NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1 GENERAL INFORMATION

Tsingtao Brewery Company Limited (the "Company") was established in the People's Republic of China (the "PRC") on 16 June 1993. It obtained a business license as 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. The Company's registered address is Tsingtao Beer Tower, May Fourth Square, Hongkong Zhong Road, Qingdao, the PRC.

Major acquisitions of the Group and the Company during the year are detailed in Note 31.

These consolidated financial statements are presented in Renminbi unless otherwise stated and they have been approved for issue by the Board of Directors on 3 April 2006.

The English names of some of the companies referred to in the financial statements represent unofficial translation of their registered Chinese names by management and these English names have not been legally adopted by these entities.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to both 2004 and 2005 presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of Tsingtao Brewery Company Limited have been prepared in accordance with Hong Kong Financial Reporting Standards (HKFRS). The consolidated financial statements have been prepared under the historical cost convention, as modified by available-for-sale financial assets and derivative instruments which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies.

The adoption of new/revised HKFRS

In 2005, the Group adopted the new/revised standards and interpretations of HKFRS below, which are relevant to its operations. The 2004 comparatives have been amended as required, in accordance with the relevant requirements.

HKAS 1	Presentation of Financial Statements
HKAS 2	Inventories
HKAS 7	Cash Flow Statements
HKAS 8	Accounting Policies, Changes in Accounting Estimates and Errors
HKAS 10	Events after the Balance Sheet Date
HKAS 16	Property, Plant and Equipment
HKAS 17	Leases
HKAS 21	The Effects of Changes in Foreign Exchange Rates
HKAS 23	Borrowing Costs
HKAS 24	Related Party Disclosures
HKAS 27	Consolidated and Separate Financial Statements
HKAS 28	Investments in Associates
HKAS 32	Financial Instruments: Disclosures and Presentation
HKAS 33	Earnings per Share
HKAS 36	Impairment of Assets
HKAS 38	Intangible Assets
HKAS 39	Financial Instruments: Recognition and Measurement
HKAS-Int 12	Scope of HKAS-Int 12 Consolidation — Special Purpose Entities
HKFRS 3	Business Combinations

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

The adoption of new/revised HKASs 1, 2, 7, 8, 10, 16, 21, 23, 24, 27, 28, 33 and HKAS-Ints 12 did not result in substantial changes to the Group's accounting policies. In summary:

— HKAS 1 has affected the presentation of minority interest, share of net after-tax results of associates and other disclosures.

— HKASs 2, 7, 8, 10, 16, 23, 27, 28, 33 and HKAS-Ints 12 had no material effect on the Group's policies.

— HKAS 21 had no material effect on the Group's policy. The functional currency of each of the consolidated entities has been re-evaluated based on the guidance of the revised standard. Each of the Group entity has the same functional currency and the presentation currency in Renminbi for the respective entity's financial statements as well as the Group consolidated financial statements.

— HKAS 24 has affected the identification of related parties and some other related-party disclosures.

The adoption of revised HKAS 17 has resulted in a change in the accounting policy relating to the reclassification of payments for the acquisitions of land use rights from property, plant and equipment to operating leases. The up-front prepayments made for the land use rights are expensed in the income statement on a straight-line basis over the period of the lease or where there is impairment, the impairment is expensed in the income statement. In prior years, the land use rights were accounted for at cost less accumulated depreciation and accumulated impairment.

The adoption of HKASs 32 and 39 has resulted in a change in the accounting policy relating to the classification of financial assets at fair value through profit or loss and available-for-sale financial assets. It has also resulted in the recognition of derivative financial instruments at fair value and the change in the recognition and measurement of derivative financial instruments for hedging activities.

The adoption of HKFRS 3, HKAS 36 and HKAS 38 results in a change in the accounting policy for goodwill. Until 31 December 2004, positive goodwill was:

— Amortised on a straight line basis over a period of 10 years; and

— Assessed for an indication of impairment at each balance sheet date.

Negative goodwill was:

— Recognised in the consolidated income statement over the weighted average useful lives of the identifiable fixed assets acquired.

In accordance with the provisions of HKFRS 3 *(Note 2.6)*:

For positive goodwill,

— The Group ceased amortisation of goodwill from 1 January 2005;

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

The adoption of new/revised HKFRS *(Continued)*

— Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill;

— From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is indication of impairment.

For negative goodwill,

— The carrying amount of the unamortised negative goodwill balance as at 1 January 2005 is derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of accumulated losses of the Group.

The Group has reassessed the useful lives of its intangible assets in accordance with the provisions of HKAS 38. No adjustment resulted from this reassessment.

All changes in the accounting policies have been made in accordance with the transition provisions in the respective standards, wherever applicable. All standards adopted by the Group require retrospective application other than:

— HKAS 16 — the initial measurement of an item of property, plant and equipment acquired in an exchange of assets transaction is accounted at fair value prospectively only to future transactions;

— HKAS 39 — does not permit to recognise, derecognise and measure financial assets and liabilities in accordance with this standard on a retrospective basis. The Group applied the previous SSAP 24 "Accounting for investments in securities" to investments in securities and also to hedge relationships for the 2004 comparative information. The adjustments required for the accounting differences between SSAP 24 and HKAS 39 are determined and recognised as at 1 January 2005; and

— HKFRS 3 — prospectively after 1 January 2005.

(i) The adoption of revised HKAS 17 resulted in:

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Decrease in property, plant and equipment	**(660,197)**	(595,593)
Increase in leasehold land and land use rights	**660,197**	595,593

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

***The adoption of new/revised HKFRS** (Continued)*

(ii) The adoption of HKFRS 3 and HKAS 38 resulted in:

	As at 31 December 2005 *RMB'000*
Decrease in negative goodwill	**80,971**
Decrease in accumulated losses	**80,971**

(iii) The adoption of HKAS 39 resulted in an increase in opening retained earnings at 1 January 2005 by approximately RMB10,712,000 and the details of the adjustments to the balance sheet at 31 December 2005 and profit and loss for the year ended 31 December 2005 are as follows:

	As at 31 December 2005 *RMB'000*
Increase in derivative financial instruments (liabilities)	**(90)**
Increase in accumulated losses	**(90)**

	For the year ended 31 December 2005 *RMB'000*
— Increase in other operating loss — net	**10,802**

No early adoption of the following new Standards or Interpretations that have been issued but are not yet effective, which may be applicable to the Group. The Group has already commenced an assessment of the impact of these new standards/interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

HKFRS 6	Exploration for and Evaluation of Mineral Resources
HKFRS — Int4	Determining whether an Arrangement contains A Lease

2.2 Consolidation

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

(a) Subsidiaries

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(a) Subsidiaries *(Continued)*

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is directly recognised in the income statement *(see Note 2.6)*.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as equity transactions. Disposals to minority interests will not result in gains and losses for the Group.

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 by the Company on the basis of dividend received and receivable.

(b) Associates

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for by the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill (net of any accumulated impairment loss) identified on acquisition *(see Note 2.6)*.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet the interests 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 dividend received and receivable.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in RMB, which is the Company's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges or qualifying net investment hedges.

Translation differences on non-monetary items, such as equity instruments held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation difference on non-monetary items, such as equities classified as available-for-sale financial assets, are included in the fair value reserve in equity.

(c) Group companies

The results and financial position of all the group entities that have a functional currency different from the Group's presentation currency are translated into the Group's presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign entities, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold, such exchange differences are recognised in these income statement as part of the gain or loss on sale.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate cost to their residual values over their estimated useful lives, as follows:

Plants and buildings	20 — 50 years
Machinery	5 — 14 years
Motor vehicles	5 — 12 years
Other equipment	5 — 10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount *(Note 2.7)*.

2.6 Intangible assets

(a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associated company at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill on acquisitions of associated companies is included in investments in associated companies. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(b) Trademarks and licences

Trademarks and licences are shown at historical cost. Trademarks and licences have a definite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate the cost of trademarks and licences over their estimated useful lives (2 to 30 years).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Intangible assets *(Continued)*

(c) Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised over their estimated useful lives (three to five years).

Costs associated with developing or maintaining computer software programmes are recognised as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognised as intangible assets. Direct costs include the software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognised as assets are amortised over their estimated useful lives.

(d) 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.

(e) 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.

2.7 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, which are at least tested annually for impairment and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset’s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset’s fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Investments

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries, associates and jointly controlled entities, as investment securities and other investments

(a) Investment securities

Investments in debt (other than held-to-maturity securities) and equity securities which were intended to be held for an identified long-term purpose on a continuing basis, were 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 were reviewed at each balance sheet date to assess whether the fair values had declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amounts of such securities were reduced to their fair values. The impairment losses were recognised as expenses in the profit and loss account. These impairment losses were written back to the profit and loss account when the circumstances and events that had led to the write-downs or write-offs cease to exist and there was persuasive evidence that the new circumstances and events would persist for the foreseeable future.

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

(b) Other investments

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

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

From 1 January 2005 onwards:

The Group classifies its investments in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

(a) Financial assets at fair value through profit or loss

This category has two sub-categories: financial assets held for trading, and those designated at fair value through profit or loss at inception. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Investments *(Continued)*

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivable. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet *(Note 2.10)*.

(c) Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group's management has the positive intention and ability to hold to maturity. During the year, the Group did not hold any investments in this category.

(d) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless management intends to dispose of the investment within 12 months of the balance sheet date.

Purchases and sales of investments are recognised on trade-date — the date on which the Group commits to purchase or sell the asset. Investments are initially recognised at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Investments are derecognised when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity investments are carried at amortised cost using the effective interest method. Realised and unrealised gains and losses arising from changes in the fair value of the "financial assets at fair value through profit or loss" category are included in the income statement in the year in which they arise. Unrealised gains and losses arising from changes in the fair value of non-monetary securities classified as available-for-sale are recognised in equity. When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments are included in the income statement as gains or losses from investment securities.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss — measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement — is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

2.10 Trade and other receivables

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the income statement.

2.11 Cash and cash equivalent

Cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheet.

2.12 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the year of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.13 Deferred income tax

Deferred income tax 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 consolidated financial statements. However, if the deferred income tax arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss, it is not accounted for. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.13 Deferred income tax *(Continued)*

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.14 Employee benefit

(i) Retirement benefit obligations

The employees of the Group stationed in the PRC are covered by various government-sponsored pension plans. These government agencies are responsible for the pension liability due to these employees. The Group contributes on a monthly basis to these pension plans based on certain percentages of the salaries of the employees, subject to a certain ceiling. Under these plans, the Group has no legal or constructive obligation for retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

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) each per annum per employee. The Group's contributions to the defined contribution retirement scheme are expensed as incurred.

(ii) Employees 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.

(iii) 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.

2.15 Provision

Provisions are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.16 Revenue recognition

Revenue comprises the fair value for the sale of goods and services, net of value-added tax, rebates and discounts and after eliminating sales within the Group. Revenue is recognised as follows:

(a) Sales of goods

Sales of goods are recognised when a Group entity has delivered products to the customer, the customer has accepted the products and collectibility of the related receivables is reasonably assured. The recorded revenue is the gross amount of sale, including consumption and business tax, Such taxation are included in cost of sales.

(b) Interest income

Interest income is recognised on a time-proportion basis using the effective interest method. When a receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised either as cash is collected or on a cost — recovery basis as conditions warrant.

(c) Dividend income

Dividend income is recognised when the right to receive payment is established.

(d) Operating lease rental income

Operating lease rental income is recognised on a straight-line basis.

2.17 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred government grants and are recognised in the income statement on a straight line basis over the expected lives of the related assets.

2.18 Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are expensed in the income statement on a straight-line basis over the period of the lease.

2.19 Dividends distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.20 Comparative

Certain figures of the 2004 comparative figures have been reclassified to conform with the current year presentation according to HKFRS.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: foreign exchange risk, credit risk, liquidity risk and cash flow and fair value interest rate risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Foreign exchange risk

The foreign exchange risks of the Group occur due to the fact that the Group has financing activities which are denominated in foreign currencies, primarily with respect to the US dollars. The Group has entered into foreign exchange forward contracts to manage the risk arising from certain recognised liabilities. The directors are of the opinion that the Group's remaining exposure to foreign exchange risk would be minimal.

(b) Credit risk

Except for a receivable due from a customer and a related company jointly in the amount of approximately RMB40,893,000 as at 31 December 2005 *(Note* 32*(b))*, the Group has no significant concentration of credit risk. It has policies in place to ensure that sales of products are made to customers with appropriate credit history.

(c) Liquidity risk

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 RMB684,738,000 as at 31 December 2005. 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. In addition, the Group had unutilised banking facilities granted by certain banks in an aggregate amount of approximately RMB2,900,000,000 which the Group could utilise in order to meet its short-term cash needs. As a result, the Directors do not consider there was significant liquidity risk as at that date.

(d) Cash flow and fair value interest rate risk

The Group does not have significant interest-bearing assets. The Group's interest-rate risk which affects its income and operating cash flows mainly arises from long-term borrowings, which mostly are issued at fixed rates. They expose the Group to fair value interest-rate risk. The directors are of the opinion that future interest rates are at an upward trend and believe that the Group's future financial results will not be adversely affected.

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.2 Accounting for derivative financial instruments and hedging activities

From 1 January 2004 to 31 December 2004:

Derivative financial instruments are designated as "hedging" or "non-hedging instruments". The transactions which, according to the Group's policy for risk management, are able to meet the conditions for hedge accounting are classified as hedging transactions; the others, although utilised for the purpose of managing risk (since the Group's policy does not permit speculative transactions), have been designated as "trading". The Group records derivative financial instruments at cost. The gains and losses on derivative financial instruments are included in the income statement upon maturity to match against the underlying hedged transactions, where relevant.

For foreign exchange instruments designated as hedges, the premium (or discount) representing the difference between the spot exchange rate at the inception of the contract and the forward exchange rate is included as finance income and expenses in the income statement according to accrual accounting.

From 1 January 2005 onwards:

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (1) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); or (2) hedges of highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values of hedged items.

(a) Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) Derivatives that do not qualify for hedge accounting

For derivative instruments other than those qualified for hedge accounting, the changes in the fair value are recognised immediately in the income statement.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(a) Estimated impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

For the year ended 31 December 2005, the Group had reported impairment losses amounting to RMB46,350,000 for impairment loss on goodwill based on such calculations.

If the revised estimated gross margin at 31 December 2006 had been 10% lower than management's estimates at 31 December 2005, the Group would need to reduce the carrying value of goodwill by RMB 4,279,000 in 2006.

If the revised estimated pre-tax discount rate applied to the discounted cash flows adopted in the value-in-use calculations had been 10% higher than management's estimates, the Group would need to reduce the carrying value of goodwill by RMB 13,557,000 in 2006.

If the actual gross margin had been higher or the pre-tax discounted rate lower than management's estimates, the Group would not be able to reverse any impairment losses on goodwill recognized in the current year.

(b) Estimated impairment of property, plant and equipment

The Group also tests whether property, plant and equipment have suffered any impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable in accordance with the accounting policy as stated in Note 2.7. Similar to impairment of goodwill, the recoverable amounts of the property, plant and equipments have been determined based on value-in-use calculations. These calculations require the use of estimates which are similar to (a) stated above.

For the year ended 31 December 2005, the Group had reported impairment losses amounting to RMB141,545,000 for impairment loss on property, plant and equipment based on such calculations.

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

(b) Estimated impairment of property, plant and equipment *(Continued)*

If the revised estimated gross margin at 31 December 2006 had been 10% lower than management's estimates at 31 December 2005, the Group would need to reduce the carrying value of property, plant and equipment by RMB122,328,000 in 2006.

If the revised estimated pre-tax discount rate applied to the discounted cash flows adopted in the value-in-use calculations had been 10% higher than management's estimates, the Group would need to reduce the carrying value of property, plant and equipment by RMB66,250,000 in 2006.

If the actual gross margin had been 10% higher or the pre-tax discounted rate had been 10% than management's estimates in 2006, the Group would be able to reverse the impairment losses by RMB37,813,000 and RMB22,675,000 that arose on these assets recognized in the current year for the year ending 31 December 2006.

5 SEGMENT INFORMATION

(a) Primary reporting format — geographical segment

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

	For the year ended 31 December 2005						
	Qingdao Region *RMB'000*	Other Shandong Regions *RMB'000*	Huabei Region *RMB'000*	Huanan Region *RMB'000*	Overseas *RMB'000* *(Note a)*	Eliminations *RMB'000*	Consolidated *RMB'000*
Turnover							
External sales	3,176,886	983,235	2,429,194	3,163,791	266,751	—	10,019,857
Inter-segment sales	226,626	403,067	55,950	84,887	—	(770,530)	—
	3,403,512	1,386,302	2,485,144	3,248,678	266,751	(770,530)	10,019,857
Results							
Segment results	513,371	(68,315)	47,057	76,202	40,933	—	609,248
Unallocated expenses, net							(29,947)
Operating profit							579,301
Finance costs							(43,269)
Share of loss of associates	(4,370)	—	—	—	—	—	(4,370)
Profit before income tax							531,662
Income tax expense							(188,356)
Profit for the year							343,306
Other information							
Depreciation	99,521	82,649	120,744	235,349	665	—	538,928
Amortisation	5,367	3,592	6,879	20,716	—	—	36,554
Property, plant and equipment impairment losses	13,576	31,831	26,559	69,579	—	—	141,545
Goodwill impairment losses	—	—	42,180	4,170	—	—	46,350

5 SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format — geographical segment *(Continued)*

	For the year ended 31 December 2004						
	Qingdao Region *RMB'000*	Other Shandong Regions *RMB'000*	Huabei Region *RMB'000*	Huanan Region *RMB'000*	Overseas *RMB'000* *(Note a)*	Eliminations *RMB'000*	Consolidation *RMB'000*
Turnover							
External sales	2,406,311	1,005,744	2,126,919	2,773,865	307,848	—	8,620,687
Inter-segment sales	255,957	172,964	55,060	26,522	522	(511,025)	—
	2,662,268	1,178,708	2,181,979	2,800,387	308,370	(511,025)	8,620,687
Results							
Segment results	422,013	(35,393)	42,983	152,823	82,744	—	665,170
Unallocated expenses, net							(74,643)
Operating profit							590,527
Finance costs							(74,737)
Share of losses of associates	(25,325)	—	—	—	—	—	(25,325)
Profit before income tax							490,465
Income tax expense							(186,391)
Profit for the year							304,074
Other information							
Depreciation	109,793	81,483	133,225	184,248	—	—	508,749
Amortisation	9,117	3,213	6,955	5,223	—	—	24,508
Assets impairment losses	5,175	3,805	31,579	21,942	—	—	62,501

	As at 31 December 2005						
	Qingdao Region ***RMB'000***	**Other Shandong Regions** ***RMB'000***	**Huabei Region** ***RMB'000***	**Huanan Region** ***RMB'000***	**Overseas** ***RMB'000*** *(Note a)*	**Eliminations** ***RMB'000***	**Consolidated** ***RMB'000***
Assets							
Segment assets	**5,907,566**	**1,485,587**	**2,217,406**	**4,943,403**	**—**	**(5,735,037)**	**8,818,925**
Interests in associates	**21,789**	**—**	**—**	**—**	**—**	**—**	**21,789**
Unallocated assets							**734,744**
							9,575,458
Liabilities							
Segment liabilities	**1,176,343**	**1,246,351**	**1,603,185**	**3,484,597**	**—**	**(3,726,943)**	**3,783,533**
Unallocated liabilities							**258,849**
							4,042,382
Capital expenditure	**120,208**	**45,719**	**125,940**	**1,031,880**	**2,842**	**—**	**1,326,589**

5 SEGMENT INFORMATION *(Continued)*

(a) Primary reporting format — geographical segment *(Continued)*

	As at 31 December 2004						
	Qingdao Region *RMB'000*	Other Shandong Region *RMB'000*	Huabei Region *RMB'000*	Huanan Region *RMB'000*	Overseas *RMB'000* *(Note a)*	Eliminations *RMB'000*	Consolidated *RMB'000*
Assets							
Segment assets	6,087,513	1,207,272	2,283,693	4,105,188	—	(4,809,010)	8,874,656
Interests in associates	71,641	—	—	—	—	—	71,641
Unallocated assets							874,236
							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
							4,522,072
Capital expenditure	121,747	46,227	660,992	573,756	—	—	1,402,722

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

(b) Secondary reporting format — business segment

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

6 LEASEHOLD LAND AND LAND USE RIGHTS

	Group		Company	
	2005 **RMB'000**	2004 *RMB'000*	**2005** **RMB'000**	2004 *RMB'000*
Opening	**595,593**	536,277	**67,336**	69,147
Additions	**1,064**	3,583	**—**	—
Acquisition of subsidiaries *(Note 31)*	**94,327**	109,336	**—**	—
Amortisation	**(24,761)**	(13,644)	**(1,811)**	(1,811)
Disposal	**(6,026)**	(39,959)	**—**	—
	660,197	595,593	**65,525**	67,336

As at 31 December 2005, no land use rights (2004: approximately RMB36,140,000) had been pledged as security for bank loans (2004: approximately RMB38,000,000).

As at 31 December 2005, land use rights certificates ("Land Certificates") of certain parcels of land of the Group with an aggregate carrying amounts of approximately RMB28,479,000 (2004: RMB35,072,000) had not yet been obtained by the Group. After consultation made with the Company's legal counsel, the directors considers that there is no legal restriction for the Group and the Company to apply for and obtain the land use right certificates. Accordingly, no provision for impairment loss is considered necessary.

6 LEASEHOLD LAND AND LAND USE RIGHTS *(Continued)*

In addition, as at 31 December 2005, 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 RMB21,130,000 (2004: RMB21,885,000). The Company's directors consider that there is no significant adverse impact on the operations of the Group and accordingly, no provision for fixed assets impairment is considered necessary.

7 PROPERTY, PLANT AND EQUIPMENT

(a) Group

The movements in property, plant and equipment are as follows:

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Other equipment *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2004						
Cost	2,391,588	4,602,799	413,170	230,486	210,144	7,848,187
Accumulated depreciation and impairment	(522,263)	(1,895,316)	(170,119)	(119,075)	—	(2,706,773)
Net book amount	1,869,325	2,707,483	243,051	111,411	210,144	5,141,414
Year ended 31 December 2004						
Opening net book amount	1,869,325	2,707,483	243,051	111,411	210,144	5,141,414
Acquisition of subsidiaries	149,714	216,858	16,735	3,443	—	386,750
Disposal of subsidiaries	—	(7,434)	(19,467)	(1,015)	—	(27,916)
Additions	125,054	157,872	38,615	55,958	204,550	582,049
Transfers	79,655	263,485	502	8,441	(352,083)	—
Disposals	(56,477)	(59,014)	(31,842)	(14,107)	—	(161,440)
Depreciation	(68,842)	(358,615)	(41,540)	(39,752)	—	(508,749)
Impairment charges	(10,334)	(45,864)	(6,303)	—	—	(62,501)
Closing net book amount	2,088,095	2,874,771	199,751	124,379	62,611	5,349,607
At 31 December 2004						
Cost	2,717,532	5,275,859	397,818	280,490	62,611	8,734,310
Accumulated depreciation and impairment	(629,437)	(2,401,088)	(198,067)	(156,111)	—	(3,384,703)
Net book amount	2,088,095	2,874,771	199,751	124,379	62,611	5,349,607
At 1 January 2005						
Opening net book amount	2,088,095	2,874,771	199,751	124,379	62,611	5,349,607
Acquisition of subsidiaries *(Note 31)*	108,657	270,557	1,497	—	—	380,711
Disposal of subsidiaries	(12,173)	(15,420)	(1,489)	(284)	—	(29,366)
Additions	27,685	46,223	27,715	34,174	179,311	315,108
Transfers	29,607	97,849	1,737	5,713	(134,906)	—
Disposals	(19,085)	(30,386)	(2,826)	(19,326)	—	(71,623)
Depreciation	(85,572)	(368,179)	(40,732)	(44,445)	—	(538,928)
Impairment charges *(note a)*	(2,924)	(124,560)	(14,061)	—	—	(141,545)
Closing net book amount	2,134,290	2,750,855	171,592	100,211	107,016	5,263,964
At 31 December 2005						
Cost	2,841,258	5,454,156	396,518	283,916	107,016	9,082,864
Accumulated depreciation and impairment	(706,968)	(2,703,301)	(224,926)	(183,705)	—	(3,818,900)
Net book amount	2,134,290	2,750,855	171,592	100,211	107,016	5,263,964

7 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company

The movements in fixed assets are as follows:

	Plant and buildings *RMB'000*	Machinery *RMB'000*	Motor vehicles *RMB'000*	Other equipment *RMB'000*	Construction-in-progress *RMB'000*	Total *RMB'000*
At 1 January 2004						
Cost	528,375	1,257,860	139,670	99,070	68,347	2,093,322
Accumulated depreciation and impairment	(137,023)	(756,365)	(87,639)	(48,651)	—	(1,029,678)
Net book amount	391,352	501,495	52,031	50,419	68,347	1,063,644
Year ended 31 December 2004						
Opening net book amount	391,352	501,495	52,031	50,419	68,347	1,063,644
Additions	9,259	22,602	8,951	24,456	27,737	93,005
Transfers	17,607	45,747	—	5,350	(68,704)	—
Disposals	(85)	(6,991)	(21,098)	(369)	—	(28,543)
Depreciation	(13,381)	(74,438)	(12,792)	(17,440)	—	(118,051)
Impairment charges	(1,180)	(3,946)	—	—	—	(5,126)
Closing net book amount	403,572	484,469	27,092	62,416	27,380	1,004,929
At 31 December 2004						
Cost	554,306	1,301,478	107,402	123,975	27,380	2,114,541
Accumulated depreciation and impairment	(150,734)	(817,009)	(80,310)	(61,559)	—	(1,109,612)
Net book amount	403,572	484,469	27,092	62,416	27,380	1,004,929
At 1 January 2005						
Opening net book amount	403,572	484,469	27,092	62,416	27,380	1,004,929
Additions	76	13,946	1,403	18,714	55,112	89,251
Transfers	1,374	19,351	308	3,084	(24,117)	—
Disposals	(8,917)	(7,118)	(149)	(917)	(2,788)	(19,889)
Depreciation	(13,524)	(69,462)	(9,792)	(17,899)	—	(110,677)
Impairment charges	—	(1,416)	(12,000)	(160)	—	(13,576)
Closing net book amount	382,581	439,770	6,862	65,238	55,587	950,038
At 31 December 2005						
Cost	542,330	1,236,738	107,703	137,356	55,587	2,079,714
Accumulated depreciation and impairment	(159,749)	(796,968)	(100,841)	(72,118)	—	(1,129,676)
Net book amount	382,581	439,770	6,862	65,238	55,587	950,038

As at 31 December 2005, approximately RMB12,500,000 (2004: RMB239,430,000) buildings, plant and machinery, motor vehicles and other equipment had been pledged as security for RMB10,000,000 bank loans of the Group (2004: RMB147,500,000) *(Note 15)*.

7 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

As at 31 December 2005, ownership certificates of certain buildings ("Building Ownership Certificates") for certain buildings of the Group with respective carrying values of approximately RMB310,204,000 (2004: RMB310,844,000) had not yet been obtained. After consultation made with the Company's legal adviser, the Company's directors consider that there is no legal restriction for the Group to apply for and obtain the Buildings Ownership Certificates and Land Certificate and there will not be any significant adverse impact on the operations of the Group. Accordingly, no provision for fixed assets impairment is considered necessary.

Note a: The directors of the Company performed an impairment assessment on the carrying value of fixed assets of the Group as at 31 December 2005 based on the accounting policies laid down in Note 2.7. As a result of such an assessment, an impairment loss of RMB141,545,000 relating to fixed assets of certain subsidiaries of the Company had been recognised.

8 INTANGIBLE ASSETS

(a) Group

The movements in intangible assets are as follows:

	Goodwill *(iii)* *RMB'000*	Trademarks *(i)* *RMB'000*	Technology know-how *(ii)* *RMB'000*	Software and Others *RMB'000*	Total *RMB'000*
At 1 January 2004					
Cost	194,520	103,346	18,629	23,689	340,184
Accumulated amortisation	(43,214)	(26,620)	(8,383)	(4,926)	(83,143)
Net book amount	151,306	76,726	10,246	18,763	257,041
Year ended 31 December 2004					
Opening net book amount	151,306	76,726	10,246	18,763	257,041
Additions	—	151	—	9,637	9,788
Acquisition of a subsidiary	85,858	—	—	60	85,918
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 value	214,001	74,271	8,050	26,301	322,623
Year ended 31 December 2005					
Opening net book amount	214,001	74,271	8,050	26,301	322,623
Acquisition of a subsidiary *(note 31)*	115,975	9,512	—	—	125,487
Additions	—	—	—	4,500	4,500
Amortisation	—	(7,537)	(1,863)	(2,393)	(11,793)
Disposal	(9,748)	(5,231)	—	—	(14,979)
Impairment charge	(46,350)	—	—	—	(46,350)
Closing net book amount	273,878	71,015	6,187	28,408	379,488
At 31 December 2005					
Cost	320,228	107,778	18,629	37,886	484,521
Accumulated amortisation and impairment loss	(46,350)	(36,763)	(12,442)	(9,478)	(105,033)
Net book value	273,878	71,015	6,187	28,408	379,488

8 INTANGIBLE ASSETS *(Continued)*

(b) Company

	Trademarks *(i)* *RMB'000*	Software and others *RMB'000*	Total *RMB'000*
At 1 January 2004			
Cost	100,000	8,922	108,922
Accumulated amortisation	(26,250)	(1,304)	(27,554)
Net book amount	73,750	7,618	81,368
Year ended 31 December 2004			
Opening net book amount	73,750	7,618	81,368
Addition	—	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 value	71,313	7,818	79,131
Year ended 31 December 2005			
Opening net book amount	71,313	7,818	79,131
Addition	—	3,614	3,614
Amortisation	(2,437)	(1,119)	(3,556)
Closing net book amount	68,876	10,313	79,189
At 31 December 2005			
Cost	100,000	13,702	113,702
Accumulated amortisation	(31,124)	(3,389)	(34,513)
Net book value	68,876	10,313	79,189

(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 which exceed its carrying value. Therefore, it is amortised over a period of 40 years.

8 INTANGIBLE ASSETS *(Continued)*

(i) Trademarks (Continued)

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 recognised according to their fair value at the respective dates of acquisition.

(ii) Technology known-how

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

(iii) Goodwill

Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating unites (CGUs) identified according to the geographical market and operation.

A summary of the goodwill allocation before impairment provision is presented below.

	2005	2004
	RMB'000	*RMB'000*
* Nanning Company ("Guangxi")	**130,896**	14,921
* Three Ring/* Beifang Sales ("Beijing")	**24,643**	24,643
* Fuzhou Company/* Xiamen Company/* Zhangzhou Company/* Xiamen Sales ("Dongnan")	**114,031**	114,031
* Gansu Nongken	**39,735**	39,735
Others	**10,923**	20,671
	320,228	214,001

* *defined in Note 9*

The recoverable amount of a CGU is determined based on value-in-use calculations with the support of valuation performed by independent third party valuer in November 2005. These calculations/assessment employ cash flow projections based on financial budgets approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The growth rate does not exceed the long-term average growth rate of the brewery industry in the PRC.

8 INTANGIBLE ASSETS *(Continued)*

***(iii) Goodwill** (Continued)*

Key assumptions used for value-in-use calculations

	Guangxi	Beijing	Dongnan	Gansu Nongken
Expected gross margin of product sales	16%	15%	29%	25%
Weighted average growth rate	3%	3%	3%	3%
Discount rate	12.17%	12.17%	11.95%	12.38%

These assumptions have been used for the analysis of each CGU.

Management of the Company determined the budgeted gross margin based on past performance achieved by the CGUs and its expectation of the future market development. The weighted average growth rates used are consistent with the PRC brewery industry forecasts included in industry reports. The discount rates used are pre-tax and reflect specific risks relating to the relevant CGUs.

As a result of such assessment, goodwill associated with Beijing and Gansu Nongken had been assessed to be impaired by approximately RMB4,477,000 and RMB37,703,000 due to changes in market conditions.

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES

	Company	
	2005	2004
	RMB'000	*RMB'000*
Unlisted equity investments — cost less impairment provisions	**1,722,295**	1,884,750
Loans to subsidiaries	**2,735,123**	2,345,371

The loans to subsidiaries are entrusted loans arranged through the Bank of Communications and the Industrial and Commercial Bank of China. All these entrusted loans are unsecured and will reach maturity within one year. Entrusted loans amounting to approximately RMB1,555,150,000 (2004: RMB1,428,320,000) are interest-free, while the remaining balances are interest-bearing at rates ranging from 2% to 5.02% per annum (2004: 2% to 5.02% per annum).

None of the subsidiaries had any loan capital outstanding at 31 December 2005 or at any time during the year. As at 31 December 2005, approximately RMB2,545,320,000 of the loans to subsidiaries were regarded as quasi capital contributed by the Company.

In the opinion of the directors, the underlying value of each of the investment in subsidiaries as at 31 December 2005 was not less than their carrying value as at that date.

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES *(Continued)*

(i) Particulars of the principal subsidiaries of the Company

Name of subsidiaries	Place of Establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly	*Indirectly*	
Tsingtao Brewery Huanan Holding Company Limited ("Huanan Holding Company") *(b)*	Shenzhen, the PRC	RMB200,000,000	95%	—	Investment holding
Tsingtao Brewery (Zhuhai) Company Limited ("Zhuhai Company") *(b)*	Zhuhai, the PRC	RMB60,000,000	—	72.83%	Manufacture and domestic trading of beer
Tsingtao Brewery (Sanshui) Company Limited	Sanshui, the PRC	RMB41,335,505	—	71.25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Chenzhou) Company Limited ("Chenzhou Company")	Chenzhou, the PRC	RMB70,000,000	—	84.36%	Manufacture and domestic trading of beer
Tsingtao Brewery (Huangshi) Company Limited	Huangshi, the PRC	RMB5,000,000	—	90.25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Yingcheng) Company Limited	Yingcheng, the PRC	RMB5,000,000	—	90.25%	Manufacture and domestic trading of beer
Shenzhen Tsingtao Beer Asahi Company Limited ("Shenzhen Asahi")	Shenzhen, the PRC	US$30,000,000	51%	—	Manufacture and trading of beer
Shenzhen Tsingtao Brewery Sales Company Limited ("Shenzhen Sales Company") *(b)*	Shenzhen, the PRC	RMB20,000,000	95%	—	Domestic trading of beer
Tsingtao Brewery (Changsha) Company Limited	Changsha, the PRC	RMB68,000,000	70%	28.5%	Manufacture and domestic trading of beer
Tsingtao Brewery Huadong Holding Company Limited	Shanghai, the PRC	RMB100,000,000	95%	—	Investment holding
Tsingtao Brewery Huadong Shanghai Sales Company Limited	Shanghai, the PRC	RMB3,000,000	—	94.05%	Domestic trading of beer
Tsingtao Brewery Huadong Nanjing Sales Company Limited	Nanjing, the PRC	RMB1,000,000	—	93.88%	Domestic trading of beer
Tsingtao Brewery (Shanghai) Company Limited	Shanghai, the PRC	RMB50,000,000	—	90.25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Wuhu) Company Limited	Wuhu, the PRC	RMB20,000,000	—	85.50%	Manufacture and domestic trading of beer
Tsingtao Brewery (Maanshan) Company Limited	Maanshan, the PRC	RMB5,000,000	—	91.25%	Manufacture and domestic trading of beer
Tsingtao Brewery Shanghai Songjiang Company Limited	Shanghai, the PRC	US$36,640,000	75%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Shouguang) Company Limited	Shouguang, the PRC	RMB60,606,060	99%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Weifang) Company Limited	Weifang, the PRC	RMB5,000,000	70%	—	Manufacture and domestic trading of beer
Tsingtao Brewery No. 3 Company Limited	Pingdu, the PRC	RMB10,000,000	95%	—	Manufacture and domestic trading of beer

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES *(Continued)*

(i) Particulars of the principal subsidiaries of the Company *(Continued)*

Name of subsidiaries	Place of Establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly	*Indirectly*	
Tsingtao Brewery (Xuzhou) Company Limited	Peixian, the PRC	RMB39,336,899	66%	—	Manufacture and domestic trading of beer
Xuzhou Pengcheng Brewery Sales Company	Xuzhou, the PRC	RMB5,000,000	—	83.90%	Trading of beer
Tsingtao Brewery (Xuzhou Pengcheng) Company Limited	Pengcheng, the PRC	RMB5,000,000	90%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Xuecheng) Company Limited	Xuecheng, the PRC	RMB45,000,000	85%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Tengzhou) Company Limited	Tengzhou, the PRC	RMB15,000,000	95%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Taierzhuang) Malt Company Limited	Taierzhuang, the PRC	RMB5,000,000	—	86.20%	Manufacture and domestic trading of malt
Beijing Three Ring Asia Pacific Beer Company Limited ("Three Ring")	Beijing, the PRC	US$28,900,000	29%	25%	Manufacture and domestic trading of beer
Beijing Five Star Tsingtao Brewery Company Limited	Beijing, the PRC	RMB862,000,000	37.64%	25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Fuzhou) Company Limited ("Fuzhou Company")	Fuzhou, the PRC	US$26,828,100	75%	25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Langfang) Company Limited	Langfang, the PRC	RMB20,000,000	—	72.30%	Manufacture and domestic trading of beer
Tsingtao Brewery Xian Company Limited ("Xian Company") *(c)*	Xian, the PRC	RMB222,200,000	76.10%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Gansu) Company Limited ("Gansu Nongken") *(c)*	Lanzhou, the PRC	RMB174,420,800	50%	5.06%	Manufacture and domestic trading of beer
Tsingtao Brewery Wuwei Company Limited *(c)*	Lanzhou, the PRC	RMB36,100,000	—	54.90%	Manufacture and domestic trading of beer
Tsingtao Brewery Weinan Company Limited	Weinan, the PRC	RMB50,000,000	28%	54.79%	Manufacture and domestic trading of beer
Tsingtao Brewery (Anshan) Company Limited	Anshan, the PRC	RMB50,000,000	60%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Xingkaihu) Company Limited	Jixi, the PRC	RMB20,000,000	95%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Mishan) Company Limited	Mishan, the PRC	RMB20,000,000	95%	—	Manufacture and domestic trading of beer

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES *(Continued)*

(i) Particulars of the principal subsidiaries of the Company *(Continued)*

Name of subsidiaries	Place of Establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly	*Indirectly*	
Tsingtao Brewery (Haerbin) Company Limited	Haerbin, the PRC	RMB22,000,000	95%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Penglai) Company Limited	Penglai, the PRC	RMB37,500,000	80%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Rongcheng) Company Limited	Rongcheng, the PRC	RMB20,000,000	70%	—	Manufacture and domestic trading of beer
Tsingtao Brewery Import/Export Company Limited	Qingdao, the PRC	RMB11,000,000	97.73%	—	Import/Export trading of beer
Tsingtao Brewery (No. 5) Company Limited	Qingdao, the PRC	RMB34,610,000	93.79%	—	Manufacture and domestic trading of beer
Tsingtao Brewery Kai Fa Company Limited	Qingdao, the PRC	RMB1,320,000	100%	—	Domestic trading of beer
Tsingtao Brewery (Pingyuan) Company Limited	Pingyuan, the PRC	RMB5,000,000	90%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Rizhao) Company Limited	Rizhao, the PRC	RMB10,000,000	95%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Heze) Company Limited	Heze, the PRC	RMB10,000,000	90%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Chongqing) Company Limited	Chongqing, the PRC	RMB7,000,000	95%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Taizhou) Company Limited	Taizhou, the PRC	RMB10,000,000	—	90.25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Hong Kong) Trading Company Limited	Hong Kong	HK$500,000	100%	—	Trading of Tsingtao beer in Hong Kong
Tsingtao Brewery (Hanzhong) Company Limited	Hanzhong, the PRC	RMB29,410,000	—	50.23%	Manufacture and domestic trading of beer
Tsingtao Brewery (Doumen) Malt Company Limited ("Doumen Company") *(b)*	Zhuhai, the PRC	RMB10,000,000	—	85.82%	Manufacture and domestic trading of malt
Tsingtao Brewery (Luzhou) Company Limited	Luzhou, the PRC	RMB111,110,000	95%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Nanjing) Company Limited	Nanjing, the PRC	US$5,000,000	75%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Suqian) Company Limited	Suqian, the PRC	RMB10,000,000	95%	—	Manufacture and domestic trading of beer

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES *(Continued)*

(i) Particulars of the principal subsidiaries of the Company *(Continued)*

Name of subsidiaries	Place of Establishment and principal operation	Registered capital	Equity interest held by the Company (%)		Principal activities
			Directly	*Indirectly*	
Tsingtao Brewery Beifang Sales Company Limited ("Beifang Sales")	Beijing, the PRC	RMB29,980,000	80%	10.84%	Domestic trading of beer
Tsingtao Brewery Haerbin Northeast Sales Company Limited	Haerbin, the PRC	RMB10,000,000	85%	14.25%	Domestic trading of beer
Tsingtao Brewery (Laoshan) Company Limited	Qingdao, the PRC	RMB16,635,592	50%	46.90%	Manufacture and domestic trading of beer
Tsingtao Brewery (Tengzhou) Huaihai Sales Company Limited	Tengzhou, the PRC	RMB500,000	—	90%	Domestic trading of beer
Tsingtao Brewery (Suzhou) Company Limited	Taicang, the PRC	RMB5,000,000	10%	85.50%	Manufacture and domestic trading of beer
Tsingtao Brewery Huadong Hangzhou Sales Company Limited	Hangzhou, the PRC	RMB1,000,000	—	94.05%	Domestic trading of beer
Tsingtao Brewery Huadong Suzhou Sales Company Limited	Suzhou, the PRC	RMB3,000,000	—	76.10%	Domestic trading of beer
Tsingtao Brewery Xinan Sales Company Limited	Chengdu, the PRC	RMB2,000,000	60%	38%	Domestic trading of beer
Tsingtao Brewery (Suizhou) Company Limited	Suizhou, the PRC	RMB24,000,000	—	85.50%	Manufacture and domestic trading of beer
Tsingtao Xianghong Shangwu Company Limited ("XHC") *(a)*	Qingdao, the PRC	RMB6,000,000	95%	—	Car rental services
Tsingtao Brewery Chenzhou Sales Company Limited	Chenzhou, the PRC	RMB1,000,000	—	94.47%	Domestic trading of beer
Tsingtao Brewery Luzhong (Weifang) Sales Company Limited	Weifang, the PRC	RMB2,000,000	—	90.30%	Domestic trading of beer
Tsingtao Brewery (Xiamen) Company Limited ("Xiamen Company")	Xiamen, the PRC	RMB90,000,000	75%	25%	Manufacture and Domestic trading of beer
Tsingtao Brewery (Zhangzhou) Company Limited ("Zhangzhou Company")	Zhangzhou, the PRC	RMB38,880,000	90%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Xiamen) Sales Company Limited ("Xiamen Sales")	Xiamen, the PRC	RMB1,000,000	—	95%	Domestic trading of beer
Tsingtao Brewery Taizhou Sales Company Limited ("Tai Zhou Sales Company")	Taizhou, the PRC	RMB6,800,000	—	48.45%	Domestic trading of beer
Tsingtao Beer Haifeng Warehouse Company Limited	Qingdao, The PRC	RMB10,000,000	—	53.75%	Warehousing, packaging and logistics
Tsingtao Brewery (Yangzhou) Company Limited ("Yangzhou Company") *(b)*	Yangzhou, The PRC	RMB5,000,000	20%	—	Manufacture and Domestic trading of beer

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES *(Continued)*

(i) Particulars of the principal subsidiaries of the Company *(Continued)*

(a) In July 2005, the Company and Tsingtao Brewery Group Company Limited ("TB Group Company") contributed additional cash capital of RMB4,750,000 and RMB250,000 respectively, to XHC. After the capital injection, the registered capital of XHC was increased from RMB1,000,000 to RMB6,000,000. The legal procedure was completed in August 2005 and the equity interest in XHC held by the Company remains unchanged.

(b) 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 Company to control the operation and management of Yangzhou Company. In addition, a majority of the members of the board of directors of Yangzhou Company were also appointed by the Company. Accordingly, Yangzhou Company has been consolidated as a subsidiary of the Group since the Group has control over its financial and operating policies.

In June 2005, Zhuhai Company and Doumen Company, entered into a merger agreement, pursuant to which, Doumen Company was merged with Zhuhai Company. The legal procedure was completed on 23 December 2005. The registered capital of Zhuhai Company and the equity interests held by the Company remained unchanged. The transaction did not result in any gain or loss reported by the Group.

In October 2005, Huanan Holding Company and Shenzhen Sales Company, both were subsidiaries of the Company, entered into a merger agreement. Pursuant to the agreement, Huanan Holding Company was merged with Shenzhen Sales Company. The registered capital of Shenzhen Sales Company was also increased from RMB200,000,000 to RMB220,000,000 and the equity interests held by Shenzhen Sales Company remained unchanged. Up to the date of approval of these financial statements, the respective legal procedure had not yet been completed. The transaction did not result in any gain or loss reported by the Group.

(c) During the year, the directors of the Company approved an equity transfer agreement entered into between the Company and Xian Company, a subsidiary of the Company, that the Company transferred its 50% equity interests of Gansu Nongken to Xian Company at a consideration of approximately RMB50,926,000. In January 2006, the relevant registration procedures have been completed up to the date of the approval of this financial statements.

(d) In October 2005, the legal procedure for the deregistration of Tsingtao Brewery (Tianmen) Company Limited ("Tianmen Company"), a formerly consolidated subsidiary, was completed.

As at 31 December 2005 and 2004, all the subsidiaries owned by the Company are limited liabilities companies.

(ii) Newly acquired subsidiary

Name of new subsidiaries	Place of establishment	Registered and paid-in capital	Equity interest held by the Company (%)		Principal activities
			Directly	*Indirectly*	
Tsingtao Brewery (Nanning) Company Limited ("Nanning Company")	Nanning, the PRC	RMB730,000,000	—	71.25%	Manufacture and domestic trading of beer

In May 2004, Huanan Holding Company, a subsidiary of the Company, and Tailian Brewery (Cayman Islands) Company Limited ("Tailian Brewery") entered into an equity transfer agreement, pursuant to which, Huanan Holding Company undertook to acquire an additional 45% equity interest of Nanning Company (a then 28.5% indirectly owned associate of the Company) from Tailian Brewery at a consideration of approximately RMB200,880,000. The acquisition was completed on 28 February 2005. After the acquisition, the effective equity interest indirectly held by the Company increased from 28.5% to 71.25% and Nanning Company also became a subsidiary of the Company. Goodwill of approximately RMB115,975,000 was recognised in the acquisition *(see Note 31 for details)*.

9 INVESTMENTS IN AND LOANS TO SUBSIDIARIES *(Continued)*

(iii) Subsidiary disposed

In September 2005, the Company and the other two independent third parties entered into a capital transfer agreement that the Company sold its 95% equity interest in Tsingtao Brewery (Anqiu) Company Limited ("Anqiu Company") to one of independent third parties at a consideration of RMB1. The Company also agreed to waive the repayment of an entrusted loan and intercompany receivable balance due by Anqiu Company to the Group and assume the obligation to repay a bank loan of Auqiu Company of RMB3,000,000. The relevant legal procedure was completed in October 2005. A gain amounting to approximately RMB8,722,000 was recognised from the transaction, after taking into account the carrying values of the interests disposed and reversal of impairment provision made against the investment set up in prior years.

10 INTEREST IN ASSOCIATES

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investments, at cost	**26,159**	96,160	**7,498**	5,998
Share of results of associates	**(4,370)**	(24,519)	**—**	—
	21,789	71,641	**7,498**	5,998

In the opinion of the Directors, as at 31 December 2005, the underlying values of the associates were not less than the carrying amounts of these investments.

As at 31 December 2005, particulars of the principal associates of the Group are as follows:

Name of associated companies	Place of establishment and Principal operations	Registered Capital	Equity Interests held by the Group (%)		Principal Activities
			directly	*indirectly*	
Qinghua International Trade Development Company Limited ("Qinghua International")	Canada	US$500,000	50%	—	Trading
Liaoning Shenqing Tsingtao Brewery Company Limited ("Liaoning Shenqing")	Shenyang, the PRC	RMB2,000,000	30%	—	Domestic trading of beer
Tsingtao Beer and Asahi Beverages Company Limited ("Asahi Beverage")	Qingdao, the PRC	RMB90,000,000	—	37.52%	Manufacture and domestic trading of tea beverages
Tsingtao Brewery Import Export S.A.R.L	France	Euro100,000	40%	—	Import and export sales of beer
Tsingtao Brewery (AUST) PTY. LTD.	Australia	Aus250,000	49%	—	Import and export sales of beer
Qingdao Zhaoshang Logistics Company Limited ("Zhaoshang Logistics") *(a)*	Qingdao, the PRC	RMB10,000,000	30%	—	Logistic services and management

10 INTEREST IN ASSOCIATES *(Continued)*

(a) In April 2005, the Company and the other two equity owners of Zhaoshang Logistic contributed additional cash capital of RMB1,500,000, RMB2,250,000 and RMB1,250,000, respectively into Zhaoshang Logistics. After the capital injection, the registered capital of Zhaoshang Logistics was increased from RMB5,000,000 to RMB10,000,000. The legal procedures were completed in July 2005 and the equity interest of Zhaoshang Logistics held by the Company remains unchanged.

(b) As mentioned in Notes 9(ii) and 31, the Group acquired additional equity interests in a then associate, Nanning Company, during the current year and Nanning Company became a subsidiary of the Company after such acquisition.

11 INVENTORIES

	Group		Company	
	As at 31 December		As at 31 December	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials, packaging materials and auxiliary materials	**1,173,623**	1,147,447	**133,597**	148,215
Work-in-progress	**177,770**	162,750	**38,974**	39,696
Finished goods	**128,873**	114,278	**53,674**	34,544
	1,480,266	1,424,475	**226,245**	222,455
Less: Write-down of inventories to net realisable value	**(56,339)**	(41,644)	**(1,022)**	(1,022)
Inventories, net	**1,423,927**	1,382,831	**225,223**	221,433

Approximately RMB56,339,000 and RMB1,022,000 (2004: RMB41,644,000 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.

12 TRADE RECEIVABLES

(a) Group

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Trade receivables - third parties	**178,993**	223,141
Receivables from related parties *(Note 32(b))*	**70,861**	77,563
	249,854	300,704
Less: provision for impairment of receivables	**(144,786)**	(141,285)
	105,068	159,419

12 TRADE RECEIVABLES *(Continued)*

(a) Group *(Continued)*

The aging analysis of trade receivables is as follows:

	31 December 2005			31 December 2004		
		Provision for	Balance after		Provision for	Balance after
	Amount	bad debts	provision	Amount	bad debts	provision
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 year	**89,547**	**(2,075)**	**87,472**	139,701	(4,150)	135,551
1 to less than 2 years	**33,874**	**(31,685)**	**2,189**	38,205	(32,030)	6,175
2 to less than 3 years	**46,123**	**(45,716)**	**407**	57,831	(56,078)	1,753
Over 3 years	**80,310**	**(65,310)**	**15,000**	64,967	(49,027)	15,940
Total	**249,854**	**(144,786)**	**105,068**	300,704	(141,285)	159,419

(b) Company

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Trade receivables - third parties	**95,857**	89,022
Receivables from related parties *(Note 32(b))*	**60,175**	143,472
	156,032	232,494
Less: provision for impairment of receivables	**(81,180)**	(67,356)
	74,852	165,138

The aging analysis of trade receivables is as follows:

	31 December 2005			31 December 2004		
		Provision for	Balance after		Provision for	Balance after
	Amount	bad debts	provision	Amount	bad debts	provision
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 year	**51,672**	**(5)**	**51,667**	140,965	(49)	140,916
1 to less than 2 years	**30,926**	**(28,454)**	**2,472**	11,161	(2,239)	8,922
2 to less than 3 years	**8,261**	**(2,548)**	**5,713**	23,284	(22,984)	300
Over 3 years	**65,173**	**(50,173)**	**15,000**	57,084	(42,084)	15,000
Total	**156,032**	**(81,180)**	**74,852**	232,494	(67,356)	165,138

12 TRADE RECEIVABLES *(Continued)*

The majority of the Group's domestic sales are transacted at cash on delivery terms. For export sales outside of the PRC, they are mainly covered by letter of credit. Credit is only granted to customers with good credit history. There is no concentration of credit risk with respect to the trade receivable balances since the Group has a large number of customers which are nationally dispersed except as stated in note 3.1(b).

The net book value of accounts receivable approximates its fair value as at 31 December 2005.

The Group makes specific bad debt provision against the doubtful trade receivable balances which are determined based on the credit history of the customers and the evidence of whether a portion or the full amount of the outstanding balance is uncollectible. As at 31 December 2005, approximately RMB15,000,000 of the receivable balance aged more than 3 years not provided for bad debts represent the amount jointly due by a customer and a related company as described in note 32(b)(ii).

13 SHARE CAPITAL

As at 31 December 2005, the authorised registered share capital was RMB1,308,219,178 (31 December 2004: RMB1,060,000,000) of RMB1 each.

	31 December 2005		31 December 2004	
	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")	**655,069**	**655,069**	406,850	406,850
	1,308,219	**1,308,219**	1,060,000	1,060,000

On 12 April 2005, tranche II and tranche III of mandatory convertible bonds ("CB") issued by the Company to Anheuser-Bush Companies, Inc. ("A-B Company") in prior years at principal amounts of HK$627,120,000 and HK$508,275,000 (equivalent to approximately RMB1,203,755,000 in aggregate), respectively, were converted into 248,219,178 of new H shares issued by the Company at contracted conversion prices of HK$4.68 and HK$4.45 (equivalent to approximately RMB4.96 and RMB4.72) per share, respectively. After then, all issued CB had been converted into H shares of the Company. The conversion resulted in an increase in share capital at its nominal value of RMB248,219,178 and share premium of RMB942,973,015 *(Note 14)*.

As at 31 December 2005, all issued share capital had been fully paid up.

14 OTHER RESERVES

(a) Group

	Share premium RMB'000	Capital reserve RMB'000	Surplus reserve RMB'000 (Note a)	Public welfare fund RMB'000 (Note a)	Cumulative translation adjustments RMB'000	Other reserves RMB'000
Balance at 1 January 2004, as previous reported as equity	2,115,258	12,921	218,185	176,978	111	2,523,453
Other transfers	—	4,331	—	—	—	4,331
Profit appropriation to surplus reserve	—	—	58,104	—	—	58,104
Profit appropriation to public welfare fund	—	—	—	45,515	—	45,515
Translation difference	—	—	—	—	(1,315)	(1,315)
Balance at 31 December 2004	2,115,258	17,252	276,289	222,493	(1,204)	2,630,088
Balance at 1 January 2005, as per above	2,115,258	17,252	276,289	222,493	(1,204)	2,630,088
Profit appropriation to surplus reserve	—	—	52,858	—	—	52,858
Profit appropriation to public welfare fund	—	—	—	47,430	—	47,430
Conversion of convertible bonds *(Note 13)*	942,973	—	—	—	—	942,973
Translation difference	—	—	—	—	223	223
Balance at 31 December 2005	**3,058,231**	**17,252**	**329,147**	**269,923**	**(981)**	**3,673,572**

(b) Company

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 (Note a)	Public welfare fund RMB'000 (Note a)	Unappropriated profits RMB'000 (Note b)	Reserves total RMB'000	Proposed dividends RMB'000
As at 1 January 2004	2,115,258	1,782	151,282	122,011	191,955	2,582,288	212,000
Dividends declared	—	—	—	—	—	—	(212,000)
Profit for the year	—	—	—	—	329,045	329,045	—
Proposed dividends *(Note 27)*	—	—	—	—	(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)	—	—
Balance at 31 December 2004	2,115,258	1,782	179,153	149,882	269,025	2,715,100	196,233

14 OTHER RESERVES *(Continued)*

(b) Company *(Continued)*

	2005						
	Share premium *RMB'000*	Capital reserve *RMB'000*	Surplus reserve *RMB'000* *(Note a)*	Public welfare fund *RMB'000* *(Note a)*	Unappropriated profits *RMB'000* *(Note b)*	Reserves total *RMB'000*	Proposed dividends *RMB'000*
Balance at 1 January 2005	2,115,258	1,782	179,153	149,882	269,025	2,715,100	196,233
Opening adjustment for the adoption of HKAS 39	—	—	—	—	10,712	10,712	—
Balance at 1 January 2005, as restated	2,115,258	1,782	179,153	149,882	279,737	2,725,812	196,233
Dividends declared	—	—	—	—	—	—	(196,233)
Profit for the year	—	—	—	—	348,500	348,500	—
Proposed dividends *(Note 27)*	—	—	—	—	(209,315)	(209,315)	209,315
Profit appropriation to surplus reserve	—	—	30,230	—	(30,230)	—	—
Profit appropriation to public welfare fund	—	—	—	30,230	(30,230)	—	—
Conversion of convertible bonds	942,973	—	—	—	—	942,973	—
Balance at 31 December 2005	3,058,231	1,782	209,383	180,112	358,462	3,807,970	209,315

Notes:

(a) Statutory reserves

According to the Articles of Association of the Company and Company Law of PRC, 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 by the Article of Associations to appropriate funds to the public welfare fund at a percentage of the net profit after taxation as determined by the directors. These reserves 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 of the Company 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 2005 amounted to approximately RMB358,462,000 (2004: RMB269,025,000).

15 BORROWINGS

(a) Group

	31 December 2005			31 December 2004		
	Short-term bank loans	**Long-term bank loans**	**Total**	Short-term bank loans	Long-term bank loans	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans						
Repayable:						
Within 1 year	**949,171**	**6,551**	**955,722**	1,355,192	24,442	1,379,634
Between 2 and 5 years	**—**	**8,113**	**8,113**	—	47,573	47,573
Over 5 years	**—**	**13,673**	**13,673**	—	18,729	18,729
	949,171	**28,337**	**977,508**	1,355,192	90,744	1,445,936
Less: Portion due within 1 year	**(949,171)**	**(6,551)**	**(955,722)**	(1,355,192)	(24,442)	(1,379,634)
Long-term portion	**—**	**21,786**	**21,786**	—	66,302	66,302

(b) Company

	31 December 2005			31 December 2004		
	Short-term bank loans	**Long-term bank loans**	**Total**	Short-term bank loans	Long-term bank loans	Total
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Bank loans						
Repayable:						
Within 1 year	645,616	4,344	649,960	827,650	19,234	846,884

As at 31 December 2005, loans of the Group amounting to approximately RMB7,933,000 and RMB15,811,000 were guaranteed by Beijing Development and Reform Committee and Bank of China, Beijing branch, respectively. Loans of the Group and of the Company each amounting to approximately RMB4,344,000 (2004: 19,234,000) were guaranteed by TB Group Company.

Approximately RMB87,000,000 (2004: RMB128,000,000) of the loans of the subsidiaries as at 31 December 2005 are guaranteed by the Company.

Approximately RMB10,000,000 (2004: RMB147,500,000) of the Group's loans as at 31 December 2005 are secured by machinery with an aggregate carrying value of approximately RMB12,500,000 (2004: buildings, plant and machinery, motor vehicles and equipment with an aggregate carrying value of approximately RMB275,570,000, land use rights at RMB36,140,000 and inventories at RMB5,000,000, respectively).

15 BORROWINGS *(Continued)*

The carrying amounts of the borrowings are denominated in the following currencies.

	Group		Company	
	2005	2004	**2005**	2004
	'000	*'000*	***'000***	*'000*
RMB	**219,694**	464,822	**4,344**	19,234
Hong Kong dollar	**88,454**	123,004	**—**	—
US dollar	**645,616**	827,650	**645,616**	827,650
Euro	**15,811**	20,495	**—**	—
Danish Krone	**7,933**	9,965	**—**	—
	977,508	1,445,936	**649,960**	846,884

All the loans of the Group are subject to the market interest rate changes except the loans dominated in Danish Krone and Euro which are interest free.

The effective interest rates at the balance sheet date for the loans dominated in RMB, HK$ and US$ were 4.15%, 3.25% and 3.81% per annum, respectively. The directors consider that the carrying amount of these borrowings approximate their respective fair value as at 31 December 2005.

As of 31 December 2005, the Group had aggregate unutilised short term loan facilities of approximately RMB2,900,000,000 (2004: RMB2,028,000,000). All are expiring within a year with floating interest rates to be charged on the amount drawn down.

16 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2005	
	Assets	**Liabilities**
	RMB'000	***RMB'000***
Forward foreign exchange contracts — ineffective hedges	**—**	**(90)**

In the opinion of directors, the forward contracts are non-speculative in nature and they are used as hedges against the Company's outstanding bank loan balances denominated in US dollars. However, as these instruments are not qualified for hedging accounting under the requirements of HKAS 39 as described in Note 3.2, they were recognised at fair value. The fair value of approximately RMB90,000 of such contracts held at the year end remained at open position were charged to the income statement for the year ended 31 December 2005.

17 DEFERRED INCOME 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% (2004: same).

The movements in deferred tax assets/liabilities are as follows:

(i) Deferred tax assets

	Fair value adjustments on depreciation		Others		Total	
	2005	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**4,623**	7,111	**1,622**	—	**6,245**	7,111
(Charged)/credited to income statements	**(417)**	(2,488)	**15,978**	1,622	**15,561**	(866)
At 31 December	**4,206**	4,623	**17,600**	1,622	**21,806**	6,245

(ii) Deferred tax liabilities

	Fair value adjustment on depreciation	
	2005	2004
	RMB'000	*RMB'000*
At 1 January	**18,300**	17,083
Acquisition of subsidiaries	**—**	1,533
Credited to income statement	**(926)**	(316)
At 31 December	**17,374**	18,300

The amounts shown in the balance sheet include the following:

	2005	2004
	RMB'000	*RMB'000*
Deferred tax assets to be recovered more than 12 months	**3,789**	2,135
Deferred tax liabilities to be settled after more than 12 months	**16,448**	17,984

As at 31 December 2005, deferred tax assets were mainly recognised for temporary differences arising from fair value adjustment on depreciation of fixed assets acquired in business combinations and certain promotion expenses not allowable for tax deduction in current year, 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 amounting to an aggregate amount of approximately RMB114,626,000 (2004: RMB85,161,000) associated with tax losses of subsidiaries carried forward of approximately RMB476,000,000 (2004: RMB311,000,000) which will expire in the period from 2006 to 2010, and fair value adjustments made on depreciation of fixed assets of approximately RMB42,000,000 (2004: RMB36,000,000); provision for realisation losses and impairment losses of receivable balances; and inventories and fixed assets of approximately RMB157,663,000 (2004: RMB135,844,000). Deferred tax assets had not been recognised due to the fact that there is no certainty of their respective realisation through available future taxable profits.

18 TRADE PAYABLES

(a) Group

	As at 31 December 2005	
	2005	2004
	RMB'000	*RMB'000*
Trade payables - third parties	**710,894**	658,054
Amounts due to related parties *(Note 32(b))*	**103**	1,007
	710,997	659,061

The ageing analysis of trade payables (including amounts due to related parties) is as follows:

	As at 31 December 2005	
	2005	2004
	RMB'000	*RMB'000*
Less than 1 year	**677,981**	620,543
1 to less than 2 years	**14,034**	17,122
2 to less than 3 years	**10,179**	5,294
Over 3 years	**8,803**	16,102
	710,997	659,061

19 BILLS PAYABLE

All the bills payable balances of the Group as at 31 December 2005 are of maturity within six months. Approximately RMB17,570,000 (2004: RMB32,226,000) of the bank deposits of the Group denominated in Renminbi had been pledged for the issuance of these bills and was presented as restricted cash in the balance sheet. Approximately RMB160,737,000 of bank accepted bills issued by the subsidiaries as at 31 December 2005 were guaranteed by the Company.

20 OTHER PROVISIONS

	As at 31 December	
	2005	2004
	RMB'000	*RMB'000*
Litigation provision with Qindao Guangming Group Company ("Guangming Company")	**—**	27,000

The provision of RMB27,000,000 set up in 2004 for the damages to be paid by the Company in a pending litigation with Guangming Company was transferred to other payable in current year upon confirmation of the exact amount in a final ruling and judgment obtained from Supreme People's Court of the PRC. There was no material difference between the actual amount payable and the provision.

21 OTHER GAINS — NET

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Derivative instruments:		
— foreign exchange forward contracts: transactions not qualifying for hedge accounting *(note 3.2(b))*	**(1,582)**	—
Realised gain on foreign exchange forward contracts	**—**	9,171
Amortisation of deferred gain arising from the issuance of CB *(i)*	**12,641**	2,293
Interest income	**16,886**	18,854
Government grants *(ii)*	**74,859**	75,586
	102,804	105,904

(i) Upon inception of the CB in prior years mentioned in Note 13, a deferred gain had been recognised for the difference between the net present values of the estimated cash flows of expected annual interest payments made by the Company to A-B company for the CB issued by the Company and the expected refund of such payments from A-B Company receivable by the Company according to the terms of the CB, assuming mandatory conversion occurs upon the expiry of the contracted conversion periods. Such deferred gain was recognised in the income statement over the contracted conversion period. Upon the full conversion of CB in April 2005 (as described in Note 13), the remaining unamortised carrying amount of the related deferred gain was fully recognised as other gains in the current year income statement.

(ii) In connection with the acquisitions of certain subsidiaries of the Group in prior years, the Group 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.

22 EXPENSES BY NATURE

Expenses included in cost of goods sold, selling and marketing costs and administrative expenses are analysed as follows:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Staff costs *(Note 23)*	**584,164**	552,985
Costs of inventories (including direct materials, direct labor and overheads)	**5,944,101**	5,027,430
Depreciation of fixed assets *(Note 7)*	**538,928**	508,749
Amortisation of intangible assets and leasehold land payments *(Notes 6, 8)*	**36,554**	43,768
(Reversal)/provision for doubtful debts	**(4,538)**	25,054
Impairment loss on property, plant and equipment *(Note 7(a))*	**141,545**	62,501
Impairment loss on goodwill *(Note 8)*	**46,350**	—
Goodwill written off upon disposal of a subsidiary *(Note 8)*	**9,748**	—
Write-down of inventories to net realisable value	**14,695**	19,819
Provision for outstanding litigation *(Note 20)*	**—**	27,000
Auditors' remuneration	**5,876**	6,010

23 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS)

	2005	2004
	RMB'000	*RMB'000*
Wages and salaries	**477,707**	451,351
Social security costs	**27,084**	33,216
Pension costs — defined contribution plans	**74,874**	67,133
Staff employment medical benefits	**1,499**	1,285
	581,164	552,985

(a) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2005 is set out below:

Name of directors	**Fees**	**Other emoluments**	**Salary**	**Social security contributions**	**Total**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Li Guirong	—	—	284	—	284
Mr. Jin Zhiguo	—	—	337	4	341
Mr. Liu Yingdi	—	—	264	4	268
Mr. Sun Mingbo*	—	—	290	4	294
Mr. Sun Yuguo	—	—	264	4	268
Mr. Stephen J Burrows	—	—	30	—	30
Mr. Mark F Schumm*	—	—	30	—	30
Mr. Chu Zhengang*	—	50	—	—	50
Mr. Fu Yang*	—	50	—	—	50
Mr. Li Yan*	—	50	—	—	50
Mr. Poon Chiu Kwok*	—	50	—	—	50
Mr. Tan Lining**	—	—	—	—	—
Mr. Wu Haihua**	—	—	—	—	—
Ms. Pan Guirong**	—	—	—	—	—
	—	200	1,499	16	1,715

23 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors' and senior management's emoluments *(Continued)*

The remuneration of every Director for the year ended 31 December 2004 is set out below:

Name of directors	Fees	Other emoluments	Salary	Social security contributions	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
Mr. Li Guirong	—	—	240	—	240
Mr. Jin Zhiguo	—	—	266	4	270
Mr. Liu Yingdi	—	—	214	4	218
Mr. Sun Yuguo	—	—	214	4	218
Mr. Stephen J Burrows	—	—	30	—	30
Mr. Chu Zhengang	—	56	—	—	56
Mr. Tan Lining	—	56	—	—	56
Mr. Wu Haihua	—	56	—	—	56
Ms. Pan Guirong	—	56	—	—	56
	—	224	964	12	1,200

Notes:

* Appointed on 23 June 2005

** Resigned on 23 June 2005

(b) Five highest paid individuals

Details of emoluments paid to the five highest paid individuals are summarised below. Five of these personnel (2004: three) are directors of the Company, whose emoluments are reflected above in the analysis presented.

The emoluments payables to the remaining two (2004: two) individuals during the year are as follows:

	2005	2004
	RMB'000	*RMB'000*
Basic salaries and allowances	**528**	426
Social security contributions	**11**	9
	539	435

23 STAFF COSTS (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(c) Supervisory committee members' emoluments

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

	2005	2004
	RMB'000	*RMB'000*
Basic salaries and allowances	**499**	514
Social security contributions	**34**	34
	533	548

24 FINANCE COSTS

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Interest on bank loans	**69,327**	70,065
Net foreign exchange transaction (gains)/loss	**(26,058)**	4,672
	43,269	74,737

There were no (2004: no) borrowing costs eligible for capitalisation as part of the costs of the related qualifying assets during the year.

25 TAXATION

(a) Income tax expense

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Current income tax		
— Hong Kong income tax *(i)*	**1,329**	1,635
— PRC enterprise income tax *(ii)*	**203,514**	184,206
— Deferred income tax *(note 17)*	**(16,487)**	550
	188,356	186,391

(i) Hong Kong income tax

Hong Kong income tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

25 TAXATION *(Continued)*

(a) Income tax expense *(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 the available tax benefits from refunds and allowances.

In accordance with an approval document dated 18 April 1994 issued by the State Administration for Taxation ("SAT") of the PRC, net profit earned by the Company is subject to EIT at 15%, which is effective from the date of establishment of the Company and until there is further changes of the relevant laws and regulations. The Company also received a confirmation from the Ministry of Finance of Qingdao on 23 March 1997 that this preferential tax treatment would not be terminated until further notice.

Chenzhou Company and Shenzhen Asahi were approved as enterprises with foreign investment and therefore, they are exempt from EIT for two years starting from the first year of profit-marking after offsetting prior year tax losses, followed by a 50% reduction for the next three consecutive years thereafter. 2005 is the fourth profitable year of Chenzhou Company and the fifth profitable year of Shenzhen Asahi. Accordingly, EIT for Chenzhou Company and Shenzhen Asahi were provided at reduced rates of 16.5% and 7.5%, respectively.

Shenzhen Sales Company, Huanan Holding Company Limited, Doumen Company, Zhuhai Company, Xiamen Company and Xianmen Sales were established in Shenzhen, Zhuhai and Xiamen Special Economic Zones of the PRC 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.

Reconciliation of weighted average applicable tax rate to effective tax rate:

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Weighted average applicable tax rate	**17%**	18%
Loss sustained by subsidiaries of which no deferred tax assets have been recongnised	**18%**	18%
Others	**—**	2%
Effective tax rate	**35%**	38%

The decrease in weighted average applicable tax rate is caused by a change in the profitability of the Group's entities subject to different tax rates as stated above.

25 TAXATION *(Continued)*

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

According to "the People's Republic of China Value-added Tax Temporary Regulations" ("VAT Regulations"), the Group is subject to output VAT calculated at 17% of the domestic sales value of tangible goods. In addition, it is subject to a refund of 13% on its export sales of products based on an "exempt, credit, refund" policy enacted. The Group also pays input VAT on its purchases of raw materials and auxiliary materials which is deductible against output VAT on its sales in order to arrive at the net VAT amount payable to the PRC government.

(c) Consumption tax

Beers production, manufacturing consignment and beer product importation activities undertaken by the Group are subject to consumption tax in the PRC. For beer 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 sold below that price, the consumption tax is levied at RMB220 per ton.

26 EARNINGS PER SHARE

The basic earnings per share is calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year, excluding ordinary shares purchased by the Company and held as treasury shares.

	Year ended 31 December	
	2005	2004
Profit attributable to shareholders of the Company *(RMB'000)*	**306,589**	285,163
Weighted average number of ordinary shares in issue *(thousands)*	**1,238,174**	1,060,000
Basic earnings per share *(RMB per share)*	**0.25**	0.27

The diluted earnings per share for 2004 was calculated by adjusting the weighted average number of ordinary shares outstanding with the assumption of the conversion of all dilutive potential ordinary shares. The amount was arrived at based on 1,294,137,362 ordinary shares which was the weighted average number of ordinary shares in issue during the year plus the weighted average number of 234,137,362 ordinary shares deemed to have been issued if all issued and unconverted CB had been converted into shares as at 1 January 2004.

No diluted earnings per share information was presented for 2005 as there were no dilutive potential ordinary shares as of 31 December 2005.

27 DIVIDENDS

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.16 (2004: RMB0.15) per share	**209,315**	196,233

The dividends paid/payable during the year ended 31 December 2005 was for final dividends of 2004 at RMB196,233,000 (RMB0.15 per share) (2004: final dividend for 2003 at RMB212,000,000 (RMB0.2 per share)). A final dividend in respect of 2005 of RMB0.16 per share, amounting to an aggregate amount of RMB209,315,000, is to be proposed at the Annual General Meeting. This proposed dividend will be shown as appropriations in the year ending 31 December 2006.

28 CASH GENERATED FROM OPERATIONS

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

	2005	2004
	RMB'000	*RMB'000*
Profit for the year	**343,306**	304,074
Taxation	**188,356**	186,391
Share of loss from associates	**4,370**	25,325
Income from wavier of payable balances	**(9,508)**	(5,226)
Interest income	**(16,886)**	(18,854)
Amortisation of premium on bonds	**—**	2,821
Net exchange (gains)/losses	**(26,058)**	4,672
Depreciation *(Note 7)*	**538,928**	508,749
(Gain)/loss on disposal of property, plant and equipment	**(4,596)**	5,700
Impairment loss on property, plant and equipment *(Note 7)*	**141,545**	62,501
Amortisation of negative goodwill	**—**	(19,260)
Amortisation of deferred liabilities *(Note 21)*	**(12,641)**	(2,293)
Impairment of long-term investments	**1,981**	4,007
Amortisation of intangible assets and leasehold land *(Note 6, 8)*	**36,554**	43,768
Goodwill impairment loss and disposal *(Note 8)*	**56,098**	—
Fair value losses on derivative financial instruments	**1,582**	(9,171)
Interest expenses	**69,327**	70,065
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
Inventories	**(12,625)**	31,795
Trade receivables	**73,135**	7,616
Bills receivable	**23,381**	(47,691)
Deposits, prepayments and other receivables	**159,339**	10,066
Trade payable	**(15,784)**	(70,546)
Accrual and other payables	**(32,295)**	455,387
Bills payable	**(97,080)**	(99,526)
Deposits and advance from customers	**(16,832)**	(1,143)
Taxes payable	**(28,083)**	109,654
Cash generated from operations	**1,365,514**	1,558,881

28 CASH GENERATED FROM OPERATIONS *(Continued)*

(b) Analysis of changes in financing during the year

	Dividend payable		Share capital (including share premium and capital reserve)		CB		Bank loans		Minority interests	
	2005	2004	**2005**	2004	**2005**	2004	**2005**	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**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
Minority interests' share of profits	**–**	–	**–**	–	**–**	–	**–**	–	**36,717**	18,911
Minority interests' share of acquisition of additional equity interest	**–**	–	**–**	–	**–**	–	**–**	–	**44,791**	(24,114)
Capital contributions from minority interests	**–**	–	**–**	–	**–**	–	**–**	–	**250**	–
Other transfers	**–**	–	**–**	4,331	**–**	–	**–**	–	**–**	–
Issuance of convertible bonds (net of transaction costs)	**–**	–	**–**	–	**–**	270,275	**–**	–	**–**	–
Conversion of convertible bonds	**–**	–	**1,191,192**	–	**(1,191,192)**	–	**–**	–	**–**	–
Deferred liabilities arising from the convertible bonds	**–**	–	**–**	–	**–**	(2,821)	**–**	–	**–**	–
Proposed dividends	**196,233**	212,000	**–**	–	**–**	–	**–**	–	**–**	–
Proposal dividends to minority interests	**48,474**	–	**–**	–	**–**	–	**–**	–	**(48,474)**	–
Dividends paid	**(234,586)**	(211,000)		–	**–**	–	**–**	–	**–**	(29,929)
Bank loans assumed from acquisition of subsidiaries	**–**	–	**–**	–	**–**	–	**66,212**	357,900	**–**	–
Proceeds from bank loans drawn down	**–**	–	**–**	–	**–**	–	**882,959**	1,058,319	**–**	–
Repayment of bank loans	**–**	–	**–**	–	**–**	–	**(1,417,599)**	(1,388,066)	**–**	–
Others	**–**	–	**–**	–	**–**	–	**–**	–	**(931)**	–
At 31 December	**12,221**	2,100	**4,383,702**	3,192,510	**–**	1,191,192	**977,508**	1,445,936	**576,686**	544,333

29 CONTINGENCIES

(a) Pursuant to certain policies for housing reform issued by the State Council and Qingdao Municipal Government in 1998, the policy of allocating staff quarters by the Company as welfare benefits of its employees was terminated. In replacement, qualified employees are to be compensated in the form of monetary housing subsidies. As at 31 December 2005, no formal plan had yet been developed by the Group and no plans had been announced by the Group to their employees in respect of the arrangements. After obtaining the relevant legal advice, the Company's board of directors is of the opinion that the Group had no obligation to make any payment or provision for such monetary housing subsidies as at 31 December 2005 and there is no reasonable basis to accrue for any potential liabilities.

(b) As at 31 December 2005, the Group had provided guarantee of RMB24,000,000 in favor of an associate of the Group for its bank loans.

30 COMMITMENTS

(a) Capital and other commitments

The Group had no material capital commitments which were authorised but not contracted and provided for as of 31 December 2005.

The Group's commitments in relation to construction of fixed assets, acquisition of subsidiaries and other activities which were contracted but not provided for are as follows:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	317,566	58,077	264,730	12,039

(b) Operating lease commitments

As at 31 December 2005, the Group had future aggregate minimum lease payments under non-cancelable operating leases of land and buildings as follows:

	2005	2004
	RMB'000	*RMB'000*
Not later than one year	**1,660**	2,490

31 BUSINESS COMBINATION

As disclosed in Notes 9 and 10, the Group acquired additional equity interests in Nanning Company during the year. The business acquired contributed revenues of approximately RMB158,094,000 and brought net loss of approximately RMB13,297,000 to the Group for the period from 28 February 2005 (date of acquisition) to 31 December 2005. If the acquisition had occurred on 1 January 2005, the Group revenue would have been RMB10,054,000,000 and profit before allocations would have been RMB338,673,000.

Details of net assets acquired and goodwill are as follows:

	Nanning Company
	RMB'000
Purchase consideration paid	200,880
Fair value of identifiable net assets acquired — shown as below	(84,905)
Goodwill	115,975

31 BUSINESS COMBINATION *(Continued)*

The assets and liabilities arising from the acquisition are as follows:

	Fair value *RMB'000*	Acquiree's carrying amount *RMB'000*
Fixed assets	380,711	458,727
Intangible asset — trademark	9,512	2,250
Land use right	94,327	40,584
Other non-current assets	30,223	31,081
Trade and other receivables	20,835	20,835
Cash and cash equivalents	26,148	26,148
Long-term bank loans	(66,212)	(66,212)
Trade and other payables	(301,459)	(301,459)
Taxation payable	(5,408)	(5,408)
Net assets	188,677	206,546
Net assets acquired (45%)	84,905	
Purchase consideration settled in cash		200,880
Cash balance of subsidiary acquired		(26,148)
Net cash outflow in acquisition		174,732

The fair values of the respective identifiable assets and liabilities acquired from Nanning were ascertained by third party independent valuers based on the residual income model (for trademark) and replacement cost model (for other assets and liabilities), respectively.

32 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) The following major transactions were carried out with related parties in the year:

	Year ended 31 December	
	2005 ***RMB'000***	2004 *RMB'000*
Purchases from related companies		
— Associates	**163,358**	123,069
— Tsingtao Beer Materials Co., Ltd. *	**—**	12,177
— Tsingtao Beer Industrial Co., Ltd. ("TBI") *	**—**	4,292
— Tsingtao Beer Construction Co., Ltd. ("TBC") *	**—**	107
	163,358	139,645

32 RELATED PARTY TRANSACTIONS *(Continued)*

(a) The following major transactions were carried out with related parties in the year *(Continued)*

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Sales to related companies		
— Associates	**267,142**	228,734
Construction services provided to the Group		
— TBC	**170**	2,940
Logistics services provided to the Group		
— Associates	**143,577**	52,510
Guarantee provided for the Group's loans		
— Tsingtao Group Company*	**4,344**	19,234
Guarantee provided in favour of the Group's receivables		
— Tsingtao Group Company	**40,893**	50,894
Guarantee provided in favour of an associate of the Group		
— Asahi Beverage	**24,000**	—
Handing fee commission paid		
— Tsingtao Group Company	**—**	12,930

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

* These companies are regarded as related parties of the Company as they have certain common directors as the Company's.

32 RELATED PARTY TRANSACTIONS *(Continued)*

(b) As at 31 December 2005, the Group had the following significant current account balances maintained with related parties:

	Group		Company	
	2005	2004	**2005**	2004
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Included in				
Amount due from subsidiaries	**—**	—	**12,314**	165,784
Trade receivable and other long-term assets accounts				
— Wholly owned subsidiaries of the Group	**—**	—	**1,771**	2,115
— Non-wholly owned subsidiaries of the Group	**—**	—	**36,187**	90,734
— Associates	**96,467**	112,989	**48,110**	85,049
— Other related parties *(ii)*	**287**	467	**—**	1,467
Loans to subsidiaries *(i)*				
— Wholly owned subsidiaries of the Group	**—**	—	**100,020**	50,000
— Non-wholly owned subsidiaries of the Group	**—**	—	**2,635,103**	2,295,371
Deposits, prepayment and other receivables				
— Wholly owned subsidiaries of the Group	**—**	—	**107,056**	107,056
— Non-wholly owned subsidiaries of the Group	**—**	—	**45,846**	50,228
— Associates	**9,994**	—	**9,994**	—
— Other related parties	**17,253**	3,125	**5,792**	3,125
Trade payables				
— Non-wholly owned subsidiaries of the Group	**—**	—	**33,344**	23,572
— Associates	**26**	—	**26**	—
— Other related parties	**77**	1,007	**—**	1,007
Other payables and long-term payables				
— Non-wholly owned subsidiaries of the Group	**—**	—	**18,539**	9,417
— A-B Company *(iii)*	**121,053**	124,151	**—**	—
— Associates	**2,145**	237	**2,049**	237
— Other related parties	**22,851**	15,213	**253**	13,088
Sales deposits				
— Associates	**5,407**	1,455	**5,407**	—

Except for those mentioned in notes (i) and (iii), the Group's current balances maintained with related parties are all unsecured, non-interest bearing and with no fixed repayment terms.

(i) As at 31 December 2005, the Company had extended advances and loans amounting to approximately RMB2,729,660,000 (2004: RMB2,345,371,000) to subsidiaries through entrusted loan arrangements made with banks in the PRC *(See Note 9)*.

(ii) The Group had 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") due from them. Pursuant to the agreement, the Debts are repayable in eight annual installments commencing from 1 January 2002. As at 31 December 2005, the outstanding balances of the Debts of approximately RMB15,000,000 and RMB25,893,000 (2004: RMB15,000,000 and RMB35,893,000) (after deduction on of relevant impairment provision) were classified as both accounts receivable and other long-term assets receivables in the balance sheet of the Group according to the expected repayment schedule. TB Group Company has undertaken to guarantee the repayment of the outstanding balance.

(iii) In October 2003, a subsidiary of the Company, Tsingtao Brewery (Hong Kong) Trading Company Limited ("Hong Kong Company") entered into a loan agreement with A-B Company that Hong Kong Company borrowed a loan of US$15,000,000 (equivalent to approximately RMB121,053,000) (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.

32 RELATED PARTY TRANSACTIONS *(Continued)*

(c) Key management compensation

	Year ended 31 December	
	2005	2004
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	**2,390**	2,850
Retirement fund contributions	**136**	146
	2,526	2,996

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management, totalling 17 individuals.

33 EVENTS AFTER THE BALANCE SHEET DATE

Save as disclosed in other notes to the financial statements, the Group had the following significant subsequent events:

(a) In January 2006, the Company set up Tsingtao Brewery (Xuzhou) Huaihai sales Company Limited ("Xuzhou Huaihai Sales Company") at a cash capital injection of RMB8,000,000. Relevant legal procedures have been completed in January 2006 and Xuzhou Huaihai Sales Company started to be consolidated with the Group as a wholly-owned subsidiary.