed Gansu Trust and Investment Company Limited to invest RMB4,530,000 and hold 5.06% of the equity interest in Gansu Nongken. Pursuant to these arrangements, the Company holds 55.06% of the equity interest of Gansu Nongken directly and indirectly. The corresponding revisions made to the business registration injection relating to the increase in registered capital of Gansu Nongken was completed in July 2004.

Wuwei Company was a subsidiary of Gansu Nongken, by which 99.72% equity interest of Wuwei Company was held directly.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

17. Investments in subsidiaries (Continued)

(ii) For the year ended 31 December 2004, the details of newly acquired/established subsidiaries are as follows: (Continued)

- (e) Pursuant to an agreement signed between the Company and TB Group Company in December 2004, the majority equity owner of Yangzhou Company, TB Group Company, entrusted the operations and management of Yangzhou Company to the Company. In addition, the majority of the members of the board of directors of Yangzhou Company is also represented by the Company. Accordingly, Yangzhou Company is consolidated as a subsidiary of the Group given the Group has control over its financial and operating policies.

18. Interests in associated companies

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Unlisted investments, at cost	96,160	34,266	5,998	6,265
Equity share of results of associated companies	(24,519)	(13,069)	—	—
	71,641	21,197	5,998	6,265

In the opinion of the directors, as at 31 December 2004, the underlying values of the associated companies were not less than the carrying amounts of these investments in the books of the Company and of the Group.

As at 31 December 2004, particulars of the principal associated companies of the Group are as follows:

Name of associated companies	Place of establishment and Principal operations	Registered Capital	Equity Interest held by the Group (%)		Principal Activities
			directly	indirectly	
Qinghua International Trade Development Company Limited	Canada	US\$500,000	50%	—	International trading and sales of beer
Liaoning Shenqing Tsingtao Brewery Company Limited	Shenyang, the PRC	RMB2,000,000	30%	—	Domestic trading of beer
Tsingtao Beer and Asahi Beverages Company Limited ("Asahi Beverage") (a)	Qingdao, the PRC	RMB90,000,000	—	37.52%	Manufacturing and domestic trading of tea beverages

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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18. Interests in associated companies (Continued)

Name of associated companies	Place of establishment and Principal operations	Registered Capital	Equity Interest held by the Group (%)		Principal Activities
			directly	indirectly	
Tsingtao Brewery (Nanning) Company Limited ("Nanning Company") (b)	Nanning, the PRC	RMB730,000,000	—	28.5%	Domestic trading of beer
Qingdao Zhaoshang Logistic Company Limited ("Zhaoshang Logistic") (c)	Qingdao, the PRC	RMB5,000,000	30%	—	Logistic services and management

- (a) In March 2004, No.5 Company, a subsidiary, entered into a capital injection agreement with another party equity owner of Asahi Beverage that both No.5 Company and the third party shareholder undertook to inject cash capital of RMB8,000,000 and RMB12,000,000, respectively, into Asahi Beverage. After the capital injection, the registered capital of Asahi Beverage was changed from RMB70,000,000 to RMB90,000,000, but the respective percentage of equity interests held by the two owners remained unchanged. The relevant approval process was completed in June 2004.
- (b) In November 2001, Huanan Holding Company, a subsidiary, and Tailian Brewery (Cayman Islands) Company Limited ("Tailian Brewery") entered into an equity transfer agreement that Huanan Holding Company acquired 30% of the equity interest in Guangxi Nanning Wan Tai Brewery Company Limited ("Nanning Brewery") from Tailian Brewery at a consideration of RMB96,000,000. The legal procedure in relation to this acquisition was completed in June 2004. In May 2004, Huanan Holding Company and Tailian Brewery further entered into another equity transfer agreement that Huanan Holding Company would acquire 45% equity interest from Tailian Brewery at a consideration of approximately RMB200,880,000 ("Additional Consideration"). As at the date of approval of the accounts, the respective parties were in the process of seeking the approval from the relevant government authorities in connection with the additional investment arrangements. After the completion of the above equity transfer, the equity interest indirectly held by the Company would be increased from 28.5% to 71.25%. The Additional Consideration had not been paid as at 31 December 2004 and it has included in the outstanding capital commitment of the Group at year end (see Note 33 (a)).
- (c) In April 2004, the Company, Zhaoshang Bureau Logistic Group Company Limited ("Logistic Group") and Zhaoshang Bureau Shipping Enterprise Company Limited ("Zhaoshang Shipping") entered into a capital injection agreement that Logistic Group, Zhaoshang Shipping and the Company undertook to inject cash capital of RMB1,270,000, RMB1,250,000 and RMB480,000, respectively, into Logistic Group. After the capital injection, the registered capital of Zhaoshang Logistic was increased from RMB2,000,000 to RMB5,000,000 and the equity interest held by the Company decreased from 51% to 30%. The legal procedure was completed in September 2004 and the results of Zhaoshang Logistic have not been consolidated in the Group from then onwards.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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19. Negative goodwill

	2004 RMB'000	2003 <i>RMB'000</i>
Cost		
At 1 January	(131,390)	(131,390)
Additions	(2,040)	—
At 31 December	(133,430)	(131,390)
Accumulated amortisation		
At 1 January	33,199	22,955
Amortisation for the year	19,260	10,244
At 31 December	52,459	33,199
Net book value		
At 31 December	(80,971)	(98,191)
At 1 January	(98,191)	(108,435)

The negative goodwill balance is amortised over the remaining weighted average useful lives of the respective identifiable depreciable fixed assets of the related subsidiaries acquired. The amortisation is recorded as other revenue of the Group.

20. Inventories

	Group		Company	
	2004 RMB'000	2003 <i>RMB'000</i>	2004 RMB'000	2003 <i>RMB'000</i>
Raw materials, packaging materials and auxiliary materials	1,147,447	1,036,906	148,215	184,119
Work-in-progress	162,750	128,850	39,696	28,995
Finished goods	114,278	164,877	34,544	65,661
	1,424,475	1,330,633	222,455	278,775
<i>Less: Write-down of inventories to net realisable value</i>	(41,644)	(25,130)	(1,022)	(1,022)
Inventories, net	1,382,831	1,305,503	221,433	277,753

Approximately RMB41,644,000 and RMB1,022,000 (2003: RMB25,130,000 and RMB1,022,000) of the gross value of inventories of the Group and of the Company were covered by full provision against their net realisable values.

On 31 December 2004, RMB2,500,000 (2003: nil) of the Group's loan (*Note 25*) are secured by inventories of RMB5,000,000.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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21. Trade and bills receivables

(a) Trade receivables

The aging analysis of trade receivables is as follows:

Group	31 December 2004			31 December 2003		
	Provision			Provision		
	for Balance			for Balance		
	doubtful after			doubtful after		
Amount	accounts	provision	Amount	accounts	provision	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Less than 1 year	139,701	(4,150)	135,551	118,796	(2,599)	116,197
1 to less than 2 years	38,205	(32,030)	6,175	42,273	(12,592)	29,681
2 to less than 3 years	57,831	(56,078)	1,753	28,272	(19,312)	8,960
Over 3 years	64,967	(49,027)	15,940	99,311	(88,945)	10,366
Total	300,704	(141,285)	159,419	288,652	(123,448)	165,204

Company	31 December 2004			31 December 2003		
	Provision			Provision		
	for Balance			for Balance		
	doubtful after			doubtful after		
Amount	accounts	provision	Amount	accounts	provision	
RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Less than 1 year	140,965	(49)	140,916	134,131	(1,400)	132,731
1 to less than 2 years	11,161	(2,239)	8,922	29,827	(6,379)	23,448
2 to less than 3 years	23,284	(22,984)	300	18,646	(11,011)	7,635
Over 3 years	57,084	(42,084)	15,000	51,179	(41,084)	10,095
Total	232,494	(67,356)	165,138	233,783	(59,874)	173,909

Credit is granted to customers based on specific assessment made by management according to the circumstances of each customer. Credit period granted will not be longer than one year.

The Group and the Company make specific bad debt provision against certain doubtful trade receivable balances. In addition, based on the general credit history of customers of the Group, general provision for doubtful debts is made in full for balances with outstanding balances aged over two years, and with clear evidence indicating that they are uncollectible. For balances expecting partial settlement to be recovered, provision is made for the estimated uncollectible portion.

As described in Note 34 (f), the trade receivables of the Group and of the Company included a balance jointly due from a customer and a related company, which was agreed to be settled by installments.

(b) Bills receivable

As at 31 December 2004, all bills receivable of the Group and of the Company and due for settlement within 6 months.

NOTES TO THE ACCOUNTS (Continued)

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22. Trade payables

The aging analysis of trade payables is as follows:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Less than 1 year	620,543	603,964	105,979	103,812
1 to less than 2 years	17,122	27,342	911	707
2 to less than 3 years	5,294	6,159	626	421
Over 3 years	16,102	9,448	927	536
Total	659,061	646,913	108,443	105,476

23. Bills payable

All bills payable balances of the Group and of the Company as at 31 December 2004 are within a 6 months' maturity period. Approximately RMB32,226,000 (2003: RMB55,135,000) of bank deposits of the Group denominated in Renminbi had been pledged for the issuance of these bills.

24. Pension and retirement funds contribution

Pursuant to "Temporary Regulations on Municipal Enterprise Employee Pensions and Retirement Protection for Qingdao" which became effective on 1 October 1994, the Company has implemented a government-sponsored defined contribution retirement scheme ("the Scheme") for its full-time employees. During the year ended 31 December 2004, the Group's contributions totaled approximately RMB67,133,000 (2003: RMB62,577,000).

Hong Kong Company, a subsidiary operating in Hong Kong, has established a defined contribution mandatory provident fund scheme (the "Scheme") in accordance with the Mandatory Provident Fund legislation of the government of Hong Kong. During the year ended 31 December 2004, the subsidiary made contributions totaling approximately HK\$153,000 (equivalent to RMB163,000) (2003: HK\$151,000 (equivalent to RMB161,000)) to the Scheme. The assets of the fund are held separately from those of the subsidiary and are managed by independent professional fund managers.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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25. Bank loans

(a) Group

	2004			2003
	Short-term RMB'000	Long-term RMB'000	Total RMB'000	Total RMB'000
Repayable:				
within 1 year	1,355,192	24,442	1,379,634	1,363,999
in the second to fifth year inclusive	—	47,573	47,573	34,810
over 5 years	—	18,729	18,729	18,974
Total	1,355,192	90,744	1,445,936	1,417,783
Less: Portion due within 1 year	(1,355,192)	(24,442)	(1,379,634)	(1,363,999)
Long-term portion	—	66,302	66,302	53,784

(b) Company

	2004			2003
	Short-term RMB'000	Long-term RMB'000	Total RMB'000	Total RMB'000
Repayable:				
within 1 year	827,650	19,234	846,884	604,516
in the second to fifth year inclusive	—	—	—	23,564
Total	827,650	19,234	846,884	628,080
Less: Portion due within 1 year	(827,650)	(19,234)	(846,884)	(604,516)
Long-term portion	—	—	—	23,564

Pursuant to debt restructuring agreements or acquisition agreements of certain subsidiaries, interest charges to be levied on approximately RMB49,894,000 (2003: RMB74,254,000) and RMB19,234,000 (2003: RMB44,094,000) of the loan balances of the Group and the Company, respectively, were waived by the lenders at no consideration. The remaining outstanding loan balances are interest-bearing at rates ranging from 2% to 6.9% per annum (2003: 1.63% to 6.90% per annum).

As at 31 December 2004, loans of the Group and of the Company each amounting to approximately RMB19,234,000 (2003: each amounting to RMB38,454,000) are guaranteed by TB Group Company, a related company.

Approximately RMB128,000,000 (2003: RMB374,683,000) of the loans of the subsidiaries as at 31 December 2004 are guaranteed by the Company.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

25. Bank loans (Continued)

(b) Company (Continued)

Approximately RMB168,000,000 (2003: RMB1,106,000) of the Group's loans as at 31 December 2004 are secured by land use right, buildings, plant and machinery, motor vehicles and equipment with an aggregate carrying value of approximately RMB275,570,000 (Note 14) and inventories RMB5,000,000 (Note 20), respectively (2003: secured by a fixed bank deposit of approximately RMB28,000,000).

Most of the bank financing of the Group is in the form of short-term bank loans. As a result, the Group had net current liabilities of approximately RMB803,563,000 as at 31 December 2004 (2003: RMB740,287,000). The directors are confident that the Group will be able to renew its short-term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones.

As of 31 December 2004, the Group had unutilised balance of approximately RMB2,028,000,000 out of the available banking facilities granted from certain banks (2003: RMB1,000,000,000).

26. Provisions

	Group		Company	
	31 December 2004 RMB'000	31 December 2003 RMB'000	31 December 2004 RMB'000	31 December 2003 RMB'000
Potential litigation with Qindao Guangming Group Company ("Guangming Company") (a)	27,000	—	27,000	—

- (a) Pursuant to a judgement of the Higher People's Court of Shandong 山東省高級人民法院 ("Shandong Higher Court") on 2 April 2004, the Company was demanded to pay damages to Guangming Company, a former beer distributor of the Group, as compensation for its losses suffered from the breach of a beer products distribution contract in an aggregate amount of approximately RMB27,000,000. The Company had appealed to that court (the "Appeal") in April 2004 but up to the date of approval of these accounts, the proceeding was still in progress and no judgement had been made by the court. The directors cannot form a view as to the outcome of the Appeal and a provision of RMB27,000,000 for the potential damages payable had been made in the accounts for the year ended 31 December 2004.

NOTES TO THE ACCOUNTS (Continued)

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26. Provisions (Continued)

- (b) Pursuant to another court judgement made by the Shandong Higher Court on 19 April 2004, the Company was demanded to pay damages to Qingdao Yuanyang Xianghe Industrial and Trading Company ("Xianghe Company"), a supplier of the Group, an aggregate amount of approximately RMB23,784,000 as compensation for a dispute arising from a commodity barter contract executed with the Company (the "Litigation Provision"). Accordingly, the Company made a provision of the same amount in its published interim accounts during the year.

The Company appealed to that court and subsequent to year end on 28 January 2005, the Company obtained a final judgment from the court (the "Final Judgement") that it is only required to pay to Xianghe Company RMB790,000, representing the costs of the goods supplied by Xianhe Company, and return to it certain packaging materials (collectively the "Damages"). After consultation made with the legal counsel, the directors consider that the possibility of Xianghe Company further lodging an appeal against the Company to rule down the Final Judgement would be remote. As a result, the directors reversed the Litigation Provision in the accounts for the year ended 31 December 2004, after setting aside the provision for the Damages and the related estimated legal expenses.

27. Share capital

As at 31 December 2004, the authorised registered share capital was RMB1,060,000,000 (2003: RMB1,060,000,000) of RMB1 each.

	2004		2003	
	RMB'000	Number of shares ('000)	RMB'000	Number of shares ('000)
State shares	399,820	399,820	399,820	399,820
PRC legal person shares	53,330	53,330	53,330	53,330
PRC public shares ("A Shares")	200,000	200,000	200,000	200,000
Overseas public shares ("H Shares")	406,850	406,850	406,850	406,850
Total	1,060,000	1,060,000	1,060,000	1,060,000

A summary of the issued share capital is set out below:

	2004		2003	
	RMB'000	Number of shares ('000)	RMB'000	Number of shares ('000)
State shares	399,820	399,820	399,820	399,820
PRC legal person shares	53,330	53,330	53,330	53,330
PRC public shares ("A Shares")	200,000	200,000	200,000	200,000
Overseas public shares ("H Shares")	406,850	406,850	406,850	406,850
Total	1,060,000	1,060,000	1,060,000	1,060,000

As at 31 December 2004, all issued share capital had been fully paid up.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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28. Convertible bonds

On 21 October 2002, the Company and Anheuser-Busch Companies, Inc. ("A-B Company"), a shareholder of H-Shares of the Company, entered into a Strategic Investment Agreement that A-B Company obliged to subscribe for 3 tranches of mandatory convertible bonds ("CB") issued by the Company with an aggregate principal amount of approximately HK\$1,416,195,000 (RMB1,505,719,000). The CB are convertible into 308,219,178 new H Shares issuable by the Company under the following time schedules:

Tranche I of the CB ("Tranche I")

The total subscription amount of Tranche I is HK\$280,800,000 (equivalent to approximately RMB297,999,000) and it was issued to A-B Company in April 2003. Tranche I had been converted into 60,000,000 new H Shares issued by the Company at HK\$4.68 (equivalent to approximately RMB4.96) per share on 2 July 2003. Tranche I was interest-free.

Tranche II of the CB ("Tranche II")

The total subscription amount of Tranche II is HK\$627,120,000 (equivalent to approximately RMB667,068,000) which was issued to A-B Company in April 2003 concurrently with the issuance of Tranche I. Tranche II can be converted into 134,000,000 new H Shares at HK\$4.68 (equivalent to approximately RMB4.96) per share before the date of 1 April 2010 after issuance. The CB will be automatically converted at the end of the above mentioned conversion period ("Expiry Date II") if A-B Company does not trigger the conversion. Tranche II is interest-bearing at 2% per annum. A-B Company will refund all the interest received as well as all related deductions or withholdings associated with the interest payments made by the Company upon conversion.

Tranche III of the CB ("Tranche III")

The total subscription amount of Tranche III is HK\$508,275,000 (equivalent to approximately RMB540,652,000) which was issued to A-B Company by two instalments in October 2003 and April 2004. Tranche III can be converted into 114,219,178 new H Shares at HK\$4.45 (equivalent to approximately RMB4.72) per share before 1 April 2010 ("Expiry Date III") after the payment of the subscriptions. The CB will be automatically converted at the end of the Expiry Date III if A-B Company does not trigger the conversion before the Expiry Date III. Tranche III is interest-bearing at 2% per annum. A-B Company will refund all the interest received as well as all related deductions or withholdings associated with the interest payments made by the Company upon conversion.

Upon the conversion of each of Tranche I, Tranche II and Tranche III of the CB, the percentage shareholding of Qingdao State-Owned Assets Administration Bureau ("Qingdao Bureau"), the existing substantial shareholder of the Company, has decreased/will decrease from approximately 40.0% to approximately 37.7%, 33.5% and 30.6%, respectively, whereas the holding of A-B Company in the Company has increased/will increase from approximately 4.5% to 9.9%, 20.0% and 27.0%, respectively. The additional 7% of the shareholding held by A-B Company after conversion of Tranche III will be subject to a voting trust arrangement in favour of Qingdao Bureau whereby A-B Company will enjoy the economic benefits associated with the underlying shares but Qingdao Bureau can exercise the respective voting rights at its sole discretion. Accordingly, Qingdao Bureau, through its trustee, will be entitled to exercise the voting rights attached to such shareholding at general meetings of holders of state shares; and the class meetings of the PRC legal person shares, PRC public shares or H Shares of the Company.

NOTES TO THE ACCOUNTS (Continued)

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28. Convertible bonds (Continued)

Details of the CB not yet converted as at 31 December 2004 are as follows:

Tranche of CB	Date of issue	Mandatory conversion date	Face value RMB'000	Discounted net present value(i) RMB'000	2004	2003
					RMB'000	RMB'000
Tranche II	1 April 2003	1 April 2010	665,562	(9,873)	655,689	655,689
Tranche III	21 October 2003	1 April 2010	271,444	(3,395)	268,049	268,049
Tranche III	1 April 2004	1 April 2010	270,275	(2,821)	267,454	—
				(16,089)	1,191,192	923,738

- (i) Discounted net present value represents the difference between the net present values of the estimated cash flows of expected annual interest payments payable by the Company to A-B Company, and the expected refunds from A-B Company receivable by the Company upon conversion of the bonds (assuming mandatory conversion occurs upon the expiry of the contracted conversion periods). The discounted net present value, after netting off accumulative amortisation, RMB12,641,000 (2003: RMB12,113,000) was recorded as a deferred liability in the accounts.

During the year ended 31 December 2004, interest of approximately RMB21,127,019 was paid by the Company associated with the issued CB.

Subsequent to year end on 8 April 2005, A-B Company notified the Company its intention to convert Tranche II and Tranche III of the CB into H Shares of the Company. As a result of such conversion, A-B Company holds a 27% equity interest in the Company. In addition, the H Shares that will be issued in connection with such conversion will be entitled to the 2004 final dividend of the Company proposed by the directors on 11 April 2005 as described in Note 9.

NOTES TO THE ACCOUNTS (Continued)

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29. Reserves

The movement of reserves of the Group has been shown in the consolidated statement of changes in equity. The movement of reserves of the Company for the year is as follows:

	2004						
	Share premium RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Public welfare fund RMB'000	Unappropriated profits RMB'000	Reserves total RMB'000	Proposed dividends RMB'000
As at 1st January, 2004,	2,115,258	1,782	151,282	122,011	191,955	2,582,288	212,000
Dividends declared (Note 9)	—	—	—	—	—	—	(212,000)
Profit for the year	—	—	—	—	329,045	329,045	—
Proposed dividends (Note 9)	—	—	—	—	(196,233)	(196,233)	196,233
Profit appropriation to surplus reserve (a)	—	—	27,871	—	(27,871)	—	—
Profit appropriation to public welfare fund (a)	—	—	—	27,871	(27,871)	—	—
At 31st December, 2004	2,115,258	1,782	179,153	149,882	269,025	2,715,100	196,233
	2003						
	Share premium RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000	Public welfare fund RMB'000	Unappropriated profits RMB'000	Reserves total RMB'000	Proposed dividends RMB'000
As at 1st January, 2003,	1,893,826	1,144	126,754	97,483	46,268	2,165,475	220,000
Dividends declared (Note 9)	—	—	—	—	—	—	(220,000)
Profit for the year	—	—	—	—	406,748	406,748	—
Waiver of payables	—	5	—	—	(5)	—	—
Proposed dividends (Note 9)	—	—	—	—	(212,000)	(212,000)	212,000
Profit appropriation to surplus reserve (a)	—	—	24,528	—	(24,528)	—	—
Profit appropriation to public welfare fund (a)	—	—	—	24,528	(24,528)	—	—
Conversion of convertible bonds (Note 28)	221,432	—	—	—	—	221,432	—
Donation received	—	633	—	—	—	633	—
At 31st December, 2003	2,115,258	1,782	151,282	122,011	191,955	2,582,288	212,000

NOTES TO THE ACCOUNTS (Continued)

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29. Reserves (Continued)

(a) Statutory reserves

According to the Articles of Association of the Company, the Company has to set aside 10% of its net profit after taxation under PRC accounting standards for the statutory surplus reserve (except where the reserve balance has reached 50% of the Company's paid-up share capital), and it is also obliged to appropriate funds to the public welfare fund at a percentage of the net profit after taxation as determined by the directors. These reserves cannot be applied for purposes other than those for which they are created and are not distributable as cash dividends.

The directors has resolved that the public welfare fund is to be utilised to build or acquire capital items, such as dormitories and other facilities for the Company's employees. However, the fund cannot be used to pay for staff welfare expenses. Legal title to the capital items acquired using the fund remains with the Company.

(b) Basis of profit distribution and appropriation

In accordance with the Company's Articles of Association and Document Cai Kuai Zi [1995] No. 31 issued by the State Ministry of Finance, appropriations to surplus reserves, public welfare fund and discretionary surplus reserves should be made based on the amount of profits as determined in accordance with PRC accounting standards and regulations. In accordance with the Company's Articles of Association, the Company declares dividends based on the lower of distributable profits as determined in accordance with PRC accounting standards and regulations and those determined in accordance with accounting principles generally accepted in Hong Kong. The unappropriated profits of the Company available for distribution to shareholders (after the proposed dividends for the year) as at 31 December 2004 amounted to approximately RMB269,025,000 (2003: RMB191,955,000).

(c) Proposed dividends

The dividends proposed after the balance sheet date has not been recognised as a liability in the balance sheet as at 31 December 2004, but will be reflected in the accounts of 2005.

30. Deferred taxation

Deferred taxation is calculated in full on temporary differences under the liability method using the applicable principal taxation rates of entities within the Group from 15% to 33% (2003: same).

As at 31 December 2004, deferred tax assets were recognised for temporary differences arising from fair value adjustment on depreciation of fixed assets acquired in business combinations to the extent that realisation of such tax benefits through the future taxable profits is probable. In addition, the Group also had unrecognised deferred tax assets associated with tax losses carried forward of approximately RMB311,000,000 (2003: RMB638,000,000) which will expire in the period of 2005-2009, and fair value adjustment on depreciation of fixed assets of approximately RMB83,000,000 (2003: RMB96,000,000), provision for realisation and impairment losses of receivable balances, inventories and fixed assets of approximately RMB135,844,000 (2003: RMB78,000,000), since there is no certainty of their respective realisation through available future taxable profits.

NOTES TO THE ACCOUNTS (Continued)

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30. Deferred taxation (Continued)

The movements in deferred tax liabilities/(assets) is as follows:

(i) Deferred tax assets

	Fair value adjustments on depreciation		Others		Total	
	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	7,111	7,528	—	5,101	7,111	12,629
Additions	—	—	1,622	—	1,622	—
Reversal	—	—	—	(5,101)	—	(5,101)
Charged to profit and loss account	(2,488)	(417)	—	—	(2,488)	(417)
At 31 December	4,623	7,111	1,622	—	6,245	7,111

(ii) Deferred tax liabilities

	Fair value adjustment on depreciation	
	2004 RMB'000	2003 RMB'000
At 1 January	17,083	18,098
Acquisition of subsidiaries	1,533	—
Credited to profit and loss account	(316)	(1,015)
At 31 December	18,300	17,083
The amounts shown in the balance sheet include the following:		
Deferred tax assets to be recovered more than 12 months	2,135	6,694
Deferred tax liabilities to be settled after more than 12 months	17,984	16,068

NOTES TO THE ACCOUNTS (Continued)

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31. Notes to consolidated cash flow statement

(a) Reconciliation of operating profit to net cash inflow from operating activities

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Operating profit	561,041	526,414
Income from waiver of payable balances	(5,226)	(1,237)
Interest income	(18,854)	(13,567)
Amortisation of premium on bonds	2,821	1,664
Net exchange (gain)/loss	(6,211)	7,081
Depreciation of fixed assets	522,393	520,850
Loss on disposal of fixed assets	5,700	12,645
Impairment loss on fixed assets	62,501	46,302
Amortisation of negative goodwill	(19,260)	(10,244)
Amortisation of deferred liabilities	(2,293)	(1,155)
Impairment of long-term investments	4,007	2,993
Amortisation of intangible assets	30,124	23,438
(Increase)/decrease in current assets:		
Inventories	31,795	(81,696)
Trade receivables	7,616	7,418
Bills receivable	(47,691)	15,016
Deposits, prepayments and other receivables	22,004	5,509
(Decrease)/increase in current liabilities:		
Trade payable	(70,546)	(4,600)
Other payables	335,287	75,071
Bills payable	(99,526)	89,822
Sales deposits	(1,143)	(18,915)
Accruals	120,100	31,618
Taxes payable	109,654	39,117
Net cash inflow generated from operations	1,544,293	1,273,544

NOTES TO THE ACCOUNTS (Continued)

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31. Notes to consolidated cash flow statement (Continued)

(b) Analysis of changes in financing during the year

	Dividend payable		Share capital (including share premium and capital reserve)		Convertible bonds		Bank loans		Minority interests	
	2004	2003	2004	2003	2004	2003	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	1,100	—	3,188,179	2,905,274	923,738	—	1,417,783	2,877,260	579,465	669,784
Minority interests' share of profits	—	—	—	—	—	—	—	—	18,911	37,331
Minority interests' share of acquisition of additional interest	—	—	—	—	—	—	—	—	(24,114)	(52,558)
Cash capital contributions	—	—	—	—	—	—	—	—	—	4,500
Waiver of payable	—	—	4,331	840	—	—	—	—	—	—
Issuance of convertible bonds (net of transaction costs)	—	—	—	—	270,275	1,218,438	—	—	—	—
Conversion of convertible bonds	—	—	—	281,432	—	(281,432)	—	—	—	—
Deferred liabilities from convertible bonds	—	—	—	—	(2,821)	(13,268)	—	—	—	—
Proposed dividends	212,000	220,000	—	—	—	—	—	—	—	—
Dividends paid	(211,000)	(218,900)	—	—	—	—	—	—	(29,929)	(79,592)
Bank loans from acquisition of subsidiaries	—	—	—	—	—	—	357,900	—	—	—
Proceeds from bank loans	—	—	—	—	—	—	1,058,319	2,771,878	—	—
Payment of bank loans borrowed	—	—	—	—	—	—	(1,388,066)	(4,231,355)	—	—
Donation received	—	—	—	633	—	—	—	—	—	—
At 31 December	2,100	1,100	3,192,510	3,188,179	1,191,192	923,738	1,445,936	1,417,783	544,333	579,465

NOTES TO THE ACCOUNTS (Continued)

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31. Notes to consolidated cash flow statement (Continued)

(c) Acquisitions of subsidiaries

Details of the assets and liabilities of subsidiaries acquired are as follows:

	Gansu Nongken <i>RMB'000</i>	Zhangzhou Company <i>RMB'000</i>	Yangzhou Company <i>RMB'000</i> <i>(Note (d))</i>	Total <i>RMB'000</i>
Net assets acquired				
Fixed assets	264,052	66,107	79,336	409,495
Other non-current assets	89,090	15,868	9,429	114,387
Trade and other receivables	53,275	20,797	28,607	102,679
Cash and cash equivalents	71,295	11,081	9,458	91,834
Bank loans	(243,000)	(41,900)	(73,000)	(357,900)
Trade and other payables	(120,504)	(55,666)	(39,745)	(215,915)
Taxation payable	(68,702)	(729)	(47,437)	(116,868)
Net assets	45,506	15,558	(33,352)	27,712
Interest acquired by the Group companies	25,056	14,002	—	39,058
Goodwill on acquisition	39,955	12,352	—	52,307
Cash consideration paid	65,011	26,354	—	91,365

Analysis of the net outflow in respect of the purchase of subsidiaries:

	Gansu Nongken <i>RMB'000</i>	Zhangzhou Company <i>RMB'000</i>	Yangzhou Company <i>RMB'000</i>	Total <i>RMB'000</i>
Cash consideration	65,011	26,354	—	91,365
Bank balances and cash in hand acquired	(71,295)	(11,081)	(9,458)	(91,834)
Net cash (inflow)/outflow in respect of the purchase of subsidiaries	(6,284)	15,273	(9,458)	(469)

(d) Major non-cash transactions

As described in Note 17 (ii) (e), the Group has obtained the control over the financial and operating policies of Yangzhou Company and the control of its board of directors through certain contractual arrangements made with TB Group Company at no consideration.

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32. Contingent liabilities

Pursuant to certain policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, the policy of allocating staff quarters as welfare benefits of the employees was terminated. In replacement, qualified employees are to be compensated in the form of monetary housing subsidies ("Housing Reform"). As at 31 December 2004, no formal plan had yet been developed by the Group and the Company and no plans had been announced by the Group and the Company to their employees in respect of the arrangements. After seeking a legal advice, the Company's board of directors is 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 31 December 2004 and there is no reasonable basis to accrue for any potential liabilities.

33. Commitments

Saved as disclosed in other notes to the accounts, as at 31 December 2004, the Group and the Company had the following commitments:

(a) Capital commitments

The Group and the Company had no capital commitments which were authorised but not contracted and provided for as of 31 December 2004.

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

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Construction projects	58,077	33,301	12,039	13,189
Investments in an associated company and subsidiaries	221,350	9,950	—	—
Total	279,427	43,251	12,039	13,189

(b) Operating lease commitments

As at 31 December 2004, the Group had future aggregate minimum lease payments under non-cancelable operating leases for land and buildings as follows:

	31 December 2004 RMB'000	31 December 2003 RMB'000
	No later than one year	2,490

As at 31 December 2004, the Company had no operating lease commitments under non-cancelable operating leases (2003: Nil).

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
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33. Commitments (Continued)

(c) Forward contracts

During the year ended 31 December 2004, the Company entered into certain forward contracts with banks in relation to purchase of US dollars ("US\$") at an aggregate amount of US\$70,400,000 (equivalent to approximately RMB582,666,000) (2003: US\$70,400,000). All these forward contracts will reach maturity in 2005. In the opinion of directors, the forward contracts are non-speculative in nature and they are used as a hedge against the Company's outstanding bank loans which are denominated in US dollars.

34. 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) Saved as disclosed in other notes to the accounts, the Group had the following material transactions with related parties for the year ended 31 December 2004:

	2004 <i>RMB'000</i>	2003 <i>RMB'000</i>
Purchases from related companies (minority shareholders or companies with the same ultimate shareholders)	293,635	354,260
Sales to related companies	242,062	185,767
Handling commission paid to a related company*	12,930	—

All the above transactions with related parties were transacted based on terms agreed between the Group and the related companies.

- * The amount represents handling commission paid by the Company to TB Group Company for assisting the Company in the disposal of certain land use rights during the year ended 31 December 2004. The disposal after the payment of the handling commission did not give rise to a material gain.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

34. Related party transactions (Continued)

(b) As at 31 December 2004, the Group and the Company had the following significant current account balances maintained with related parties:

	Group		Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Included in				
Amount due from subsidiaries	—	—	165,784	219,591
Trade receivable and other long-term assets accounts				
— Wholly owned subsidiaries of the Group	—	—	2,115	4,621
— Non-wholly owned subsidiaries of the Group	—	—	90,734	104,848
— Other related parties	108,298	117,718	13,955	100,903
Loans to subsidiaries (e)				
— Wholly owned subsidiaries of the Group	—	—	50,000	94,272
— Non-wholly owned subsidiaries of the Group	—	—	2,295,371	1,666,554
Deposits, prepayment and other receivables				
— Other related parties	125,437	83,754	3,125	87,291
Trade payables				
— Non-wholly owned subsidiaries of the Group	—	—	23,572	11,436
— Other related parties	1,007	17,404	1,007	2,613
Other payables and long-term payables				
Subsidiaries of the Group	—	—	9,417	11,781
— A-B Company (c)	124,151	124,047	—	—
— Other related parties	37,678	76,674	13,325	160
Sales deposits				
— Other related parties	1,455	3,073	—	—

Except for those mentioned in (c) and (e) below, the Group's and the Company's current accounts balances maintained with related parties are all unsecured and non-interest bearing and they have no fixed repayment terms.

(c) In October 2003, Hong Kong Company entered into a loan agreement with A-B Company, pursuant to which, Hong Kong Company borrowed a loan of US\$15,000,000 (equivalent to approximately RMB123,815,000) (2003: US\$15,000,000 (equivalent to approximately RMB124,047,000)) (the "Loan") from A-B Company. The Loan is interest bearing at 1% per annum, unsecured and repayable within 5 years. The Company has undertaken to guarantee the repayment of the Loan.

NOTES TO THE ACCOUNTS (Continued)

FOR THE YEAR ENDED 31 DECEMBER 2004
(prepared in accordance with HK GAAP)

34. Related party transactions (Continued)

- (d) As at 31 December 2004, loans of the Group and of the Company, each amounting to approximately RMB19,234,000 (31 December 2003: RMB38,454,000), are guaranteed by TB Group Company.
- (e) As at 31 December 2004, the Company had provided approximately RMB2,345,371,000 (2003: RMB1,760,826,000) entrusted loans to subsidiaries and nil (2003: RMB60,146,000) to an associated company, respectively, through the Bank of Communications and the Industrial and Commercial Bank of China. All these entrusted loans are unsecured and will mature within one year. Entrusted loans amounted to approximately RMB1,428,320,000 (2003: RMB1,026,210,000) are interest-free, and the remaining outstanding entrusted loan balances are interest-bearing at rates ranging from 2% to 5.02% per annum (2003: 2% to 4.78% per annum).
- (f) The Group reached a settlement agreement jointly with a customer and a related company (collectively "the Debtors") in 2001 in connection with an aggregate outstanding receivable balance of RMB105,000,000 ("the Debts"). Pursuant to the agreement, the Debts are repayable in eight annual installments, commencing from 1 January 2002. During the year, the Debtors repaid to the Company the third installment of the Debts of RMB10,000,000 in cash as stipulated in the repayment schedule. As at 31 December 2004, the outstanding balances of the Debts of RMB15,000,000 and RMB35,893,000 were classified as both accounts receivable and long-term assets in the balance sheets of the Group and the Company according to the expected repayment schedule. TB Group Company, a related company, has undertaken to guarantee the repayment of the outstanding balance.
- (g) In January 2003, the Company entered into an entrusted operating and management agreement with TB Group Company, pursuant to which, TB Group Company entrusted the operations and management of Yangzhou Company to the Company. During 2004, the Company signed a supplementary agreement with TB Group Company which enables the Company to control Yangzhou Company (see note 17 (ii) (e) for details).
- (h) In August 2004, the Company and TB Group Company entered into an agreement to acquire 90% equity interest of Zhangzhou Company held by TB Group Company at a cash consideration of approximately RMB26,355,000. The legal procedure was completed in September 2004 (see note 17 (ii) (c) for details).

35. Subsequent events

Saved as disclosed in other notes to the accounts, no other significant subsequent events occurred.

36. Comparative figures

Certain amounts reported in previous year have been reclassified to conform with the current year presentation. The reclassifications mainly related to reallocation of certain expenses previously classified as unallocated for segmental reporting (Note 3).

37. Approval of accounts

The accounts were approved and authorised for issue by the board of directors on 11 April 2005.