

Supplementary Financial Information

The Group has prepared a separate set of financial statements for the year ended 31st December, 2004 in accordance with generally accepted accounting principles in the United States of America (“US GAAP”).

Differences between HK GAAP and US GAAP give rise to differences in the reported balances of assets, liabilities and profit attributable to shareholders of the Group. The financial effects of the material differences between HK GAAP and US GAAP are summarised and explained as follows:

	Note	2004 RMB'000	2003 RMB'000
Reconciliation of net income:			
Profit attributable to shareholders reported under HK GAAP		48,569	936,447
Stock-based compensation	(a)	—	(173,213)
Additional depreciation on capitalisation of borrowing costs	(b)	(4,207)	—
Write-off of development costs	(c)	(303,493)	(35,835)
Impairment of intangible assets	(c)	250,000	—
Non-amortisation of goodwill	(d)	47,553	47,553
Impairment of goodwill	(d)	(47,320)	—
Write back of impairment losses on investment securities	(e)	(13,058)	—
Deferred tax effect on US GAAP adjustments	(f)	12,786	—
Others		10,384	5,890
Profit attributable to shareholders reported under US GAAP		1,214	780,842
Other comprehensive income:			
Fair value adjustment for securities available held-for-sales	(e)	28,468	—
Comprehensive income reported under US GAAP		29,682	780,842

Supplementary Financial Information (Cont'd)

		2004	2003
		RMB'000	RMB'000
Reconciliation of net assets:			
Net assets reported under HK GAAP		6,881,886	6,891,652
Additional depreciation on capitalisation of borrowing costs	(b)	7,596	11,803
Write-off of development costs	(c)	(409,710)	(106,217)
Impairment of intangible assets	(c)	250,000	—
Non-amortisation of goodwill	(d)	144,113	96,560
Impairment of goodwill	(d)	(47,320)	—
Write back of impairment losses on investment securities	(e)	(13,058)	—
Fair value adjustment for securities available held-for-sales	(e)	28,468	—
Deferred tax effect on US GAAP adjustments	(f)	12,786	—
Others		2,893	(7,491)
Net assets reported under US GAAP		6,857,654	6,886,307

- (a) On 18th December, 2003, Huachen, the then single largest shareholder of the Company, granted call options to certain directors of the Company entitling them to purchase from Huachen a total of 346,305,630 ordinary shares of the Company at an exercise price of HK\$0.95 per share, while the market price at the same date was HK\$1.45 per share.

The Company accounts for employee stock-based compensation using the intrinsic value method under US GAAP. It requires that discounts granted to employees under a compensatory share option scheme be recognised as compensation and charged to expense over the periods expected to be benefited, to the extent that the quoted market value of the equity instrument exceeds the exercise price of the option on the date of grant. Consequently, a final portion of the compensation expense amounting to approximately RMB173.2 million associated with the call options was charged to the consolidated income statement for the year ended 31st December, 2003 under US GAAP. The options were fully vested in 2003. As of 31st December, 2004, no share option was granted.

Under HK GAAP, there is no specific accounting standard to account for the compensation element in these call options.

- (b) Under HK GAAP, the amount of borrowing costs eligible for capitalisation includes the actual borrowing costs incurred on that borrowing less any investment income earned on the temporary investment of funds pending their expenditure on the qualified assets. Under US GAAP, temporary investment income earned is ignored. As a result, the amount of the net interest capitalised under HK GAAP is lower than that under US GAAP. The adjustment represents the additional annual depreciation for the higher interest capitalised under US GAAP.

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- (c) Under HK GAAP, costs incurred on development projects relating to the design and testing of new or improved projects are recognised as an intangible asset, at cost less accumulated provision of impairment, if certain criteria could be fulfilled. Under US GAAP, such development costs should be expensed as incurred and related impairment are reversed.

At 31st December, 2004, the Group provided impairment losses of RMB300 million on the intangible assets in relation to Zhonghua sedans, including development costs capitalised under HK GAAP but already being charged to the consolidated income statement previously under US GAAP. As a result, only RMB50 million impairment losses are required and RMB250 million impairment losses are reversed.

- (d) Under HK GAAP, goodwill is amortised on a straight-line method over the shorter of the expected future economic life of 20 years or the remaining lives of the respective joint ventures from their initial recognition. Under US GAAP, the Group adopted SFAS No. 142 since 1st January, 2002 and goodwill will not be amortised but rather will be tested at least annually for impairment.

As the Group adopted SFAS No. 142, goodwill stated under US GAAP is higher than that stated under HK GAAP. As a result, an impairment loss of RMB47.32 million on the goodwill is required under US GAAP after impairment review at 31st December, 2004 while it is not required under HK GAAP.

- (e) Under HK GAAP, investments in marketable equity securities are classified as either investment securities or other investments. Investment securities are included in the balance sheet at cost less accumulated provisions for impairment. Provisions, if any, are reversed to the income statement when the circumstances and events that led to the provision cease to exist.

Under US GAAP, investments in marketable equity securities are classified as either available-for-sale or trading securities. Available-for-sale securities are carried at fair value and any unrealised gains or losses are reported as a component of comprehensive income. If a decline in fair value of available-for-sale securities is judged to be other than temporary, the cost basis of the individual security shall be written down to fair value as a new cost basis and the amount of the write-down shall be included in earnings as a realised loss. The new cost basis is not changed for subsequent recoveries in fair value. Subsequent increases in the fair value (and subsequent decreases in fair value, if not other-than-temporary) of available-for-sale securities are included as a component of comprehensive income.

The US GAAP adjustments represent fair value adjustments for securities held-for-sales reported in other comprehensive income and the effect of write back of previous impairment charges on the investment securities recognized in 2002 under HK GAAP.

- (f) As a result of these differences of accounting treatments between US GAAP and HK GAAP mentioned above, the deferred tax assets calculated under US GAAP is approximately RMB12.79 million more than as stated under HK GAAP.