

# Supplementary Financial Information

For the year ended 31st December, 2006

The Group has prepared a separate set of financial statements for the year ended 31st December, 2006 in accordance with generally accepted accounting principles in the United States of America (“US GAAP”).

Differences between HKFRS and US GAAP give rise to differences in the reported balances of net assets and loss attributable to equity holders of the Company. The financial effects of the material differences between HKFRS and US GAAP are summarised and explained as follows:

	Notes	2006 RMB'000	2005 RMB'000
<b>Reconciliation of net loss:</b>			
Loss attributable to equity holders of the Company under HKFRS		(398,422)	(649,608)
Capitalisation of borrowing costs and its related depreciation	(a)	(2,104)	(2,104)
Write off of development costs	(b)	(132,633)	(135,475)
Impairment of intangible assets	(b)	—	127,000
Amortisation of intangible assets	(b)	(35,925)	(45,090)
Impairment of goodwill	(c)	—	(28,690)
Finance costs/redemption premium of convertible bonds due 2008	(d)	20,840	45,407
Gain on buy back of convertible bonds due 2008	(d)	3,823	—
Finance costs/redemption premium of convertible bonds due 2011	(e)	12,493	—
Change in fair value of embedded conversion option of convertible bonds due 2011	(e)	73,202	—
Issue costs allocated to embedded conversion option of convertible bonds due 2011	(e)	2,557	—
Deferred tax effect on US GAAP adjustments		—	(12,786)
Effect of the above adjustments attributable to minority interests		70,061	30,057
<b>Loss attributable to shareholders reported under US GAAP</b>		<b>(386,108)</b>	<b>(671,289)</b>
<b>Other comprehensive income (loss):</b>			
Fair value adjustment for securities available-for-sale	(f)	1,052	(27,227)
<b>Comprehensive loss reported under US GAAP</b>		<b>(385,056)</b>	<b>(698,516)</b>

# Supplementary Financial Information (Cont'd)

For the year ended 31st December, 2006

	Notes	2006 RMB'000	2005 RMB'000
<b>Reconciliation of net assets:</b>			
Net assets reported under HKFRS, net of portion attributable to minority interests		<b>5,884,993</b>	6,271,082
Capitalisation of borrowing costs and its related depreciation	(a)	<b>3,388</b>	5,492
Write off of development costs	(b)	<b>(677,818)</b>	(545,185)
Impairment of intangible assets	(b)	<b>377,000</b>	377,000
Amortisation of intangible assets	(b)	<b>(81,014)</b>	(45,090)
Non-amortisation on goodwill	(c)	<b>144,113</b>	144,113
Impairment on goodwill	(c)	<b>(76,010)</b>	(76,010)
Accumulated amortisation of finance costs/accreted redemption premium of convertible bonds due 2008	(d)	—	89,541
Change in recognition, measurement and disclosure of convertible bonds due 2008 under new HKFRS	(d)	—	(114,205)
Amortisation of finance costs/accreted redemption premium of convertible bonds due 2011	(e)	<b>12,493</b>	—
Change in fair value of embedded conversion option of convertible bonds due 2011	(e)	<b>73,202</b>	—
Issue costs allocated to embedded conversion option of convertible bonds due 2011	(e)	<b>2,557</b>	—
Effect of the above adjustments attributable to minority interests		<b>103,009</b>	32,950
<b>Net assets reported under US GAAP</b>		<b>5,765,913</b>	6,139,688

- (a) Under HKFRS, the amount of capitalised borrowing costs is netted off against 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 against capitalised borrowing costs. As a result, the amount of the capitalised borrowing costs (and the carrying amount of qualified assets) under HKFRS is lower than that under US GAAP. In subsequent years, the annual depreciation or impairment loss for the qualified assets under HKFRS is lower than that under US GAAP.
- (b) Under HKFRS, 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 RMB133 million capitalised during the year and accumulated development costs of RMB678 million capitalised as at 31st December, 2006 under HKFRS have been expensed under US GAAP.

In previous years, the Group provided for impairment losses on the intangible assets in relation to Zhonghua sedans, part of which were related to those development costs already capitalised under HKFRS but charged to the consolidated income statement under US GAAP as development costs. Therefore, the US GAAP adjustments represent differences in amortisation charges of RMB36 million for the year. As at 31st December, 2006, the cumulative effect of impairment losses and differences in amortisation charges are RMB377 million and RMB81 million respectively.

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For the year ended 31st December, 2006

- (c) With effect from 1st January, 2005, HKFRS, consistent with US GAAP, does not require amortisation of goodwill. The accumulated difference related to amortisation of goodwill at both 31st December 2005 and 2006 was RMB144 million.

Goodwill under US GAAP (i.e. SFAS No. 142) is stated at cost less impairment losses without amortisation charge, effectively the carrying amount before impairment losses which is higher than that measured under HKFRS. The cumulative effect of this GAAP difference is RMB76 million, which is a result of higher amount of impairment losses recognised in prior years under US GAAP.

- (d) Previously, the convertible bonds due 2008 (see Note 32(a)) were stated in the balance sheet at face value plus accreted redemption premium under both HKFRS and US GAAP.

However, with effect from 1st January, 2005, the convertible bonds due 2008 are split into liability and equity components under HKFRS. The liability component is subsequently carried at amortised finance cost while the equity component, being recognised in equity, shall remain unchanged until the convertible bonds due 2008 are converted or redeemed. Accordingly, the carrying amount of liability component reported under US GAAP (without allocation to the equity component) was greater than that under HKFRS. As a result, the gain on buy back recognised under US GAAP was greater than that under HKFRS while the finance costs/redemption premium recognised under HKFRS was greater than that under US GAAP.

Since the Group bought back and redeemed all the convertible bonds due 2008 during the year, the reported net assets under HKFRS were the same as US GAAP as at 31st December, 2006.

- (e) Under HKFRS, the convertible bonds due 2011 (see Note 32(b)) are split into liability component and an embedded conversion option, which are measured at their fair values at initial recognition. The liability component is subsequently carried at amortised cost and the embedded conversion option is measured at its fair value at balance sheet date and the change in fair value is recognised in the income statement. Under US GAAP, the convertible bonds due 2011 are stated in the balance sheet at face value plus accreted redemption premium. Accordingly, the reported net assets under HKFRS as at 31st December, 2006 were RMB88 million lower than that under US GAAP because of (i) RMB12 million additional amortised finance costs/accreted redemption premium charged to income statement under HKFRS than under US GAAP; (ii) changes in fair value of embedded conversion option amounting to RMB73 million; and (iii) direct expenses in connection with the issuance of the convertible bonds due 2011 are capitalised as deferred expenses on the balance sheet and are amortised over the life of the convertible bonds due 2011 under US GAAP. Under HKFRS, such costs are allocated between liability component and embedded conversion option. The portion of issue costs allocated to the embedded conversion option of RMB3 million are charged to the income statement under HKFRS.
- (f) With effect from 1st January, 2005, change in the value of these investments is recognised in equity under HKFRS and therefore there is no difference in reconciling the net income. Change in fair value of RMB1 million under US GAAP is recognised under other comprehensive income while recognised in investment revaluation reserve under HKFRS.