

Supplementary Financial Information

The Group has prepared a separate set of financial statements for the year ended 31st December, 2005 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 net assets and (loss) profit attributable to equity holders of the Company. The financial effects of the material differences between HK GAAP and US GAAP are summarised and explained as follows:

	Note	2005 RMB'000	2004 RMB'000
			<i>(Restated)</i>
Reconciliation of net (loss) income:			
(Loss) Profit attributable to equity holders of the Company under HK GAAP		(649,608)	48,569
Capitalisation of borrowing costs and its related depreciation	(a)	(2,104)	(4,207)
Write-off of development costs	(b)	(135,475)	(303,493)
Impairment of intangible assets	(b)	127,000	250,000
Amortisation of impaired intangible assets	(b)	(45,090)	—
Non-amortisation of goodwill	(c)	—	47,553
Impairment of goodwill	(c)	(28,690)	(47,320)
Reversal of provision for impairment loss on investment securities	(d)	—	(13,058)
Finance cost/redemption premium of convertible bonds	(e)	45,407	—
Deferred tax effect on US GAAP adjustments	(f)	(12,786)	12,786
Effect of the above adjustments attributable to minority interests		30,057	10,384
(Loss) Profit attributable to equity holders reported under US GAAP		(671,289)	1,214
Other comprehensive (loss) income:			
Fair value adjustment for securities available-for-sale	(d)	(27,227)	28,468
Comprehensive (loss) income reported under US GAAP		(698,516)	29,682

Supplementary Financial Information (Cont'd)

	Note	2005 RMB'000	2004 RMB'000
			<i>(Restated)</i>
Reconciliation of net assets:			
Net assets reported under HK GAAP, net of portion attributable to minority interests			
		6,271,082	6,996,091
Capitalisation of borrowing costs and its related depreciation	(a)	5,492	7,596
Write-off of development costs	(b)	(545,185)	(409,710)
Impairment of intangible assets	(b)	377,000	250,000
Amortisation of impaired intangible assets	(b)	(45,090)	—
Non-amortisation on goodwill	(c)	144,113	144,113
Impairment of goodwill	(c)	(76,010)	(47,320)
Reversal of provision for impairment losses on investment securities	(d)	—	(13,058)
Fair value adjustment for securities available-for-sale	(d)	—	28,468
Accumulated amortisation of finance cost/accreted redemption premium of convertible bonds charged to			
— opening retained earnings	(e)	44,134	—
— current year's consolidated income statement	(e)	45,407	—
Change in recognition, measurement and disclosure of convertible bonds under new HK GAAP			
	(e)	(114,205)	(114,205)
Deferred tax effect on US GAAP adjustments	(f)	—	12,786
Effect of the above adjustments attributable to minority interests		32,950	2,893
Net assets reported under US GAAP		6,139,688	6,857,654

- (a) Under HK GAAP, the amount of capitalised borrowing costs is netted off with investment income earned on the temporary investment of the borrowed funds pending their expenditure on the qualified assets. Under US GAAP, such temporary investment income is recognised as income rather than being netted off with capitalised borrowing costs. As a result, the amount of the capitalised borrowing costs (and the carrying amount of qualified assets) under HK GAAP is lower than that under US GAAP. In subsequent years, the annual depreciation or impairment loss for the qualified assets under HK GAAP is lower than that under US GAAP.

Supplementary Financial Information (Cont'd)

- (b) 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 amortisation and impairment losses, if certain criteria are fulfilled. Under US GAAP, such development costs are expensed as incurred. Accordingly, development costs of RMB135 million capitalised during the year and RMB545 million capitalised at 31st December, 2005 under HK GAAP have been expensed under US GAAP.

The Group provided impairment losses of RMB300 million on the intangible assets in relation to Zhonghua sedans, including development costs of RMB127 million already capitalised under HK GAAP but charged to the consolidated income statement under US GAAP as development costs. Therefore, the US GAAP adjustments represent reversal of these impairment losses on development costs and resulting differences in amortisation charges of RMB45 million. At 31st December, 2005 the cumulated effect of impairment losses and differences in amortisation charges are RMB377 million and RMB45 million respectively.

- (c) With effect from 1st January, 2005, HK GAAP, consistent with US GAAP, does not require amortisation of goodwill. The accumulated difference relates to amortisation of goodwill at both 31st December 2004 and 2005 amounting to RMB144 million.

Goodwill under US GAAP (ie. SFAS No. 142) is stated at cost less impairment losses without amortisation charge, effectively the carrying amount before impairment losses is higher than measured under HK GAAP. During the year, an impairment loss on goodwill in a subsidiary of RMB50 million is recognised under HK GAAP, accordingly an additional charge RMB29 million is required under US GAAP. The cumulative effect of this GAAP difference is RMB76 million.

- (d) The reconciliation adjustments at 31st December, 2004 and for the year then ended represent fair value adjustments, including impairment charges and written back, for available-for-sale securities (described as investment securities under HK GAAP) reported in other comprehensive income under US GAAP while recognised in consolidated income statement under HK GAAP.

With effect from 1st January, 2005, change in the value of these investments is recognised in equity under HK GAAP and therefore there is no difference in reconciling the net income. Change in fair value of RMB27 million under US GAAP is recognised under other comprehensive income while recognised in investment revaluation reserve under HK GAAP.

Supplementary Financial Information (Cont'd)

- (e) Previously, convertible bonds were stated in the balance sheet at face value plus accreted redemption premium both under HK GAAP and US GAAP.

However, with effect from 1st January, 2005, convertible bonds issued are split into liability and equity components under HK GAAP as detailed in note 3(f) to the financial statements. The liability component is subsequently carried at amortised finance cost and the equity component, being recognised in equity, shall remain unchanged until the bonds are converted or redeemed. Accordingly, the reported net assets under HK GAAP at 31st December, 2005 are RMB25 million higher than under US GAAP because of (i) the capital reserve of RMB114 million at 31st December, 2004 separately recognised in equity as the equity component of the convertible bonds; and (ii) the decrease in retained earnings of RMB44 million at 1st January, 2005 due to accumulated amortisation of finance cost/accreted redemption premium and RMB45 million additional amortised finance cost/accreted redemption premium charged to the consolidated income statement under HK GAAP than under US GAAP.

- (f) As a result of the differences of accounting treatments between US GAAP and HK GAAP mentioned above, at 31st December, 2004, the deferred tax assets calculated under US GAAP exceeds that under HK GAAP by RMB13 million.

As a result of realignment of deferred tax balance between HK GAAP and US GAAP at 31st December 2005, the excessive amount of RMB13 million under US GAAP is charged to consolidated income statement.