Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

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 (together "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, Hong Kong Zhong Road, Qingdao, PRC.

These consolidated financial statements have been approved for issue by the Board of Directors on 19 April 2007.

The English language 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 language 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 2005 and 2006 presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group 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, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements, are disclosed in Note 4.

(a) Amendments to published standards effective in 2006

The following amendments to standards are mandatory by financial periods beginning on or after 1 January 2006.

- HKAS 21 Amendment — Net Investments in a Foreign operation. This amendment does not have material impact on the Group's consolidated equity; and

- HKAS 39 and IFRS 4 Amendment — Financial Guarantee Contracts. This amendment has assessed to have no significant effect to the Group.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(b) New standards, interpretations to existing standards that are not yet effective and have not been early adopted by the Group

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods that the Group has not early adopted:

- HK(IFRIC)-Int 10, Interim Financial Reporting and Impairment (effective for annual periods beginning on or after 1 November 2006). HK(IFRIC)-Int 10 prohibits the impairment losses recognised in an interim period on goodwill, investments in equity instruments and investments in financial assets carried at cost to be reversed at a subsequent balance sheet date. The Group will apply HK(IFRIC)-Int 10 from 1 January 2007, but it is not expected to have any impact on the Group's accounts; and

- HKFRS 7, "Financial instruments: Disclosures", effective for annual periods beginning on or after 1 January 2007. HKAS 1, "Amendments to capital disclosures", effect for annual periods beginning on or after 1 January 2007. The Group assessed the impact of HKFRS 7 and the amendment to HKAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and capital disclosures required by the amendment of HKAS 1. The Group will apply HKFRS 7 and the amendment to HKAS 1 from annual periods beginning 1 January 2007.

(c) Interpretation to existing standards that are not yet effective and not relevant to the Group's operations

The following interpretations to existing standards have been published that are mandatory for the Group's accounting periods beginning on or after 1 May 2006 or later periods but are not relevant to the Group's operations:

- HK(IFRIC)-Int 8, Scope of HKFRS 2 (effective for annual periods beginning on or after 1 May 2006). HK(IFRIC)-Int 8 requires consideration of transactions involving the issuance of equity instruments — where the identifiable consideration received is less than the fair value of the equity instruments issued — to establish whether or not they fall within the scope of HKFRS 2. Management does not expect this interpretation to have material impact on the Group;

- HK(IFRIC)-Int 7, Applying the Restatement Approach under HKAS 29, Financial Reporting in Hyperinflationary Economies (effective from 1 March 2006). HK(IFRIC)-Int 7 provides guidance on how to apply requirements of HKAS 29 in a reporting period in which an entity identifies the existence of hyperinflation in the economy of its functional Currency, when the economy was not hyperinflationary in the prior period. As none of the group entities has a currency of a hyperinflationary economy as its functional currency, HK(IFRIC)-Int 7 is not relevant to the Group's operations;

- HK(IFRIC)-Int 9, Reassessment of embedded derivatives (effective for annual periods beginning on or after 1 June 2006). HK(IFRIC)-Int 9 requires an entity to assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment if required. As none of the group entities has changed the terms of their contracts, HK(IFRIC)-Int 9 is not relevant to the Group's operations.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.1 Basis of preparation *(Continued)*

(c) *Interpretation to existing standards that are not yet effective and not relevant to the Group's operations* *(Continued)*

- IFRIC-Int 11 — IFRS2, Group and Treasury Share Transaction (effective for annual periods beginning on or after 1 March 2007). IFRIC-Int 11 provides guidance on the how to apply requirements of IFRS 2 when involving the equity instruments of the parent or subsidiaries and when involving the purchase of the entity's own equity instrument from third parties. As the Company's Article of Association does not provide any provision for treasury share and redemption of the Company's own shares, IFRIC-Int 11 is not relevant to the Group's operation; and

- IFRIC-Int 12, Service Concession Arrangements (effective for annual periods beginning on or after 1 January 2008), which gives guidance on the accounting by operation for public-to-private service concession arrangement. As the Group does not engage into such operations, IFRIC-Int 12 is not relevant to the Group's operation.

(d) Standards, amendments and interpretations effective in 2006 but not relevant for the Group's operations

The following standards, amendments and interpretations are mandatory for accounting periods beginning on or after 1 January 2006 but are not relevant to the Group's operations:

- HKAS 19 Amendment — Employee Benefits;

- HKAS 39 Amendment — Cash Flow Hedge Accounting of Forecast Intragroup Transactions;

- HKAS 39 Amendment — The Fair Value Option;

- HKFRS 6, Exploration for and Evaluation of Mineral Resources;

- HKFRS 1 Amendment — First-time Adoption of International Financial Reporting Standards and HKFRS 6 (Amendment), Exploration for and Evaluation of Mineral Resources;

- HK(IFRIC)-Int 4, Determining whether an Arrangement contains a Lease;

- HK(IFRIC)-Int 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds; and

- HK(IFRIC)-Int 6, Liabilities arising from Participating in a Specific Market — Waste Electrical and Electronic Equipment.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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.

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 (Note 2.6). If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

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.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses (Note 2.7). The results of subsidiaries are accounted by the Company on the basis of dividend received and receivable.

(b) Transactions with minority interests

The Group applies a policy of treating transactions with minority interests as transactions with equity owners of the Group. For purchases from minority interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is deducted from equity. Gains or losses on disposals to minority interests, differences between any proceeds received and the relevant share of minority interests are also recorded in equity.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.2 Consolidation *(Continued)*

(c) 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 using 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 upon acquisition (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 (Note 2.7). The results of associated companies are accounted for by the Company on the basis of dividend received and receivable.

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.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.4 Foreign currency translation *(Continued)*

(b) Transactions and balances (Continued)

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

(c) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the 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 partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

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 charged in the income statement during the financial period in which they are incurred.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.5 Property, plant and equipment *(Continued)*

Depreciation of property, plant and equipment is calculated using the straight-line method to allocate their 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 associates is included in investments in associates and is tested annually for impairment as part of the overall balance. Separately recognised goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. 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. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose (Note 2.7).

(b) Trademarks and licences

Acquired trademarks and licences are shown at historical cost. Trademarks and licences which have a finite useful life are carried at cost less accumulated amortisation. Amortisation is calculated using the straight-line method to allocate their costs over their estimated useful lives.

(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 of three to five years.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.6 Intangible assets *(Continued)*

(c) ***Computer software*** (Continued)

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. Costs include the employee costs incurred as a result of developing software 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 investments in subsidiaries, associates and non-financial assets

Assets that have an indefinite useful life or have not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be 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). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2.8 Financial assets

The Group classifies its financial assets in the following categories at fair value through profit and 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 financial assets at initial recognition.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.8 Financial assets *(Continued)*

(a) 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 and other long-term receivables in the balance sheet (Note 2.11).

(b) Held-to-maturity financial assets

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. If the Group were to sell other than an insignificant amount of held-to-maturity financial assets, the whole category would be tainted and reclassified as available for sale. Held-to-maturity financial assets are included in non-current assets, except for those with maturities less than 12 months from the balance sheet date; these are classified as current assets. During the year, the Group did not hold any investments in this category.

(c) 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.

No financial assets at fair value through profit and loss were recognised through the year.

Regular 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. Financial assets are derecognised when the rights to receive cash flows from the Financial assets 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. Unrealised gains and losses arising from changes in the fair value of monetary or 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. Impairment testing of trade receivables is described in Note 2.11.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.9 Derivative financial instruments and hedging activities

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:

(a) hedges of the fair value of recognised liabilities (fair value hedge);

(b) hedges of a particular risk associated with a recognised liability or a highly probable forecast transactions (cash flow hedges).

The fair values of various derivative instruments are disclosed in Note 16. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedge item is more than 12 months.

(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

Certain derivative instruments do not qualify for hedge accounting and are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement within other gains/(losses) — net.

2.10 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.

2.11 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 original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited in the income statement.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.12 Cash and cash equivalent

Cash and cash equivalents include cash in hand, deposits held at call or with maturities of three months or less, 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.

2.13 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. 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 period 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.

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.14 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 is not accounted for if it 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. 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.

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.

2.15 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 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.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.15 Employee benefit *(Continued)*

(i) Retirement benefit obligations *(Continued)*

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

2.16 Provision

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable 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.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.17 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales within the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

(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 sales, including the amounts of consumption and business taxes paid and payable, such two tax items 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 the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans is recognised using the original effective interest rate.

(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.

2.18 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 credited to the income statement on a straight line basis over the expected lives of the related assets.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

2.19 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 charged to the income statement on a straight-line basis over the period of the lease.

2.20 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.

3 FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including foreign exchange risk and cash flow and fair value interest rate risk), credit risk, and liquidity 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) Market risk

(i) Foreign exchange risk

The foreign exchange risks of the Group occur due to the fact that the Group has financing activities and highly probable cash outflow 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 exposure to foreign exchange risk would not be very significant.

(ii) Cash flow and fair value interest rate risk

The Group's interest-bearing assets are mainly bank deposits which bears an effective interests at approximately 1.8% p.a. (2005: 1.3% p.a.). 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.

(b) Credit risk

Except for a long-term receivable due from a customer and a related company jointly in the amount of approximately RMB23,701,000 as at 31 December 2006 (2005: RMB40,893,000) (Note 31(b)), the Group has no other significant concentration of credit risk. It has policies in place to ensure that sales of products are made to customers with appropriate credit history.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

3 FINANCIAL RISK MANAGEMENT *(Continued)*

3.1 Financial risk factors *(Continued)*

(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 RMB219,825,000 as at 31 December 2006 (2005: RMB684,738,000). The directors are confident that the Group will be able to renew its short-term bank loan facilities upon maturity or to identify new sources of financing to replace the current ones. In addition, the Group had unutilised banking facilities granted by certain banks in an aggregate amount of approximately RMB2,100,000,000 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.

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 each identified cash-generating units have been determined based on value-in-use calculations.

For the year ended 31 December 2006, the Group had reported impairment losses amounting to RMB151,061,000 (2005: RMB46,350,000) for impairment loss on goodwill based on such calculations. There are two critical estimates adopted in the calculations, the expected gross margin of product sales and the pre-tax discount rate.

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

(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.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

4.1 Critical accounting estimates and assumptions *(Continued)*

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

For the year ended 31 December 2006, the Group reported impairment losses amounting to RMB163,688,000 (2005: RMB141,545,000) for property, plant and equipment based on such calculations.

If the estimated gross margin at 31 December 2007 had been 10% lower than management's estimates at 31 December 2006, the Group would have to recognised a further impairment against property, plant and equipment by RMB60,023,000 (unaudited).

If the 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 have to recognised a further impairment against property, plant and equipment by RMB36,496,000 (unaudited) .

If the actual gross margin had been 10% higher or the pre-tax discounted rate had been 10% lower than management's estimates, in 2007 the Group would be able to reverse the impairment losses by RMB53,537,000 (unaudited) and RMB40,613,000 (unaudited) that arose on these assets recognised in the current year for the year ending 31 December 2007.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

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:

	31 December 2006						
	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	4,229,615	1,027,676	2,566,863	3,526,259	326,747	—	11,677,160
Inter-segment sales	143,139	773,931	112,723	61,593	—	(1,091,386)	—
	4,372,754	1,801,607	2,679,586	3,587,852	326,747	(1,091,386)	11,677,160
Results							
Segment results	913,544	(154,413)	(97,999)	(81,084)	113,478	—	693,526
Unallocated expenses, net							(39,848)
Operating profit							653,678
Finance costs							(26,899)
Share of profit of associates	1,041	—	—	—	—	—	1,041
Profit before income tax							627,820
Income tax expense							(179,063)
Profit for the year							448,757
Other information							
Depreciation	93,477	72,657	119,367	227,395	684	—	513,580
Amortisation	7,322	1,434	17,278	3,788	—	—	29,822
Impairment of property, plant and equipment	5,952	42,618	47,558	67,560	—	—	163,688
Impairment of goodwill	—	—	20,166	130,895	—	—	151,061

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

5 SEGMENT INFORMATION *(Continued)*

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

	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
Impairment of property, plant and equipment	13,576	31,831	26,559	69,579	—	—	141,545
Impairment of goodwill	—	—	42,180	4,170	—	—	46,350

Segment assets consist primarily of property, plant and equipment, intangible assets, investments in associates, inventories, trade and other receivables, and cash and cash equivalents. Unallocated assets comprise deferred taxation and available-for-sale financial assets.

Segment liabilities comprise operating liabilities. Unallocated liabilities comprise items such as taxation and borrowings including related hedging derivatives.

Capital expenditure comprises additions to property, plant and equipment (Note 7) leasehold land and land use rights (Note 6), and intangible assets (Note 8).

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

5 SEGMENT INFORMATION *(Continued)*

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

The segment assets and liabilities at 31 December 2006 and capital expenditure for the year then ended are as follows:

	As at 31 December 2006						
	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	5,812,330	1,696,896	2,226,120	5,116,957	—	(6,224,860)	8,627,443
Interests in associates	18,576	—	—	—	—	—	18,576
Unallocated assets							931,964
							9,577,983
Liabilities							
Segment liabilities	703,127	712,130	793,028	2,579,692	—	(1,964,206)	2,823,771
Unallocated liabilities							1,054,489
							3,878,260
Capital expenditure	148,646	30,929	343,802	104,673	1,323	—	629,373

The segment assets and liabilities at 31 December 2005 and capital expenditure for the year then ended are as follows:

	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	5,885,759	1,485,587	2,217,406	4,943,403	—	(5,735,037)	8,797,118
Interests in associates	21,789	—	—	—	—	—	21,789
Unallocated assets							756,551
							9,575,458
Liabilities							
Segment liabilities	581,408	537,362	594,413	1,909,570	—	(997,283)	2,625,470
Unallocated liabilities							1,416,912
							4,042,382
Capital expenditure	120,208	45,719	125,940	1,031,880	2,842	—	1,326,589

Note a: The segment represents sales of goods to regions (including Hong Kong) out of the PRC through the Group's overseas subsidiaries 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.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

5 SEGMENT INFORMATION *(Continued)*

(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

The Group's interests in leasehold land and land use rights represent prepaid operating lease payments and their net book value are analysed as follows:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Opening	**660,197**	595,593	**65,525**	67,336
Additions	**40,876**	1,064	**7,080**	—
Acquisition of subsidiaries	**—**	94,327	**—**	—
Amortisation	**(22,438)**	(24,761)	**(1,837)**	(1,811)
Disposals	**(1,876)**	(6,026)	**(1,876)**	—
	676,759	660,197	**68,892**	65,525

In addition, as at 31 December 2006, 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 RMB97,945,000 (2005: RMB100,607,000). The Company's directors consider that there is no significant adverse impact on the operations of the Group and accordingly, no provision for impairment loss is considered necessary.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

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 2005						
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
Year ended 31 December 2005						
Opening net book amount	2,088,095	2,874,771	199,751	124,379	62,611	5,349,607
Acquisition of subsidiaries	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	(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
Year ended 31 December 2006						
Opening net book amount	2,134,290	2,750,855	171,592	100,211	107,016	5,263,964
Additions *(note a)*	46,734	100,314	20,265	23,734	350,445	541,492
Transfers	31,117	195,098	883	1,942	(229,040)	—
Disposals	(10,158)	(13,247)	(4,991)	(1,198)	—	(29,594)
Depreciation	(76,087)	(366,719)	(32,738)	(38,036)	—	(513,580)
Impairment charges *(note b)*	(33,494)	(125,508)	(4,686)	—	—	(163,688)
Closing net book amount	2,092,402	2,540,793	150,325	86,653	228,421	5,098,594
At 31 December 2006						
Cost	2,907,372	5,675,937	395,100	298,462	228,421	9,505,292
Accumulated depreciation and impairment	(814,970)	(3,135,144)	(244,775)	(211,809)	—	(4,406,698)
Net book amount	2,092,402	2,540,793	150,325	86,653	228,421	5,098,594

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

7 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

(b) Company

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 2005						
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
Year ended 31 December 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
Year ended 31 December 2006						
Opening net book amount	382,581	439,770	6,862	65,238	55,587	950,038
Additions	3,117	5,522	7,964	10,169	92,046	118,818
Transfers	11,963	67,619	650	565	(80,797)	—
Disposals	(7,081)	(2,955)	(39)	(528)	—	(10,603)
Depreciation	(13,555)	(55,361)	(9,485)	(20,321)	—	(98,722)
Impairment charges	—	—	(2,000)	—	—	(2,000)
Closing net book amount	377,025	454,595	3,952	55,123	66,836	957,531
At 31 December 2006						
Cost	549,475	1,285,750	115,016	144,821	66,836	2,161,898
Accumulated depreciation and impairment	(172,450)	(831,155)	(111,064)	(89,698)	—	(1,204,367)
Net book amount	377,025	454,595	3,952	55,123	66,836	957,531

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

7 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Depreciation expense of approximately RMB426,020,000 (2005: RMB443,674,000) has been charged in cost of goods sold, RMB24,481,000 (2005: RMB28,973,000) in selling and marketing costs and approximately 63,079,000 (2005: RMB66,281,000) in administrative expenses.

As at 31 December 2006, approximately RMB35,800,000 (2005: RMB12,500,000) of machinery had been pledged as security for RMB16,000,000 bank loans of the Group (2005: RMB10,000,000) (Note 15).

As at 31 December 2006, ownership certificates of certain buildings ("Building Ownership Certificates") for certain buildings of the Group with respective carrying values of approximately RMB296,443,000 (2005: RMB310,204,000) had not yet been obtained by the Group. 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 Certificates 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 Included in current year additions were certain assets purchased by a subsidiary of the Group from a local third party brewery company (the "Vendor") at a purchase price of approximately RMB123 million. After the purchase, that subsidiary was advised by the Vendor that one of its major creditors (the "Creditor") had a claim against the Vendor for the transaction and that subsidiary might be involved in the future settlement of the dispute. As at the date of approval of the financial statements, no formal claim had been lodged against that subsidiary nor the Group and the board of directors of the Company consider that it would not lead to any significant contingent liabilities nor adverse financial impact to the Group.

b The directors of the Company performed an impairment assessment on the carrying value of certain fixed assets of the Group as at 31 December 2006 based on the accounting policies laid down in Note 2.7. As a result of such an assessment performed, an impairment loss of RMB163,688,000 relating to fixed assets of certain subsidiaries of the Company was recognised.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

8 INTANGIBLE ASSETS

(a) Group

	Goodwill	Trademarks *(i)*	Technology know-how*(ii)*	Software and others	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2005					
Cost	280,378	103,497	18,629	33,386	435,890
Accumulated amortisation	(66,377)	(29,226)	(10,579)	(7,085)	(113,267)
Net book amount	214,001	74,271	8,050	26,301	322,623
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 amount	273,878	71,015	6,187	28,408	379,488
Year ended 31 December 2006					
Opening net book amount	273,878	71,015	6,187	28,408	379,488
Additions	—	7,314	—	4,136	11,450
Amortisation	—	(2,914)	(1,863)	(2,607)	(7,384)
Impairment charge	(151,061)	—	—	—	(151,061)
Closing net book amount	122,817	75,415	4,324	29,937	232,493
At 31 December 2006					
Cost	320,228	115,092	18,629	42,022	495,971
Accumulated amortisation and impairment loss	(197,411)	(39,677)	(14,305)	(12,085)	(263,478)
Net book amount	122,817	75,415	4,324	29,937	232,493

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

8 INTANGIBLE ASSETS *(Continued)*

(b) Company

	Trademarks *(i)* *RMB'000*	Software and others *RMB'000*	Total *RMB'000*
At 1 January 2005			
Cost	100,000	10,088	110,088
Accumulated amortisation	(28,687)	(2,270)	(30,957)
Net book amount	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 charge	(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 amount	68,876	10,313	79,189
Year ended 31 December 2006			
Opening net book amount	68,876	10,313	79,189
Addition	—	3,498	3,498
Amortisation charge	(2,500)	(1,446)	(3,946)
Closing net book amount	66,376	12,365	78,741
At 31 December 2006			
Cost	100,000	17,200	117,200
Accumulated amortisation	(33,624)	(4,835)	(38,459)
Net book amount	66,376	12,365	78,741

Amortisation of approximately RMB7,384,000 (2005: RMB11,793,000) is included in administrative expenses.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

8 INTANGIBLE ASSETS *(Continued)*

(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 is amortised over a period of 40 years, which is its registration period with State Administration for Industry & Commerce. The directors are of the view that the renewal of the trademark upon its expiry is certain at minimum cost.

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 assessed 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 making current year impairment provision is presented below.

	2006	2005
	RMB'000	*RMB'000*
Nanning Company* ("Guangxi")	**130,896**	130,896
Three Ring*/Beifang Sales* ("Beijing")	**20,166**	24,643
Fuzhou Company*/Xiamen Company*/Zhangzhou Company*/ Xiamen Sales* ("Dongnan")	**114,031**	114,031
Others	**8,785**	50,658
	273,878	320,228

* *defined in Note 9.*

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

8 INTANGIBLE ASSETS *(Continued)*

(b) Company *(Continued)*

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

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 and/or management in November 2006. 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.

Key assumptions used for value-in-use calculations are as follows:

	Guangxi	**Beijing**	**Dongnan**
Budgeted gross margin of product sales	17.8%	10.9%	22.3%
Weighted average growth rate *(a)*	3%	—	3%
Discount rate *(b)*	14.19%	12.16%	12.16%

(a) Rate used to extrapolate cash flows beyond the budget period.

(b) Pre-tax discount rate applied to the cash flow projections.

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

Management determined budgeted gross margin based on past performance and its expectation for the 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 Guangxi and Beijing had been assessed to be impaired by approximately RMB130,895,000 and RMB20,166,000 due to changes in market conditions. The pre-tax discount rates used in the prior year for the CGUs were both 12.17%.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

9 INVESTMENT IN AND LOANS TO SUBSIDIARIES — COMPANY

(a) Investments in subsidiaries

	Company	
	2006	2005
	RMB'000	*RMB'000*
Unlisted equity investments — cost less impairment provisions	**1,628,989**	1,722,295
Loans to subsidiaries	**2,759,788**	2,735,123

In the opinion of the directors, the underlying value of each of the investment in subsidiaries as at 31 December 2006 was not less than their carrying value as at that date.

(i) The following is a list of the principal subsidiaries at 31 December 2006:

Name	Place of Incorporation	Registered capital	Interest held *Directly*	Interest held *Indirectly*	Principal activities
Shenzhen Tsingtao Brewery Huanan Holding Company Limited ("Huanan Holding Company")	Shenzhen, the PRC	RMB200,000,000	95%	—	Investment holding
Tsingtao Brewery (Zhuhai) Company Limited ("Zhuhai Company") *(e)*	Zhuhai, the PRC	RMB60,000,000	—	74.72%	Manufacture and domestic trading of beer
Tsingtao Brewery (Sanshui) Company Limited ("Sanshui Company")	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	88.80%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Huangshi) Company Limited ("Huangshi Company")	Huangshi, the PRC	RMB5,000,000	—	90.25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Yingcheng) Company Limited ("Yingcheng Company")	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 Huanan Tsingtao Brewery Sales Company Limited ("Huanan Sales Company")	Shenzhen, the PRC	RMB20,000,000	95%	—	Domestic trading of beer
Tsingtao Brewery (Nanning) Company Limited	Nanning, the PRC	RMB730,000,000	—	71.25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Changsha) Company Limited ("Changsha Company")	Changsha, the PRC	RMB68,000,000	70%	28.50%	Manufacture and domestic trading of beer

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

9 INVESTMENT IN AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of Incorporation	Registered capital	Interest held		Principal activities
			Directly	*Indirectly*	
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 Company")	Maanshan, the PRC	RMB5,000,000	—	90.25%	Manufacture and domestic trading of beer
Tsingtao Brewery Shanghai Songjiang Company Limited ("Songjiang Company")	Shanghai, the PRC	US$36,640,000	75%	—	Manufacture and 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	—	76.00%	Domestic trading of beer
Tsingtao Brewery (Shouguang) Company Limited ("Shouguang Company")	Shouguang, the PRC	RMB60,606,060	99%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Weifang) Company Limited ("Weifang Company")	Weifang, the PRC	RMB5,000,000	—	69.83%	Manufacture and domestic trading of beer
Tsingtao Brewery No. 3 Company Limited ("No. 3 Company")	Pingdu, the PRC	RMB10,000,000	95%	—	Manufacture and domestic trading of beer
Tsingtao Brewery (Xuzhou) Huaihai Sales Company Limited ("Huaihai Sales Company")*(b(i)) (d)*	Xuzhou, the PRC	RMB55,000,000	100%	—	Domestic trading of beer
Tsingtao Brewery (Xuzhou) Company Limited ("Xuzhou Company") *(e)*	Peixian, the PRC	RMB39,336,899	—	66%	Manufacture and domestic trading of beer

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

9 INVESTMENT IN AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of Incorporation	Registered capital	Interest held Directly	Interest held Indirectly	Principal activities
Tsingtao Brewery (Xuzhou Pengcheng) Company Limited ("Pengcheng Company")	Pengcheng, the PRC	RMB5,000,000	—	90%	Manufacture and domestic trading of beer
Tsingtao Brewery (Xuecheng) Company Limited ("Xuecheng Company")	Xuecheng, the PRC	RMB45,000,000	—	85%	Manufacture and domestic trading of beer
Tsingtao Brewery (Tengzhou Company Limited ("Tengzhou Company")	Tengzhou, the PRC	RMB15,000,000	—	95%	Manufacture and domestic trading of beer
Tsingtao Brewery (Heze) Company Limited ("Heze Company")	Heze, the PRC	RMB10,000,000	—	90%	Manufacture and domestic trading of beer
Tsingtao Brewery (Suqian) Company Limited	Suqian, the PRC	RMB10,000,000	—	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 Tsingtao Brewery Three Ring Company Limited ("Three Ring Company")	Beijing, the PRC	US$28,900,000	29%	25%	Manufacture and domestic trading of beer
Beijing Five Star Tsingtao Brewery Company Limited ("Five Star Company")	Beijing, the PRC	RMB862,000,000	37.64%	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")	Xian, the PRC	RMB222,200,000	76.10%	—	Manufacture and domestic trading of beer
Tsingtao Brewery Weinan Company Limited ("Weinan Company")	Weinan, the PRC	RMB50,000,000	28%	54.79%	Manufacture and domestic trading of beer
Tsingtao Brewery (Gansu) Nongken Company Limited ("Gansu Nongken") *(e)*	Lanzhou, the PRC	RMB174,420,800	—	42.24%	Manufacture and domestic trading of beer
Tsingtao Brewery Wuwei Company Limited	Lanzhou, the PRC	RMB36,100,000	—	42.12%	Manufacture and domestic trading of beer
Tsingtao Brewery Hansi Baoji Company Limited ("Hansi Baoji Company") *(b(iii))*	Baoji, the PRC	RMB30,000,000	—	78.78%	Manufacture and domestic trading of beer
Tsingtao Brewery (Anshan) Company Limited ("Anshan Company") *(e)*	Anshan, the PRC	RMB50,000,000	60%	—	anufacture and domestic trading of bee

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

9 INVESTMENT IN AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of Incorporation	Registered capital	Interest held Directly	Interest held Indirectly	Principal activities
Tsingtao Brewery (Xingkaihu) Company Limited ("Xingkaihu Company")	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
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 Company")	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 ("No. 5 Company")	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 Luzhong (Rizhao) Sales Company Limited (Luzhong Sales Company)*(c(iii))*	Rizhao, the PRC	RMB55,000,000	95%	4.75%	Domestic trading of beer
Tsingtao Brewery (Pingyuan) Company Limited ("Pingyuan Company")	Pingyuan, the PRC	RMB5,000,000	—	89.78%	Manufacture and domestic trading of beer
Tsingtao Brewery (Rizhao) Company Limited ("Rizhao Company")	Rizhao, the PRC	RMB10,000,000	—	94.76%	Manufacture and domestic trading of beer
Chengdu Tsingtao Brewery Xinan Sales Company Limited ("Xinan Sales Company")*(c(iv))*	Chengdu, the PRC	RMB100,000,000	95%	4.75%	Domestic trading of beer
Tsingtao Brewery (Chongqing) Company Limited	Chongqing, the PRC	RMB7,000,000	—	94.76%	Manufacture and domestic trading of beer
Tsingtao Brewery (Luzhou) Company limited ("Luzhou Company")	Luzhou, the PRC	RMB111,110,000	—	94.76%	Manufacture and domestic trading of beer
Tsingtao Brewery (Taizhou) Company Limited ("Taizhou Company")	Taizhou, the PRC	RMB10,000,000	—	90.25%	Manufacture and domestic trading of beer
Tsingtao Brewery (Hong Kong) Trading Comp any Limited ("Hong Kong Company")*(c(i))*	Hong Kong, the PRC	HK$40,500,000	100%	—	Trading of 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 (Nanjing) Company Limited	Nanjing, the PRC	US$5,000,000	75%	—	Manufacture and domestic trading of beer

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

9 INVESTMENT IN AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(a) Investments in subsidiaries *(Continued)*

Name	Place of Incorporation	Registered capital	Interest held *Directly*	Interest held *Indirectly*	Principal activities
Tsingtao Brewery Beifang Sales Company Limited ("Beifang Sales")	Beijing, the PRC	RMB29,980,000	80%	10.84%	Domestic trading of beer
Haerbin Northeast Tsingtao Brewery 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*(d)*	Tengzhou, the PRC	RMB500,000	—	90%	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")	Qingdao, the PRC	RMB6,000,000	95%	—	Car rental services
Tsingtao Brewery Chenzhou Sales Company Limited	Chenzhou, the PRC	RMB1,000,000	—	94.69%	Domestic trading of beer
Tsingtao Brewery (Xiamen) Company Limited ("Xiamen Company")	Xiamen, the PRC	RMB90,000,000	—	99.81%	Manufacture and Domestic trading of beer
Xiamen Tsingtao Brewery (Dongnan) Sales Company Limited ("Dongnan Sales Company")*(c(ii))*	Xiamen, the PRC	RMB110,000,000	95%	4.75%	Domestic trading of beer
Tsingtao Brewery (Fuzhou) Company Limited ("Fuzhou Company")	Fuzhou, the PRC	US$26,828,100	—	99.81%	Manufacture and domestic trading of beer
Tsingtao Brewery (Zhangzhou) Company Limited ("Zhangzhou Company")	Zhangzhou, the PRC	RMB38,880,000	—	89.78%	Manufacture and domestic trading of beer
Tsingtao Brewery (Jinan) Company Limited ("Jinan Company")*(b(iv))*	Jinan, the PRC	RMB80,000,000	100%	—	Manufacture and domestic trading of beer
Tsingtao Brewery Yulin Company Limited *(b(ii))*	Yulin, the PRC	RMB55,000,000	—	82.08%	Manufacture and domestic trading of beer
Tsingtao Brewery Haifeng Warehouse Company Limited	Qingdao, The PRC	RMB10,000,000	—	53.75%	Warehousing, packaging and logistics
Xuzhou Pengcheng Sales Company*(d)*	Xuzhou, the PRC	RMB5,000,000	—	83.80%	Trading of beer
Tsingtao Brewery (Yangzhou) Company Limited ("Yangzhou Company") *(f)*	Yangzhou, The PRC	RMB5,000,000	20%	—	Manufacture and Domestic trading of beer

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

9 INVESTMENT IN AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(b) New subsidiaries established during the year

i. In January 2006, a new wholly-owned subsidiary, Tsingtao Brewery (Xuzhou) Huaihai Sales Company Limited was established with a registered capital of RMB55,000,000, which was fully contributed by the Company in cash. The relevant legal procedures for the registration were completed.

ii. In February 2006, two subsidiaries of the Company, Xian Company and Hong Kong Company, jointly set up Tsingtao Brewery Yulin Company Limited with a registered capital of RMB55,000,000, which was contributed by Xian Company and Hong Kong Company at RMB41,250,000 and RMB13,750,000, respectively.

iii. In February 2006, two subsidiaries of the Company, Xian Company and Weinan Company, jointly set up Hansi Baoji Company with a registered capital of RMB30,000,000, which was contributed by Xian Company and Weinan Company at RMB18,000,000 and RMB12,000,000, respectively.

iv. In January 2006, a new wholly-owned subsidiary, Tsingtao Brewery (Jinan) Company Limited was established with a registered capital of RMB80,000,000 fully. The relevant legal procedures for the registration were completed.

(c) Registered capital increment

i. In February 2006, the Company contributed additional capital of HKD40,000,000 in cash to Hong Kong Company, the relevant legal procedures were completed in 2006.

ii. During the year, the Company and No.3 Company contributed additional capital of RMB103,550,000 and RMB5,450,000, respectively to Dongnan Sales Company. After this capital injection, the registered capital of Dongnan Sales Company was increased from RMB1,000,000 to RMB110,000,000. The relevant legal procedures were completed in September 2006.

iii. During the year, the Company and No.3 Company contributed additional capital of RMB50,350,000 and RMB2,650,000, respectively, to Luzhong Sales Company. After this capital injection, the registered capital of Luzhong Sales Company was increased from RMB2,000,000 to RMB55,000,000. The relevant legal procedures were completed in July 2006.

iv. The Company and No.3 Company contributed additional capital of RMB93,100,000 and RMB4,900,000, respectively, to Xinan Sales Company. After this capital injection, the registered capital of Xinan Sales Company was increased from RMB2,000,000 to RMB100,000,000. The relevant legal procedures were completed in October 2006.

(d) Subsidiaries liquidated/put under liquidation

During the year, the legal procedure were completed for deregistration of Tsingtao Brewery (Taizhou) Sales Company Limited.

During the year, the directors of the Company approved to transfer the business of Tsingtao Brewery (Tengzhou) Huaihai Sales Company Limited and Xuzhou Pengcheng Sales Company Limited to Huaihai Sales Company and then put these two subsidiaries under voluntary liquidation. As at 31 December 2006, the legal procedures had not yet been completed.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

9 INVESTMENT IN AND LOANS TO SUBSIDIARIES — COMPANY *(Continued)*

(d) Subsidiaries liquidated/put under liquidation *(Continued)*

The directors of the Company are of opinion that the liquidation of the above two companies will not result in material adverse financial impact on the Group.

(e) Purchase or disposal of equity interests in subsidiaries from/to minority shareholders

During the year, the Group transferred the equity interests of several subsidiaries directly held by the Company to its regional sales companies in order to further streamline the operational and reporting structures. These transactions resulted in changes in the effective equity interests held by the Company in certain non wholly-owned subsidiaries and the Group recorded such changes in equity as the accounting policy stated in Note 2.2 (b). A summary of such equity interest changes is as follows:

Name of subsidiary	**Reduction in minority interests and credited to equity** *RMB'000*
Gansu Nongken	12,171
Xuzhou Company	13,431
Zhuhai Company	8,169
Anshan Company	7,466
Yangzhou Company	6,304
Others	960
Total	48,501

(f) Pursuant to the provisions of agreements signed between the Group and TB Group Company in January 2003 and December 2004, respectively, TB Group Company, being the majority equity owner of Yangzhou Company, entrusted the Company to control the operations and management of Yangzhou Company. In addition, a majority of the members of the board of directors of Yangzhou Company are also appointed by the Company. Accordingly, Yangzhou Company has been consolidated as a subsidiary of the Group because the Group has control over its financial and operating decisions.

(g) During the year, the Company has reached certain arrangements with minority shareholders of two subsidiaries. Under these arrangements, parts of minority interests were not qualified as equity according to HKAS32, Financial Instruments: Disclosure and Presentation anymore. Accordingly these portion of approximately RMB31,800,000 were reclassified as other financial liabilities.

As at 31 December 2006, all the subsidiaries owned by the Company are limited liability companies.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

10 INVESTMENT IN ASSOCIATES

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Unlisted investments, at cost	**24,665**	26,159	**6,004**	7,498
Share of results of associates	**(3,328)**	(4,370)	**—**	—
Dividends received	**(2,761)**	—	**—**	—
	18,576	21,789	**6,004**	7,498

In the opinion of the directors, as at 31 December 2006, the underlying values of the associates were not less than the carrying amounts of these investments.

As at 31 December 2006, particulars of the principal associates of the Group are as follows:

Name of associated companies	Country of incorporation	Registered Capital	Equity Interests held by the Group (%) *directly*	*indirectly*	Principal Activities
Liaoning Shenqing Tsingtao Brewery Company Limited ("Liaoning Shenqing")	PRC	RMB2,000,000	30%	—	Domestic trading of beer
Tsingtao Beer and Asahi Beverages Company Limited ("Asahi Beverage")	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 beers
Qingdao Zhaoshang Logistics Company Limited ("Zhaoshang Logistics")	PRC	RMB10,000,000	30%	—	Logistics services and management

11 INVENTORIES

	Group As at 31 December		Company As at 31 December	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Raw materials, packaging materials and auxiliary materials	**1,305,714**	1,124,761	**215,455**	132,575
Work-in-progress	**198,506**	177,770	**34,985**	38,974
Finished goods	**137,099**	121,396	**66,558**	53,674
Inventories, net	**1,641,319**	1,423,927	**316,998**	225,223

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

11 INVENTORIES *(Continued)*

The cost of inventories recognised as expense and included in cost of goods sold amounted to RMB6,989,226,000 (2005: RMB5,968,000,000).

Approximately RMB52,783,000 of the carrying amount of inventories of the Group was stated at their net realisable amounts.

12 TRADE RECEIVABLES

(a) Group

	As at 31 December	
	2006	2005
	RMB'000	*RMB'000*
Trade receivables — third parties	**164,840**	178,993
Receivables from related parties *(Note 31(b))*	**83,530**	70,861
	248,370	249,854
Less: provision for impairment of receivables	**(147,190)**	(144,786)
	101,180	105,068

At 31 December 2006 and 2005, the aging analysis of trade receivables was as follows:

	31 December 2006			31 December 2005		
	Amount	**Provision for bad debts**	**Balance after provision**	Amount	Provision for bad debts	Balance after provision
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 year	**99,349**	**(2,743)**	**96,606**	89,547	(2,075)	87,472
1 to less than 2 years	**8,338**	**(4,169)**	**4,169**	33,874	(31,685)	2,189
2 to less than 3 years	**33,771**	**(33,538)**	**233**	46,123	(45,716)	407
Over 3 years	**106,912**	**(106,740)**	**172**	80,310	(65,310)	15,000
Total	**248,370**	**(147,190)**	**101,180**	249,854	(144,786)	105,068

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

12 TRADE RECEIVABLES *(Continued)*

(b) Company

	As at 31 December	
	2006	2005
	RMB'000	*RMB'000*
Trade receivables — third parties	**1,451**	95,857
Receivables from related parties *(Note 31(b))*	**103,532**	60,175
	104,983	156,032
Less: provision for impairment of receivables	**(71,448)**	(81,180)
	33,535	74,852

At 31 December 2006 and 2005, the aging analysis of trade receivables was as follows:

	31 December 2006			31 December 2005		
	Amount	**Provision for bad debts**	**Balance after provision**	Amount	Provision for bad debts	Balance after provision
	RMB'000	***RMB'000***	***RMB'000***	*RMB'000*	*RMB'000*	*RMB'000*
Less than 1 year	**30,768**	**—**	**30,768**	51,672	(5)	51,667
1 to less than 2 years	**4,052**	**(2,026)**	**2,026**	30,926	(28,454)	2,472
2 to less than 3 years	**26,730**	**(26,730)**	**—**	8,261	(2,548)	5,713
Over 3 years *(note 31(b)(ii))*	**43,433**	**(42,692)**	**741**	65,173	(50,173)	15,000
Total	**104,983**	**(71,448)**	**33,535**	156,032	(81,180)	74,852

The majority of the Group's domestic sales are transacted at cash on delivery terms. For export sales transacted out of the PRC, they are mainly covered by letters 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 2006.

The Group makes specific bad debt provision against its doubtful trade receivable balances based on the credit status of the customers and the existence of any evidence which indicates that a portion or the full amount of the outstanding balance is uncollectible.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

13 SHARE CAPITAL

As at 31 December 2006, the authorised registered share capital of the Company was RMB1,308,219,178 (2005: RMB1,308,219,178) of RMB1 each.

	31 December 2006		31 December 2005	
	RMB'000	**Number of shares *('000)***	*RMB'000*	Number of shares *('000)*
State shares *(a)*	**—**	**—**	399,820	399,820
PRC legal person shares *(a)*	**—**	**—**	53,330	53,330
PRC public shares subject to restriction *(a)*	**417,395**	**417,395**	—	—
PRC public shares ("A Shares")	**235,755**	**235,755**	200,000	200,000
Overseas public shares ("H Shares")	**655,069**	**655,069**	655,069	655,069
	1,308,219	**1,308,219**	1,308,219	1,308,219

As at 31 December 2006, all issued share capital had been fully paid up.

(a) According to the shareholding restructuring scheme approved in an A shares shareholders meeting in October 2006, the shareholders of the State shares and PRC legal person shares (collectively defined as the "Non Public Shares") offered to the A share shareholders 35,755,495 shares of their shares and a cash consideration of RMB48,000,000 in return for the conversion of the Non Public Shares into A shares, subject to certain disposal restrictions imposed that the shareholders of the Non Public Shares shareholders will not sell the shares which gain liquidity within a period of five years. In addition, the Non Public Shares shareholders, being the substantial shareholders of the Company, also undertake to appropriate 70% of the available profit of the Company as dividends for a period of 3 years.

Following the completion of the above transactions, Qingdao State Assets Supervision and Administration Committee transferred its equity interests held in the Company to its wholly owned subsidiary, Tsingtao Beer Group Company ("TB Group Company") and TB Group Company began to be the substantial shareholder of the Company.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

14 OTHER RESERVES

(a) The 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*	Total *RMB'000*
Balance at 1 January 2005	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	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
Balance at 1 January 2006	3,058,231	17,252	329,147	269,923	(981)	3,673,572
Transfer *(a)*	—	—	269,923	(269,923)	—	—
Profit appropriation to surplus reserve	—	—	70,567	—	—	70,567
Translation difference	—	—	—	—	3,986	3,986
Acquisition/disposal of interests from/to minority shareholders *(Note 9(e))*	—	48,501	—	—	—	48,501
Balance at 31 December 2006	3,058,231	65,753	669,637	—	3,005	3,796,626

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

14 OTHER RESERVES *(Continued)*

(b) Company

	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	279,737	2,725,812	196,233
Proposed dividends	—	—	—	—	—	—	(196,233)
Profit for the year	—	—	—	—	348,500	348,500	—
Dividends declared	—	—	—	—	(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
Balance at 1 January 2006	3,058,231	1,782	209,383	180,112	358,462	3,807,970	209,315
Reclass ification	—	—	180,112	(180,112)	—	—	—
Proposed dividends	—	—	—	—	(287,808)	(287,808)	287,808
Profit for the year	—	—	—	—	501,548	501,548	—
Dividends declared	—	—	—	—	—	—	(209,315)
Profit appropriation to surplus reserve	—	—	43,579	—	(43,579)	—	—
Acquisition/disposal of interests from/to minority shareholders *(Note 9(e))*	—	48,501	—	—	—	48,501	—
Balance at 31 December 2006	3,058,231	50,283	433,074	—	528,623	4,070,211	287,808

Note:

(a) Statutory reserves

According to the Articles of Association of the Company and the Company Law of PRC, the Company has to set aside 10% of its net profit after taxation under the PRC accounting standards for the statutory surplus reserve (except where the reserve balance has reached 50% of the paid-up share capital of the Company). 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 before the year ended 31 December 2006. These reserves are not distributable as cash dividends.

Pursuant to the provisions under the Company law of PRC and the Articles of Association of the Company, as amended in the annual general meeting held on 29 June 2006, the Company ceased to appropriate funds to the public welfare fund of the Company from 1 January 2006 onwards. The balance of the public welfare fund as at 1 January 2006 of approximately RMB269,923,000 was transferred to the surplus reserve in accordance with the regulation promulgated by the Ministry of Finance of the PRC.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

14 OTHER RESERVES *(Continued)*

(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 and discretionary surplus reserves should be made based on the amount of profits as determined in accordance with the PRC accounting standards and regulations. The Company declares dividends based on the lower of distributable profits of the Company reported under the PRC accounting standards and HKFRS.

15 BORROWINGS

(a) Group

	31 December 2006			31 December 2005		
	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	**599,745**	**2,164**	**601,909**	949,171	6,551	955,722
— Between 2 and 5 years	**—**	**40,725**	**40,725**	—	8,113	8,113
— Over 5 years	**—**	**12,534**	**12,534**	—	13,673	13,673
	599,745	**55,423**	**655,168**	949,171	28,337	977,508
Less: Portion due within 1 year	**(599,745)**	**(2,164)**	**(601,909)**	(949,171)	(6,551)	(955,722)
Long-term portion	**—**	**53,259**	**53,259**	—	21,786	21,786

(b) Company

	31 December 2006			31 December 2005		
	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	**390,435**	**—**	**390,435**	645,616	4,344	649,960

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

15 BORROWINGS *(Continued)*

As at 31 December 2006, loans of the Group amounting to approximately RMB15,673,000 and RMB7,750,000 were guaranteed by the Beijing Development and Reform Committee and the Beijing Branch of Bank of China, respectively. As at 31 December 2005, loans of the Group and of the Company each amounting to approximately RMB4,344,000 were guaranteed by TB Group Company.

Approximately RMB1,000,000 (2005: RMB87,000,000) of the loans of the subsidiaries as at 31 December 2006 were guaranteed by the Company.

Approximately RMB16,000,000 (2005: RMB10,000,000) of the Group's loans as at 31 December 2006 are secured by machinery with an aggregate carrying value of approximately RMB35,800,000 (2005: machinery of approximately RMB12,500,000).

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

	Group		Company	
	2006	2005	**2006**	2005
	'000	*'000*	***'000***	*'000*
RMB	**200,108**	219,694	**—**	4,344
Hong Kong dollars	**41,202**	88,454	**—**	—
US dollars	**390,435**	645,616	**390,435**	645,616
Euros	**15,411**	15,811	**—**	—
Danish Krone	**8,012**	7,933	**—**	—
	655,168	977,508	**390,435**	649,960

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 approximates their respective fair value as at 31 December 2006 except the interest free loans whose fair value is RMB17,619,000.

As at 31 December 2006, the Group had aggregate unutilised short term loan facilities of approximately RMB2,100,000,000 (2005: RMB2,900,000,000). All are expiring within a year with floating interest rates to be charged on the amount to be drawn down.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

16 DERIVATIVE FINANCIAL INSTRUMENTS

	As at 31 December 2006	
	Assets	**Liabilities**
	RMB'000	***RMB'000***
Forward foreign exchange contracts — ineffective hedges	**—**	**(3,749)**

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 loans denominated in US dollars. However, as these instruments are not qualified for hedge accounting under the requirements of HKAS 39 as described in Note 2.9, they were recognised at fair value. The revaluation loss of the fair value of contracts held at year end remained at open position at approximately RMB3,749,000 had been charged to the income statement.

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% (2005: same).

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

(i) Deferred tax assets

	Fair value adjustment on depreciation		Impairment provison		Others		Total	
	2006	2005	**2006**	2005	**2006**	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*	***RMB'000***	*RMB'000*
At 1 January	**4,206**	4,623	**—**	—	**17,600**	1,622	**21,806**	6,245
(Credited)/charged to the income statement	**(417)**	(417)	**9,395**	—	**40,029**	15,978	**49,007**	15,561
At 31 December	**3,789**	4,206	**9,395**	—	**57,629**	17,600	**70,813**	21,806

(ii) Deferred tax liabilities

	Fair value adjustment on depreciation	
	2006	2005
	RMB'000	*RMB'000*
At 1 January	**17,374**	18,300
Credited to income statement	**(926)**	(926)
At 31 December	**16,448**	17,374

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

17 DEFERRED INCOME TAXATION *(Continued)*

As at 31 December 2006, deferred tax assets were mainly recognised for temporary differences arising from fair value adjustments made on depreciation of fixed assets acquired in business combinations; and certain promotion expenses not allowed for current year tax deduction claims, to the extent that realisation of such tax benefits through future taxable profits is probable.

In addition, the Group also had aggregate unrecognised deferred tax assets amounting to approximately RMB495,299,000(2005: RMB458,222,000) mainly attributable to tax losses of subsidiaries of approximately RMB1,769,580,000 (2005: RMB1,628,524,000) carried forward, which will expire in the period from 2007 to 2011; fair value adjustments made on depreciation of fixed assets of approximately RMB39,000,000 (2005: RMB42,000,000); provision for realisation losses and impairment losses of receivable balances; and inventories and fixed assets of approximately RMB258,607,000(2005: RMB178,745,000). 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	
	2006	2005
	RMB'000	*RMB'000*
Trade payables	**794,675**	710,997

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

	As at 31 December	
	2006	2005
	RMB'000	*RMB'000*
Less than 1 year	**725,458**	677,981
1 to less than 2 years	**49,666**	14,034
2 to less than 3 years	**9,917**	10,179
Over 3 years	**9,634**	8,803
	794,675	710,997

19 BILLS PAYABLE

All the bills payable balances of the Group as at 31 December 2006 are of maturity within six months. Approximately RMB16,391,000 (2005: RMB17,570,000) of bank deposits of the Group denominated in Renminbi had been pledged for the issuance of these bills, and approximately RMB110,850,000 of the bills issued by the subsidiaries as at 31 December 2006 (2005: RMB160,737,000) were guaranteed by the Company.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

20 OTHER GAINS — NET

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Derivative instruments:		
— foreign exchange forward contracts: transactions not qualifying for hedge accounting	**4,132**	(1,582)
Amortisation of deferred gain arising from the issuance of convertible bond	**—**	12,641
Interest income	**22,499**	16,886
Government grants *(i)*	**66,043**	74,859
	92,674	102,804

(i) 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.

21 OTHER OPERATING LOSS — NET

	2006	2005
	RMB'000	*RMB'000*
Goodwill impairment *(note 8(iii))*	**151,061**	46,350
Impairment provision for property, plant and equipment ("PP&E") *(note 7(b))*	**163,688**	141,545
Gain on disposal of PP&E	**(37,586)**	(4,623)
Disposal of sundry materials	**(21,773)**	(44,285)
	255,390	138,987

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

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	
	2006	2005
	RMB'000	*RMB'000*
Changes in inventories of finished goods and work in progress	**37,419**	32,830
Raw materials and consumables used	**6,951,807**	5,935,170
Employee benefit expenses *(Note 23)*	**703,384**	581,164
Depreciation, amortisation and impairment charges *(Notes 6, 7 and 8)*	**858,151**	766,563
Transportation expenses	**506,076**	375,820
Advertising costs	**198,819**	163,842
Auditors' remuneration	**6,300**	5,876
Utilities	**385,814**	357,657
Other expenses	**1,212,996**	1,185,451
Total cost of sales, distribution costs and administrative expenses	**10,860,766**	9,404,373

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2006	2005
	RMB'000	*RMB'000*
Wages and salaries	**575,507**	477,707
Social security costs	**36,757**	27,084
Pension costs — defined contribution plans	**89,946**	74,874
Staff employment medical benefits	**1,174**	1,499
	703,384	581,164

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(a) Directors' and senior management's emoluments

The remuneration of every director for the year ended 31 December 2006 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	—	—	312	8	320
Mr. Jin Zhiguo	—	—	312	17	329
Mr. Liu Yingdi	—	—	245	17	262
Mr. Sun Mingbo*	—	—	269	17	286
Mr. Sun Yuguo	—	—	245	17	262
Mr. Stephen J Burrows	—	—	30	—	30
Mr. Mark F Schumm*	—	—	30	—	30
Mr. Chu Zhengang *	—	50	—	—	50
Mr. Fu Yang*	—	50	—	—	50
Ms. Li Yan*	—	50	—	—	50
Mr. Poon Chiu Kwok*	—	50	—	—	50
	—	200	1,443	76	1,719

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
Ms. Li Yan*	—	50	—	—	50
Mr. Poon Chiu Kwok*	—	50	—	—	50
	—	200	1,499	16	1,715

Notes:

* *Appointed on 23 June 2005*

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

23 EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS) *(Continued)*

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year included three (2005: three) directors whose emoluments are reflected in the analysis presented above. The emoluments payables to the remaining two (2005: two) individuals during the year are as follows:

	2006	2005
	RMB'000	*RMB'000*
Basic salaries and allowances	**489**	528
Social security contributions	**34**	11
	523	539

(c) Supervisory committee members' emoluments

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

	2006	2005
	RMB'000	*RMB'000*
Basic salaries and allowances	**311**	499
Social security contributions	**52**	34
	363	533

24 FINANCE EXPENSES

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Interest on bank loans	**39,473**	69,327
Net foreign exchange translation gains	**(12,574)**	(26,058)
	26,899	43,269

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

25 TAXATION

(a) Income tax expense

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Current income tax		
— Hong Kong profits tax *(i)*	**3,161**	1,329
— PRC enterprise income tax *(ii)*	**225,835**	203,514
Deferred income tax *(note 17)*	**(49,933)**	(16,487)
	179,063	188,356

(i) Hong Kong profits tax

Hong Kong profit tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

(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.

Tax concessions and holidays entitled by the Group:

In accordance with an approval document dated 18th April 1994 issued by the State Administration for Taxation ("SAT") of the PRC, net profit earned by the Company is subject to 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 Finance Bureau of Qingdao on 23 March 1997 that this preferential tax treatment would not be terminated until further notice.

Chenzhou Company and Xiamen Company 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. 2006 is the fifth profitable year of Chenzhou Company and the third profitable year of Xiamen Company. Accordingly, EIT for Chenzhou Company and Xiamen Company were provided at reduced rates of 16.5% and 7.5%, respectively.

Huanan Sales Company, Huanan Holding Company Limited, Shenzhen Asahi, Zhuhai Company and Dongnan Sales Company were established in Shenzhen, Zhuhai and Xiamen Special Economic Zones for 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.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

25 TAXATION *(Continued)*

(a) Income tax expense *(Continued)*

(ii) PRC enterprise income tax ("EIT") *(Continued)*

Changes in Enterprise Income Tax Law in the PRC:

On 16 March 2007, the 10th National Peoples Congress of PRC approved the PRC Enterprise Income Tax Law ("EIT Law"), being effective on 1 January 2008. This new EIT Law stipulates the applicable income tax rate at 25% for domestic enterprises in PRC. The transitional rules for the existing preferential tax rates and other tax incentives will be stipulated and announced by the government authorities.

Pending the release of detailed transitional measures from the relevant government authorities regarding the preferential tax rates enjoyed by the Company and some of its subsidiaries, the directors of the Company are not in a position to fully assess the impact of the new EIT Law to the financial position of the Group as at 31 December 2006. However, for the deferred tax assets recognised for accrual balances made for accounting purposes but not deductible for taxataion purposes, which accounted for a majority portion of the deferred tax assets recognised at the year end, the directors are confident that such temporary differences will be reversed in 2007 and therefore, will not be affected by the implementation of the new tax rate. For the remaining deferred tax assets recognised for fair value adjustments and impairment provision at RMB13,184,000, should all tax filing entities in the Group be subject to a tax rate at 25% from 1 January 2008 onwards, the Group would recognise an additional deferred tax assets of approximately RMB5,035,000.

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

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Weighted average applicable tax rate	**12%**	17%
Loss sustained by subsidiaries of which no deferred tax assets have been recongnised	**19%**	18%
Others	**(2%)**	—
Effective tax rate	**29%**	35%

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.

(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.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

25 TAXATION *(Continued)*

(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 — BASIC AND DILUTED

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	
	2006	2005
Profit attributable to share holders of the Company *(RMB'000)*	**447,867**	306,589
Weighted average number of ordinary shares in issue *(thousands)*	**1,308,219**	1,238,174
Basic earnings per share *(RMB per share)*	**0.34**	0.25

The diluted earnings per share information was the same as basic for 2006 and 2005 as there were no dilutive potential ordinary shares as of 31 December 2006 and 2005.

27 DIVIDENDS

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Proposed final dividend of RMB0.22 (2005: RMB0.16) per share	**287,808**	209,315

The dividends paid during the year ended 31 December 2006 were for final dividends of 2005 at RMB209,315,000 (RMB0.16 per share) (2005: final dividend for 2004 at RMB196,233,000) (RMB0.15 per share). At the board of directors meeting on 19 April 2007, the directors proposed a final dividend in respect of 2006 of RMB0.22 per share, amounting to an aggregate amount of RMB287,808,000. This proposed dividend will be approved at the Annual General Meeting and shown as appropriations in the year ending 31 December 2007.

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

28 CASH GENERATED FROM OPERATIONS

Reconciliation of profit for the year to net cash inflow from operation

	2006	2005
	RMB'000	*RMB'000*
Profit for the year	**448,757**	343,306
Taxation	**179,063**	188,356
Share of loss from associates	**(1,041)**	4,370
Income from wavier of payable balances	**(10,526)**	(9,508)
Interest income *(Note 20)*	**(22,499)**	(16,886)
Net exchange gains *(Note 24)*	**(12,574)**	(26,058)
Depreciation *(Note 7)*	**513,580**	538,928
Gain on disposal of PP&E	**(37,586)**	(4,596)
Impairment loss on PP&E *(Note 7)*	**163,688**	141,545
Amortisation of deferred liabilities *(Note 20)*	**—**	(12,641)
Impairment of long-term investments	**—**	1,981
Amortisation of intangible assets and leasehold land *(Note 6, 8)*	**29,822**	36,554
Goodwill impairment loss and disposal *(Note 8)*	**151,061**	56,098
Fair value losses on derivative financial instruments	**3,659**	1,582
Interest expenses *(Note 24)*	**39,473**	69,327
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation)		
Inventories	**(243,822)**	(12,625)
Trade receivables	**3,888**	73,135
Bills receivable	**30,234**	23,381
Deposits, prepayments and other receivables	**(88,531)**	159,339
Trade payables	**83,678**	(15,784)
Accrual and other payables	**216,111**	(32,295)
Bills payable	**(75,727)**	(97,080)
Deposits and advance from customers	**(27,343)**	(16,832)
Taxes payable	**(10,875)**	(28,083)
Cash generated from operations	**1,332,490**	1,365,514

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2006	2005
	RMB'000	*RMB'000*
Net book value *(Note 7)*	**29,594**	71,623
Profit/(loss) on disposal of PP&E	**28,736**	(28,316)
Proceeds from disposal of PP&E	**58,330**	43,307

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

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 2006, 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 2006 and there is no reasonable basis to accrue for any potential liabilities.

(b) As at 31 December 2006, the Group had provided guarantee of RMB16,000,000 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 at 31 December 2006.

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

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	981,819	317,566	**141,136**	264,730

(b) Operating lease and other commitments

As at 31 December 2006, the Group had future aggregate minimum lease payments under non-cancelable operating leases of land and buildings as well as other commitments associated with its operating activities as follows:

	2006	2005
	RMB'000	*RMB'000*
Not later than one year	**343**	1,660

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

31 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:

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Purchases from related companies		
— Associates	**94,943**	111,333
— Tsingtao Brewery (Aus) PTY Ltd.	**91,144**	52,025
	186,087	163,358
Sales to related companies		
— Associates	**250,274**	264,580
— Tsingtao Brewery (Aus) PTY Ltd.	**—**	2,562
— Tsingtao Brewery Co.,Ltd	**—**	17,002
	250,274	284,144
Construction services provided to the Group		
— TBC	**3,788**	1,730
Logistics services provided to the Group (including paid on behalf)		
— Associates	**219,273**	143,577
Guarantee provided for the Group's loans		
— TB Group Company *(Note 15)*	**—**	4,344
Guarantee provided in favour of the Group's receivables		
— TB Group Company	**35,890**	40,893
Guarantee provided in favour of the an associate of the Group		
— Asahi Beverage	**16,000**	24,000
Interest paid to		
— TB Group Company	**3,249**	2,996

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

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

31 RELATED PARTY TRANSACTIONS *(Continued)*

(b) As at 31 December 2006, the Group had the following significant balances maintained with related parties:

	Group		Company	
	2006	2005	**2006**	2005
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
Included in				
Amount due from subsidiaries	**—**	—	**146,509**	12,314
Trade receivable and other long-term assets accounts				
— Wholly owned subsidiaries of the Group	**—**	—	**2,572**	1,771
— Non-wholly owned subsidiaries of the Group	**—**	—	**19,041**	36,187
— Associates *(ii)*	**91,349**	96,467	**89,738**	48,110
— Other related parties	**882**	287	**882**	—
Loans to subsidiaries *(i)*				
— Wholly owned subsidiaries of the Group	**—**	—	**—**	100,020
— Non-wholly owned subsidiaries of the Group	**—**	—	**2,759,788**	2,635,103
Deposits, prepayment and other receivables				
— Wholly owned subsidiaries of the Group	**—**	—	**1,026**	107,056
— Non-wholly owned subsidiaries of the Group	**—**	—	**123,217**	45,846
— Associates	**5,052**	9,994	**5,052**	9,994
— Other related parties	**11,949**	17,253	**787**	5,792
Trade payables				
— Non-wholly owned subsidiaries of the Group	**—**	—	**22,639**	33,344
Other payables and long-term payables				
— Non-wholly owned subsidiaries of the Group	**—**	—	**79,963**	18,539
— A-B Company *(iii)*	**117,131**	121,053	**—**	—
— Associates	**378**	2,145	**378**	2,049
— Other related parties	**21,243**	22,851	**578**	253
Sales deposits				
— Non-wholly owned subsidiaries of the Group	**—**	—	**326**	—
— Associates	**307**	5,407	**307**	5,407
Short-term loans from				
— TB Group Company	**65,000**	65,000	**—**	—

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

Notes to the Consolidated Financial Statements

(Prepared in accordance with HKFRS)

31 RELATED PARTY TRANSACTIONS *(Continued)*

(b) *(Continued)*

(i) As at 31 December 2006, the Company had extended certain advances and loans, amounting to approximately RMB2,759,788,000(2005: RMB2,735,123,000), to subsidiaries through entrusted loan arrangement 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 2006, the outstanding balances of the Debts of approximately RMB15,000,000 and RMB8,701,000 (2005:RMB15,000,000 and RMB25,893,000), after deduction of relevant impairment provision made, 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 had also undertaken to guarantee the repayment of the outstanding balance.

Subsequently after year end in 2007, one of the Debtors determined to cease business and the outstanding debt due to the Company is planned to be settled through the transfer of equity interests in the debtor by its owner. The directors of the Company had made an assessment as to the recoverable amount of the Debts based on such arrangements and considered that appropriate impairment loss provision has made in the finanical statements as at and for the year ended 31 December 2006. Due to the above changes, the Group also gave its consent for TB Group Company to withdraw its indemnity.

(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 USD$15,000,000 (equivalent to approximately RMB117,131,000 (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.

(c) Key management compensation

	Year ended 31 December	
	2006	2005
	RMB'000	*RMB'000*
Basic salaries, allowances and benefits-in-kind	**3,210**	3,451
Retirement fund contributions	**242**	217
	3,452	3,668

Key management personnel are those persons, in total 15 persons, having authority and responsibility for planning, directing and controlling the activities of the Group, including directors and other senior management personnel.