GUANGZHOU AUTOMOBILE GROUP CO., LTD.

廣 州 汽 車 集 團 股 份 有 限 公 司

(a joint stock company incorporated in the People's Republic of China with limited liability)

Stock Code : 2238

2010

ANNUAL REPORT

Guangzhou Automobile Group Co., Ltd.
2010 Annual Report

Contents

Corporate Profile

Guangzhou Automobile Group Co., Ltd. (hereinafter the "Company") is established on 28 June 2005 by integrally converting into a joint stock company from Guangzhou Automobile Group Company Limited. The Company is a large state-owned stockholding enterprise group established by way of introduction, with Guangzhou Automobile Industry Group Co., Ltd., Wanxiang Group Corporation, China National Machinery Industry Corporation Limited (formerly known as "China National Machinery Industry Corporation"), Guangzhou Iron & Steel Enterprises Group, Guangzhou Chime-Long Hotel Co., Ltd. (Note) as joint promoters.

The H Shares of the Company was listed and traded on the main board of the Stock Exchange of Hong Kong on 30 August 2010. The aggregate share capital of the Company is 6,148,057,675 shares, of which 3,934,757,457 shares are domestic shares, accounting for 64%, and 2,213,300,218 shares are H Shares, accounting for 36%.

Our Company is principally engaged in businesses including the research and development and manufacturing of vehicles and parts, automobiles sales and logistics, and automobiles finance and insurance and related services with a focus on passenger vehicles, facing the domestic and foreign markets and having an independent and integrated value chain of manufacturing, supply, sales and research and development system. Currently, the Company has primarily owned renowned enterprises including Guangqi Honda, GAC Toyota, GAC Passenger, GAC Changfeng, GAC Fiat, GAC Gonow, Honda (China), GAC Hino, GAC Bus, GAC Components, GAC Toyota Engine, GAC Hino Engine, GAC Commercial, GAC-SOFINCO, Guangzhou Guang Ai Insurance Brokers Limited, Tong Fang Global (Tianjin) Logistics Co., Ltd and GAEI.

Note: Guangzhou Chime-Long Hotel Co., Ltd. ("Chime-Long Hotel") was absorbed by Guangzhou Chime-Long Group Co., Ltd. ("Chime-Long Group") on 31 December 2010 as approved by the Panyu branch of the Guangzhou City Administration for Industry and Commerce. After the absorption, Chime-Long Hotel became an affiliate (分公司) of Chime-Long Group, and the shares of the Company originally held by Chime-Long Hotel has since been held by Chime-Long Group.

Chairman's Statement

Zhang Fangyou
Chairman

To all Shareholders,

On behalf of the Board, I am pleased to present the annual report for 2010 of the Company for your review.

During 2010, China continued to accelerate the transformation of economic development, and proactively promoted economic structural adjustments, which basically stabilized the price level, significantly improved people's livelihood, further enhanced the growth momentum of economic society and maintained a rapid growth of the GDP. The domestic vehicle market continued to grow rapidly in 2010, driven by a series of stimulating policies such as tax reduction for vehicle purchase, automobile subsidies for rural areas, replacing old vehicles with new ones and subsidies for energy-saving products for benefiting people. As the output and sales of vehicles in 2010 reached 18.2647 million units and 18.0619 million units, representing a year-on-year increase of 32.44% and 32.37% respectively, China has become the largest vehicle production base and the largest market for new vehicle sales, surpassing the highest record of new vehicle market of the United States. The automobile industry has realized the objectives in overcoming the financial crisis and stimulating the economic growth.

During the reporting period, the aggregate sales volume of vehicles of the Group together with our associated companies was 724,343 units, representing a year-on-year increase of 19.41%, among which the aggregate sales volume of passenger vehicles was 719,639 units, representing a year-on-year increase of 19.24%, and that of commercial vehicles was 4,704 units, representing a year-on-year increase of 51.16%. Due to the production capacity of our major joint ventures and the structural characteristics of our product mix, the growth rate of sales volume of the Group was slightly lower than the average level in the industry. In 2010, the consolidated revenue of the Group was RMB59.848 billion, representing a year-on-year increase of 19.1%, among which the revenue for passenger vehicles was RMB58.118 billion, representing a year-on-year increase of 17.7%; while the revenue for commercial vehicles was RMB898 million, representing a year-on-year increase of 160.9%. The profits attributable to the equity holders of the Group was RMB4,295 million, representing a year-on-year increase of 111.4%. All the operating targets achieved were much higher than the annual business objectives formulated by the Board.

Chairman's Statement

In 2010, the Group made a major breakthrough in terms of various aspects including accelerating the establishment of proprietary brand, innovatively promoting the capital operation, having in-depth development of joint ventures and cooperations, proactively conducting mergers, acquisitions and reorganizations, adjusting the industrial layout and product mix, and improving company management. Firstly, the first proprietary brand passenger vehicle "Trumpchi" has successfully commenced its mass production and has been launched into the market. It was also designated as the official reception sedan for the 2010 Guangzhou Asian Games and was praised and well received by all domestic and foreign guests and athletes, setting up a new model for the mid-to-high end sedan market with domestic proprietary brand. Secondly, the H shares of the Company were listed on The Stock Exchange of Hong Kong Limited on 30 August 2010, symbolizing that the Company has successfully integrated into the international capital market, which in turn created a new access to the international competition, enhanced the Group's asset value and brand value and successfully established a solid foundation for transforming the Group into an international enterprise and a public company with social trust. Thirdly, we have achieved major breakthroughs in the important projects: (i) GAC Gonow (廣汽吉奧) was formally established. GAC Gonow Auto Co., Ltd. (廣汽吉奧汽車有限公司) was established in Hangzhou on 9 December 2010 and it has commenced its operations, which expanded the Group's product lines in terms of mini-vehicles, pick-up trucks and SUVs, etc., indicating the Company's new breakthrough in regional layout and product offerings; (ii) The Group continued to promote the further restructuring of GAC Changfeng. On 5 November 2010, the Company entered into a memorandum of understanding with Mitsubishi Motors Corporation, pursuant to which the Company will restructure GAC Changfeng to be a joint venture 50% held by each of the Company and Mitsubishi Motors after the Company has acquired GAC Changfeng and procured the withdrawal of listing of GAC Changfeng. This affirmed the ways of full cooperation between the Company and Mitsubishi Motors and refined and enriched the product mix of the Company; (iii) GAC Fiat project was conducted successfully. Since the establishment GAC Fiat has implemented its construction of plant, introduction of vehicle models and establishment of its marketing network as scheduled. The successful implementation of the above-mentioned major vehicle projects will provide a new momentum for the subsequent development of the Group and will also boost the results of the Group to a new level. Fourthly, the industry layout was increasingly improved and the adjustment of industrial structure obtained a preliminary achievement. (i) Cross-regional layout was deeply facilitated in terms of industry layout. The Group owns its production bases with more scientific and reasonable layout in Central China, Eastern China and Northern China through the acquisition of GAC Changfeng and the establishment of GAC Gonow. (ii) Innovative development of modern vehicle service industry provides protection and support for the development of main-stream business. In July 2010, GAC-SOFINCO Automobile Finance Co., Ltd. has commenced its operations and became the first automobile finance service provider in Guangdong province and the South China region. In addition, the preparation and establishment of the Group's automobile insurance project was approved by China Insurance Regulatory Commission, and it is estimated to commence its operations in the first half of 2011. (iii) The product structure and technical upgrade were further realized, which enhanced the competitiveness of our products. In 2010, Guangqi Honda launched Crosstour coupe in response to the market demands. GAC Toyota launched Camry hybrid vehicles, and introduced the first model of FUV domestic trendy and multi-functional vehicle, E'Z, which is to commence its mass production in the near future. All of the above helped diversify the product lines of the Group and enhance the competitiveness of our products. Fifthly, in order to cope with the impact from recalls and business disruption of certain suppliers, the Group proactively organized and implemented a series of measures, which effectively maintained our brand image and normal operation of production and hence provided assurance for over-fulfillment of business objectives formulated by the Board.

Chairman's Statement

Looking into 2011, the global economy will continue to recover though there still exist many uncertainties. Although the monetary policy will remain stable and the growth rate of economy in China may moderately slow down, the growth rate can still be remained at a high level. In spite of the adjustment of automobile consumption environment and policy and the withdrawal of all kinds of preferential policies, which may slow down the growth of automobile industry, the automobile industry will still remain the major pillar industry for China's economy, and the upgrade of consumption structure will still be the key driving force of the development of automobile industry. Currently, as China's vehicle market is still at the stage of rapid popularization, the growth in demand for automobile consumption will be boosted by the significantly low rate of car ownership, especially the rapid increase in income of urban and rural residents and the urbanization and the resulting expansion of urban population. Factors such as traffic, energy and environmental protection will not substantively restrict the demand for vehicles. Besides, the utilization rate of production capacity in automobile industry is expected to remain at a higher level, promoting a steady growth in the profitability of enterprises. At present, the impact on the growth of automobile industry in the first-tier cities will be offset by the demand for vehicles in the second-tier and third-tier cities. Therefore, in 2011, the Group will continue to transform its path of development through promoting the adjustment of industrial structure, procuring the industrial upgrade, further strengthening its research and development of energy-saving and emission reduction products, and enhancing its competitiveness of our products. The Group will continuously extend our industrial chain; especially enhance the development of ancillary facilities of spare parts and automobile service business. The Group will also continue to prepare for its listing of A Shares and enhance the management of corporate value. Meanwhile, the Group will adjust the product mix, reduce the operating expenses and control the production cost so as to cope with the impact from the changes in various policies, especially the tax regulation, on the profits of the Group, and hence achieve the business objectives set up by the Board.

Chairman: **Zhang Fangyou**
Guangzhou, PRC
22 March, 2011

Corporate Information

Chinese name of the Company	**廣州汽車集團股份有限公司**
English name of the Company	**Guangzhou Automobile Group Co., Ltd.**
Stock Code	2238
Registered address and Headquarters	23/F, Chengyue Building, 448–458 Dong Feng Zhong Road, Yuexiu District, Guangzhou
Principal place of business in PRC	23/F, Chengyue Building, 448–458 Dong Feng Zhong Road, Yuexiu District, Guangzhou
Principal place of business in Hong Kong	Room 808, Citicorp Centre, 18 Whitfield Road, Causeway Bay, Hong Kong
Company website	www.gagc.com.cn
Hong Kong H share registrar	**Tricor Investor Services Limited** 26/F, Tesbury Centre, 28 Queen's Road East, Hong Kong
Compliance adviser	**China International Capital Corporation Hong Kong Securities Limited** 29/F, One International Finance Centre 1 Harbour View Street, Central, Hong Kong
Overseas Auditors	**PricewaterhouseCoopers**
Domestic Auditors	**BDO China Guang Dong Shu Lun Pan Certified Public Accountants**
Joint company secretaries	Lu Sa Leung Chong Shun
Authorised representatives	Lu Sa Li Tun
Audit committee	Law Albert Yu Kwan *(Chairman)* Ma Guohua Xiang Bing
Remuneration and evaluation committee	Li Zhengxi *(Chairman)* Ma Guohua Li Pingyi
Nomination committee	Wu Gaogui *(Chairman)* Li Zhengxi Wang Songlin
Strategy committee	Zhang Fangyou *(Chairman)* Zeng Qinghong Yuan Zhongrong Fu Shoujie Wu Gaogui Xiang Bing

Business Overview

Business Overview

I. Main Business of our Group

Our main business consists of manufacturing and sales of passenger vehicles, commercial vehicles, engines and auto parts. The Group is also engaged in a broad range of automobile-related services and other businesses, including car sale and leasing, after-sale services, import and export of automobile-related products, logistics services, automobile financing and automobile insurance brokerage services.

The Group produces and sells a variety of passenger vehicles mainly through two JCEs, namely Guangqi Honda and GAC Toyota, and a wholly-owned subsidiary, GAMC which produce and sell nine series of sedans, SUV and MPV, including GAC Toyota Camry, GAC Toyota Highlander, Guangqi Honda Accord, Guangqi Honda Odyssey and GAC Trumpchi, etc. We also participate in the production of Honda Jazz sedans and GAC Changfeng Liebao and Mitsubishi Pajero SUVs through our associated companies, Honda (China) and GAC Changfeng, respectively. As at 31 December 2010, the Group had an annual production capacity of 990,000 units of passenger vehicles, with a capacity utilization of 72.49%.

The commercial vehicle business of the Group, including manufacturing and sales of light and heavy trucks and buses, is mainly conducted through its JCE GAC Hino and its subsidiary GAC Bus. As at 31 December 2010, our production capacity of commercial vehicles was 21,500 units, among which, the production capacity of chassis was 2,500 units.

The Group produces and sells auto parts mainly through GAC Component and its subsidiaries and associated companies. The Group produces and sells engines through GAC Toyota Engine and Shanghai Hino, and also produces and sells transmissions through HAVECO. Moreover, the Group participate in the production of auto-part products including, seats, HVAC systems, auto lamps, automation accessories, redirectors and shock absorbers, etc. Most of our production and sales of auto parts are conducted through the associated companies. As at 31 December 2010, the production capacity of GAC Toyota Engine and Shanghai Hino in respect of engines amounted to 500,000 units and 30,000 units, and the production capacity of HAVECO in respect of transmissions amounted to 200,000 units.

Listing of H Shares and Privatisation of Denway

On 30 August 2010, the H shares of the Company were successfully listed on the Stock Exchange. The listing of H Shares was by way of introduction and simultaneously implemented general offer of a subsidiary, Denway (a red-chip company listed on the Stock Exchange) by way of scheme of arrangement. This innovative transaction structure has won recognition and praise in capital market and the transaction is awarded “Best Domestic M&A Transaction” by Finance Asia in 2010.

Business Overview

The privatisation and the listing further improved the management structure within the Group, enhanced management efficiency, increased asset value and brand value, and built a platform for the Group in international capital market. Furthermore, such transaction laid a solid foundation for developing the Group into an international enterprise and a reliable pubic company.

Major Business Review of the Year of 2010

1. *Production and sales, market share and capacity utilization rate of the Group*

In 2010, the cumulative production and sales of vehicles of the Group were 723,037 units and 724,343 units with an increase of 19.08% and 19.41% over the corresponding period of last year among which the production and sales of passenger vehicles were 717,678 units and 719,639 units representing an increase of 18.83% and 19.24% comparing with last year; the production and sales of commercial vehicles were 5,359 units and 4,704 units with an increase of 63.68% and 51.16% comparing with last year respectively. Currently, sales volume of the Group contributed a total market share of 4.01% in automotive market in terms of sales volume, of which we occupied a market share of 23.92% and 9.05% in mid-to-high end sedan market and SUV market.

Business Overview

The production and sales volume by company for the year ended 31 December 2010 are set out below:

	Production volume (Units)			Sales volume (Units)		
	YTD	YTD	YTD	YTD	YTD	YTD
Entity	**Dec. 2010**	**Dec. 2009**	**YoY**	**Dec. 2010**	**Dec. 2009**	**YoY**
Passenger vehicles	**717,678**	**603,937**	**18.83%**	**719,639**	**603,509**	**19.24%**
Guangqi Honda	385,755	365,997	5.40%	386,031	365,623	5.58%
GAC Toyota	268,445	209,613	28.07%	269,429	209,587	28.55%
GAC Changfeng	37,890	31,389	20.71%	39,048	30,139	29.56%
Honda (China)	25,116	28,327	-11.34%	25,009	28,299	-11.63%
GAMC	472	—	—	122	—	—
Commercial vehicles	**5,359**	**3,274**	**63.68%**	**4,704**	**3,112**	**51.16%**
GAC Hino	3,380	1,990	69.85%	2,911	1,810	60.83%
GAC Bus	1,979	1,284	54.13%	1,793	1,302	37.71%
Total vehicles	**723,037**	**607,211**	**19.08%**	**724,343**	**606,621**	**19.41%**
Engines	**422,130**	**361,407**	**16.80%**	**418,293**	**355,591**	**17.63%**
GAC Toyota Engine	399,401	361,407	10.51%	395,988	355,591	11.36%
Shanghai Hino	22,729	12,021	89.08%	22,305	11,592	92.42%

* The calculation is based on the statistics published by China Association of Automobile Manufactures.

* Figures of GAC Changfeng are excluded in the total production and sales volumes of automobiles of 2009, and figures of Shanghai Hino are excluded in the total production and sales volumes of engines of 2009

Business Overview

The sales volume and market share of passenger vehicles and commercial vehicles of the Group for the year ended 31 December 2010 are set out below:

Entity	Sales volume (Units) YTD Dec. 2010	YTD YoY	Market share %
Passenger vehicles	**719,639**	**19.24%**	**5.23%**
Mid-to-high-end sedan	**333,261**	**0.50%**	**23.92%**
Guangqi Honda Accord	171,728	-2.07%	12.32%
GAC Toyota Camry	161,411	3.32%	11.58%
Trumpchi	122	—	0.01%
Mid-end sedan	**132,645**	**17.15%**	**2.61%**
Guangqi Honda City	132,645	17.15%	2.61%
Economy sedan	**85,649**	**-9.68%**	**5.31%**
Guangqi Honda FIT	33,578	-30.97%	2.08%
Honda Jazz	25,009	-11.63%	1.55%
GAC Toyota Yaris	27,062	51.25%	1.68%
High-end sedan	**2,264**	**—**	**0.64%**
Guangqi Honda Crosstour	2,264	—	0.64%
Subtotal of sedans	**553,819**	**2.63%**	**5.83%**
MPV	**45,837**	**61.43%**	**10.29%**
Guangqi Honda Odyssey	45,816	61.35%	10.29%
GAC Changfeng Kylin	21	-90.54%	—
SUV	**119,983**	**238.30%**	**9.05%**
GAC Toyota Highlander	80,956	128.26%	6.11%
GAC Changfeng Liebao	28,897	28.80%	2.18%
GAC Changfeng Pajero	10,130	35.39%	0.76%
Commercial vehicles	**4,704**	**51.16%**	**0.11%**
Buses	1,947	49.54%	0.44%
Trucks	2,757	52.32%	0.07%
Total vehicles	**724,343**	**19.41%**	**4.01%**

* The calculation is based on the statistics published by China Association of Automobile Manufactures. The data of GAC Changfeng is excluded from the figures of the previous year.

For the year ended 31 December 2010, the production capacity of vehicles of the Group amounted to 1,011,500 with a capacity utilization of 71.48%, among which the production capacity of passenger vehicles amounted to 990,000 units with a capacity utilization of 72.49%; the production capacity of commercial vehicles (including chassis) amounted to 21,500 units with a capacity utilization of 24.93%; the production capacity of engines amounted to 530,000 units with a capacity utilization of 79.65%.

Business Overview

The production capacity and capacity utilization by company for the year ended 31 December 2010 are set out below:

Entity	Annual capacity (Units)	Annual production (Units)	Annual capacity utilization %
Passenger vehicles	990,000	717,678	72.49%
Guangqi Honda Automobile Co., Ltd	360,000	385,755	107.15%
GAC Toyota Motor Co., Ltd	380,000	268,445	70.64%
Honda Automobile (China) Co., Ltd.	50,000	25,116	50.23%
Guangzhou Automobile Group Motor Co. Ltd.	100,000	472	0.47%
GAC Changfeng Motor Co., Ltd.	100,000	37,890	37.89%
Commercial vehicles	21,500	5,359	24.93%
GAC Hino Motors Co., Ltd.	19,500	3,380	17.33%
Guangzhou Automobile Group Autobus Co., Ltd	2,000	1,979	98.95%
Total vehicles	1,011,500	723,037	71.48%
Engines	530,000	422,130	79.65%
GAC Toyota Engine Co., Ltd.	500,000	399,401	79.88%
Shanghai Hino Engine Co., Ltd.	30,000	22,729	75.76%

* The calculation is based on the statistics published by China Association of Automobile Manufactures

In the second half of 2010, Guangqi Honda launched the capacity expansion project for Zengcheng Plant, which can increase production capacity from 120,000 units to 240,000 units. The annual production capacity of Guangqi Honda will reach 480,000 units, which will further enhance subsequent development potential.

2. ***The revenue of each business segment of the Group as of 31 December 2010 is set out below:***

	2010 Sales revenue (RMB million)
Passenger vehicles	**58,118**
Commercial vehicles	**898**
Auto parts	**450**
Automobile-related services	**382**
Total	**59,848**

3. *Sales Network*

The Group companies established their independent distribution network and after-sale services outlets in line with the development plan. As at 31 December 2010, the sales and service network of the Group are set out below:

Passenger vehicles	First-level stores in 2010	The achievements of the plan of first-level stores in 2011	Number of provinces, cities and autonomous regions covered
Guangqi Honda	430	490	31
GAC Toyota	262	330	31
GAC Changfeng	115	138	30
GAMC	50	90	30
Total	**857**	**1,048**	

Commercial vehicles	Sales outlets in 2010	The achievements of the plan of first-level stores in 2011	Number of provinces, cities and autonomous regions covered
GAC Hino	26/3S stores	60/3S stores	25
	27/2S stores	80/2S stores	
GAC Bus	46/first-level stores	56/first-level stores	25
	184/service outlets	184/service outlets	29

4. *New Vehicle Models and New Energy Products*

In 2010, the Group continued to launch new vehicle model products based on market demand and national policies for the industry. Following the launch of Camry 2010 by GAC Toyota in March 2010, all 12 vehicle models in the series received positive market response with the annual sales of over 161,400 units, which ranked the second in mid-to-high sedans. In May, GAC Toyota officially launched its first new energy product, Camry hybrid vehicles, which substantially reduced gasoline consumption by 41.7% and exhaust emission by 75.0% and boosted the power by 13.8%, enriching the product lines of GAC Toyota. GAC Changfeng has launched Liebao Feiteng (Fashion), which resulted an increase in sales volume. In October 2010, Guangqi Honda officially launched its "Luxury Crossover Coupe"(轎跑型豪華跨界車), Crosstour, which was awarded the Best Exterior Design of 2010 CCTV China Automobile Award. On 20 December 2010, we successfully launched our first proprietary model, Trumpchi. Guagnqi Trumpchi, as mid-to-high sedan, were used as the official reception sedans for the 16th Asia Games, which has been highly praised by Asian Games Organizing Committee and all sectors of the community and demonstrated that our successful transformation from joint venture cooperation to the combination of independent development of propriety brands and joint venture common development. Besides, we accelerate the development of hybrid sedans, plug-in hybrid sedans and electric vehicle "Trumpchi" and focus on building of a technical platform of motor system, battery system and electric control system.

Business Overview

For commercial vehicles, GAC Bus continued to promote the development and production of hybrid city buses and electric city buses in the field of new energy. GAC Bus has successively provided a total of over 1,000 new buses in 6 categories and 9 models for the 2010 Guangzhou Asian Games, including 26 electric buses, 114 hybrid buses, 214 barrier-free buses, etc.

Proprietary Brands and Research and Development ("R&D")

In 2010, GAMC fully completed the construction of vehicles and engines plants and successfully achieved mass production of vehicles and engines and launched the first proprietary brand of sedan "Trumpchi". In November, 500 "Trumpchi" sedans were used as the designated reception sedans for Asia Games and successfully provided services for the 16th Asia Games, which greatly enhanced the brand image of Trumpchi. On 20 December 2010, Trumpchi officially commenced its commercial sales; on 28 December, Trumpchi was awarded "Best (Proprietary) Newly Launched Auto (最佳自主品牌首發新車)"; In 2010, Guangqi "Trumpchi" obtained over 70 awards issued by various auto shows and medias. The first mass production models of "EVERUS", the propriety R&D brand of Guangqi Honda, were officially launched at the 8th China (Guangzhou) International Automobile Exhibition in December and will be commercially launched in Spring 2011.

In respect of proprietary R&D, GAEI comprehensively promoted the development of propriety brand products with focus on the vehicle model of "Trumpchi". The development of "Trumpchi" achieved several major technological innovations, including enabling better safety of new car assessment program comparing with C-NCAP five star standard, and better emission of the national IV standard. The R&D achievements of "Trumpchi" have reached domestic leading and international advanced level as evaluated by authoritative experts of relevant government departments. In addition, we are also conducting a number of vehicle and power train projects to ensure the launch of a new model each year. In respect of auto parts, we achieved simultaneous development of seating system assembly, hand brake dashboard and center console.

Business Overview

Automobile Services Industry

The Group is mainly engaged in vehicle sales, after-sale services, logistics services as well as import and export businesses through GAC Commercial, provided automotive finance services through GAC-SOFINCO and provided insurance services through Guangzhou Guang Ai Insurance Brokers Limited.

In 2010, GAC Commercial strongly explored the businesses of automobile logistics, car rental and car sales, actively promoted the construction of 4S shops and enhanced the sales activities of our propriety brands and Fiat brand. Besides, the profit margin of 4S shops recorded a large increase through strengthening its car sales assessment and enhancing the sales of high-quality vehicles. In 2010, Tong Fang Global Logistics (同方環球) completed the standardization of logistics management system for three fields of commodity vehicles, auto parts and after-sales parts, and preliminarily established a management mechanism of platform resources integration.

GAC-SOFINCO obtained the approval from the China Banking Regulatory Commission in May 2010 and started its business on 13 July, initially covering northeast region, northern China, eastern China, middle and southern region as well as southwest region. The GAC Zhongcheng Insurance Project (廣汽衆誠保險專案) was granted with preparation qualifications by China Insurance Regulatory Commission on 14 July 2010. The Company is currently boosting the preparation and construction and opening work from various aspects of business planning, IT construction and staff allocation, system construction, risk management and backup operations, and is expected to start the business in the first half of 2011.

Auto Parts

In 2010, GAC Components overcame the impact of increasing labor cost and material prices and achieved the double-digit growths in revenue and profit through improving the localization rate and reducing operation costs. Besides, focusing on the development of the Group and GAC Changfeng and GAC Fiat, we actively explored new projects and technological reform projects and totally completed 2 new projects, 23 development projects of new products and 12 technological reform projects during the year. Furthermore, GAC Components greatly promoted its own research and development, and was officially listed in September 2010 and built an advanced product development lab to lay a solid foundation for following independent development of products.

Business Overview

In 2010, benefited from the growth of China automotive industry and the extend of tax preference period for car purchasing in Japan, the engines sales of GAC Toyota Engine increased by 11.36% to 395,988 units, and achieved zero defects for major products through various quality improvement activities. To ensure the smooth operation of 773F engines in 2011 and minimize the influence of the decline of production resulting from the upgrading of production lines in phase one, we will orderly achieve the transition from two-shift production to three-shift production and minimize the influence through adjusting safety mechanism, production rhythm, equipment security, logistic supports and emergency system. Benefited from continuous hot-selling trend in commercial vehicles market, in 2010, Shanghai Hino recorded an increase of 92.42% in sales of the engines over last year and with an increase of over 80%.

Production Safety

In 2010, the Group adhered to the guidelines of "safety first, focus on prevention, comprehensive control" and the principles of "people-oriented and safe development", strictly implemented accountability system for production safety and fully conducted the standardization of safety production. Production safety accidents occurred in the whole year reduced by 12.5% compared with the same period of 2009. No serious injury and death accidents occurred. The condition of safe production is generally stable.

Environmental Protection and Sustainable Development

The Group attached great importance to environmental protection and sustainable development. In 2010, focusing on the targets of "energy saving, consumption reduction, pollution reduction and efficiency enhancement", the Group carried out a wide range of energy saving and emission reduction activities with full participation among the employees, such as the "Month for Strengthening Environmental Activities" and set the environmental areas for displaying relevant information and cases, etc. In respect of energy and water saving and waste reduction, through improving design, replacement of energy saving lamps, reuse of chilled water in cooling tower, identification and reuse of waste and improving the efficiency of swage treatment, our major JCEs and auto parts enterprises recorded a decrease of over 10% in energy consumption, total water consumption and wastes disposal over the corresponding period last year. The Group has achieved 100% treatment for industrial "three wastes" (namely waste water, waste gas and solid waste) and standardized discharge, and the recovery rate of waste water and solid waste gradually increased. Following Guangqi Honda Zengcheng Plant and GAC Toyota being zero discharge of sewage the enterprises, Guangzhou Denso Co., Ltd (廣州電裝有限公司), which is mainly engaged in the production of automobile air-conditioners and condensers, also became one of the zero sewage water discharge enterprises in the Group.

Charitable Activities

In addition to providing customers with quality products, auto parts and related services, the Group has also devoted to fulfilling our undertakings of being an outstanding corporate citizen. In 2010, the Group and its employees have donated money and materials worth about RMB7,372,400 in total to earthquake disaster area in Yushu, Qinghai Province and also donated a total of RMB1,088,500 for resisting a drought in Baise, Guangxi Province. Besides, the Group donated a total of RMB466,600 to Guangzhou Foundation for Poverty Workers and actively participated in activities of "Helping the Poor in Guangdong" and donated a total of RMB2,400,000 to actively promote harmonious development of the community.

The 16th Asian Games was held in Guangzhou in November 2010. The Group as the senior partner of the Guangzhou Asian Games, had closely cooperated with The Guangzhou Asian Games Organsing Committee, in order to promote the development of athletics and mass sports development and make contributions to the community. Apart from providing funds support, products and services as well as arranging the vehicles for the Asian Games, the Group had organized a series of promotional activities with the theme of Asian Games through our large customer base and extensive marketing experience. This contributed to a substantial growth in our brand value, public influence and customer loyalty, enabling the Group to make a solid progress in developing into an excellent international enterprise.

Outlook for the Year of 2011

Looking into to the work of 2011, there is a slowing trend in the domestic macroeconomic growth and certain adjustments regarding auto consumption environment and policies will be made, but it is expected that China's GDP will still maintain a rapid growth. Although the growth of domestic automotive industry will slow down rationally, it can also be maintained at a higher level. Under the leadership of the Board, the Group will strive to achieve operational business targets while focusing on the following tasks:

(1) Ensuring the completion of targets of 2011 business plan; overcoming the impact of policy adjustment, especially adjustment of taxation policy, on profits through adjusting product structure, controlling administrative expenses, sales expenses and material cost;

(2) Ensuring the key projects and work are carried out in conformity with the scheduled phases and quality: (a) ensuring that the proprietary brand passenger vehicle "Trumpchi", is widely accepted in market and provide high-quality services and establish a good brand image; (b) ensuring that GAC Fiat Project will be completed in 2011, and the commissioning of production lines and the trial production will be conducted; (c) accelerating the integration of GAC Gonow, achieving complementary advantages and enhancing the efficiency; (d) ensuring the capacity expansion of 480,000 units of Guangqi Honda, solving the capacity bottleneck and promote the development of Guangqi Honda; (e) ensuring the introduction and successful commercial launch of the new product of GAC Toyota, "Verso (逸致)" and the new generation of "Camry"; (f) promoting the construction of R&D base of GAEI and the development of following car models of GAMC, especially strengthen the R&D of new energy vehicles; (g) further promoting the listing of domestic A shares; (h) promoting the cooperation with Mitsubishi; (i) greatly developing automotive financial services of GAC-SOFINCO and start the business of GAC Zhongcheng Insurance as earliest as possible.

(3) Continuing to promote the industrial restructuring, optimize the industrial upgrading, extending the industrial chain value and strive to develop modern automotive services;

(4) Accelerating independent innovation, and focusing on brand construction and enhance the brand influence;

(5) Strengthening capital operation and market capitalization management, build a comprehensive platform in domestic and overseas capital markets and promote the corporate restructuring by utilizing the capital operation on the basis of strengthening risk control;

(6) Continuing to improve corporate governance, and strengthening management innovation and paying great attention to the standard of operation of listed companies.

II. Substantial Acquisitions, Disposals and Investment

During the reporting period, under the support of the policy "Automobile Industry Adjustment and Revival Plan", the substantial acquisitions of the Group are conducted mainly for the purpose of further improvement of strategic layout and enhancement of industrial competitiveness.

On 22 January 2010, the Company and Denway jointly issued an announcement in relation to the proposed privatisation of Denway by way of issuing H shares by the Company to public shareholders of Denway, and listing of the Company by way of introduction.

On 16 July 2010, the proposed scheme was approved and passed at the court meeting and the extraordinary general meeting of Denway.

On 30 August 2010, the Company was successfully listed on the Stock Exchange. Upon completion of the transaction, Denway became a wholly-owned subsidiary of the Company, and the total share capital of the Company is enlarged from 3,934,757,457 shares to 6,148,057,675 shares. GAIG remains to be the largest Shareholder, holding 58.8% interest of the Company.

In March 2010, GAC Components (a subsidiary of the Company) conducted the acquisition of 45% of shareholdings in GAC-QH (Meizhou) Auto Electric Co., Ltd (梅州强華汽車電器有限公司) at a cash consideration of RMB40,500,000. Its main business includes the production of automotive generators and starters and the acquisition has been completed.

On 2 April 2010, the Company entered into an equity transfer agreement with Shanghai Electric Group Company, pursuant to which, the Group acquired 30% equity interest in Shanghai Hino at a consideration of RMB105,750,000. The acquisition has been completed.

On 3 December 2010, the Company entered into an agreement with Zhejiang Gonow Investments Co., Ltd. (浙江吉奧投資有限公司, "Gonow Auto") in Hangzhou to establish GAC Gonow. The registered capital of GAC Gonow was RMB1,260,000,000, and the Company contributed RMB642,600,000 and held 51% in the shareholdings of GAC Gonow. Gonow Auto contributed RMB617,400,000 with all equity interests in five wholly-owned subsidiaries (namely, Hangzhou Gonow Automobile Co., Ltd (杭州吉奧汽車有限公司), Dongying Gonow Automobile Co., Ltd (東營吉奧汽車有限公司), Zhejiang Gonow Automobile Sales Co., Ltd (浙江吉奧汽車銷售有限公司), Zhejiang Gonow Import and Export Co., Ltd (浙江吉奧進出口有限公司) and Zhejiang Gonow Auto Parts Co., Ltd (浙江吉奧汽車零部件有限公司)) held by it and the vehicle business assets (including manufacturing facilities, equipments and models) of Zhejiang Gonow Automobile Co., Ltd (浙江吉奧汽車有限公司) as the capital contribution, and held 49% in the shareholdings of GAC Gonow. GAC Gonow completed the business registration on 8 December and held opening ceremony on 9 December in Hangzhou. The cooperation between the Company and Gonow Auto was an attempt of actively exploring the cooperation between state-owned enterprises and private enterprises, and also the first case in China's auto industry. The cooperation further enriched the product mix of the Group, complemented micro-cars and pickups products and optimized our regional distribution, enabling us to own the production base in East China and Yangtze River Delta region.

On 30 December 2010, the Company entered into the agreement with Guangzhou Motor Group in relation to the acquisition of 50% of the registered capital in Wuyang — Honda Motors (Guangzhou) Co., Ltd. ("Wuyang Honda") at a consideration of RMB444,764,750 and the acquisition of the Wuyang Trademarks at a consideration of RMB30,960,000. Wuyang Honda is owned as to 40% by Honda and 10% by Honda (China) Investment, and is mainly engaged in manufacturing and sale of motorcycles and related auto parts and provision of after-sale services. In 2009, production and sales of motors was 810,400 units. This acquisition will enable our Group to enter into the production and sales of motors, and will be complementary to passenger vehicles and commercial vehicles businesses, and will also be favorable to further cooperation with Honda.

As at 31 December 2010, the Group did not have any substantial disposals.

Management Discussion and Analysis

Financial Results Overview

Our interests in jointly-controlled entities are accounted for by proportionate consolidation. We consolidate our share in the jointly-controlled entities in respect of incomes and expenses, assets and liabilities and cash flow on a line-by-line basis into similar items in the Group's financial statements. During this year, the revenue of the Group amounted to approximately RMB59,848 million, representing an increase of RMB9,594 million, or approximately 19.1%, when compared with approximately RMB50,254 million in the last year. The profit attributable to equity holders of our Company amounted to approximately RMB4,295 million during this year, representing an increase of RMB2,263 million, or approximately 111.4%, when compared with approximately RMB2,032 million in the last year. Earnings per Share were approximately RMB91.92 cents, representing an increase of approximately RMB37.79 cents, or approximately 69.8%, when compared with approximately RMB54.13 cents in the last year.

Cash and cash equivalents as at the end of the year of this Group amounted to approximately RMB15,981 million, representing an increase of approximately RMB4,648 million, or approximately 41.0%, when compared with the amount at the beginning of the year.

Revenue

In 2010, our Group continued to focus on the sales of mid-to-high-end sedans with higher profitability and stable customer base, while gradually expanding the scope of products and diversifying the product mix. Guangqi Honda Accord and GAC Toyota Camry (as the most popular traditional models of passenger vehicles of the Group) commanded the top two ranks in the PRC mid-to-high-end sedan market in terms of sales volume during the year. Meanwhile, GAC Toyota Highlander and Guangqi Honda Odyssey's sales surged during the year compared with the corresponding period in the last year, further enriched the original production line and brought considerable revenues to our Group.

During the year, the revenue of the Group amounted to approximately RMB59,848 million, an increase of RMB9,594 million, or approximately 19.1% compared with approximately RMB50,254 million in the last year, of which the sales of passenger vehicles amounted to approximately RMB58,118 million, representing an increase of approximately 17.7% over the last year, which comprises most of the revenue of our Group, or approximately 97.1%; the revenue of commercial vehicles amounted to approximately RMB898 million, representing an increase of approximately 160.9% over the last year, comprising approximately 1.5% of the revenue of our Group.

Management Discussion and Analysis

	2010		2009	
	Sales revenue (RMB million)	**Sales volume (Unit)**	Sales revenue (RMB million)	Sales volume (Unit)
Passenger vehicles	**58,118**	**655,582**	49,370	575,210
Commercial vehicles	**898**	**4,704**	345	3,112
Auto parts	**450**	**N/A**	264	N/A
Automobile-related services	**382**	**N/A**	275	N/A
Total (the Group)	**59,848**	**660,286**	50,254	578,322
Sales volume of associated companies	**N/A**	**64,057**	N/A	28,299
Total (the Group together with its associated companies)	**N/A**	**724,343**	N/A	606,621

During the year, the revenue of our passenger vehicles increased by approximately RMB8,748 million, from approximately RMB58,118 million last year to approximately RMB49,370 million this year, representing an increase of approximately 17.7% over last year. It is mainly due to the increase of sales volume of our passenger vehicles by 80,372 units, from 575,210 units last year to 655,582 units this year, representing an increase of approximately 14.0% over last year, among which:

- in terms of mid-to-high-end sedans, GAC Toyota Camry and Guangqi Honda Accord still commanded the first two ranks in mid-to-high-end sedan market; in terms of mid-end sedans, the cumulative sales of Guangqi Honda (CITY) increased by 19,418 units, or 17.2% over the corresponding period last year, to 132,645 units during the year;

- MPV and SUV recorded significant growth. The cumulative sales of Guangqi Honda Odyssey (MPV) increased by 17,421 units, or 61.4%, over the corresponding period last year to 45,816 units during the year; GAC Toyota Highlander (SUV) maintained significant growth since its launch in May 2009, the market share of the GAC Toyota Highlander (SUV) was ranked the top of the large and medium SUV market, the cumulative sales volume increased by 45,490 units, or 128.3% over the corresponding period last year, to 80,956 units during the year.

During the year, the revenue of our commercial vehicles increased by approximately RMB553 million, or approximately 160.9%, to approximately RMB898 million from approximately RMB345 million over the last year. The sales volume of our commercial vehicles increased by 1,592 units, or approximately 51.2%, to 4,704 units during the year from 3,112 units in the last year, among which the cumulative sales of GAC Hino increased by 1,101 units, or 60.8% over the corresponding period in the last year, to 2,911 units during the year since GAC Hino has commenced the production and sales of heavy trucks and coaches from September 2009; the cumulative sales of GAC Bus increased by 491 units, or 37.7% over the corresponding period in the last year, to 1,793 units during the year, which mainly benefited from the sales of new models used in Asian Games. Meanwhile, as the adjustment of product mix structure in commercial vehicles segment caused a growth in sales revenue, the proportion of commercial vehicles in revenue increased by 0.8% from 0.7% in the corresponding period in the last year to 1.5%.

Cost of Sales and Gross Profit

During the year, our total cost of sales increased by RMB7,658 million, or approximately 18.3%, to approximately RMB49,576 million during the year from approximately RMB41,918 million in the last year. Our total gross profit increased by approximately RMB1,936 million, or approximately 23.2%, to approximately RMB10,272 million during the year from approximately RMB8,336 million in the last year.

Our gross profit margin increased by 0.6% from approximately 16.6% in the corresponding period in the last year to approximately 17.2% during the year, of which the gross profit margin of our passenger vehicle business increased by 0.5% from approximately 16.9% in the last year to approximately 17.4% during the year; the gross profit margin of our commercial vehicle business increased significantly by 12.6% from approximately -9.2% in the last year to approximately 3.4% during the year.

The gross profit margin of our passenger vehicle business increased during the year, mainly due to the following reasons:

(1) the positive development of our mid-to-high-end passenger vehicles, with the significant increase in sales of other high-end products (such as GAC Toyota Highlander), resulted in the growth of gross profit margin during the year;

(2) our implementation of a series of cost control measures, including the adoption of sound business policy and the strengthening of internal management, resulted in the reduction of the unit cost;

(3) the growth rate of our cost of passenger vehicles was less than that of our revenue as a result of scale effect of fixed expenses.

During the year, the gross profit margin of our commercial vehicles business increased by approximately 12.6% to 3.4% during this year from approximately -9.2% in the last year, mainly because our commercial vehicles business has completed its reorganization and commenced normal production and sales. The gross profit margin of our commercial vehicles is expected to further increase as a result of the increase in sales of our commercial vehicles.

Selling and Distribution Costs

Our selling and distribution costs increased by approximately RMB625 million to approximately RMB2,768 million during the year from approximately RMB2,143 million in the last year, which is mainly due to the increase in advertising and marketing expenses, the cost of logistics and after-sale services expenses as a result of an increase in sales and launch of new models. Meanwhile, a part of selling and distribution costs are compensated by government grants.

Management Discussion and Analysis

Administrative Expenses

Our total administrative expenses decreased by approximately RMB270 million to approximately RMB2,274 million during the year from approximately RMB2,544 million over the last year, which was mainly due to (i) the administrative expenses were compensated by part of government grants received by the Group during the year; (ii) notwithstanding the expenses of technical support and development increased as a result of an increase in sales, as our self-developed models gradually entered into the development stage during the year, the R&D expenses are capitalized as long-term assets in accordance with accounting policies; besides, with accumulated experience in independent research and development, continuous improvement of independent R&D technologies of the Group and time reduction of research stages for R&D projects, the technical development costs charged in administrative expenses during the year decreased when compared to the corresponding period in the last year.

Other Gains/(Losses) — Net

During the year, other net gains of our Group amounted to approximately RMB91 million, representing an increase of approximately RMB520 million, compared with approximately RMB -429 million in the corresponding period in the last year, which is primarily due to a donation of RMB451 million in the last year to the 16th Asian Games Organizing Committee.

Interest Income

During the year, the interest income of the Group was approximately RMB410 million, representing an increase of approximately RMB21 million when compared with approximately RMB389 million for the corresponding period in the last year, which was mainly due to the increase in average cash and bank balances as a result of the increase of sales revenue of passenger vehicles during the year.

Finance Costs

During the year, the finance costs of the Group amounted to approximately RMB369 million, representing an increase of approximately RMB25 million when compared with approximately RMB344 million in the last year, which was mainly due to a slight increase in our average borrowing balances during the year.

Staff Costs

During the year, the staff costs (including directors' and supervisors' emoluments) of the Group amounted to approximately RMB1,832 million, representing an increase of approximately RMB417 million when compared with approximately RMB1,415 million in the last year, which was mainly due to (i) an increase in the total number of employees as a result of expansion of our scale; (ii) the increase of the level of average salary in line with the increase of the Group's revenue and profit.

Depreciation and Amortisation

With our business expansion and increase in sales revenue, continuous additions and upgrading of fixed assets including plant and equipment of the Group during the year, the increase in fixed assets amounted to approximately RMB1,558 million, disposal of fixed assets approximately RMB66 million, an increase of approximately RMB2,521 million and RMB377 million respectively when compared with those in the last year. During the year, the depreciation and amortization amounted to approximately RMB1,043 million, an increase of approximately RMB73 million when compared with approximately RMB970 million in the last year.

Share of Profit of Associates

During the year, the share of profit of associates of the Group amounted to approximately RMB1,130 million, representing a substantial increase of approximately RMB414 million when compared with approximately RMB716 million in the last year. This was mainly due to:

(1) The share of profit of associates for last year contained the investment loss of approximately RMB252 million in Guangzhou Zhujiang Steel Co., Ltd. The shareholding of this associate had been transferred at the end of 2009;

(2) With the acquisition of shareholdings in GAC Changfeng and Shanghai Hino Engine, the share of profit of associates in passenger vehicles segment was approximately RMB145 million during the year, representing an increase of approximately RMB84 million when compared with approximately RMB61 million in the last year;

(3) The share of profit of associates in auto parts segment was approximately RMB981 million during the year, representing an increase of approximately RMB75 million when compared with approximately RMB906 million in the last year, which was driven by the sales growth of vehicles.

Income Tax Expense

With the increase of the Group's revenue and profit, the income tax expenses of the Group amounted to approximately RMB974 million during the year, representing an increase of approximately RMB250 million when compared with approximately RMB724 million in the last year.

The effective tax rate for the year was approximately 15.0%, representing a decrease of approximately 3.2% as compared with approximately 18.2% in the last year. This was mainly due to the increase in the profit contribution of GAC Toyota, which still enjoyed a tax holiday of "half levy" and the provisional stage of tax reform.

Management Discussion and Analysis

Profit for the Year

Based on the above reasons, the profit of the Group during the year amounted to approximately RMB5,518 million, representing an increase of 69.5% when compared with RMB3,256 million in the last year; the profit margin was approximately 9.2%, representing a significant increase of approximately 2.7% when compared with approximately 6.5% over last year.

Based on the foregoing reasons and our successful listing of H shares by way of introduction and privatisation of public shares of Denway, the Company's indirect shareholding in GAC Honda reached 50%, profit attributable to equity holders of our Company amounted to approximately RMB4,295 million during the year, representing an increase of approximately RMB2,263 million, or approximately 111.4% when compared with approximately RMB2,032 million in the corresponding period in the last year. Earnings per share were approximately RMB91.92 cents, representing an increase of approximately RMB37.79 cents, or approximately 69.8%, when compared with approximately RMB54.13 cents in the last year.

Ratio of Return on Equity was approximately 22.2%, representing an increase of approximately 5.6% when compared with approximately 16.6% in the last year.

Assuming that our shareholding of 37.9% in Denway in 2010 remains unchanged, profit attributable to equity holders of our Company in 2010 is still higher than the forecasted profit of RMB3,760 million as set out in the listing documents.

Foreign Exchange Risk

The Group's businesses mainly operate in the PRC with all of the domestic sales and purchasing settled in RMB. During the year, changes in foreign exchange rates had no material impact on the operation results and cash flows of the Group.

Liquidity and Capital Sources

As at 31 December 2010, the Group's current assets and current liabilities amounted to approximately RMB33,524 million and RMB16,668 million respectively, and the current ratio was approximately 2.01 times. The total borrowing amounted to approximately RMB9,364 million as at 31 December 2010, which mainly included debentures issued by the Group with par value of RMB6,700 million, corporate bonds with par value of RMB600 million and, bank borrowing of approximately RMB2,129 million, the asset to liability ratio was approximately 26.6%. The above borrowing and bonds will be paid when fall due. The Group generally meets its capital requirements in business through its cash flow generated from operating activities.

On 30 August 2010, we successfully implemented a listing of H shares by way of introduction and privatisation of public shares of Denway, the total share capital of our Group was enlarged from 3,934,757,457 shares to 6,148,057,675 shares and other reserves were increased from RMB814 million to RMB7,637 million.

Cash Flow

	Year ended 31 December 2010 RMB million	Year ended 31 December 2009 RMB million
Net cash inflows generated from operating activities	**3,775**	8,357
Net cash inflows/(outflows) generated from investing activities	**1,012**	(8,005)
Net cash (outflows)/inflows generated from financing activities	**(114)**	5,441
Net increase in cash and cash equivalents	**4,673**	5,793

Net cash inflows generated from operating activities during the year was approximately RMB3,775 million, representing a decrease of approximately RMB4,582 million when compared with approximately RMB8,357 million in the last year, which was mainly due to:

(1) during the year, cash from sales of goods was approximately RMB69,542 million, representing an increase of approximately RMB9,776 million and approximately 16.4% as compared with that in the last year. Due to taking advantage of ample liquidity and the consideration of lower financial cost, joint ventures have significantly decreased the discount of undue bills. Cash from sales of goods during the year showed an increase of approximately 19.2% as compared with that in the last year when the impact is taken into account;

(2) changes in operational capital was relatively larger during the year, mainly due to the higher increase of unpaid trading receivables last year and the paying capacity have been significantly strengthened this year in order to guarantee the supply of raw materials and parts;

(3) during the year, the cash payments on interest expenses and income tax expenses amounted to approximately RMB1,210 million, representing an increase of RMB469 million as compared to the corresponding period in the last year.

During the year, net cash inflows generated from investing activities of the Group amounted to approximately RMB1,012 million, representing an increase of approximately RMB9,017 million when compared with net cash outflows of approximately RMB8,005 million in the last year, which was mainly due to the decrease in operation cash inflow over the previous year, and the significant decrease in expenditure of financial investment (time deposit), and payment of RMB1,058 million for acquisition of part of shareholdings in GAC Changfeng last year.

Management Discussion and Analysis

During the year, net cash outflows generated from financing activities of the Group amounted to approximately RMB114 million, representing a decrease of approximately RMB5,555 million when compared to net cash inflows approximately RMB5,441 million in the last year, which was mainly due to the issue of debentures amounting to approximately RMB6,700 million last year, the addition in borrowing amounted to RMB2,221 million during the year, the repayment of loans amounted to approximately RMB1,441 million and dividend payment of RMB840 million to shareholders.

As at 31 December 2010, the cash and cash equivalents of the Group amounted to approximately RMB15,981 million, representing an increase of about RMB4,648 million when compared with approximately RMB11,333 million as at 31 December 2009.

Financial Indicators

As at 31 December 2010, the Group's total borrowings amounted to approximately RMB9,364 million, representing a slight increase when compared with approximately RMB8,720 million as at 31 December 2009. As at 31 December 2010, the Group's asset to liability ratio was approximately 26.6%, representing a slight drop from approximately 28.9% as at 31 December 2009. {Calculation method of gearing ratio: (non-current borrowings + current borrowings)/(total equity + non-current borrowings + current borrowings)}

As at 31 December 2010, the Group's current ratio was approximately 2.01 times, representing a decrease from that of 2.03 times as at 31 December 2009. As at 31 December 2010, the Group's quick ratio was approximately 1.81 times, representing a decrease from approximately 1.85 times as at 31 December 2009.

During the year, the average turnover days of our inventories were approximately 19.4 days, representing a slight increase from approximately 17 days in 2009.

During the year, the Group's average turnover days of trade receivable (including bills receivable) were 8.1 days, representing a slight increase from approximately 5.8 days in 2009, which was mainly due to taking advantage of ample liquidity and the consideration of lowering financial cost, joint ventures have significantly decreased the discount of undue bills.

Profiles of Directors, Supervisors and Senior Management

DIRECTORS

Executive Directors

Zhang Fangyou (張房有), aged 54, is the chairman and party secretary of the Company. He joined GAG in 1997, served as the chairman of GAIG since 2000 and has been the chairman of the Company since June 2005. Currently, Mr. Zhang is the chairman and managing director of GAIG and the chairman of Denway, China Lounge and GAC Changfeng. He is also an independent director of Guangzhou Department Store Enterprises Group Co., Ltd. (廣州百貨企業集團有限公司). He is also a member of the 6th and 9th Guangzhou Municipal Party Committee. Prior to this, he served such positions as director of Guangqi Honda from July 1998 to December 2004, secretary of Guangdong Zengcheng Town (City) Government from November 1991 to December 1995, deputy secretary-general of Guangzhou Municipal Government from August 1995 to August 1999 and an office director of Automotive Industry Office of Guangzhou Municipal Government from April 1996 to August 1999. With the previous and current positions held by Mr. Zhang in our Group, other companies and governmental bodies in relation to the automobile industry, Mr. Zhang has obtained over 10 years experience in automobile policy making and managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Zhang graduated from South China Normal University with a college diploma in political theory in December 1987, Party School of the Central Committee of C.P.C. with a graduate degree in January 1997 and Zhongshan University with a master's in business administration in December 2006.

Zeng Qinghong (曾慶洪), aged 49, is the vice chairman and general manager of the Company. He first joined GAG in 1997. He has served as a director of GAIG since 2004 and the deputy chairman and general manager of the Company since 2005. Currently, Mr. Zeng is the vice chairman of GAIG and Denway, chairman of GAMC, chairman of GAC Fiat, chairman of GAC Gonow and a director of GAC Changfeng. Prior to this, he held positions as chairman of GAC Commercial from June 2005 to September 2008, GAC Components from June 2005 to September 2008 and GAC Hino from January 2006 to September 2008, director and deputy executive general manager of Guangqi Honda from December 1999 to January 2006 and deputy general manager of GAIG from April 2001 to June 2005. Mr. Zeng was elected by the provincial people's congress to be a delegate of the 10th and 11th National People's Congress. Mr. Zeng was elected as the chairman of the 5th Automobile Industry Association of Guangdong Province (廣東省汽車工業協會會長) in December 2010. With the previous and current positions held by Mr. Zeng in the Group and in other companies in relation to the automobile industry, he has obtained more than 20 years experience in managing automobile manufacturing business which is relevant to the management, operation and development to the Group. Mr. Zeng graduated from the Guangdong Provincial Committee's Party Academy (majoring in Economic Management) with a graduate diploma in July 2000 and South China University of Technology with a Ph.D. in management science and engineering in December 2009.

Profiles of Directors, Supervisors and Senior Management

Yuan Zhongrong (袁仲榮), aged 52, is a Director and deputy general manager of the Company. He joined GAG in 1997 and was appointed as the deputy general manager of GAIG in 2001 and has served as a director and deputy general manager of the Company since 2005. Currently, Mr. Yuan is a director of GAIG, chairman of GAC Toyota, deputy chairman of GAC Toyota Engine and Tong Fang Global (Tianjin) Logistics Co., Ltd., chairman of GAC Hino and director of GAMC. Mr. Yuan was also appointed as the vice chairman of Shanghai Hino in April 2010. Mr. Yuan is currently a delegate of the Guangzhou People's Congress. Prior to this, he worked at the engineering manufacture unit of Dongfeng Motor Corporation (東風汽車公司) from 1982 to 1993, held positions as deputy head of the engineering unit of Dongfeng Motors Limited (東風汽車公司) in 1991, head of the engineering unit of Dongfeng Motor Corporation (東風汽車公司) from January 1993 to April 1995, head of engineering unit of Automobile Industry Office of Guangzhou Municipal Government from 1995 to 1997, deputy general manager of Guangzhou Sedan Co., Ltd. (廣州轎車有限公司) from July 1997 to July 1998, deputy manager of Guangqi Honda from July 1998 to April 2001 and director and deputy executive general manager of GAC Toyota from September 2004 to August 2008. With the previous and current positions held by Mr. Yuan in the Group and in other companies in relation to the automobile industry, Mr. Yuan has obtained more than 27 years experience in managing automobile manufacturing business which is relevant to the management, operation and development to the Group. Mr. Yuan graduated from Huazhong University of Science and Technology (華中科技大學) (formerly known as Huazhong Science and Technology College (華中工學院) in July 1982 with a bachelor's degree in mechanical manufacture and from Asia International Open University (Macau) with a master's degree in business administration in September 2001. Mr. Yuan is currently earning a Ph.D. in management science and engineering at Harbin Institute of Technology.

Lu Sa (盧颯), aged 45, is a Director, a joint company secretary and secretary of the Board. She joined GAG in March 2000 as secretary to the chairman, has served as the company secretary and office director of the Board since June 2005 and became an executive director of the Company in August 2008. Currently, Ms. Lu is a director of GAC Toyota. Prior to this, she held positions as secretary to the board of directors of GAIG from June 2000 to May 2006, office secretary and translator of the Board of Guangzhou Peugeot Automobile Company (廣州標緻汽車公司) from October 1995 to May 1998 and secretary to the executive deputy general manager of Guangqi Honda from May 1998 to February 2000. With the previous and current positions held by Ms. Lu in the Group and in other companies in relation to the automobile industry, Ms. Lu has obtained extensive experience in managing automobile manufacturing business which is relevant to the management operation and development to our Group. Ms. Lu graduated from the Central South University Xiangya School of Medicine with a bachelor's degree in medical English in July 1990 and the School of Business of Zhongshan University with an executive master's degree in business administration in December 2005.

Profiles of Directors, Supervisors and Senior Management

Non-Executive Directors

Fu Shoujie (付守傑), aged 47, is a non-executive Director of the Company. He first joined GAG in July 2004 and has served as a director since 2005. Currently, Mr. Fu is a director of GAIG, chairman of Guangqi Honda, director and general manager of GAC Changfeng and director of Denway, GAMC and GAC Fiat. Prior to this, he held positions as deputy general manager of our Company from 2005 to 2009, deputy head of the Sujiatun District of Shenyang City from November 2000 to November 2002 and from January 2003 to July 2004 and general manager of Songliao Automobile Co., Ltd. (松遼汽車股份有限公司), which is listed on the Shenzhen Stock Exchange, from January 2003 to July 2004. With the previous and current positions held by Mr. Fu in our Group and in other companies in relation to the automobile industry, Mr. Fu has obtained extensive experience in managing automobile manufacturing business which is relevant to the management operation and development to our Group. Mr. Fu graduated from Liaoling Radio & TV University with a college diploma in economics and finance in July 1986 and the University of Illinois at Chicago, the United States, with a master's degree in business administration in May 2000.

Liu Huilian (劉輝聯), aged 56, is a non-executive Director and chairman of the labor union of our Company. He joined GAG in April 2001 and has been a Director since 2005. Currently, Mr. Liu is a director of GAIG. Prior to this, he held positions as director of the general manager office of Guangzhou Peugeot Automobile Company (廣州標緻汽車公司) from March 1991 to February 1998, deputy general manager of Guangzhou Sedan Co., Ltd. (廣州轎車有限公司) from February 1998 to June 1998 and chairman of the labor union of Guangqi Honda from June 1998 to April 2001. With the previous and current positions held by Mr. Liu in our Group and in other companies in relation to the automobile industry, Mr. Liu has obtained over 10 years experience in managing automobile manufacturing business and labour union which is relevant to the management and development to our Group. Mr. Liu graduated from the South China Normal University with a college diploma in politics in June 1986.

Wei Xiaoqin (魏筱琴), aged 56, is a non-executive Director and the deputy party secretary of our Company since November 2009. Mr. Wei joined GAIG in March 2000. He served as the division chief of division of personnel, director of the department of personnel, director of the department of human resources, assistant to general manager and director of the department of human resources, deputy general manager of GAG from March 2000 to August 2008. Prior to this, he served as deputy head of the Organization Department of Zengcheng City, party secretary of Sanjiang Town, chairman of the NPC Presidium of Sanjiang Town, director and head party secretary of the Bureau of Water Resources and deputy director and deputy party secretary of Agriculture Office of Zengcheng City from July 1990 to August 1998, director of the Bureau of Water Resources of Guangzhou from September to November 1998 and director and deputy general manager of Guangzhou Anxun Investment Co., Ltd. (廣州安迅投資有限公司) from December 1998 to February 2000. Mr. Wei was elected as a delegate of the 10th National People's Congress of Zengcheng City. With the previous and current positions held by Mr. Wei in our Group and in other companies in relation to the automobile industry, Mr. Wei has obtained extensive experience in cadre management, human resources management, corporate manufacturing management and reorganizing which is relevant to the management and development to our Group. Mr. Wei graduated from the South China Normal University with a college diploma in politics and was qualified as senior political engineer in June 1988.

Profiles of Directors, Supervisors and Senior Management

Li Tun (黎暾), aged 50, is a non-executive Director of the Company. Mr. Li is also a director and general manager of Guangzhou Automobile Group (HK) Ltd (廣汽集團（香港）有限公司), director and general manager of China Lounge Investments Limited, director and general manager of Denway and director of Guangqi Honda. He joined our Group since 1999 except for the period from 2001 to 2007 during which he was the deputy general manager of the Sales Division of Guangqi Honda. He joined our Group again in 2007 as the deputy general manager of our Company as well as of China Lounge Investments Limited. With the previous and current positions held by Mr. Li in our Group and in other companies in relation to the automobile industry, Mr. Li has obtained extensive experience in management of automobile manufacturing and marketing which is relevant to the management and development to our Group. He graduated from Murdoch University of Australia (澳大利亞梅鐸大學) with a diploma in business administration in March 2002.

Wang Songlin (王松林), aged 59, has been a non-executive Director since he first joined our Company in June 2005. He is currently the deputy managing director and party member of China National Machinery Industry Corporation Limited, and the deputy president of the Society of Automobile Engineers of China (中國汽車工程學會) and China Auto Talents Society (中國汽車人才研究會). Previously, he held positions as deputy general manager of China Machinery Import and Export Heilongjiang Company (中國機械設備進口黑龍江公司) from February 1982 to July 1988, party secretary and standing deputy general manager of China National Automotive Industry Import and Export Corporation (中國汽車工業進出口哈爾濱公司) from August 1998 to July 2000 and deputy general manager of China National Automotive Industry Corporation (中國汽車工業總公司) from July 2000 to June 2004. With the previous and current positions held by Mr. Wang in our Group and in other companies in relation to the automobile industry, Mr. Wang has obtained extensive experience in managing automobile manufacturing business which is relevant to the management and development to our Group. Mr. Wang graduated from Harbin Institute of Technology in casting in September 1978.

Li Pingyi (李平一), aged 42, has been a non-executive Director since he first joined our Company in August 2008. He is currently the deputy general manager of Wanxiang Qianchao Co., Ltd. (萬向錢潮股份有限公司) which is listed on the Shenzhen Stock Exchange, deputy general manager of corporate development department of Wanxiang Group Corporation Ltd. (萬向集團公司) and chairman of Jiangsu Senwei Precision Forging Co., Ltd (江蘇森威精鍛有限公司). Prior to this, he served various positions including general manager of Wangxiang Group Enterprise Development Corporation (萬向集團企業發展總公司) from August 1994 to August 1998. With the previous and current positions held by Mr. Li in the Group and in other companies, Mr. Li has obtained extensive experience in management and marketing which is relevant to the management and development to the Group. Mr. Li graduated from Jilin Industry University with a bachelor's degree in agricultural machinery engineering in December 1988 and obtained a postgraduate degree in business management from Zhejiang University in July 2002.

Independent Non-Executive Directors

Wu Gaogui (吳詰珪), aged 68, has been an independent non-executive Director since he first joined our Company in December 2007. Mr. Wu is a veteran professor of the automobile industry. He is also an independent director of CIPE Braking System (Guangzhou) Co., Ltd. (中博制動系統（廣州）有限公司). Prior to this, he held positions as Vice Dean of the School of Transportation from 1995 to 1999, administrative manager of Highway Society and other academic bodies from March 1997 to March 2000 and a member of the Academic Committee of the Key Laboratory of Guangdong Electronic Automobiles from January 2005 to December 2008. Mr. Wu was also an independent director of GAIG from April 2001 to April 2007. With his strong academic background in automobile and through his working experience with other academic bodies and corporations, Mr. Wu has provided our Group with valuable advice and assistance to our Group in the field of automobile and will continue to provide such advice and assistance to our Group. Mr. Wu graduated from Tsinghua University, Beijing with an undergraduate graduation qualification in Automobile and Motor Studies in July 1967.

Profiles of Directors, Supervisors and Senior Management

Ma Guohua (馬國華), aged 50, has been an independent non-executive Director since he first joined our Company in December 2007. He is also an independent director of Zhejiang Sanlux Rubber Co., Ltd. (浙江三力士橡膠股份有限公司) which is listed on the Shenzhen Stock Exchange, Zhejiang Hengfeng Jiaotong Transportation Co., Ltd. (浙江恒風交通運輸股份有限公司), Shandong Sanwei Shihua Engineering Company Limited (山東三維石化工程股份有限公司) and Wuxi Double Elephant Micro Fibre Material Ltd. (無錫雙象超纖材料股份有限公司). Mr. Ma has been the vice secretary general of Chinese National Attorney's Association since 1999. Mr. Ma has over 20 years working experience in China's judiciary system, having been the Attorney General of China's Ministry of Justice from January 1993 to June 1997, member of the Second Listing Approval Committee of the China Securities Regulatory Commission from 1999 to 2000, and a lawyer of a legal service company a Hong Kong from June 1997 to June 1998. With his strong legal background and working experience with other legal bodies and corporations, Mr. Ma has provided our Group with valuable legal advice and assistance and will continue to provide such advice and assistance to our Group. Mr. Ma obtained a bachelor's of law degree from China University of Political Science and Law in July 1984 and a master's of law degree from Peking University in January 2006.

Xiang Bing (項兵), aged 48, has been an independent non-executive Director since he first joined our Company in December 2007. Mr. Xiang is the dean and professor of Cheung Kong Graduate School of Business. Prior to this, Mr. Xiang held positions as finance and accounting professor of China European International Business School (Shanghai) from July 1997 to June 1999 and accounting professor of the Guanghua School of Management of Peking University from July 1999 to December 2001. With his strong academic background in finance and accounting and his experience from working in other academic associations and corporations, Mr. Xiang has provided our Group with valuable advice and assistance in the field of finance and accounting and will continue to provide such advice and assistance. Mr. Xiang holds a bachelor's degree in engineering control from Xi'an Jiaotong University, a master's degree in business administration and obtained a Ph.D. degree in accounting from Alberta University, Canada in November 1991.

Mr. Xiang is currently an independent director of the following listed companies:

— China Dongxiang (Group) Co., Ltd. (中國動向（集團）有限公司) (listed on the Stock Exchange)

— Dan Form Holdings Co., Ltd. (丹楓控股有限公司) (listed on the Stock Exchange)

— Longfor Properties Co. Ltd. (龍湖地產有限公司) (listed on the Stock Exchange)

— Sinolink Worldwide Holdings Limited (百仕達控股有限公司) (listed on the Stock Exchange)

— Enerchina Holdings Limited (威華達控股有限公司) (listed on the Stock Exchange)

— HC International, Inc. (慧聰網有限公司) (listed on the Stock Exchange)

— Little Sheep Group Limited (小肥羊集團有限公司) (listed on the Stock Exchange)

— Peak Sport Products Co., Limited (匹克體育用品有限公司) (listed on the Stock Exchange)

Profiles of Directors, Supervisors and Senior Management

— LDK Solar Co., Ltd. (江西賽維 LDK 太陽能高科技有限公司) (listed on the New York Stock Exchange)

— EHouse (China) Holdings Limited (易居（中國）控股有限公司) (listed on the New York Stock Exchange)

— Perfect World Co., Ltd. (完美時空有限公司) (listed on NASDAQ)

— Yunnan Baiyao Group Co., Ltd. (雲南白藥集團股份有限公司) (listed on the Shenzhen Stock Exchange)

Law Albert Yu Kwan (羅裕群), aged 61, has been an independent non-executive Director of the Company since he first joined our Company in December 2007. Currently, Mr. Law is the chief financial officer and secretary of the South China (China) Limited, Mr. Law is a Honorary Associate of the business school of Hong Kong Baptist University since 2006, the president of the Institute of Accountants in Management (專業管理會計師工會) since 2007. Previously, Mr. Law held various positions including the managing director of A.A. and Associates Consulting International Limited (卓越管理會計師工會有限公司) in April 2006, financial controller of K. Wah Construction Materials Limited (嘉華建材有限公司) from June 1997 to April 2006, responsible for the finance and accounting, legal, IT and treasury aspects, managing director of K.K. Yeung Financial Management Consultants International Limited (楊國琦財務管理顧問國際有限公司) from July 1996 to June 1997, responsible for the marketing and business development and overseas consulting projects and assistant general manager (finance, accounting and administration) of Winning Management Company Limited (a Hong Kong real estate holding and investment group) from November 1990 to March 1995. Mr. Law had also served as the former president of the UK Chartered Institute of Management Accountants (英國特許管理會計師工會) (Hong Kong Division) in the year 2006 to 2007 and the former chairman of a enterprise governance committee under the said Institute from 2003 to 2007. Mr. Law is a fellow member of the Chartered Institute of Management Accountants (英國特許管理會計師工會) since January 1997, an associate of the Institute of Chartered Accountants in England and Wales (英格蘭及威爾士特許會計師工會) since May 2006, a fellow member of the Association of International Accountants in England (英國國際會計師工會) since May 1995, a member of the Hong Kong Institute of Certified Public Accountants (香港會計師工會) since June 1979, a fellow member of Hong Kong Society of Registered Financial Planners (香港註冊財務策劃師協會) since October 2002, and a fellow member of the Taxation Institute of Hong Kong (香港稅務學會) since August 2007. With his strong qualification in accounting, Mr. Law has provided our Group with valuable advice and assistance in the field of accounting and will continue to provide such advice and assistance to our Group.

Li Zhengxi (李正希), aged 46, has been an independent non-executive Director since he first joined our Company in December 2007. Mr. Li is the director and deputy general manager of Guangzhou International Holding Group Co. Ltd. (廣州國際控股集團有限公司) and managing director and legal person representative of Guangzhou Enterprises Mergers and Acquisitions Services (廣州產權交易所). Mr. Li was head of the General Division and the Policies, Laws and Regulations Division of the Guangzhou State-Owned Assets Administration Bureau from December 1994 to June 1999. With his strong qualification in accounting and management, Mr. Li has provided our Group with valuable advice and assistance in the field of accounting and management and will continue to provide such advice and assistance to our Group. Mr. Li was recognised as a certified asset value by the Finance Department in June 1995 and was also recognised as an accountant by Guangzhou Financial Bureau in October 1992. Mr. Li graduated from Guangdong Amateur College of Finance and Economics with a college diploma in finance in September 1989 and Macau University of Science and Technology with a master's degree in public administration in February 2004.

SUPERVISORS

Gao Fusheng (高符生), aged 54, is the chairman of the Supervisory Committee of our Company. She first joined our Company in March 1998 and became the chairman of the Supervisory Committee in August 2008. She is currently the chief accountant of GAIG. Prior to this, she served as head of the department of financial and auditing department of our Company and deputy general manager and financial controller of Denway. Ms. Gao graduated from Murdoch University, Australia with a master's in Business Administration in March 2001.

Huang Zhiyong (黃志勇), aged 46, has been a supervisor of our Company since he first joined our Company in June 2005. Currently, Mr. Huang serves as the deputy general manager of Guangzhou Iron & Steel Enterprises Group, He is also the chairman of Guangzhou JFE Steel Sheet Co., Ltd. (廣州 JFE 鋼板有限公司). Prior to this, Mr. Huang served as assistant to manager, deputy manager, head of the planning department and assistant to the general manager of Guangzhou Iron & Steel Continuous Rolling Plant (廣州鋼鐵連軋廠). Mr. Huang graduated from Jiangxi Yejing University (江西冶金學院) with a master's in engineering in July 1991 and was recognised as a senior engineer by Guangzhou Personnel Bureau (廣州市人事局) in November 1998.

He Yuan (何源), aged 48, has been a supervisor of our Company since she first joined our Company in August 2008. She is currently the deputy general manager of Finance department of Guangzhou Chime-Long Group Co., Ltd (廣州長隆集團有限公司). Prior to this, she served as an assistant engineer of Guangzhou Huanan Computer Company (廣州華南計算機公司), deputy manager of the Computer department of Hotel Landmark Canton (廣州華厦大酒店), manager of the IT department, chief accountant and deputy financial controller of Ramada Pearl Hotel Guangzhou (廣州凱旋華美達大酒店), assistant financial controller of Holiday Inn City Centre Guangzhou (廣州文化假日酒店) and deputy financial controller and financial controller of Rosedale Hotel and Suites Guangzhou (廣州珀麗酒店). She graduated from Tsinghua University with a bachelor's degree in computer science in July 1984.

Ye Ruiqi (葉瑞琦), aged 49, first joined our Company in November 1998 and became a supervisor in August 2008. He is currently the deputy secretary to the disciplinary committee, the head of discipline supervision department of our Company, Chairman of the supervisory committee of GAC Commercial and a supervisor of GAC Changfeng. Prior to this, Mr. Ye served as the head of company secretariat of factory director office of Guangzhou Heavy Machinery Plant (廣州重型機器廠), head of Guangzhou Municipal People's Government Auto Industry Office (廣州市人民政府汽車工業辦公室), head of disciplinary inspection department of the Company, head of discipline inspection department, head of human resources department and head of Party Committee of GAIG. Mr. Ye graduated from Party School of the Central Committee of C.P.C. with a master's degree in Administration in July 2003.

He Jinpei (何錦培), aged 47, first joined our Company in 2007 and became a supervisor of our Company in August 2008. He is currently the deputy chairman of labour union of our Company. Prior to this, he served as head of working unit of Party Committee, chairman of labour union and secretary to disciplinary committee of GAC Bus, and director of labour union office and head of human resources department of GAIG. Mr. He graduated from Guangzhou Workers Vocational College (廣州市職工業餘大學) with a college diploma in manufacturing of machinery in July 1990, and College of Administration and Management of Correspondence Institute of the Party School of C.C. of C.P.C. in December 2001.

SENIOR MANAGEMENT

Li Shao (李少), aged 48, is a deputy general manager of our Company. Mr. Li joined GAG in March 1998, and became the deputy general manager of our Company in 2007. Mr. Li is the chairman of GAC Component. Prior to this, Mr. Li has served as head of investment department and foreign economics, office director, assistant of general manager and deputy general manager of Guangzhou Automobile Group Co., Ltd. (廣州汽車集團有限公司) from March 1998 to February 1999, March 1999 to December 2000, June 2000 to May 2004 and from June 2004 to June 2005 respectively, party secretary and director of GAC Bus from January 2003 to July 2003, assistant of general manager and deputy general manager of GAIG from July 2001 to May 2004 and June 2004 to April 2007 respectively, director of GAC Toyota from September 2004 to December 2005, director of Shanghai Hino from April 2010 to November 2010 and director and executive deputy general manager of GAC Hino from December 2007 and October 2010. He was also a director of Guangqi Honda and the chairman of Wuyang Honda. With the previous and current positions held by Mr. Li in our Group and in other companies in relation to the automobile industry, Mr. Li has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Li graduated from South China University of Technology and obtained a bachelor's degree in metal material and heat treatment in July 1985 and he also obtained a master's of Business Administration from the Open University of Hong Kong in December 2002.

Huang Xiangdong (黃向東), aged 55, is a deputy general manager of our Company. Mr. Huang joined GAIG in 2004, and became the deputy general manager of our Company in June 2005. Currently, Mr. Huang also serves as a director of GAC Toyota, chairman of Guangzhou Automobile Technology Centre (廣州汽車技術中心) and dean of GAEI. Prior to this, Mr. Huang had taught at Xi'an University of Technology from February 1982 to October 1985 and South China University of Technology from June 1991 to September 2004. With his strong academic background and the previous and current positions held by Mr. Huang in our Group and in other companies and academic bodies in relation to the automobile industry, Mr. Huang has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Huang obtained a bachelor's degree from Wuhan University in mechanical engineering in September 1982 and a doctoral degree from the University of Torino, Italy in November 1989.

Wang Dan (王丹), aged 40, is the chief financial officer of our Company. Ms. Wang joined GAG in March 1999, and became our Company's financial controller in 2005. Currently, Ms. Wang also serves as chairman of GAC-SOFINCO and chairman of the supervisory committee of GAC Changfeng. Prior to this, Ms. Wang served in the financial audit department of Guangzhou Junda Automobile Enterprise Group (廣州駿達汽車企業集團) from July 1992 to April 1999 and was the deputy head of the financial audit division of GAG from March 1999 to March 2000. With the previous and current positions held by Ms. Wang in our Group and in other companies in relation to finance and accounting, Ms. Wang has obtained extensive experience in these areas which is relevant to the management, operation and development to our Group. Ms. Wang graduated from the Sun Yat-Sen University with a bachelor's degree in July 1992 and the School of Management of Zhongshan University with an senior executive master's degree in business administration in December 2005.

Profiles of Directors, Supervisors and Senior Management

Wu Song (吳松), aged 48, is the deputy general manager of our Company. Mr. Wu first joined GAG in October 2003 and has served as the deputy general manager of our Company since 2007. Mr. Wu is now the director and general manager of GAMC and director of GAC Fiat. Prior to this, Mr. Wu served as director and general manager of Daye Steel Group Corporation (冶鋼集團有限公司) from December 1997 to October 2000, deputy managing director of Guangzhou Wuyang — Honda Company Limited (廣州五羊 — 本田有限公司) from May 2003 to October 2003, director of GAC Toyota from February 2004 to 2007 and director and deputy general manager of GAC Toyota Engine from February 2004 to April 2007. With the previous and current positions held by Mr. Wu in our Group and in other companies in relation to the automobile industry, Mr. Wu has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Wu graduated from Huazhong University of Science and Technology (華中科技大學) (formerly known as Huazhong Science and Technology College (華中工學院) with a bachelor's degree in mechanical manufacturing in July 1984 and he also did a graduate course in management engineering at Xi'an Jiaotong University from September 1987 to January 1989.

Jiang Ping (蔣平), aged 55, is a deputy general manager of our Company. Mr. Jiang has served as the deputy general manager of our Company since April 2007. Mr. Jiang is now a director and deputy executive general manager of GAC Commercial and GAC Fiat. Prior to this, Mr. Jiang served as general manager of Guangzhou Peugeot Automobile Sales Company (廣州標緻銷售公司) from February 1998 to August 2000, vice chairman and general manager of GAC Component from August 2000 to April 2001 and deputy general manager of Guangqi Honda from April 2001 to April 2007, the chairman of 廣州駿威客車有限公司 from January 2008 to July 2008 and the chairman of GAC Bus from July 2008 to December 2010. With the previous and current positions held by Mr. Jiang in our Group and in other companies in relation to the automobile industry, Mr. Jiang has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Jiang graduated from Hunan University with a bachelor's degree in engineering in July 1982 and a master's in engineering in December 1985.

Yao Yiming (姚一鳴), aged 53, is a deputy general manager of our Company. Mr. Yao joined our Group in 1996, and became the deputy general manager of our Company in July 2008. Mr. Yao is also a director of Denway, a director and executive deputy general manager of Guangqi Honda and a director of China Lounge Investments Limited (中隆投資有限公司). Prior to this, Mr. Yao has served as a director and managing director of GAC Commercial from February 2002 to July 2008. With the previous and current positions held by Mr. Yao in our Group and in other companies in relation to the automobile industry, Mr. Yao has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Yao graduated from Xinghai Conservatory of Music in management in July 1988 and Wuhan University with a master's in information technology in December 1997.

Profiles of Directors, Supervisors and Senior Management

Feng Xingya (馮興亞), aged 41, is a deputy general manager of our Company. Mr. Feng joined our Group in 2004, and became the deputy general manager of our Company in July 2008. Mr. Feng is also a director and executive deputy general manager of GAC Toyota. Prior to this, Mr. Feng served as a deputy managing director in Zhengzhou Nissan Automobile Company Limited (鄭州日產汽車有限公司) from June 1998 to December 2004. With the previous and current positions held by Mr. Feng in our Group and in other companies in relation to the automobile industry, Mr. Feng has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Feng graduated from Xi'an Jiaotong University with a bachelor's degree in engineering in July 1988 and a master degree in business administration in April 2001.

Liu Wei (劉偉), aged 48, is a deputy general manager of our Company. Mr. Liu joined our Group in June 2005, became the deputy general manager of our Company in August 2008, and is currently the chairman of GAC Bus and also a director of GAC Gonow. Prior to this, Mr. Liu was an associate professor at Northeast Forestry University from September 1995 to January 2001 and deputy general manager of Beijing Automotive Industry Holding Corporation (北京汽車工業控股公司) from January 2001 to March 2004. With his strong academic background and the previous and current positions held by Mr. Liu in our Group and in other companies in relation to the automobile industry, Mr. Liu has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Liu graduated from Northeast Forestry University School of Mechanical Engineering with a bachelor's degree in engineering in July 1982, a master degree in engineering in July 1985 and a machinery design and theory doctoral degree in June 2000.

Ou Yongjian (區永堅), aged 51, is the deputy general manager of our company. Mr. Ou has been a deputy general manager of our company since October 2010. Currently, Mr. Ou is a director of Shanghai Hino, a director and executive deputy general manager of GAC Hino and a director of GAC Hino (Shenyang). Prior to this, Mr. Ou has been the director of GAC Component from April 2001 to September 2002 and from September 2005 to February 2009, the vice chairman of GAC Component from April 2001 to September 2005, a general manager and party member of GAC Component from September 2002 to September 2008 and a director of GAMC from August 2008 to January 2009.With the previous and current positions held by Mr. Ou in our Group and in other companies in relation to the automobile industry, Mr. Ou has obtained extensive experience in managing automobile manufacturing business which is relevant to the management, operation and development to our Group. Mr. Ou graduated from Guangzhou Jiaotong Transportation Workers University with a professional diploma in transportation in 1981.

Report of the Board

The Board hereby presents this report together with the audited financial statements of the Group for the year ended 31 December 2010 prepared in accordance with the Hong Kong Financial Reporting Standards.

Principal Activities

The Company acts as an investment holding company. Its subsidiaries and jointly-controlled entities hold an independent and comprehensive system of manufacturing, supply, sales and R&D with its main business covering design and manufacturing of vehicles and auto parts, auto sales and logistics, auto finance, insurance and related services in domestic and international markets.

Results

The Group's results for the year ended 31 December 2010 and the state of affairs of the Company and the Group as at that date are set out in the audited financial statements on pages 75 to 83 in this annual report.

Dividends

On 20 October 2010, the Company has declared the interim dividend of RMB0.09 per Share.

The Board of Directors recommends distributing a final dividend of RMB0.11 per Share in respect of 2010 results, subject to consideration and approval at the annual general meeting to be held on 9 May 2011.

Distributable Dividend from the Jointly-controlled entities of the Company

For the year ended 31 December 2010, the Company's JCEs in total declared and distributed dividends of approximately RMB3,936,806,126 to the Company or its relevant subsidiary (being the joint venture partner of the relevant JCE). As some of JCEs are indirectly held by the Company through its subsidiaries or JCEs, the above figures do not represent the actual aggregate amount of dividends directly received by the Company from all JCEs.

Pursuant to the joint venture agreements and/or articles of association of the JCEs, dividends may be paid out of the profit made by the JCEs as determined by the directors or the shareholders of the relevant JCEs after payment of relevant taxes in accordance with the relevant PRC law. Before the distribution of dividends, the losses of previous years are required to be offset and statutory reserve funds (including corporate reserve fund, employee bonus and welfare funds and enterprises development fund), as required under the PRC laws and regulations, are required to be deducted from the profit of the relevant JCEs.

Report of the Board

Pursuant to the joint venture agreements and/or the articles of association of the JCEs, dividend distribution is made in accordance with the capital contribution paid by the joint venture partner in the relevant JCE as approved by the directors or shareholders of the relevant JCE.

Save as disclosed above, none of the JCEs has any specific dividend policies. However, if all the joint venture partners agree, the JCEs may declare dividends when there are distributable profits. Since dividend distribution is the primary channel for return of the investment to the Company (or its relevant subsidiaries) and the relevant joint venture partners in respect of each JCE, in the past the JCEs have fully paid out all profits for each year after offsetting losses of previous years and deducting the portion of profit to be allocated for applicable statutory reserve funds as required under the PRC laws and regulations (including corporate reserve fund, enterprise development fund, employee bonus and welfare fund) and making allocations for corporate reserve fund (including but not limited to amounts allocated to cover working capital or to increase capital or expand production). In the future, it is the intention of the Company and the relevant joint venture partners to continue to declare dividends when there are distributable profits for the relevant JCE, subject to the agreement between the Company and the relevant joint venture partners on the appropriate dividend distributions based on the circumstances of each JCE and pursuant to the provisions of the relevant joint venture agreements and/or the articles of association of each JCE and applicable PRC laws and regulations.

Financial Information Summary

A summary of the operating results, assets and liabilities of the Group for the last four years ended 31 December 2010 is set out on page 181 in this annual report.

Bank Loans and Other Borrowings

Details of the bank loans and other borrowings of the Group are set out in note 23 to the audited financial statements.

Capitalised Interest

Details of the capitalised interest of the Group for the year ended 31 December 2010 are set out in note 31 to the audited financial statements.

Property, Plant and Equipment

The movements of property, plant and equipment of the Company and the Group for the year ended 31 December 2010 are set out in note 8 to the audited financial statements.

Reserves

Details of movements in reserves of the Company and the Group for the year ended 31 December 2010 are set out in note 22 to the audited financial statements and the consolidated statement of changes in equity on page 81, respectively.

Pursuant to Article 208 of the Articles of Association of the Company, if there are material discrepancies between the financial statements prepared in accordance with the accounting standards and regulations in the PRC and the financial statements prepared in accordance with International Financial Reporting Standards or the accounting standards in other place(s) where the Company is listed, profit after tax to be allocated for the relevant accounting period shall be the lower of profits after tax in these financial statements.

The Board of Directors recommends allocation of 10% of total profit to the statutory surplus reserve and allocation/no allocation to the discretionary surplus reserve under the laws and the Articles of Association, subject to consideration and approval at the annual general meeting to be held on 9 May 2011.

Major Customers and Suppliers

During the year ended 31 December 2010,

(i) the sales attributable to the top five largest customers accounted for 4.2% of the Group's total sales during the year, in which the sales attributable to the largest customer accounted for 1.7% of the Group's total sales during the year; and

(ii) the purchases (other than those of a capital nature) attributable to the five largest suppliers accounted for 54.0% of the Group's total purchases during the year, in which the purchases attributable to the largest suppliers accounted for 25.5% of the Group's total purchases during the year. During the year, to the knowledge of the Directors, none of the Directors, supervisors, their associates or any shareholder holding more than 5% of the share capital of the Company has any interest in the five largest suppliers.

Subsidiaries, Jointly-controlled Entities and Other Companies in Which the Company Has Direct Equity Interests

As at 31 December 2010, details of the subsidiaries, JCEs and other companies in which the Company has direct equity interests are set out in notes 5, 12 and 13 respectively to the audited financial statements for the year.

Report of the Board

Share Capital

The Company issued 2,213,300,218 H shares in August 2010, details of which are set out in note 1 to the audited financial statements.

As at 31 December 2010, the aggregate share capital of the Company was RMB6,148,057,675 divided into 6,148,057,675 ordinary shares with a nominal value of RMB1 each, of which 3,934,757,457 were Domestic Shares representing approximately 64% of the aggregate number of shares in issue, and 2,213,300,218 were H Shares representing approximately 36% of the aggregate number of shares in issue. During the year ended 31 December 2010, the changes in the share capital of the Company are set out in note 21 to the audited financial statements.

Purchase, Sale and Redemption of Shares

Neither the Company nor any of its subsidiaries or JCEs has purchased or sold, and the Company has not redeemed, any of its listed securities during the year ended 31 December 2010.

Pre-emptive Rights

These are no provision for pre-emptive rights in the Articles of Association of the Company or the laws of the PRC.

Interests of Substantial Shareholders

As at 31 December 2010, the name of the persons (other than directors and supervisors) entitled to exercise 5% or more of the voting rights at any general meeting of the Company and the number of underlying shares, as recorded in the register required to be kept by the Company pursuant to Section 336 of the Securities and Futures Ordinance are set out below:

Name	Class of Shares	Number of shares held	Percentage in the class of issued share capital (%)	Percentage in the total share capital (%)
GAIG	Domestic shares	3,617,403,529	91.93	58.84
Templeton Asset Management Limited	H shares	552,977,769 (L)	24.98	8.99
Platinum Investment Management Limited	H shares	173,196,113 (L)	7.83	2.82
JP Morgan Chase & Co.	H shares	137,041,862 (L)	6.19	2.23
		84,998,449 (P)	3.84	1.38

Notes: (L) — Long Position, (S) — Short Position, (P) — Lending Pool

Directors, Supervisors and Senior Management of the Company

The directors, supervisors and senior management of the Company during the year were:

Directors

Zhang Fangyou	*Executive Director and Chairman*
Zeng Qinghong	*Executive Director and Vice Chairman*
Yuan Zhongrong	*Executive Director*
Lu Sa	*Executive Director*
Fu Shoujie	*Non-Executive Director*
Liu Huilian	*Non-Executive Director*
Wei Xiaoqin	*Non-Executive Director*
Li Tun	*Non-Executive Director*
Wang Songlin	*Non-Executive Director*
Li Pingyi	*Non-Executive Director*
Wu Gaogui	*Independent Non-Executive Director*
Ma Guohua	*Independent Non-Executive Director*
Xiang Bing	*Independent Non-Executive Director*
Law Albert Yu Kwan	*Independent Non-Executive Director*
Li Zhengxi	*Independent Non-Executive Director*

Supervisors

Gao Fusheng	*Chairman of the Supervisory Committee*
Huang Zhiyong	*Supervisor*
He Yuan	*Supervisor*
Ye Ruiqi	*Supervisor*
He Jinpei	*Supervisor*

Report of the Board

Senior Management

Zeng Qinghong	*General Manager*
Yuan Zhongrong	*Deputy General Manager*
Lu Sa	*Company Secretary and Secretary of the Board*
Li Shao	*Deputy General Manager*
Huang Xiangdong	*Deputy General Manager*
Wang Dan	*Chief Financial Officer*
Wu Song	*Deputy General Manager*
Jiang Ping	*Deputy General Manager*
Yao Yiming	*Deputy General Manager*
Feng Xinya	*Deputy General Manager*
Liu Wei	*Deputy General Manager*
Ou Yongjian	*Deputy General Manager*

Biographies of each of the Directors, supervisors and senior management of the Company are set out on pages 29 to 38 in this annual report.

The following Directors also held the following positions in GAIG:

Name of Directors	The position held in GAIG
Zhang Fangyou	Chairman General manager
Zeng Qinghong	Vice Chairman
Yuan Zhongrong	Non-Executive Director
Fu Shoujie	Non-Executive Director
Liu Huilian	Non-Executive Director
Wei Xiaoqin	Deputy Party Secretary

Confirmations of Independence from Independent Non-executive Directors

The Company has received the annual written confirmations of independence from all independent non-executive Directors, and believes that each of them is independent from our Company.

Directors' and Supervisors' Service Contracts

None of Directors nor supervisors proposed to be re-elected at the forthcoming annual general meeting have entered into a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than legal compensation.

Interests of Directors, Supervisors and Chief Executive in Shares

As at 31 December 2010, the interests and short positions of each Director, supervisor and chief executives of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO as recorded in the register required to be kept under Section 352 of the SFO or which were notified to the Company or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

Interests in shares of the Company

Name (Position)	Personal interests (Beneficially owned)	Family interests (Interests of spouse and children under the age of 18)	Corporate interests(ii) (Interests owned by controlled corporation)	Other interests	Total interests	Percentage of total issued share capital
Gao Fusheng (Supervisor)	70	—	—	—	70	0.00

Save as disclosed above, as at 31 December 2010, none of the Directors, supervisors or chief executives had any interests or short position in any shares, underlying shares and debentures of the Company and its associated corporations. As at 31 December 2010, the Company did not grant any rights to subscribe for shares or debentures of the Company or any of its associated corporations to any Director, supervisor or chief executive of the Company or their respective spouses or children under 18 years of age.

Directors' and Supervisors' Interests in Contracts

Except for service contracts, no director or supervisor of the Company has a material interest, whether directly or indirectly, in any material contract to which the Company or any of its subsidiaries and JCEs was a party during the year ended 31 December 2010.

Remunerations of Directors and Supervisors

All directors, supervisors and senior management are entitled to receive reimbursements from the Company for expenses which are necessarily and reasonably incurred for providing services to our Company or for executing matters in relation to the operation of our Company. Besides, the executive directors, supervisors and senior management (also being employees of our Company) may receive remuneration in the form of salaries, housing allowances, other allowances, benefits in kind and discretionary bonuses (including the Company's contribution to the pension scheme for its executive directors, non-independent supervisors and senior management in accordance with the relevant PRC laws).

In accordance with the usual practice of listed companies and the actual circumstances of the Company, the Board proposes to adjust the remuneration of the independent non-executive Directors to RMB100,000 per year plus the reimbursement of the costs incurred by the independent non-executive Directors in attending meetings of the Board and the special committees, with effect from the year in which the Company was listed on the Stock Exchange. The above proposed adjustments are subject to the consideration and approval of the Shareholders at the annual general meeting to be held on 9 May 2011.

Details of the remunerations of the directors and supervisors of the Company are set out in note 28 to the audited financial statements.

Five Highest-Paid Individuals

Information on the five highest-paid individuals of the Company is set out in note 28 to the audited financial statements.

Employees

As at 31 December 2010, the registered employees of the Group and its major associated companies are 29,361. The numbers of employees in various divisions and their percentage of total number of employees are as follows:

Management	8,703	29.64%
Engineering and technical personnel	3,181	10.84%
Technical workers	17,477	59.52%
Total	29,361	100%

The Group focuses on maintaining the market competitiveness of remuneration levels, and formulates the incentive and restrictive remuneration policies through the research and analysis of market remuneration information. The Group is committed to the establishment and improvement of employee benefits system, under which we make timely and full contributions to pension insurance, medical insurance, injury insurance, unemployment insurance, maternity insurance, housing fund and other statutory benefits schemes, and comply with provisions of working hours, rest and vacation, and certain qualified enterprises have established and improved their benefit systems, including supplementary medical insurance, supplementary pension insurance or enterprise annuity systems.

Retirement Benefits

Details of the retirement benefits provided by the Group are set out in note 28 to the audited financial statements for the year.

Non-Competition Undertakings

To avoid any actual or potential competition between the business of Guangzhou Automobile Industry Group Co., Ltd. (the controlling shareholder of the Company) and the Company, GAIG has undertaken to the Company on 17 May 2010 ("Non-competition Undertaking") that during its existence, it shall not, and shall procure that its subsidiaries (other than the Group) shall not, directly or indirectly, whether on its own or jointly with any other person or company, own, invest in, participate in, develop, operate or engage in any business or company which directly or indirectly competed with the manufacturing of vehicles and auto parts, automobile related marketing and customer services, automobile trade and logistics and other related business carried on by the GAC Group in the PRC and Hong Kong. GAIG has further undertaken that during its existence, it shall, and shall procure that its subsidiaries (other than the Group) to, negotiate and conclude all transactions between the Group and GAIG or its subsidiaries (other than the Group) on an arm's length basis. Details of non-competition undertakings are set out in the section of "relationship with the controlling shareholder" in listing documents of the Company.

The Company has received a written confirmation from GAIG in respect of itself and each of its subsidiaries' (other than those which form a part of the Group) for the year ended 31 December 2010 compliance with its obligations under the non-competition undertaking.

Public Float

As at the date hereof, on the basis of publicly available information and to the best knowledge of the Company and its directors, more than 25% of the Company's total issued share capital is held by the public (as defined in the Listing Rules of the Stock Exchange).

Connected Transactions

During the year ended 31 December 2010, GAC Group and its associates (as defined in the Listing Rules) had entered into following connected transactions and continuing connected transactions:

(A) Connected transactions

The Company has entered into the following connected transactions, which are subject to the reporting and announcement requirements but exempt from independent shareholders' approval requirements under Chapter 14A of the Listing Rules. Details of these transactions are set out below:

1. *The Equity Transfer Agreement*

On 30 December 2010, the Company and Guangzhou Motorcycle Group Corporation ("Guangzhou Motor"), a wholly owned subsidiary of GAIG, the controlling shareholder of the Company, entered into an Equity Transfer Agreement (the "Equity Transfer Agreement"), whereby, Guangzhou Motor sold and the Company acquired 50% of the registered capital in Wuyang-Honda Motors (Guangzhou) Co., Ltd. ("Wuyang Honda"), a company incorporated under PRC law with limited liability at a consideration of RMB444,764,750, which is payable in full within 5 working days after the Equity Transfer Agreement takes effect.

2. *The Trademarks Acquisition Agreement*

On 30 December 2010, the Company entered into the Trademarks Acquisition Agreement (the "Trademarks Acquisition Agreement") with Guangzhou Motors. According to the Trademarks Acquisition Agreement, Guangzhou Motors sold and the Company acquired the Wuyang Trademarks at a consideration of RMB30,960,000, which is payable in full within 10 working days after the Trademarks Acquisition Agreement takes effect.

The Company considers that the above 1 and 2 Acquisitions will allow the Group to invest in an enterprise whose principal business of manufacturing and sale of motorcycles will be complementary to the Group's core business of manufacturing and sale of passenger vehicles and commercial vehicles. In addition, the Acquisitions will allow the Group to enhance its cooperation with Honda Motor Co., Ltd..

GAIG is the controlling shareholder of the Company holding approximately 58.84% of the registered capital of the Company and is a connected person of the Company. Guangzhou Motors is a wholly-owned subsidiary and an associate of GAIG and therefore, is also a connected person of the Company under Chapter 14A of the Listing Rules. The Acquisitions constitute connected transactions of the Company under the Listing Rules.

(B) Continuing Connected Transactions

1. *Provision of backend services for office and staff dormitory (including cleaning and maintenance services for office and staff dormitory, provision of food, security service, and staff shuttle bus)*

(a) During the year ended 31 December 2010, the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) provided the backend services for office and staff dormitory (including cleaning and maintenance services for office and staff dormitory, provision of food, security service, and staff shuttle bus) to the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates according to the following pricing terms on a regular basis. Such service will continue during the term of the joint ventures.

When determining the price, the Company, its subsidiaries and the principal JCEs will take into account market price of the relevant products and services offered by independent third party to make sure that the price offered to the joint venture partners and their associates are fair and reasonable and on normal commercial terms.

The Group's annual cap in respect of backend service connected transaction in 2010 was RMB199,000,000. During the year ended 31 December 2010, the amount for the provision of the backend service provided by the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) to the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates was RMB53,041,290.

The Company has also reached an agreement with the Stock Exchange that only disclosure of the annual aggregate dollar value of the transactions made each year would be made. This is because the disclosure of separate transaction value between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

(b) During the year ended 31 December 2010, the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates provided the backend services for office and staff dormitory (including cleaning and maintenance services for office and staff dormitory, provision of food, security service, and staff shuttle bus) to the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) according to the following pricing terms on a regular basis. Such service will continue during the term of the joint ventures.

Report of the Board

When determining the service price, in order to ensure that the products or services are obtained at the most favourable price, the Company, its subsidiaries and the principal JCEs will consider the market price for equivalent services in order to make sure that that price will remain a reasonable and competitive one prior to select the suppliers of relevant products and services. Also, the Group (including the principal JCEs) will also determine the price taking into account of the profit margin that could be achieved by the Group and to ensure that the price will be set at a level that the Group will still be able to generate a profit margin that is within the industry standard or even better.

The Group's annual cap in respect of backend services connected transaction in 2010 was RMB83,000,000. During the year ended 31 December 2010, the amount involved in the provision of the service provided by the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates was RMB77,551,560.

The Company has also reached an agreement with the Stock Exchange that only disclosure of the annual aggregate dollar value of the transactions made each year would be made. This is because the disclosure of separate transactions between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

2. ***Provision of transport and logistic services in respect of vehicle products and vehicle parts and components***

(a) During the year ended 31 December 2010, the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) provided transport and logistic services in respect of vehicle products and vehicle parts and components to the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates according to the following pricing on a regular basis. Such service will continue during the term of the joint ventures.

The Company, its subsidiaries and the principal JCEs will take into account market price of the relevant products and services offered by independent third party to make sure that the price offered to the joint venture partners and their associates are fair and reasonable and on normal commercial terms.

During the year ended 31 December 2010, the total consideration paid by the joint venture partners of the principal JCEs (including Toyota and Honda) relating to the above transport and logistic services in respect of vehicle products and vehicle parts and components to the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda)was RMB205,389,080.

In relation to the transactions, the Directors consider that the annual cap requirement under Rule 14A.35(2) shall not be imposed. The provisions of the transport and logistic services are part and parcel of the cooperation arrangement with joint venture parties and their associates. They are an important part of the supply chain management of the vehicle manufacturing and sales business.

Any growth in demand for vehicle manufactured by the principal JCEs or the joint venture partners will necessarily result in increased transaction volumes for the transport and logistic services. Such growth is outside the control of the Company and difficult to predict. If the unpredictable growth exceeds the annual caps imposed, the transport and logistic services have to be stopped, which in turn will hold up the manufacturing activities and the delivery of vehicle products, until the requirements of announcement and/or shareholders' approval under Chapter 14A of the Listing Rules are complied with.

The Directors consider that the imposition of annual caps on such transaction is not in the interest of the Group. Therefore, the Stock Exchange has granted a waiver from compliance with annual cap requirements relating to the above transactions for the duration of the terms of the respective transactions.

The Company has also reached an agreement with the Stock Exchange, only disclosure of the annual aggregate dollar value of the transactions made each year would be made. This is because the disclosure of separate transactions between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

(b) During the year ended 31 December 2010, the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates provided the transport and logistic services in respect of vehicle products and vehicle parts and components to the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) according to the following pricing terms on a regular basis. Our principal JCEs purchase raw materials, parts and components from the relevant joint venture partners and also sell some of the products to the relevant joint venture partners. The relevant joint venture partners would provide transport and logistic services to complete the processes. Such service will continue during the term of the joint ventures.

When determining the service price, in order to ensure that the products or services are obtained at the most favourable price, the Company, its subsidiaries and the principal JCEs will consider the market price for equivalent services in order to make sure that the price will remain a reasonable and competitive one prior to select the suppliers of relevant products and services. Also, the Group (including the principal JCEs) will also determine the price taking into account of the profit margin that could be achieved by the Group and to ensure that the price will be set at a level that the Group will still be able to generate a profit margin that is within the industry standard or even better.

During the year ended 31 December 2010, the total consideration paid by the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) relating to the above transport and logistic services in respect of vehicle products and vehicle parts and components was RMB836,658,390.

In relation to the transactions, the Directors consider that the annual cap requirement under Rule 14A.35(2) shall not be imposed. The provisions of the transport and logistic services are part and parcel of the cooperation arrangement with joint venture parties and their associates. They are an important part of the supply chain management of the vehicle manufacturing and sales business.

Any growth in demand for vehicle manufactured by the principal JCEs or the joint venture partners will necessarily result in increased transaction volumes for the transport and logistic services. Such growth is outside the control of the Company and difficult to predict. If the unpredictable growth exceeds the annual caps imposed, the transport and logistic services have to be stopped, which in turn will hold up the manufacturing activities and the delivery of vehicle products, until the requirements of announcement and/or shareholders' approval under Chapter 14A of the Listing Rules are complied with.

The Directors consider that the imposition of annual caps on such transaction is not in the interest of the Group. Therefore, the Stock Exchange has granted a waiver from compliance with annual cap requirements relating to the above transactions for the duration of the terms of the respective transactions.

The Company has also reached an agreement with the Stock Exchange, only disclosure of the annual aggregate dollar value of the transactions made each year would be made. This is because the disclosure of separate transactions between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

3. ***Sale of vehicle products, parts and components, production equipment and vehicles related products (including its after-sales services)***

(a) During the year ended 31 December 2010, the Company, its subsidiaries and the principal JCEs sold raw materials, parts and components and vehicles to the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates according to the following pricing terms on a regular basis. Such service will continue during the term of the joint ventures.

The Company, its subsidiaries and the principal JCEs will take into account market price of the relevant products and services offered by independent third party in determining the price of the products to make sure that the price offered to the joint venture partners and their associates are fair and reasonable and on normal commercial terms.

The Company has reached an agreement with the Stock Exchange that the transactions above are exempted from written agreement and annual cap requirements as set out in Rule 14A.35 of the Listing Rules, and are only required to disclose the nature of relevant transactions made each year. This is because the disclosure of separate transactions between the contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

(b) During the year ended 31 December 2010, the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates provided the sale of raw materials, parts and components and vehicles to the principal JCEs according to the following pricing terms on a regular basis. Such service will continue during the term of the joint ventures.

In relation to this type of transactions, where there are other local suppliers, the Company, its subsidiaries and the principal JCEs will obtain quotes for equivalent products or services that may be available from other local PRC suppliers in order to determine whether viable alternatives of comparable quality can be obtained in a timely manner and at the most competitive price. If alternatives are available, the Company, its subsidiaries and the principal JCEs would go through a tender process before selecting the supplier for such alternatives. In such a tender process, the joint venture partners and their associates are treated no differently from any other third party supplier. Consequently, the purchase of auto parts by the Company, its subsidiaries and the principal JCEs from the joint venture partners and their associates would not be made if the Company, its subsidiaries and the principal JCEs could obtain better terms from any other suppliers. Over time, fewer vehicle products, parts and components will be sourced from the joint venture partners and their associates as cheaper viable alternatives are found in the PRC. Such process of "localisation" is widely regarded as key means of cost reduction in the PRC automotive industry and is also the priority of the principal JCEs.

As a business reality, given the additional transportation and tax costs of purchasing vehicle products, parts and components and production equipment from a foreign supplier, it is neither in the Company's nor the joint venture partners' interest to purchase the vehicle products, parts and components and production equipment from the foreign joint venture partners if viable alternatives are available from local suppliers on more favourable terms.

In determining the price for the products and/or service, the Company will also consider the market price for equivalent products or services in order to make sure that the price will remain a reasonable and competitive one. However, unlike normal consumer products, some of the vehicle products, parts and components provided by the joint venture partners and/or their associates are specific to the car models produced by the principal JCEs and there is no alternative but to source the vehicle products, parts and components from the joint venture partners and/or their associates for the duration of the relevant principal JCE and market prices for these vehicle parts are not readily available. Our representatives will rely heavily on their knowledge of the industry standards and their prior experience gained from similar negotiations in determining the price. In order to ensure that the price is fair and reasonable, the Company, its subsidiaries and the principal JCEs will also obtain quotes for similar products or services, though not specific to the car models produced by the principal JCEs, as reference.

The Group (including the principal JCEs) will also determine the price taking into account the profit margin that could be achieved by the Group to ensure that the price will be set at a level that the Group will still be able to generate a profit margin that is within the industry standard or even better taking into account the international and PRC benchmark raw materials costs.

The Company has reached an agreement with the Stock Exchange that the transactions above are exempt from written agreement and annual cap requirements as set out in Rule 14A.35 of the Listing Rules, and are only required to disclose the nature of relevant transactions made each year. This is because the disclosure of separate transactions between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

4. ***Provision of recycling materials(including scrap metal)***

During the year ended 31 December 2010, the principal JCEs of the company provided recycling materials to the subsidiaries of the principal JCEs according to the following pricing terms on a regular basis, and these transactions can be regarded as the provision of recycling materials by the joint venture partners of the principal JCEs and their associates to the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda). Such service will continue during the term of the joint ventures.

The Company, its subsidiaries and the principal JCEs will take into account market price of the relevant products and services offered by independent third party in determining the price to make sure that the price offered to the joint venture partners and their associates are fair and reasonable and on normal commercial terms.

The Group's annual cap of connected transactions in respect of recycling materials service in 2010 was RMB74,000,000. During the year ended 31 December 2010, the amount involved in providing the recycling materials service by the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) to the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates was RMB66,144,920.

The Company has also reached an agreement with the Stock Exchange that only disclosure of the annual aggregate dollar value of the transactions made each year would be made. This is because the disclosure of separate transactions between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

5. ***Provision of technical support, research and development support and information enquiry (including production preparation support, local support, advisory services, and provisions of software)***

During the year ended 31 December 2010, the joint venture partners of the principal JCEs (including Toyota and Honda) and their associates provided technical support, research and development support and information enquiry (including production preparation support, local support, advisory services, and provisions of software) to the Company, its subsidiaries and the principal JCEs (including GAC Toyota and Guangqi Honda) according to the following pricing terms on a regular basis. Our joint venture partners are the proprietors of the technology involved in the production of vehicle models manufactured by the principal JCEs and they are primarily responsible for the research and development of all new models. The provision of technical support by the joint venture partners is to ensure that the latest technology is applied in the manufacturing process of the principal JCEs and to ensure the products remain competitive in the market. Such service will continue during the term of the joint ventures.

Generally, the pricing for technology license and technical assistance between the principal JCEs and the joint venture partners and their associates is that the party providing the technology should be fairly reimbursed for its research and development costs incurred in respect of a particular vehicle model and such research and development costs should be spread evenly over the entire operations of the party providing the technology and the PRC automotive joint venture should only bear its fair share of such costs.

In accordance with normal industry practice, the terms (including the price) of the technology licenses and transactions relating to technical support are fixed with reference to the expected life cycle of vehicle models, which are generally between 5 to 10 years, and also with reference to the industry benchmark for similar technological assistance. Our representatives will also rely heavily on their knowledge of the industry standards and their prior experience gained from similar negotiations in order to determine the price and to make sure that the price remains a reasonable and competitive one. Also the Group (including the principal JCEs) will also determine the price taking into account of the profit margin that could be achieved by the Group and to ensure that the price will be set at a level that the Group will still be able to generate a profit margin that is within the industry standard or even better.

The Company has reached an agreement with the Stock Exchange that the transactions above are exempt from written agreement and annual cap requirements as set out in Rule 14A.35 of the Listing Rules, and are only required to disclose the nature of relevant transactions made each year. This is because the disclosure of separate transaction value between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

6. Provision of the use of intellectual property rights (in relation to production and sales of vehicles)

During the year ended 31 December 2010, the joint venture partners of the principal JCEs provided the use of intellectual property rights (in relation to production and sales of vehicles) to the principal JCEs according to the following pricing terms on a regular basis. The provision of the use of intellectual property are key to the long term profitability and competitiveness of the principal JCEs and their products. Our Group entered into several technology licence agreements and trademark licence agreements with our joint venture partners in the past. Such agreements will continue during the term of the joint ventures.

The joint venture partners and its associates are primarily responsible for the research and development of the new vehicle models and it is therefore essential for the principal JCEs to enter into technology license with its joint venture partners. The relevant intellectual property rights that are specific to the car models produced by the relevant principal JCEs and are thus fundamental to the production of the Group. Without them, the businesses of the principal JCEs could not have been established and cannot operate. The Group therefore has no alternative but to source the intellectual property rights from the joint venture partners for the duration of the principal JCEs. It is therefore standard practice in the PRC automotive industry for Sino-foreign automotive manufacturing joint ventures to provide royalties to the proprietor of the relevant technology license, technological know-how or intellectual property right, which is very often, the joint venture partners.

The purpose of sino-foreign automotive manufacturing joint ventures is that the PRC manufacturer will be able to benefit from the technological expertise and product portfolio of its foreign joint venture partner, whilst the foreign partner is able to participate in the domestic PRC market. The joint venture relationship is therefore founded on the foreign joint venture partner contributing its technological expertise to the JCE and the PRC partner contributing its manufacturing capabilities and facilities, labor and local market and regulatory knowledge.

A key reason for the PRC Government's encouragement of sino-foreign automotive manufacturing joint ventures is to rapidly enhance technological and product standards in the PRC automotive industry.

Generally, the pricing for technology license and technical assistance between the principal JCEs and the joint venture partners and their associates is that the party providing the technology should be fairly reimbursed for its research and development costs incurred in respect of a particular vehicle model and such research and development costs should be spread evenly over the entire operations of the party providing the technology and the PRC automotive joint venture should only bear its fair share of such costs.

In accordance with normal industry practice, the terms (including the price) of the technology licenses and transactions relating to technical support are fixed with reference to the expected life cycle of vehicle models, which are generally between 5 to 10 years, and also with reference to the industry benchmark for similar technological assistance. Our representatives will also rely heavily on their knowledge of the industry standards and their prior experience gained from similar negotiations in order to determine the price and to make sure that the price remains a reasonable and competitive one. Also the Group (including the principal JCEs) will also determine the price taking into account of the profit margin that could be achieved by the Group and to ensure that the price will be set at a level that the Group will still be able to generate a profit margin that is within the industry standard or even better.

The Company also believes that the primary purpose of international automotive manufacturers in entering into joint ventures with the Company is the establishment of a strong presence in the PRC automotive industry, the gaining of market share for their brand of vehicles and long term investment returns from the principal JCEs, rather than any short term gains from technology licences, intellectual property rights and technical support services carried out on terms which may be prejudicial to the principal JCEs' long term profitability and competitiveness. Such short term gains would be eclipsed by the potential losses to the joint venture partners if the principal JCEs were to prove unsuccessful.

The Company has reached an agreement with the Stock Exchange that the transactions above are exempt from written agreement and annual cap requirements set out in Rule 14A.35 of the Listing Rules, and are only required to disclose the nature of relevant transactions made each year. This is because the disclosure of separate transactions between contracting parties would constitute disclosure of commercially sensitive information relating to the operations of the relevant JCEs and would not be in the interest of the Company or the relevant JCEs.

Control Mechanism

In relation to the connected transactions between the Company and its subsidiaries on the one hand and the joint venture partners and their associates on the other hand as described in paragraphs 1 to 6 above, negotiations will be conducted by the Company and/or the relevant subsidiary directly on an arm's length basis and our Company is able to control the negotiations between the subsidiaries and the joint venture partners and/or their associates. The joint venture partners and/or their associates will not be in a position to influence the Company and/or its subsidiaries to agree to terms which may not be in its and the Company's interest.

In relation to the connected transactions between the principal JCEs on the one hand and the joint venture partners and their associates on the other hand as described in paragraphs 1 to 6 above, it is provided under the respective joint venture agreements, articles of association and memoranda of the principal JCEs that negotiations between the principal JCE and the joint venture partner and its associates should always be conducted directly by the relevant principal JCE's senior management nominated by the Company on behalf of the Company or by representative of the Company as a joint venture partner and will thus be conducted on an arm's length basis. No joint venture partners or their associates is in a position to influence the principal JCEs to agree to terms which may not be in the principal JCEs' and therefore the Company's interest. The Company also confirms that negotiations of transactions between the principal JCEs and the relevant joint venture partners were all conducted by the relevant principal JCE's senior management nominated by the Company.

Also, the principal JCEs have implemented internal control and reporting mechanisms which enable business developments and transactions that may be subject to applicable continuing obligations under Chapter 14A of the Listing Rules to be reported to their respective boards and/or designated persons enabling both the Company and its relevant joint venture partners, through representatives on the board of the relevant principal JCE and/or designated persons to decide whether to consent to and approve the relevant transactions.

Further, there are also established procedures under the respective joint venture agreements, articles of association and memoranda of the principal JCEs that the entering into of any contract of material importance/material transaction with a joint venture partner and its associates shall either be approved by a majority of the directors present at the board meeting or be mutually agreed/signed off by the general manager and the vice general manager of the relevant principal JCE (as the case may be). It is provided under the respective joint venture agreements, articles of association and memoranda of the principal JCEs that the Group and the joint venture partner will be entitled to nominate the general manager and vice general manager respectively in turn and when the general manager is nominated by the Group, the vice general manager will be nominated by the joint venture partner and vice verse.

Confirmation by the Independent Non-executive Directors

The independent non-executive Directors confirm that during the year ended 31 December 2010, the above connected transactions entered into by the Company as one of the parties are:

(1) in the ordinary and usual course of business of the Company;

(2) on normal commercial terms or on terms no less favourable to the Company than terms available to or from (as appropriate) independent third parties; and

(3) in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole; and

(4) have not exceeded their respective annual cap (if an annual cap was set for the continuing connected transaction).

Auditor's Letter

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the aforesaid continuing connected transactions in accordance with Main Board Listing Rule 14A.38. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Material Litigation

As of 31 December 2010, the Group was not involved in any material litigation or arbitration and as far as the Group was aware, no material litigation or claim was pending or threatened or made against the Group.

Model Code

Pursuant to a resolution passed by the Board on 31 May 2010, the Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as a code of conduct of the Company regarding Directors' and Supervisors' transactions of the listed securities of the Company. After making specific enquiries with all directors, it is satisfied that the directors of the Company have strictly complied with the Model Code during the reporting period.

Corporate Governance

Pursuant to a resolution passed by the Board on 31 May 2010, the Company has adopted all the requirements of the code provisions of the Code on Corporate Governance Practices as set out in Appendix 14 of the Listing Rules as its code provisions. The Company has been in compliance with the code provisions of the Code on Corporate Governance Practices and actively followed the recommended best practices since its listing. Please refer to pages 62 to 72 in the corporate governance report of the company.

Review of the Accounts

The Company appointed PricewaterhouseCoopers and BDO China Guang Dong Shu Lun Pan Certified Public Accountants as the Company's overseas and domestic auditors respectively for the year ended 31 December 2010. The Company has not replaced its overseas auditors over the past three years. The Company also appointed PricewaterhouseCoopers Zhong Tian CPAs Limited Company as its domestic auditors for the year ended 31 December 2008, replaced by BDO China Guang Dong Shu Lun Pan Certified Public Accountants for the year ended 31 December 2009. A resolution will be submitted at the annual general meeting to reappoint PricewaterhouseCoopers and BDO China Guang Dong Shu Lun Pan Certified Public Accountants as the Company's overseas and domestic auditors respectively for the year ending 31 December 2011, and authorise the directors to fix their remunerations.

By Order of the Board
Guangzhou Automobile Group Co., Ltd.
Zhang Fangyou
Chairman

Guangzhou, PRC
22 March 2011

Report of the Supervisory Committee

To all shareholders,

In 2010, the Supervisory Committee of the Company duly performed its various duties, proactively and effectively conducted its work with the spirit of being accountable to all shareholders and in accordance with the Companies Law, the Securities Law, other laws and regulations and the requirements of the Articles of Association of our Company. The supervisory committee closely monitored the operation of the Company, and supervised the actions of directors and senior management of the Company in discharging their duties, so as to ensure the legitimacy, compliance and effectiveness of the Company's operation, which in turn safeguarded the legal interests of the Company and shareholders.

1. Work of the Supervisory Committee

In 2010, the Supervisory Committee convened four supervisory meetings and resolved certain matters including The Report of Work of the Supervisory Committee for 2009, The Financial Report on the Final Account for 2009 and The Interim Dividend Proposal for 2010.

During the year, the supervisors attended all general meetings and sat in on all Board meetings. They supervised in various aspects including the procedures for convening the general meetings and Board meetings of the Company, adoption of resolutions, implementation of the resolutions of the general meetings by the Board, the legitimacy and compliance of the senior management of the Company in discharging their duties and implementation of various management systems of the Company.

2. Opinions of the Supervisory Committee on regulated operation of the Company

The Supervisory Committee is of the view that the Board of the Company was capable of conducting regulated operation for 2010 in strict compliance with relevant laws, regulations and systems including the Companies Law, the Securities Law, the Articles of Association of the Company and the Listing Rules, the members of the Board performed their work in a diligent and responsible manner, their decisions made during the operations were scientific and its procedures were legal, the resolutions of the general meetings and Board meetings were well implemented, the internal control systems were sound and complete, forming a good internal control mechanism among the improved operational departments, decision making departments and supervision departments.

The Supervisory Committee was of the view that the directors, managers and other senior management of the Company were faithful, diligent and dedicated in performing their work in 2010, and were in strict compliance with relevant laws and regulations of the PRC and various rules and systems of the Company, striving to implement due diligence in respect of the Company's development and achieving the objectives set forth in the beginning of the year. During the year, the Supervisory Committee was not aware of any acts by the directors and senior management of the Company in discharging their duties which were in breach of laws and regulations, the Listing Rules, the Articles of Association of the Company or against the interests of the shareholders. The Company has fully performed its disclosure obligations in accordance with the requirements of the Listing Rules.

3. Independent opinions of the Supervisory Committee on examining the financial conditions of the Company

The Supervisory Committee examined the financial system and financial conditions of the Company seriously and carefully and reviewed the 2010 annual financial report.

The Supervisory Committee considered that the financial management system of the Company was in place, with regulated management and internal control system which could be strictly implemented. Besides, the financial operations were regulated which effectively ensured a smooth production and operation of the Company, resulting good financial conditions effectively. The financial report of the Company gave a full, true and objective view of the operation results and financial conditions of the Company while the financial report with unqualified opinions issued by the auditing firm was objective and fair.

4. Independent opinions of the Supervisory Committee on connected transactions

The Supervisory Committee examined the connected transactions of the Company during the year and considered that the connected transactions with legal decision-making procedures between the Company and the connected parties were conducted at fair price and was not aware of any circumstances prejudicial to the interests of the Company and other shareholders.

In 2011, the Supervisory Committee will focus on the objectives and tasks of production and operation and enhance its supervision on the audit of the major operation and management activities and the major transactions, continuously promoting the implementation of the internal control, risk prevention and early warning mechanism. It will also carry out the supervision responsibilities given by the laws and the Articles of Association, safeguard the interests of shareholders, employees and enterprises, promoting the regulated operations of the Company and forming the foundation for the long-term and sustainable development of the Company.

By order of the Supervisory Committee
Gao Fusheng
Chairman of the Supervisory Committee

Guangzhou, PRC
22 March 2011

Corporate Governance Report

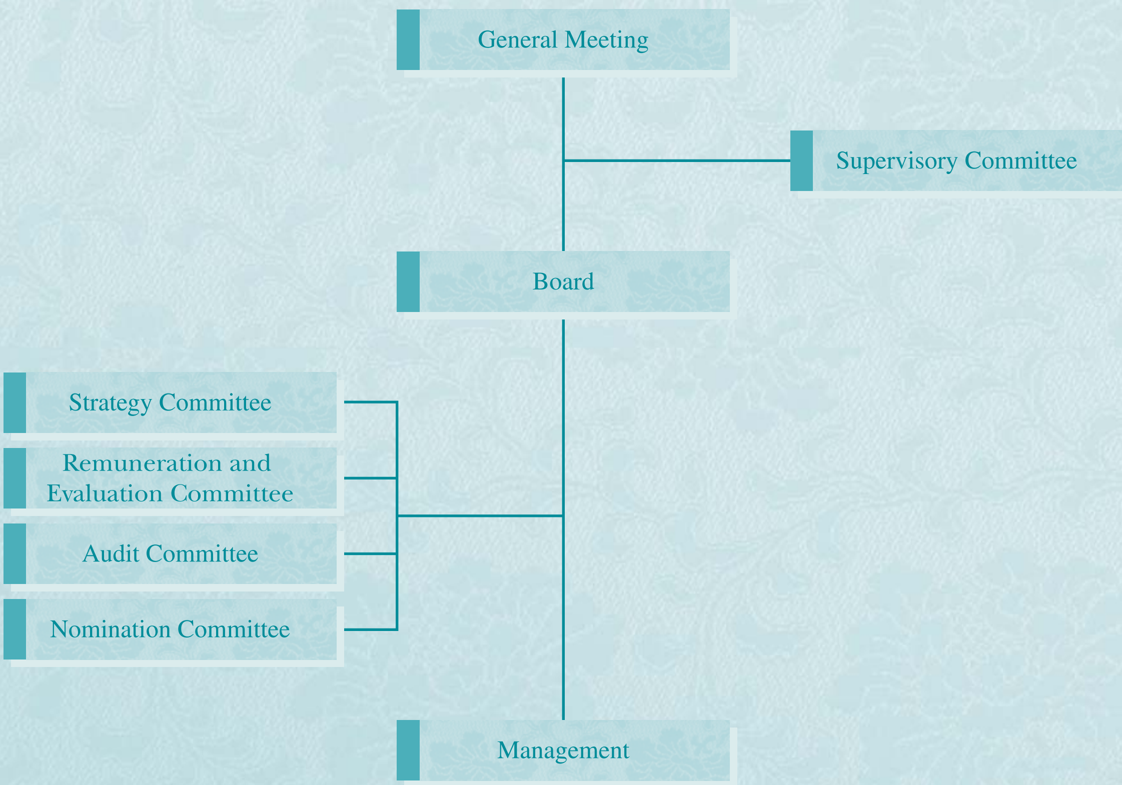
1. Overview of Corporate Governance

The Company has been in strict compliance with the Company Law, and the relevant requirements of Code on Corporate Governance Practices in Appendix 14 of the Listing Rules since the listing of the Company on 30 August 2010. The Company has guided its daily operation activities and regulated its operation behaviors in strict compliance with various governing regulations so as to make efforts to improve the transparency and independence of its operations, to strengthen the level of corporate governance, and to continuously enhance the Shareholders' value.

During the reporting period, the Company has complied with the relevant requirements of Code on Corporate Governance.

2. Structure of Corporate Governance

The Company's structure of corporate governance comprises the General Meeting, the Board and special committees, the Supervisory Committee, the management and the employees, each of which plays an important role in the corporate governance. The structure of governance of the Company is as follows:



(1) Shareholders and the General Meeting

1. *The General Meeting*

The General Meeting is the authority of the Company and has legal power to decide on material matters of the Company. The Company carries out polices of open and honest communication and fair disclosures. The General Meeting is an important channel of direct communication between the Board and the Shareholders. The Company highly emphasizes on the General Meeting and the notice of the General Meeting will be issued 45 days prior to the date of the meeting. All Shareholders are encouraged to attend the General Meeting, all Directors, supervisors and members of management of the Company would try their best to attend the meeting.

All registered Shareholders whose Shares are registered in the register of members shall receive notice of the General Meeting by post. The notice of the General Meeting contains an agenda, resolutions proposed and a voting form. All registered Shareholders are entitled to attend the General Meeting. Shareholders who is unable to attend the General Meeting can appoint their proxies or the chairman of the meeting as their proxies to attend the meeting on behalf of those Shareholders. The proxy form shall be completed and returned to the Company's share registrar.

The Company timely announced the poll results of the General Meeting in such manner as required by the Listing Rules.

At the Extraordinary General Meeting held on 20 October 2010, the Company has reviewed and approved the interim report of 2010 and distribution of interim dividend.

2. *Substantial Shareholder*

GAIG is our controlling Shareholder, holding 58.84% of the Shares and it has never directly or indirectly interfered with the Company's decision-making or operations beyond the authorization of the General Meeting.

The shareholdings of other substantial Shareholders during the reporting period are set out on page 42 of this annual report.

(2) Directors and Board of Directors

1. Directors

Directors are elected or replaced at the General Meeting by simple majority of the voting rights held by Shareholders present at the General Meeting. The candidates of the first session of the Directors and supervisors of the Company are nominated by the promoter of the Company; while the candidates of the next session of Directors and supervisors are nominated by the Board and the Supervisory Committee for the previous session and Shareholders who hold more than 5% of total shares attaching voting rights.

A Director shall hold office for a term of three years and, upon expiry of his term, may offer himself for re-election at the General Meeting.

The current session of Board consists of 15 Directors, including 4 executive Directors, 6 non-executive Directors and 5 independent non-executive Directors. The size and composition of the Board are in compliance with the relevant laws and regulations. Details of members of the Board are set out on page 43 of this annual report.

Independence of Directors

The independent non-executive Directors are Wu Gaogui, Ma Guohua, Xiang Bing, Law Albert Yu Kwan and Li Zhengxi. Xiang Bing is the founding dean and accounting professor of Cheung Kong Graduate School of Business; Law Albert Yu Kwan is a member of the UK Chartered Institute of Management Accountants, and is also a member of the Hong Kong Institute of Certified Public Accountants, Hong Kong Society of Registered Financial Planners and Association of International Accountants. As at the date of this annual report, in accordance with Rule 3.13 of the Listing Rules, the Company has received the annual confirmation of independence from each of the independent non-executive Directors. The Company considers that they remain independent. The independent non-executive Directors have discharged their duties with good faith, integrity and diligence according to the laws and regulations. The independent non-executive Directors participated in the discussion and decision on the material issues of the Board and Board committees and gave their views on the regulated operation of the Company based on their industry expertise and experience. They have duly reviewed and expressed their independent views on the equality and fairness of connected transactions. They have performed their duties independently and are independent of the controlling Shareholders or other units and individuals who have interests in conflict with the Company. The independent non-executive Directors made significant contributions towards the interest of the Company as a whole and the legal interests of all Shareholders and the healthy development of the Company.

During the reporting period, the independent non-executive Directors did not hold dissenting views regarding all of the material matters of the Company.

Induction Program for Directors

In 2010, the Company dispatched the Guide on Disclosure of Price-Sensitive Information, the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules and the relevant explanations and guidelines for information disclosure requirements in the Listing Rules to all directors to promptly inform them of the latest rules, regulations for compliance and its continuous duties. In 2010, the Company provided all directors with data, reports and special meetings to keep them informed of the Company's business development, competition and regulatory environment as well as the development environment in the industry, enabling all directors to understand their responsibilities, make correct decisions and carry out effective supervision.

Securities Transactions by Directors

The Company has adopted the Model Code for Securities Transactions by Directors as set out in Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transactions. After specific enquiry of all Directors made by the Company, all Directors have confirmed that they have fully complied with the rules as required by the Model Code throughout the year of 2010.

2. *Meetings of the Board*

In 2010, the Board held 15 meetings. Board meetings could facilitate effective discussion and arrived at prudent decisions. The major matters discussed include:

(1) to review and approve the business planning report for the year of 2010;

(2) to review and approve the annual and interim reports;

(3) to review and approve the annual and interim financial reports;

(4) to review and approve the Directors' report;

(5) to review and approve the relevant connected transactions for the year of 2010;

(6) to review and approve the major investment projects and acquisition projects of the Company;

(7) to review and approve the annual re-appointment of the auditors;

(8) to review and approve the annual remuneration of management.

All Directors' attendance of 15 Board meetings held during the year is as follows:

Members of the Board	Number of Attendance/ Number of Meetings	Attendance Rate	Remarks
Executive Directors			
Zhang Fangyou	15/15	100%	
Zeng Qinghong	13/15	86.67%	
Yuan Zhongrong	14/15	93.33%	
Lu Sa	15/15	100.00%	
Non-executive Directors			
Fu Shoujie	14/15	93.33%	
Liu Huilian	15/15	100.00%	
Wei Xiaoqin	15/15	100.00%	All director not present in person have authorized other directors to attend and vote on their behalf
Li Tun	14/15	93.33%	
Li Pingyi	14/15	93.33%	
Wang Songlin	13/15	86.67%	
Independent Non-executive Directors			
Wu Gaogui	13/15	86.67%	
Ma Guohua	14/15	93.33%	
Xiang Bing	12/15	80.00%	
Law Albert Yu Kwan	15/15	100.00%	
Li Zhengxi	12/15	80.00%	

The management of the Company is responsible for providing the Board with the relevant data and information required for reviewing and approving the resolutions, and arranging management officers to report on various issues, especially the progress of major projects of the Company, at the Board meetings.

3. *Special Committees of the Board*

The Board set up 4 special committees, comprising Strategy Committee, Audit Committee, Nomination Committee and Remuneration and Evaluation Committee. The Board has fully considered the expertise and experience of each Director when appointing members to the committees.

(i) *Audit Committee*

The Board has established an Audit Committee consisting of 3 independent non-executive Directors, namely, Law Albert Yu Kwan, Ma Guohua and Xiang Bing. Their duties are to supervise and review the annual audit work and internal audit system of the Company, the financial information and disclosure of the Company. The chairman of Audit Committee is Law Albert Yu Kwan. During the year, one meeting of Audit Committee was held to discuss and approve, among others, the 2010 interim report of the Company and 2010 interim results announcement of the Company and the attendance of each member is as follows:

Members of Audit Committee	Number of Attendance/ Number of Meetings	Attendance Rate
Law Albert Yu Kwan	1/1	100%
Ma Guohua	1/1	100%
Xiang Bing	1/1	100%

(ii) *Nomination Committee*

The Board has established a Nomination Committee consisting of 3 non-executive Directors, namely Wu Gaogui, Li Zhengxi and Wang Songlin, and two of them are independent non-executive Directors. Their duties are to make recommendations regarding the candidates of Directors and senior management, the selection standards and procedures. The chairman of Nomination Committee is Wu Gaogui. During the year, one meeting of Nomination Committee was held and the attendance of each member is as follows:

Member of Nomination Committee	Number of Attendance/ Number of Meeting	Attendance Rate
Wu Gaogui	1/1	100%
Li Zhengxi	1/1	100%
Wang Songlin	1/1	100%

During the year, no candidate was recommended for directorship of the Company.

(iii) Remuneration and Evaluation Committee

The Board has established a Remuneration & Evaluation Committee consisting of 3 non-executive Directors, namely Li Zhengxi, Ma Guohua and Li Pingyi, two of whom are independent non-executive Directors. Their duties are to formulate and review the remuneration policies and packages of Directors and senior management of the Company. The chairman of Remuneration Committee is Li Zhengxi. During the year, three meetings of Remuneration & Evaluation Committee were held in total to discuss and approve, among others, the adjustment to the remuneration of all independent non-executive Directors, and the attendance of each member is as follows:

Member of Remuneration & Evaluation Committee	Number of Attendance/ Number of Meeting	Attendance Rate
Li Zhengxi	3/3	100%
Ma Guohua	3/3	100%
Li Pingyi	3/3	100%

Other than the five independent non-executive Directors who are entitled to Director's remuneration, all other Directors do not receive Director's remuneration from the Company. Directors who also hold offices in the management of the Company and other management positions receive management remuneration from the Company. The Director's remuneration is determined with reference to the average market rate and the actual conditions of the Company.

During the year, the annual remuneration paid to each of five independent non-executive Directors by the Company was RMB100,000 (before tax).

(iv) *Strategy Committee*

The Strategy Committee consists of Zhang Fangyou, Zeng Qinghong, Yuan Zhongrong, Fu Shoujie, Wu Gaogui and Xiang Bing, two of whom are independent non-executive Directors, and the chairman is Zhang Fangyou. The primary functions of Strategy Committee are to conduct research and make recommendations regarding our long-term strategic planning. During the year, three meetings of Strategy Committee were held in total to discuss and approve, among others, matters in relation to the establishment of GAC Gonow and the acquisition of Wuyang — Honda Motors (Guangzhou) Co., Ltd and the Wuyang Trademarks and the attendance of each member is as follows:

Member of Strategy Committee	Number of Personal Attendance/ Number of Meeting	Attendance Rate
Zhang Fangyou	3/3	100%
Zeng Qinghong	3/3	100%
Yuan Zhongrong	3/3	100%
Fu Shoujie	3/3	100%
Wu Gaogui	3/3	100%
Xiang Bing	3/3	100%

4. ***Responsibility for the Preparation of Financial Report***

The Directors have confirmed their responsibility for the preparation of financial statements of the Group in accordance with the applicable laws and accounting policies, and the financial statement must give a true and fair view of the state of the Group.

The statement of reporting responsibility made by the auditors of the Company regarding the Company's financial statements is set out in the Auditor's Report on page 73.

Corporate Governance Report

(3) Internal Control System

1. *Supervisors and Supervisory Committee*

In 2010, the Supervisory Committee has supervised the Company's finance, connected transactions and the legitimacy and compliance of rules and regulations by the Directors and senior management of the Company when discharging their duties. In 2010, four meetings were held by the Supervisory Committee. Members of the Supervisory Committee attended or set in on all Board meetings and General Meetings and diligently performed their supervisory duties. The supervisors' attendance of the meetings of Supervisory Committee during the year is as follows:

Members of Supervisory Committee	Number of Personal Attendance/ Number of Meetings	Attendance Rate	Notes
Gao Fusheng	4/4	100%	Supervisors not present in person have authorized other supervisors to attend and vote on their behalf
Huang Zhiyong	3/4	75%	
He Yuan	4/4	100%	
Ye Ruiqi	4/4	100%	
He Jinpei	4/4	100%	

A supervisor shall hold office for a term of three years and upon expiry of his term, shall be eligible for re-election.

2. *Internal Control*

The Board is responsible for establishing and maintaining the internal control system of the Company, and reviewing the effectiveness of all key control procedures including finance, operation, compliance and risk management, so as to safeguard the interest of the Shareholders and the assets of the Group.

The Board is of the view that during the year and as at the date of this annual report, the Group has maintained a comprehensive internal control system covering corporate governance, operation, investment, finance, administration and personnel management, and the internal control system is effective.

The Board is also of the view that the internal control system is established for the purpose of managing potential risks instead of completely eliminating all risks. Accordingly, the internal control system of the Company can only render reasonable, rather than absolute, assurance for achieving the Company's operating objectives.

3. ***Auditors***

The Company appointed BDO China Guang Dong Shu Lun Pan Certified Public Accountants and PricewaterhouseCoopers as our domestic and international auditors, respectively, for the year ended 31 December 2010. The annual audit fees for the year of 2010 were RMB5,600,000.

The Audit Committee has discussed and assessed the expertise of the auditors and their performance of audit work for the year of 2010.

The Audit Committee proposed to re-appoint BDO China Guang Dong Shu Lun Pan Certified Public Accountants and PricewaterhouseCoopers as our external auditor and the proposal has been approved by the Board. The re-appointment of BDO China Guang Dong Shu Lun Pan Certified Public Accountants and PricewaterhouseCoopers as our domestic and international auditors, respectively, for the year ended 31 December 2011, and the authorization of the management of the Company to determine their remunerations will be proposed at the 2010 Annual General Meeting for Shareholders' review and approval.

(4) The Management

The Company has clearly defined the roles and division of work between the Board and the management as well as the respective responsibilities of the Chairman and the general manager in its Articles of Association, ensuring the independence of the Board in decision-making and the independence of management in managing the daily operations.

The chairman of the Board is Mr. Zhang Fangyou and the general manager of the Company is Mr. Zeng Qinghong. The chairman of the Board focuses on the Group's development strategies and the decision-making issues of the Board while the general manager is responsible for the management of daily operation and business development.

(5) Information Disclosure

1. Information Disclosure

The Company recognizes the importance of performing its statutory obligation of disclosing information and complies with the information disclosure regulations of the Listing Rules. The Company promptly, truthfully, accurately and completely discloses information that may materially affect the decision-making of the public investors strictly in accordance with the preparation and reporting rules and procedures as required for information disclosure, ensuring all Shareholders have equal and sufficient access to all information regarding the Company.

The Company published all announcements both on the websites of the Stock Exchange and the Company. For details, please visit www.hkexnews.hk and www.gagc.com.cn.

2. Investor Relations and Communication

The core of investor relations is effective communication. The Company strictly complies with the relevant requirements to fully disclose relevant information to investors, including timely disclosures of significant information of the Company and the matters which may affect the interests of investors through regular and special announcements. The Company also publishes information of the Company or the industry through our website on a routine or irregular basis, so as to timely and clearly keep investors informed of the latest development of the Company, and enhance the transparency of the Company.

Since its listing, the Company has maintained close relationship with overseas media and investors through various channels such as Investor Day, results announcement conferences, press conferences, overseas roadshows, visits of the investors and analysts to the Company and telephone conferences with them. During the year, the Company has organized 4 Investor Days, 6 large roadshows and promotion activities, receptions of general visits by about 400 investors and analysts, 5 large telephone conferences and about 30 telephone conferences for institutional investors and analysts.

3. Shareholders' Return

The Company always strives to enhance the Shareholders' return, and had distributed cash dividend of RMB0.09 per share with respect to the interim results of 2010 (amounting to RMB553,325,000 in total). The Board proposed to distribute an annual cash dividend of RMB0.11 per Share (amounting to RMB676,286,000 in total) with respect to the annual results of 2010. It will be proposed at the Annual General Meeting of 2010 for review and approval.

Independent Auditor's Report

PRICEWATERHOUSECOOPERS

羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong
Telephone (852) 2289 8888
Facsimile (852) 2810 9888
www.pwchk.com

To the shareholders of Guangzhou Automobile Group Co., Ltd.
(incorporated in the People's Republic of China with limited liability)

We have audited the consolidated financial statements of Guangzhou Automobile Group Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") set out on pages 75 to 180, which comprise the consolidated and company balance sheets as at 31 December 2010, and the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

Directors' Responsibility for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

Independent Auditor's Report

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2010, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 22 March 2011

Consolidated Balance Sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**1,523,888**	978,579
Property, plant and equipment	8	**8,840,578**	8,337,630
Investment properties	9	**56,706**	57,608
Intangible assets	10	**1,848,666**	964,701
Investment in associates	13	**5,200,729**	4,644,787
Deferred income tax assets	15	**383,932**	266,719
		17,854,499	15,250,024
Current assets			
Inventories	16	**3,017,574**	2,242,402
Trade and other receivables	17	**4,262,567**	1,665,908
Time deposits	18	**9,886,018**	12,808,717
Restricted cash	19	**377,003**	328,171
Cash and cash equivalents	20	**15,980,915**	11,332,940
		33,524,077	28,378,138
Total assets		**51,378,576**	43,628,162
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	**6,148,057**	3,934,757
Other reserves	22	**7,636,764**	814,186
Retained earnings	22		
— Proposed dividend	35	**676,286**	—
— Others		**11,150,403**	8,310,798
		25,611,510	13,059,741
Non-controlling interests		**249,430**	8,401,607
Total equity		**25,860,940**	21,461,348

Consolidated Balance Sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Trade and other payables	26	**120,832**	55,760
Borrowings	23	**7,998,874**	7,649,398
Deferred income tax liabilities	15	**23,359**	10,131
Provisions	24	**230,183**	201,542
Government grants	25	**476,032**	279,846
		8,849,280	8,196,677
Current liabilities			
Trade and other payables	26	**14,587,734**	12,492,887
Current income tax liabilities		**476,296**	228,963
Borrowings	23	**1,364,944**	1,070,369
Provisions	24	**239,382**	177,918
		16,668,356	13,970,137
Total liabilities		**25,517,636**	22,166,814
Total equity and liabilities		**51,378,576**	43,628,162
Net current assets		**16,855,721**	14,408,001
Total assets less current liabilities		**34,710,220**	29,658,025

The notes on pages 84 to 180 are an integral part of these financial statements.

Zhang Fang You
Director

Lu Sa
Director

Balance Sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
ASSETS			
Non-current assets			
Land use rights	7	**114,684**	—
Property, plant and equipment	8	**232,903**	66,154
Intangible assets	10	**1,307,347**	557,197
Investment in subsidiaries	11	**20,736,524**	2,207,004
Investment in jointly-controlled entities	12	**2,928,546**	2,254,537
Investment in associates	13	**1,879,400**	1,753,080
		27,199,404	6,837,972
Current assets			
Inventories	16	**8,802**	7,176
Trade and other receivables	17	**1,124,589**	619,069
Time deposits	18	**1,480,000**	400,000
Cash and cash equivalents	20	**1,419,018**	4,215,575
		4,032,409	5,241,820
Total assets		**31,231,813**	12,079,792
EQUITY			
Equity attributable to the equity holders of the Company			
Share capital	21	**6,148,057**	3,934,757
Other reserves	22	**14,625,508**	(854,213)
Retained earnings	22		
— Proposed dividend	35	**676,286**	—
— Others		**1,374,711**	1,083,098
Total equity		**22,824,562**	4,163,642

Balance Sheet

	Note	As at 31 December 2010 RMB'000	2009 RMB'000
LIABILITIES			
Non-current liabilities			
Trade and other payables	26	**120,832**	55,760
Borrowings	23	**7,435,288**	7,410,212
Government grants	25	**64,548**	109,846
		7,620,668	7,575,818
Current liabilities			
Trade and other payables	26	**786,583**	340,332
Total liabilities		**8,407,251**	7,916,150
Total equity and liabilities		**31,231,813**	12,079,792
Net current assets		**3,245,826**	4,901,488
Total assets less current liabilities		**30,445,230**	11,739,460

The notes on pages 84 to 180 are an integral part of these financial statements.

Zhang Fang You
Director

Lu Sa
Director

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Revenue		**59,847,923**	50,253,552
Cost of sales	27	**(49,575,783)**	(41,917,779)
Gross profit		**10,272,140**	8,335,773
Selling and distribution costs	27	**(2,767,988)**	(2,142,898)
Administrative expenses	27	**(2,273,907)**	(2,544,169)
Interest income	30	**383,141**	350,200
Other gains/(losses) — net	29	**90,727**	(428,954)
Operating profit		**5,704,113**	3,569,952
Finance costs	31	**(369,163)**	(344,421)
Interest income	30	**27,188**	38,845
Share of profit of associates	13(a)	**1,129,711**	715,674
Profit before income tax		**6,491,849**	3,980,050
Income tax expense	32	**(974,325)**	(724,010)
Profit for the year		**5,517,524**	3,256,040
Other comprehensive income for the year, net of tax		**—**	—
Total comprehensive income for the year		**5,517,524**	3,256,040
Profit attributable to:			
— Equity holders of the Company		**4,295,099**	2,031,800
— Non-controlling interests		**1,222,425**	1,224,240
		5,517,524	3,256,040

Consolidated Statement of Comprehensive Income

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Total comprehensive income attributable to:			
— Equity holders of the Company		**4,295,099**	2,031,800
— Non-controlling interests		**1,222,425**	1,224,240
		5,517,524	3,256,040
Earnings per share attributable to equity holders of the Company			
(expressed in RMB per share)			
— basic and diluted	34	**0.9192**	0.5413

The notes on pages 84 to 180 are an integral part of these financial statements.

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Dividends	35	**676,286**	—

Consolidated Statement of Changes In Equity

	Attributable to equity holders of the Company				Non-controlling interests	Total equity
	Share capital	Other reserves	Retained earnings	Total		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance as at 1 January 2009	3,499,666	662,521	7,246,463	11,408,650	7,421,358	18,830,008
Profit for the year and total comprehensive income	—	—	2,031,800	2,031,800	1,224,240	3,256,040
Transactions with owners						
Contribution from shareholders of the Company and non-controlling shareholders of subsidiaries	435,091	—	—	435,091	9,000	444,091
Appropriation to reserve fund	—	151,665	(151,665)	—	—	—
Dividend declared by the Company and subsidiaries	—	—	(815,800)	(815,800)	(252,991)	(1,068,791)
Transaction with owners	435,091	151,665	(967,465)	(380,709)	(243,991)	(624,700)
Balance as at 31 December 2009	3,934,757	814,186	8,310,798	13,059,741	8,401,607	21,461,348
Profit for the year and total comprehensive income	**—**	**—**	**4,295,099**	**4,295,099**	**1,222,425**	**5,517,524**
Transactions with owners						
Privatisation of a subsidiary by issue of new shares (Note 22(b))	**2,213,300**	**6,596,695**	**—**	**8,809,995**	**(9,129,777)**	**(319,782)**
Contribution from the non-controlling shareholders of subsidiaries	**—**	**—**	**—**	**—**	**41,792**	**41,792**
Appropriation to reserve fund	**—**	**225,883**	**(225,883)**	**—**	**—**	**—**
Dividend declared by the Company and subsidiaries	**—**	**—**	**(553,325)**	**(553,325)**	**(286,617)**	**(839,942)**
Transactions with owners	**2,213,300**	**6,822,578**	**(779,208)**	**8,256,670**	**(9,374,602)**	**(1,117,932)**
Balance as at 31 December 2010	**6,148,057**	**7,636,764**	**11,826,689**	**25,611,510**	**249,430**	**25,860,940**

The notes on pages 84 to 180 are an integral part of these financial statements.

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from operating activities			
Cash generated from operations	36	**4,584,640**	8,700,502
Interest received		**400,166**	397,407
Interest paid		**(379,056)**	(173,439)
Income tax paid		**(830,977)**	(567,788)
Net cash generated from operating activities		**3,774,773**	8,356,682
Cash flows from investing activities			
Purchases of property, plant and equipment, land use rights, investment properties and intangible assets		**(2,718,522)**	(3,206,278)
Proceeds from sales of property, plant and equipment and land use rights	36	**64,961**	406,928
Additional capital injection in associates and purchase of additional interest in subsidiaries		**(49,580)**	(18,682)
Acquisition of jointly-controlled entities		**(8,857)**	(73,042)
Acquisition of associates		**(105,756)**	(1,057,872)
Disposal of a subsidiary		**(867)**	(10,141)
Proceeds from disposal of interests in associates		**—**	1,781
Issue of entrusted loans		**(751,000)**	(260,000)
Proceeds from repayment of entrusted loan		**726,000**	127,817
Receipt of government grant		**265,169**	280,500
Dividends received		**716,877**	459,807
Decrease/(increase) of time deposits		**2,922,699**	(4,386,704)
Increase of restricted cash		**(48,832)**	(269,369)
Net cash generated from/(used in) investing activities		**1,012,292**	(8,005,255)

Consolidated Cash Flow Statement

	Note	Year ended 31 December 2010 RMB'000	2009 RMB'000
Cash flows from financing activities			
Contribution from shareholders of the Company and minority shareholders of subsidiaries		**41,792**	444,091
Other payments of listing-related expenses		**(97,086)**	—
Distribution to shareholders of the Company and minority shareholders of subsidiaries		**(839,942)**	(1,072,984)
Proceeds from borrowings		**2,221,374**	8,768,385
Repayments of borrowings		**(1,440,611)**	(2,697,605)
Net cash (used in)/generated from financing activities		**(114,473)**	5,441,887
Net increase in cash and cash equivalents		**4,672,592**	5,793,314
Cash and cash equivalents at beginning of the year		**11,332,940**	5,540,239
Exchange losses on cash and cash equivalents		**(24,617)**	(613)
Cash and cash equivalents at end of the year		**15,980,915**	11,332,940

The notes on pages 84 to 180 are an integral part of these financial statements.

Notes to the Consolidated Financial Statements

1. GENERAL INFORMATION

Guangzhou Automobile Group Co., Ltd. (the "Company") and its subsidiaries (together, the "Group") are principally engaged in the manufacturing and sales of passenger vehicles, commercial vehicles, engines and auto parts.

The registered address of the Company is 23/F, Chengyue Building, No. 448 – No. 458, Dong Feng Zhong Road, Yuexiu District, Guangzhou, Guangdong, the PRC.

The Company was established in June 1997 as a limited liability company in the PRC. In June 2005, the Company underwent a reorganisation and transformed itself into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserve as of 30 June 2004 into 3,499,665,555 shares at RMB1 each. In 2009, the Company issued additional 435,091,902 shares at par value of RMB1 each to all its shareholders. After the capital injection and as of 31 December 2009, the Company's total issued domestic shares are 3,934,757,457.

The Company held approximately 37.9% interests of Denway Motors Limited ("Denway", other information of Denway was disclosed in Note 5) through a wholly-owned subsidiary. The remaining 62.1% interests of Denway were held by other shareholders (the "Public Shareholders"). As of 27 August 2010, the Company issued 2,213,300,218 ordinary H shares to exchange with the Public Shareholders of Denway and Denway withdrew the listing from Hong Kong Stock Exchange ("HKSE"). Upon the privatisation scheme became effective, Denway has become a wholly-owned subsidiary of the Company. The Company's 2,213,300,218 newly issued shares were then listed on the HKSE by way of Introduction on 30 August 2010.

These financial statements are presented in thousands of Renminbi Yuan ("RMB"), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 22 March 2011.

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 all the years 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.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The following new amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2010. The adoption of these amendments to standards, other than HKAS 27(revised), does not have any significant impact to the results and financial position of the Group.

Standards/Interpretation	Subject of amendment	Effective for accounting periods beginning on or after
HKAS 17 (Amendment)	Leases	1 July 2009
HKAS 27 (Revised)	Consolidated and separate financial statements	1 July 2009
HKFRS 3 (Revised)	Business combinations	1 July 2009
HK-Int 5	Presentation of financial statements — Classification by the borrower of a term loan that contains a repayment on demand clause	Immediate effect from 29 November 2010
HKFRSs (Amendments)	First annual improvements project published in October 2008 and second annual improvements project published in May 2009 by Hong Kong Institute of Certified Public Accountants ("HKICPA")	1 July 2009

HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value, and a gain or loss is recognised in profit or loss. The Group has applied HKAS 27 (revised) prospectively to all transactions with non-controlling interests from 1 January 2010, including transaction of Privatisation disclosed in Note 1. Details please refer to Note 11(a) and Note 22(b)).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(b) The following amendments to standards and interpretations are mandatory for accounting periods beginning on or after 1 January 2010 but are not relevant to the Group's operations.

Standards/Interpretation	Subject of amendment	Effective for accounting periods beginning on or after
HKAS 39 (Amendment)	Eligible hedged items	1 July 2009
HKFRS 1 (Revised)	First-time adoption of Hong Kong Financial Reporting Standards	1 July 2009
HKFRS 1 (Amendment)	Additional exemptions for first-time adopters	1 January 2010
HKFRS 2 (Amendment)	Group cash-settled share-based payment transactions	1 January 2010
HK(IFRIC) — Int 17	Distributions of non-cash assets to owners	1 July 2009
HK(IFRIC) — Int 18	Transfer of assets from customers	1 July 2009

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.1 Basis of preparation (continued)

2.1.1 Changes in accounting policy and disclosures (continued)

(c) New standards, amendments to standards and interpretations have been issued but are not effective for the financial year beginning on or after 1 January 2010 and have not been early adopted.

Standards/Interpretation	Subject of amendment	Effective for accounting periods beginning on or after
HKAS 24 (Revised)	Related party disclosures	1 January 2011
HKAS 32 (Amendment)	Classification of rights issues	1 February 2010
HKFRS 1 (Amendment)	Limited exemption from comparative HKFRS 7 disclosures for first-time adopters	1 July 2010
HKFRS 9	Financial instruments	1 January 2013
HK(IFRIC) — Int 14 (Amendment)	Prepayments of a minimum funding requirement	1 January 2011
HK(IFRIC) — Int 19	Extinguishing financial liabilities with equity instruments	1 July 2010
HKFRSs (Amendments)	Third annual improvements project published in May 2010 by HKICPA	1 July 2010

The Group is in the process of making an assessment on the impact of these new/revised standards, amendments and interpretations to existing standards and does not anticipate that the adoption will result in any material impact on the Group's results of operations and financial position.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation

(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 or the Group has de facto control over it. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. When assessing whether the Group has de facto control over another entity, the Group will consider:

— the right to appoint and nominate the board members;

— the intention of the Group to further reduce or increase its shareholding in the entity;

— the dispersed passive shareholders and their action and participation in shareholders' meetings; and

— the historic shareholder activism in the past shareholders' meetings.

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment. The results of subsidiaries are accounted for by the company on the basis of dividend received and receivable.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(a) Subsidiaries (continued)

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the statement of comprehensive income.

Inter-company transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(b) Transactions with non-controlling interests

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

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 identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the profit and loss, and its share of post-acquisition movements in other comprehensive income is recognised in other comprehensive income. 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.

Dilution gains and losses arising in investments in associates are recognised in the consolidated statement of comprehensive income.

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

(d) Jointly-controlled entities

A jointly-controlled entity is a joint venture where the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.2 Consolidation (continued)

(d) Jointly-controlled entities (continued)

The Group's interests in jointly-controlled entities are accounted for by proportionate consolidation. The Group combines its share of the jointly-controlled entities' individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's consolidated financial statements. The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly-controlled entities that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly-controlled entities that result from the Group's purchase of assets from the jointly-controlled entities until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

In the Company's balance sheet, investments in jointly-controlled entities are stated at cost less provision for impairment losses. The results of jointly-controlled entities are accounted for by the Company on the basis of dividend received and receivable.

(e) Changes in accounting policy

The Group has changed its accounting policy for transactions with non-controlling interests and the accounting for loss of control or significant influence from 1 January 2010 when revised HKAS 27, 'Consolidated and separate financial statements', became effective. The revision to HKAS 27 contained consequential amendments to HKAS 28, 'Investments in associates', and HKAS 31, 'Interests in joint ventures'.

Previously transactions with non-controlling interests were treated as transactions with parties external to the Group. Disposals therefore resulted in gains or losses in profit or loss and purchases resulted in the recognition of goodwill. On disposal or partial disposal, a proportionate interest in reserves attributable to the subsidiary was reclassified to profit or loss or directly to retained earnings.

Previously, when the Group ceased to have control or significant influence over an entity, the carrying amount of the investment at the date control or significant influence became its cost for the purposes of subsequently accounting for the retained interests as associates, jointly controlled entity or financial assets.

The Group has applied the new policy prospectively to transactions occurring on or after 1 January 2010. As a consequence, no adjustments were necessary to any of the amounts previously recognised in the financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors ("BOD") of the Company.

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 Renminbi ("RMB"), which is the Company's functional and the Group's 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 consolidated statement of comprehensive income.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the consolidated statement of comprehensive income within 'finance costs'. All other foreign exchange gains and losses are presented in the consolidated statement of comprehensive income within "other losses — net".

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Foreign currency translation (continued)

(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:

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

— income and expenses for each consolidated statement of comprehensive income 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 rate on the dates of the transactions); and

— all resulting exchange differences are recognised in other comprehensive income.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, are taken to other comprehensive income. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the profit and loss as part of the gain or loss on sale.

2.5 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are charged to the consolidated statement of comprehensive income during the financial period in which they are incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.5 Property, plant and equipment (continued)

Depreciation of leasehold improvement is calculated using the straight-line method to allocate their costs to their residual value over the shorter of their estimated useful lives and the remaining lease term. Depreciation of other property, plant and equipment is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

	Useful lives	Residual rate
— Buildings	8–50 years	0%–10%
— Machinery	5–22 years	0%–10%
— Vehicles	5–15 years	0%–10%
— Mould	5–10 years	0%–10%
— Other equipment	3–19 years	0%–10%
— Leasehold improvement	2-20 years	0%

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within "other losses — net" in the consolidated statement of comprehensive income.

2.6 Construction in progress

Construction-in-progress represents property, plant and equipment under construction and pending installation and is stated at cost less accumulated impairment losses, if any. Cost includes the costs of construction of buildings, the cost of plant and machinery and interest charges arising from borrowings used to finance these assets during the period of construction or installation and testing, if any. No provision for depreciation is made on construction in progress until such time as the relevant assets are completed and are available for intended use. When the assets concerned are brought into use, the costs are transferred to property, plant and equipment and depreciated in accordance with the policy as stated in the preceding paragraphs.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.7 Investment properties

Properties that are held for long-term rental yields or for capital appreciation or both, and that are not occupied by the companies of the Group, are classified as investment properties. The Group applies cost model for recognition of investment properties.

Investment properties are measured initially at its cost, including related transaction costs. After initial recognition, investment properties are stated at historical cost less accumulated depreciation and impairment losses.

Subsequent expenditure is charged to the asset's carrying amount 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 costs are expensed in the consolidated statement of comprehensive income during the financial period in which they are incurred.

Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 20 to 50 years with residual value of 0% to 10%.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

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.

2.8 Land use rights

Land use rights represent upfront payments made for the use of land use rights and is amortised over the unexpired terms of the lease on a straight-line basis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 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, jointly-controlled entity and associate at the date of acquisition. Goodwill on acquisitions of subsidiaries and jointly-controlled entities is included in intangible assets. Goodwill on acquisitions of associates is included in investment in associates and is tested 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.

Where the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the Company will account for the combination using those provisional values. The Company will recognise any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date and from the acquisition date.

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 identified according to operating segment.

(b) Patent and proprietary technology

Purchased patents and proprietary technology are initially recorded at actual cost and are amortised on a straight-line basis over their useful lives of 5 to 10 years as stated in the contract.

(c) Computer software

Acquired computer software licenses are capitalised on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortised on a straight-line basis over their estimated useful lives of 2 to 10 years.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.9 Intangible assets (continued)

(d) Research and development costs

Research costs are expensed as incurred. An intangible asset arising from development expenditure on the Group's Proprietary Brands project is recognised only when the Company can demonstrate the technical feasibility of completing the intangible asset so that it will be available for use or sale, its intention to complete and its ability to use or sell the asset, how the asset will generate future economic benefits, the availability of resources to complete and the ability to measure reliably the expenditure during the development. Following the initial recognition of the development expenditure, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses. Any expenditure capitalised is amortised over the period of expected future sales from the related project.

The carrying value of development costs is reviewed for impairment annually when the asset is not yet in use, or more frequently when an indication of impairment arises during a financial period.

2.10 Impairment of investment in subsidiaries, jointly-controlled entities, associates and non-financial assets

Assets that have an indefinite useful life — for example, goodwill or intangible assets not ready to use — are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.11 Financial assets

2.11.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables, available for sale and held-to-maturity. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition. In 2010, the Group's financial assets represents only 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 are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise `trade and other receivables', 'time deposits', 'restricted cash' and `cash and cash equivalents' in the balance sheet.

2.11.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognised on the 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 investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or Group of financial assets is impaired. A financial asset or a Group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or Group of financial assets that can be reliably estimated.

The criteria that the Group uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor;
- A breach of contract, such as a default or delinquency in interest or principal payments;
- The Group, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- It becomes probable that the borrower will enter bankruptcy or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:

  (i) adverse changes in the payment status of borrowers in the portfolio;

  (ii) national or local economic conditions that correlate with defaults on the assets in the portfolio.

  The Group first assesses whether objective evidence of impairment exists.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.13 Impairment of financial assets (continued)

(a) ***Assets carried at amortised cost (continued)***

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in the consolidated statement of comprehensive income. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in the consolidated statement of comprehensive income.

Impairment testing of trade and other receivables is described in note 2.15.

(b) Impairment testing of the investments in subsidiaries or associates is required upon receiving dividends from these investments if the dividend exceeds the total comprehensive income of the subsidiary or associate in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

2.14 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

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.

2.16 Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less.

2.17 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

2.18 Trade payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Accounts payable are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the consolidated statement of comprehensive income 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 end of the reporting period.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.20 Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending for their expenditure on qualifying assets is deducted from the borrowing costs capitalised.

2.21 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognised in the profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case the tax is also recognised in other comprehensive income or directly in equity, respectively.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, jointly-controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised, 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, 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 substantively 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 only 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, jointly-controlled-entities and associates, except for deferred income tax liability 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. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.21 Current and deferred income tax (continued)

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.22 Employee benefits

(a) Defined contribution employee retirement schemes

The Group participates in the defined contribution employee retirement schemes regarding pension benefits required under existing PRC legislation. The defined contribution plan is a pension plan under which the Group pays contributions into a separate entity. The Group has no legal or constructive obligations to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to employee service in the current and prior periods.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognises termination benefits when it is demonstrably committed to either: terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after balance sheet date are discounted to present value.

2.23 Provisions

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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.23 Provisions (continued)

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provision for product warranties granted by the Group for certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present value as appropriate.

2.24 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 when specific criteria have been met for each of the Group's activities as described below. 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 products

The Group manufactures and sells a range of passenger vehicles, commercial vehicles, engines and auto parts to its dealers and end customers. Sales of products are recognised when the significant risks and rewards of ownership of the products have been passed to the buyer and the amount of revenue can be measured reliably.

The passenger vehicles are often sold with sales rebates. Sales are recorded based on the price specified in the sales contracts, net of the sales rebates which are calculated periodically.

(b) Rendering of service

Management fee and labour service income are recognised on accrual basis when service is rendered.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.24 Revenue recognition (continued)

(c) 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 receivables are recognised using the original effective interest rate.

(d) Rental income

Rental income under operating leases of buildings is recognised on a straight-line basis over the lease term.

(e) Dividend income

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

2.25 Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) As a lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the consolidated statement of comprehensive income on a straight-line basis over the period of the lease.

(b) As a lessor

Assets leased out under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives on a basis consistent with similar owned property, plant and equipment. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

2.26 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 consolidated statement of comprehensive income over the period necessary to match them with the costs that they are intended to compensate.

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

Government grants are deducted in reporting the related expenses, when appropriate.

2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's and Company'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, cash flow interest rate risk and fair value interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

Risk management is carried out by the Group's finance department ("Group Finance") under policies approved by the senior management. Group Finance identifies and evaluates financial risks in close co-operation with the Group's operating units.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk

(i) Foreign exchange risk

The Group's business mainly operates in the PRC with most of the transactions denominated and settled in RMB, except that certain receivables and payables, cash and cash equivalents and borrowings are denominated in US dollar ("USD"), HK dollar ("HKD") and Japanese yen ("JPY"), which are exposed to foreign currency translation risk. The Group had not used any financial instrument to hedge the foreign exchange risk.

As at 31 December 2010, if RMB had strengthened/weakened by 5% against USD, HKD, JPY with all other variables held constant, post-tax profit would have been approximately RMB30,784,000 (2009: RMB8,223,000) lower/higher, mainly as a result of foreign exchange gains/losses on translation of USD, HKD and JPY-denominated trade and other receivables, time deposit, cash and cash equivalents, trade and other payables and borrowings.

(ii) Cash flow and fair value interest rate risk

The Group has no significant interest-bearing assets other than entrusted loans (included in other receivables), time deposits, restricted cash, and cash and cash equivalents. The maturity terms of these assets, together with the Group's current borrowings, are within 12 months so there would not be significant interest rate risk for these financial assets and liabilities.

The Group's interest rate risk arises from non-current borrowings. Borrowings issued at variable rates expose the Group to cash flow interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at 31 December 2010, the Group's borrowings at variable rates were denominated in RMB, if interest rates on bank borrowings had been 100 basis point higher/lower respectively with all other variables held constant, post-tax profit would have been RMB4,603,000 (2009: RMB5,606,000) lower/higher, mainly as a result of higher/lower interest expense on floating rate borrowings.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(a) Market risk (continued)

(ii) Cash flow and fair value interest rate risk (continued)

As at 31 December 2010, approximately RMB8,767,571,000 (2009: RMB8,031,633,000) of the Group's borrowings bore interests at fixed rates. The interest rates and terms of repayment of the Group's borrowings are disclosed in Note 23.

The Group had not used any financial instrument to hedge its exposure to interest rate risk.

(b) Credit risk

The carrying amounts of time deposits, cash and cash equivalents, restricted cash, and trade and other receivables included in the consolidated financial statements represent the Group's maximum exposure to credit risk in relation to its financial risk.

As at 31 December 2010 and 2009, most of the time deposits, restricted cash and cash and cash equivalent are deposited in state-owned banks and other financial institutions without significant credit risks. Management does not expect any losses from non-performance by these state-owned banks and financial institutions.

The Group generally requires dealers and customers to pay the full amounts in advance, either in cash or by bank acceptance notes with maturity within 6 months, which is accepted and settled by banks, prior to the delivery of the passenger vehicles. In addition to the requirement for advance payment from customers, the Group has policy in place to ensure credit sales are made to customers with an appropriate credit history. Credit terms are approved after credit evaluations/review. Majority of trade receivables are with customers having an appropriate credit history.

(c) Liquidity risk

Prudent liquidity risk management includes maintaining sufficient cash and cash equivalent, the availability of funding from an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, Group Finance maintains flexibility in funding by maintaining availability under committed credit lines.

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

Management monitors the Group's undrawn borrowing facilities (Note 23), time deposits (Note 18) and cash and cash equivalents (Note 20) on the basis of expected cash flow.

The tables below analyses the Group's and the Company's financial liabilities into relevant maturity Groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

The Group

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2010				
Borrowings	**1,775,498**	**523,019**	**7,710,192**	**670,261**
Trade and other payables (exclude advances from customers, staff welfare benefits payable, other taxes and government grants)	**11,294,613**	**66,777**	**66,777**	**—**
At 31 December 2009				
Borrowings	1,426,176	316,647	7,827,757	706,381
Trade and other payables (exclude advances from customers, staff welfare benefits payable, other taxes and government grants)	8,880,271	20,100	40,200	—

3. FINANCIAL RISK MANAGEMENT (continued)

3.1 Financial risk factors (continued)

(c) Liquidity risk (continued)

The Company

	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000
At 31 December 2010				
Borrowings	**284,480**	**484,480**	**7,130,829**	**670,261**
Trade and other payables (exclude staff welfare benefits payable and other taxes)	**733,322**	**66,777**	**66,777**	**—**
At 31 December 2009				
Borrowings	284,480	284,480	7,585,915	706,381
Trade and other payables (exclude staff welfare benefits payable and other taxes)	316,859	20,100	40,200	—

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as total borrowings divided by total capital. Total borrowings include current and non-current borrowings, as shown in the consolidated balance sheet. Total capital is calculated as equity attributable to the equity holders of the Company, as shown in the consolidated balance sheet, plus total borrowings.

3. FINANCIAL RISK MANAGEMENT (continued)

3.2 Capital risk management (continued)

The gearing ratios as at 31 December 2010 and 2009 were as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Total borrowings *(Note 23)*	**9,363,818**	8,719,767
Total equity	**25,860,940**	21,461,348
Total capital	**35,224,758**	30,181,115
Gearing ratio	**27%**	29%

3.3 Fair value estimation

The Group's financial instruments recognised in the balance sheet are mainly loans and receivables and financial liabilities (Note 14) carried at amortised cost. The carrying value less impairment provision of trade receivables and payables are a reasonable approximation of their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

The fair value of financial instruments that are not traded in an active market is determined by using valuation techniques. The Group uses a variety of methods and makes assumptions that are based on market conditions existing at the balance sheet date, such as estimated discounted cash flows.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements 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.

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 addressed below.

(a) Useful lives and residual value of property, plant and equipment

The Group's management determines the residual value, useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual residual value and useful lives of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and competitor actions in response to severe industry cycles. Management will increase the depreciation charge where residual value or useful lives are less than previously estimated, or it will write-off or write-down technically obsolete or non-strategic assets that have been abandoned or sold.

(b) Current and deferred income taxes

The Group is subject to income taxes in the PRC. Significant judgement is required in determining provision for current and deferred income taxes. There are transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred income tax assets relating to certain temporary differences and tax losses are recognised when management considers it is likely that future taxable profits will be available against which temporary differences or tax loss can be utilised. When the expectations are different from the original estimates, such differences will impact the recognition of deferred tax assets and income tax charges in the period in which such estimates are changed.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (continued)

(c) Impairment of property, plant and equipment and land use rights

Property, plant and equipment and land use rights are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amounts have been determined based on value-in-use calculations or market valuations. These calculations require the use of judgements and estimates.

Management judgement is required in the area of asset impairment particularly in assessing: (i) whether an event has occurred that may indicate that the related asset value may not be recoverable; (ii) whether the carrying value of an asset can be supported by the recoverable amount, being the higher of fair value less costs to sell or net present value of future cash flows which are estimated based upon the continued use of the asset in the business; and (iii) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management in assessing impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value in the impairment test and as a result affect the Group's financial condition and results of operations. If there is a significant adverse change in the projected performance and resulting future cash flow projections, it may be necessary to take an impairment charge to the consolidated statement of comprehensive income.

(d) Impairment of goodwill

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

(e) Warranty provisions

Provisions for product warranties granted by the Group to certain products are recognised based on sales volume and past experience of the level of repairs and returns, discounted to their present values as appropriate.

5. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES

Particulars of principal subsidiaries, jointly-controlled entities and associates are as follows:

Name	Place of incorporation	Principal activities	Particulars of registered capital/issued share capital	Interest held Direct	Interest held Indirect
Subsidiaries					
Guangzhou Automobile Group Auto bus Co., Ltd. 廣州汽車集團客車有限公司	Mainland China	Manufacture and sale of automobiles	US$49,900,000	50%	50%
Guangzhou Automobile Group Moto Co. Ltd. 廣州汽車集團乘用車有限公司	Mainland China	Manufacture and sale of automobiles	RMB1,200,000,000	100%	—
Guangzhou Automobile Group Component Co., Ltd. 廣州汽車集團零部件有限公司	Mainland China	Manufacture and sale of automotive parts	RMB185,680,000	51%	49%
Guangzhou Automobile Group Business Co., Ltd. 廣州汽車集團商貿有限公司	Mainland China	Trading of automobiles, automotive parts and steel	RMB611,000,000	100%	—
China Lounge Investment Limited 中隆投資有限公司	Hong Kong	Investment holding	HK$10,000,000	100%	—
Denway Motors Limited 駿威汽車有限公司 *(Note 11(a))*	Hong Kong	Investment holding	HK$751,869,853	62.1%	37.9%
Guangzhou Denway Enterprises Development Co., Ltd. 廣州駿威企業發展有限公司	Mainland China	Investment holding	US$87,272,700	—	100%
Guangzhou Auto Group Corporation 廣州汽車集團公司	Mainland China	Investment holding	RMB468,200,000	—	100%
Promowide Technology Ltd., 普惠科技有限公司	Hong Kong	Investment holding	HK$42,394,938	—	63%
GAC Gonow Co., Ltd 廣汽吉奧汽車有限公司	Mainland China	Manufacture and sale of automobile	RMB1,260,000,000	51%	—
Jointly-controlled entities					
Guangqi Honda Automobile Co., Ltd. 廣汽本田汽車有限公司	Mainland China	Manufacture and sale of automobile and automotive parts	US$283,290,000	—	50%

5. PARTICULARS OF PRINCIPAL SUBSIDIARIES, JOINTLY-CONTROLLED ENTITIES AND ASSOCIATES (continued)

Particulars of principal subsidiaries, jointly-controlled entities and associates are as follows: (continued)

Name	Place of incorporation	Principal activities	Particulars of registered capital/issued share capital	Interest held Direct	Interest held Indirect
GAC Toyota Motor Co., Ltd. 廣汽豐田汽車有限公司	Mainland China	Manufacture and sale of automobile and automotive parts	USD399,560,000	50%	—
GAC Hino Motors Co., Ltd. 廣汽日野汽車有限公司	Mainland China	Manufacture and sale of automobile and automotive parts	RMB1,500,000,000	50%	—
GAC Hino (ShenYang) motors Co., Ltd. 廣汽日野（瀋陽）汽車有限公司	Mainland China	Manufacture and sale of automobile and automotive parts	RMB1,004,218,280	—	45%
GAC-SOFINCO Automobile Finance Co., Ltd 廣汽匯理汽車金融有限公司	Mainland China	Provide automotive finance services	RMB500,000,000	50%	—
GAC FIAT Automobiles Co., Ltd. 廣汽菲亞特汽車有限公司	Mainland China	Manufacture and sale of automobile and automotive parts	RMB900,000,000	50%	—
Associates					
GAC Toyota Engine Co. Ltd. 廣汽豐田發動機有限公司	Mainland China	Manufacture and sale of automotive parts	US$240,720,000	30%	—
Honda Automobile (China) Co., Ltd. 本田汽車（中國）有限公司	Mainland China	Manufacture and sale of automobile and automotive parts	US$82,000,000	25%	—
GAC Chang Feng Motors Co. Ltd. 廣汽長豐汽車股份有限公司	Mainland China	Manufacture and sale of automobile and automotive parts	RMB520,871,390	29%	—
Shanghai Hino Engine Co., Ltd. 上海日野發動機有限公司	Mainland China	Manufacture and sale of automotive parts	US$29,980,000	30%	—
Guangzhou TS Automotive Interior Systems Co., Ltd. 廣州提愛思汽車內飾系統有限公司	Mainland China	Manufacture and sale of automotive parts	US$3,860,000	—	48%
Guangzhou Intex Automotive Interior Parts Co., Ltd. 廣州櫻泰汽車飾件有限公司	Mainland China	Manufacture and sale of automotive parts	US$22,500,000	—	25%
Guangzhou Stanley Electric Company Limited 廣州斯坦雷電氣有限公司	Mainland China	Manufacture and sale of automotive parts	US$44,700,000	—	30%
Guangzhou Denso Co., Ltd. 廣州電裝有限公司	Mainland China	Manufacture and sale of automotive parts	US$23,022,409	—	40%

6. SEGMENT INFORMATION

The chief operating decision-maker has been identified as the BOD. The BOD reviews the Group's internal reporting in order to assess performance and allocate resources. Management has determined the operating segments based on these reports.

The BOD considered the nature of the Group's business and determined that the Group has three reportable operating segments as follows:

(i) Passenger vehicles — production and sale of a variety of passenger vehicles;

(ii) Commercial vehicles — production and sale of commercial vehicles including truck and buses; and

(iii) Auto parts — production and sale of engines and other auto parts and accessories.

Others mainly comprise manufacture and sale of audio equipment and property investment business.

Sales between segments are carried out on terms equivalent to those that prevail in arm's length transactions. The revenue from external parties reported to the BOD is measured in a manner consistent with that in the consolidated statement of comprehensive income.

6. SEGMENT INFORMATION (continued)

The segment results for the year ended 31 December 2010 and other segment items included in the consolidated statement of comprehensive income are as follows:

	Passenger vehicles RMB'000	Commercial vehicles RMB'000	Auto parts RMB'000	Others RMB'000	Eliminations RMB'000	Unallocated RMB'000	Consolidated RMB'000
Total gross segment revenue	58,135,280	925,507	453,491	386,124	(52,479)	—	59,847,923
Inter-segment revenue	(17,336)	(27,047)	(3,720)	(4,376)	52,479	—	—
Revenue (from external customers)	58,117,944	898,460	449,771	381,748	—	—	59,847,923
Segment results	5,841,034	(98,581)	(66,867)	6,971	9,384	—	5,691,941
Unallocated income							
Headquarter interest income						210,775	210,775
Unallocated costs							
Headquarter expenditure						(198,603)	(198,603)
Operating profit							5,704,113
Finance costs	(69,283)	(15,614)	(9,624)	(820)	—	(273,822)	(369,163)
Interest income	4,774	1,794	1,133	77	—	19,410	27,188
Share of profit of associates	145,437	—	980,807	3,467	—	—	1,129,711
Profit before income tax							6,491,849
Income tax expense	(969,489)	25,547	5,122	(113)	—	(35,392)	(974,325)
Profit for the year							5,517,524
Other segment items							
Depreciation and amortisation	968,190	39,693	18,138	11,411	—	5,613	1,043,045
Impairment/(reversal of impairment) of trade and other receivables	4,123	1,431	(493)	—	—	(618)	4,443
Impairment of inventories	65,056	15,202	2,551	—	—	—	82,809
Impairment of property, plant and equipment	4,925	—	205	—	—	—	5,130

6. SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2010 and additions to non-current assets (other than deferred tax assets) for the year then ended are as follows:

	Passenger vehicles RMB'000	Commercial vehicles RMB'000	Auto parts RMB'000	Others RMB'000	Eliminations RMB'000	Unallocated RMB'000	Consolidated RMB'000
Total assets	32,511,240	1,614,653	3,397,300	2,482,831	(2,106,625)	13,479,177	51,378,576
Total assets include:							
Investment in associates	1,743,962	—	3,427,111	29,656	—	—	5,200,729
Total liabilities	20,021,919	1,068,794	428,678	774,968	(4,212,011)	7,435,288	25,517,636
Additions to non-current assets (other than deferred tax assets)	2,911,922	45,433	297,664	30,610	—	—	3,285,629

6. SEGMENT INFORMATION (continued)

The segment results for the year ended 31 December 2009 and other segment items included in the consolidated statement of comprehensive income are as follows:

	Passenger vehicles RMB'000	Commercial vehicles RMB'000	Auto parts RMB'000	Others RMB'000	Eliminations RMB'000	Unallocated RMB'000	Consolidated RMB'000
Total gross segment revenue	49,379,934	345,586	269,419	280,121	(21,508)	—	50,253,552
Inter-segment revenue	(9,887)	(1,260)	(5,351)	(5,010)	21,508	—	—
Revenue (from external customers)	49,370,047	344,326	264,068	275,111	—	—	50,253,552
Segment results	4,223,854	(111,687)	(20,995)	(7,569)	8,283	—	4,091,886
Unallocated income							
Headquarter interest income						147,597	147,597
Unallocated costs							
Headquarter expenditure						(669,531)	(669,531)
Operating profit							3,569,952
Finance costs	(42,257)	(16,374)	(9,079)	(21,822)	—	(254,889)	(344,421)
Interest income	32,446	659	506	552	—	4,682	38,845
Share of profit/(loss) of associates	60,512	—	905,798	(250,636)	—	—	715,674
Profit before income tax							3,980,050
Income tax expense	(730,801)	28,082	(612)	(72)	—	(20,607)	(724,010)
Profit for the year							3,256,040
Other segment items							
Depreciation and amortisation	784,750	35,426	61,406	84,810	—	3,337	969,729
Impairment/(reversal of impairment) of trade and other receivables	24,957	(1,381)	204	1	—	—	23,781
Impairment of inventories	2,592	35,824	—	—	—	—	38,416
Impairment of property, plant and equipment	155,103	5,538	—	—	—	—	160,641

6. SEGMENT INFORMATION (continued)

The segment assets and liabilities as at 31 December 2009 and additions to non-current assets (other than deferred tax assets) for the year then ended are as follows:

	Passenger vehicles RMB'000	Commercial vehicles RMB'000	Auto parts RMB'000	Others RMB'000	Eliminations RMB'000	Unallocated RMB'000	Consolidated RMB'000
Total assets	25,641,808	1,407,679	2,745,099	1,904,890	(943,899)	12,872,585	43,628,162
Total assets include:							
Investment in associates	1,619,068	—	3,005,144	20,575	—	—	4,644,787
Total liabilities	16,453,062	894,362	382,540	1,324,524	(4,342,217)	7,454,543	22,166,814
Additions to non-current assets (other than deferred tax assets)	3,881,818	321,895	131,653	34,871	—	—	4,370,237

Reportable segments' assets are reconciled to total assets as follows:

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Total segment assets	**37,899,399**	30,755,577
Unallocated assets:		
— Term deposit and cash and cash equivalents of headquarter	**13,479,177**	12,872,585
Total assets	**51,378,576**	43,628,162

6. SEGMENT INFORMATION (continued)

Reportable segments' liabilities are reconciled to total liabilities as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Total segment liabilities	**18,082,348**	14,712,271
Unallocated liabilities:		
— Borrowings of headquarter	**7,435,288**	7,410,843
— Dividend payables	**—**	43,700
Total liabilities	**25,517,636**	22,166,814

The Group does not have significant reliance on certain major customers. Revenue from external customers by geographical location are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Mainland China	**59,568,285**	50,037,780
Hong Kong	**279,638**	215,772
	59,847,923	50,253,552

Revenue is allocated based on the country/place in which the customer is located.

6. SEGMENT INFORMATION (continued)

Non-current assets (other than deferred tax assets) located by geographical location are as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Mainland China	**17,320,696**	14,841,794
Hong Kong	**149,871**	141,511
	17,470,567	14,983,305

Non-current assets are allocated based on the location of the assets.

Analysis of revenue by category:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Sales of products	**59,502,378**	50,031,035
Rendering of services	**152,940**	138,668
Others	**192,605**	83,849
	59,847,923	50,253,552

7. LAND USE RIGHTS

Land use rights represent the Group's interests in land which are held on leases between 15 to 50 years. Movements of the land use rights for the year is as follows:

The Group

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
At beginning of the year		
Cost	**1,123,061**	925,978
Accumulated amortisation and impairment	**(144,482)**	(126,029)
Net book amount	**978,579**	799,949
For the year ended		
Opening net book amount	**978,579**	799,949
Additions	**589,018**	247,134
Disposals	**(5,906)**	(47,281)
Disposal of a subsidiary	**(15,236)**	—
Amortisation charge *(Note 27)*	**(22,567)**	(21,223)
Closing net book amount	**1,523,888**	978,579
At end of the year		
Cost	**1,683,789**	1,123,061
Accumulated amortisation and impairment	**(159,901)**	(144,482)
Net book amount	**1,523,888**	978,579

7. LAND USE RIGHTS (continued)

The Company

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
At beginning of the year		
Cost	**—**	—
Accumulated amortisation	**—**	—
Net book amount	**—**	—
For the year ended		
Opening net book amount	**—**	—
Additions	**114,684**	—
Closing net book amount	**114,684**	—
At end of the year		
Cost	**114,684**	—
Accumulated amortisation	**—**	—
Net book amount	**114,684**	—

(a) Amortisation of the land use rights has been charged to the cost of sales in the consolidated statement of comprehensive income.

(b) Certain bank borrowings were secured by land use rights with an aggregate carrying value of approximately RMB42,840,000 (2009: RMB19,992,000) (Note 23(a)).

(c) The Group is in the process of applying for the title certificates of certain of its land use rights with an aggregate carrying value of approximately RMB159,860,000. The Directors consider that the Group is entitled to lawfully and validly occupy or use these land.

7. LAND USE RIGHTS (continued)

(d) The Group's interests in land use rights at their net book values are analysed as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
In Mainland China, held on:		
Leases of between 10 and 50 years	**1,490,171**	942,986
In Hong Kong, held on:		
Leases of between 10 and 50 years	**33,717**	35,593
	1,523,888	978,579

The Company

	As at 31 December	
	2010	**2009**
	RMB'000	**RMB'000**
In Mainland China, held on:		
Leases of between 10 and 50 years	**114,684**	—

8. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings RMB'000	Machinery RMB'000	Vehicles RMB'000	Mould RMB'000	Other equipment RMB'000	Leasehold improvement RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2009								
Cost	2,397,224	3,797,588	392,335	1,796,958	396,792	103,493	1,594,433	10,478,823
Accumulated depreciation and impairment	(471,144)	(1,247,271)	(173,490)	(1,091,270)	(223,576)	(18,147)	(307)	(3,225,205)
Net book amount	1,926,080	2,550,317	218,845	705,688	173,216	85,346	1,594,126	7,253,618
Year ended 31 December 2009								
Opening net book amount	1,926,080	2,550,317	218,845	705,688	173,216	85,346	1,594,126	7,253,618
Additions	75,320	171,077	150,162	800	33,423	40,931	2,049,774	2,521,487
Disposals	(321,296)	(21,124)	(28,243)	(4,870)	(1,102)	—	—	(376,635)
Transfers	724,957	1,226,680	11,290	130,139	25,947	—	(2,119,013)	—
Transfer from investment properties *(Note 9)*	22,500	—	—	—	—	—	—	22,500
Depreciation charge *(Note 27)*	(99,397)	(449,226)	(64,546)	(158,148)	(54,317)	(47,855)	—	(873,489)
Impairment charge	—	(156,838)	(3,698)	—	(105)	—	—	(160,641)
Disposal of subsidiaries	(30,734)	(13,650)	(1,557)	(2,961)	(308)	—	—	(49,210)
Closing net book amount	2,297,430	3,307,236	282,253	670,648	176,754	78,422	1,524,887	8,337,630
At 31 December 2009								
Cost	2,789,277	5,073,981	494,707	1,870,977	441,757	144,424	1,525,194	12,340,317
Accumulated depreciation and impairment	(491,847)	(1,766,745)	(212,454)	(1,200,329)	(265,003)	(66,002)	(307)	(4,002,687)
Net book amount	2,297,430	3,307,236	282,253	670,648	176,754	78,422	1,524,887	8,337,630
Year ended 31 December 2010								
Opening net book amount	**2,297,430**	**3,307,236**	**282,253**	**670,648**	**176,754**	**78,422**	**1,524,887**	**8,337,630**
Additions	**50,455**	**40,613**	**129,539**	**5,537**	**43,966**	**20,739**	**1,266,927**	**1,557,776**
Disposals	**(55,670)**	**(1,804)**	**(3,559)**	**(3,651)**	**(1,400)**	**—**	**—**	**(66,084)**
Transfers	**687,401**	**1,099,768**	**10,359**	**143,013**	**76,024**	**—**	**(2,016,565)**	**—**
Depreciation charge *(Note 27)*	**(132,000)**	**(492,883)**	**(82,367)**	**(133,820)**	**(67,190)**	**(11,782)**	**—**	**(920,042)**
Impairment charge	**—**	**(5,130)**	**—**	**—**	**—**	**—**	**—**	**(5,130)**
Disposal of a subsidiary	**(56,349)**	**(4,889)**	**(1,456)**	**—**	**(878)**	**—**	**—**	**(63,572)**
Closing net book amount	**2,791,267**	**3,942,911**	**334,769**	**681,727**	**227,276**	**87,379**	**775,249**	**8,840,578**
At 31 December 2010								
Cost	**3,371,602**	**6,155,403**	**591,031**	**2,002,299**	**546,307**	**165,163**	**775,556**	**13,607,361**
Accumulated depreciation and impairment	**(580,335)**	**(2,212,492)**	**(256,262)**	**(1,320,572)**	**(319,031)**	**(77,784)**	**(307)**	**(4,766,783)**
Net book amount	**2,791,267**	**3,942,911**	**334,769**	**681,727**	**227,276**	**87,379**	**775,249**	**8,840,578**

8. PROPERTY, PLANT AND EQUIPMENT (continued)

The Company

	Buildings RMB'000	Vehicles RMB'000	Other equipment RMB'000	Construction-in-progress RMB'000	Total RMB'000
At 1 January 2009					
Cost	5,101	30,268	24,164	—	59,533
Accumulated depreciation	(1,354)	(11,892)	(5,394)	—	(18,640)
Net book amount	3,747	18,376	18,770	—	40,893
Year ended 31 December 2009					
Opening net book amount	3,747	18,376	18,770	—	40,893
Additions	—	3,752	30,859	—	34,611
Disposals	(501)	(16)	(593)	—	(1,110)
Depreciation charge	(155)	(4,848)	(3,237)	—	(8,240)
Closing net book amount	3,091	17,264	45,799	—	66,154
At 31 December 2009					
Cost	4,400	33,716	54,409	—	92,525
Accumulated depreciation	(1,309)	(16,452)	(8,610)	—	(26,371)
Net book amount	3,091	17,264	45,799	—	66,154
Year ended 31 December 2010					
Opening net book amount	**3,091**	**17,264**	**45,799**	**—**	**66,154**
Additions	**—**	**2,044**	**3,495**	**174,979**	**180,518**
Disposals	**(1,470)**	**(728)**	**(8)**	**—**	**(2,206)**
Transfers	**—**	**—**	**7,089**	**(7,089)**	**—**
Depreciation charge	**(80)**	**(5,002)**	**(6,481)**	**—**	**(11,563)**
Closing net book amount	**1,541**	**13,578**	**49,894**	**167,890**	**232,903**
At 31 December 2010					
Cost	**2,296**	**34,251**	**64,983**	**167,890**	**269,420**
Accumulated depreciation	**(755)**	**(20,673)**	**(15,089)**	**—**	**(36,517)**
Net book amount	**1,541**	**13,578**	**49,894**	**167,890**	**232,903**

8. PROPERTY, PLANT AND EQUIPMENT (continued)

(a) Depreciation expenses were charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Cost of sales	**823,695**	716,700
Selling and distribution costs	**20,829**	21,094
Administrative expenses	**75,518**	135,695
	920,042	873,489

(b) Certain bank borrowings were secured by property, plant and equipment with an aggregate carrying value of approximately RMB318,285,000 (2009: RMB191,233,000)(Note 23(a)).

(c) The Group is in the process of applying for the title certificates of certain of its properties with an aggregate carrying value of approximately RMB435,761,000 (2009: RMB409,462,000). The Directors consider that the Group is entitled to lawfully and validly occupy or use these properties.

9. INVESTMENT PROPERTIES

The Group

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
At beginning of the year		
Cost	**69,976**	94,758
Accumulated depreciation	**(12,368)**	(10,093)
Net book amount	**57,608**	84,665
For the year ended		
Opening net book amount	**57,608**	84,665
Additions	**1,431**	—
Transfer to property, plant and equipment *(Note 8)*	**—**	(22,500)
Disposals	**—**	(2,282)
Depreciation charge *(Note 27)*	**(2,333)**	(2,275)
Closing net book amount	**56,706**	57,608
At end of the year		
Cost	**71,407**	69,976
Accumulated depreciation	**(14,701)**	(12,368)
Net book amount	**56,706**	57,608

10. INTANGIBLE ASSETS

The Group

	Patent and proprietary technologies RMB'000	Computer software RMB'000	Goodwill RMB'000	Development costs RMB'000	Total RMB'000
At 1 January 2009					
Cost	468,976	117,715	241,861	—	828,552
Accumulated amortisation and impairment	(164,521)	(30,304)	(115,902)	—	(310,727)
Net book amount	304,455	87,411	125,959	—	517,825
Year ended 31 December 2009					
Opening net book amount	304,455	87,411	125,959	—	517,825
Additions	392,274	41,791	—	85,553	519,618
Amortisation charge *(Note 27)*	(53,561)	(19,181)	—	—	(72,742)
Closing net book amount	643,168	110,021	125,959	85,553	964,701
At 31 December 2009					
Cost	861,250	159,506	241,861	85,553	1,348,170
Accumulated amortisation and impairment	(218,082)	(49,485)	(115,902)	—	(383,469)
Net book amount	643,168	110,021	125,959	85,553	964,701
Year ended 31 December 2010					
Opening net book amount	**643,168**	**110,021**	**125,959**	**85,553**	**964,701**
Additions	**291,692**	**48,508**	**—**	**641,868**	**982,068**
Amortisation charge *(Note 27)*	**(58,648)**	**(26,260)**	**—**	**(13,195)**	**(98,103)**
Closing net book amount	**876,212**	**132,269**	**125,959**	**714,226**	**1,848,666**
At 31 December 2010					
Cost	**1,152,942**	**208,014**	**241,861**	**727,421**	**2,330,238**
Accumulated amortisation and impairment	**(276,730)**	**(75,745)**	**(115,902)**	**(13,195)**	**(481,572)**
Net book amount	**876,212**	**132,269**	**125,959**	**714,226**	**1,848,666**

10. INTANGIBLE ASSETS (continued)

The Company

	Patent and proprietary technologies RMB'000	Computer software RMB'000	Development costs RMB'000	Total RMB'000
At 1 January 2009				
Cost	288,369	7,509	—	295,878
Accumulated amortisation	—	(1,774)	—	(1,774)
Net book amount	288,369	5,735	—	294,104
Year ended 31 December 2009				
Opening net book amount	288,369	5,735	—	294,104
Additions	168,203	12,565	85,553	266,321
Amortisation charge	(424)	(2,804)	—	(3,228)
Closing net book amount	456,148	15,496	85,553	557,197
At 31 December 2009				
Cost	456,572	20,074	85,553	562,199
Accumulated amortisation	(424)	(4,578)	—	(5,002)
Net book amount	456,148	15,496	85,553	557,197
Year ended 31 December 2010				
Opening net book amount	**456,148**	**15,496**	**85,553**	**557,197**
Additions	**261,819**	**6,789**	**516,855**	**785,463**
Amortisation charge	**(17,074)**	**(5,044)**	**(13,195)**	**(35,313)**
Closing net book amount	**700,893**	**17,241**	**589,213**	**1,307,347**
At 31 December 2010				
Cost	**718,391**	**26,863**	**602,408**	**1,347,662**
Accumulated amortisation	**(17,498)**	**(9,622)**	**(13,195)**	**(40,315)**
Net book amount	**700,893**	**17,241**	**589,213**	**1,307,347**

10. INTANGIBLE ASSETS (continued)

(a) Amortisation of the Group's intangible assets has been charged to the consolidated statement of comprehensive income as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Cost of sales	**71,864**	53,561
Administrative expenses	**26,239**	19,181
	98,103	72,742

(b) Goodwill arose from acquisition of additional equity interests in the following entities:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Denway	**90,299**	90,299
Others	**35,660**	35,660
	125,959	125,959

Goodwill is allocated to the passenger vehicles segment, which is operated in Mainland China, for test of impairment. There is no material impairment for goodwill as at year end.

11. INVESTMENT IN SUBSIDIARIES

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Unlisted investment, at cost *(Note (a))*	**20,736,524**	2,477,275
Less: Provision for impairment *(Note (b))*	**—**	(270,271)
	20,736,524	2,207,004

(a) In 2010, the addition in investment in subsidiaries mainly represents the increased equity interest in Denway.

(b) In 2010, the Group transferred the interests in a subsidiary which has been fully impaired to an entity controlled by GAIGC at nominal consideration of RMB1 respectively.

(c) Particulars of the Group's principal subsidiaries are set out in Note 5.

12. INVESTMENT IN JOINTLY-CONTROLLED ENTITIES

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Unlisted investment, at cost	**2,928,546**	2,254,537

12. INVESTMENT IN JOINTLY-CONTROLLED ENTITIES (continued)

(a) Movements of investment in jointly-controlled entities are set out as follows:

The Company

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**2,254,537**	1,558,023
Additions *(Note (i))*	**674,009**	696,514
End of the year	**2,928,546**	2,254,537

(i) The additions of investment in jointly-controlled entities for the year ended 31 December 2010 mainly represented capital contribution to set up GAC FIAT Automobiles Co., Ltd. and additional capital contribution to GAC Toyota Co., Ltd.

(b) The following amounts represent the Group's share of the assets and liabilities, and income and expenses of the jointly-controlled entities. They are included in the consolidated balance sheet and statement of comprehensive income:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Assets		
Non-current assets	**7,772,690**	6,924,678
Current assets	**15,363,187**	12,684,495
	23,135,877	19,609,173
Liabilities		
Non-current liabilities	**(536,799)**	(377,952)
Current liabilities	**(14,001,135)**	(12,708,241)
	(14,537,934)	(13,086,193)
Net assets	**8,597,943**	6,522,980

12. INVESTMENT IN JOINTLY-CONTROLLED ENTITIES (continued)

	Year ended 31 December	
	2010	2010
	RMB'000	RMB'000
Income	**53,876,258**	45,163,049
Expenses	**(49,264,544)**	(41,511,563)
Profit after income tax	**4,611,714**	3,651,486
Proportionate interest in jointly-controlled entities' commitments	**3,380,533**	383,402

(c) Particulars of the Group's principal jointly-controlled entities are set out in Note 5.

13. INVESTMENT IN ASSOCIATES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Share listed in Mainland China	**1,109,923**	1,057,872
Unlisted shares	**4,090,806**	3,586,915
	5,200,729	4,644,787
Market value of listed shares	**2,125,312**	1,712,938

13. INVESTMENT IN ASSOCIATES (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Share listed in Mainland China	**1,057,872**	1,057,872
Unlisted shares	**821,528**	695,208
	1,879,400	1,753,080

(a) Movements of investment in associates are set out as follows:

The Group

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**4,644,787**	3,292,709
Additions *(Note (i))*	**155,336**	1,081,998
Disposal	**—**	(4,228)
Share of profit	**1,129,711**	715,674
Dividend received	**(729,105)**	(441,366)
End of the year	**5,200,729**	4,644,787

The Company

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**1,753,080**	695,208
Additions *(Note (i))*	**126,320**	1,057,872
End of the year	**1,879,400**	1,753,080

Note:

(i) In April 2010, the Company acquired 30% equity interests in Shanghai Hino Engine Co., Ltd. from Shanghai Electric Group Company, an independent third party, at a consideration of RMB106 million.

13. INVESTMENT IN ASSOCIATES (continued)

(b) The combined results, total assets (excluded goodwill) and liabilities of the Group's associates are as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Total assets	**25,625,437**	21,784,792
Total liabilities	**(11,024,430)**	(9,050,831)
Net assets	**14,601,007**	12,733,961

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Revenue	**41,434,584**	28,424,203
Profit for the year	**3,573,692**	2,341,340

(c) Particulars of the Group's principal associates are set out in Note 5.

14. FINANCIAL INSTRUMENTS BY CATEGORY

The accounting policies for financial instruments have been applied to the line items below:

The Group

	Loans and receivables As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade and other receivables (exclude prepayment and VAT recoverable) *(Note 17)*	**3,050,962**	1,279,666
Time deposits *(Note 18)*	**9,886,018**	12,808,717
Restricted cash *(Note 19)*	**377,003**	328,171
Cash and cash equivalents *(Note 20)*	**15,980,915**	11,332,940
Total	**29,294,898**	25,749,494

14. FINANCIAL INSTRUMENTS BY CATEGORY (continued)

	Financial liabilities at amortised cost	
	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade and other payables (exclude advances from customers, staff welfare benefits payable, other taxes and government grants) *(Note 26)*	**11,415,445**	8,936,031
Borrowings *(Note 23)*	**9,363,818**	8,719,767
Provision *(Note 24)*	**469,565**	379,460
Total	**21,248,828**	18,035,258

The Company

	Loans and receivables	
	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade and other receivables (exclude prepayment) *(Note 17)*	**1,120,756**	532,279
Time deposit *(Note 18)*	**1,480,000**	400,000
Cash and cash equivalents *(Note 20)*	**1,419,018**	4,215,575
Total	**4,019,774**	5,147,854

	Financial liabilities at amortised cost	
	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade and other payables (exclude staff welfare benefits payable and other taxes) *(Note 26)*	**854,154**	372,619
Borrowings *(Note 23)*	**7,435,288**	7,410,212
Total	**8,289,442**	7,782,831

15. DEFERRED INCOME TAX

(a) Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes relate to the same taxation authority. The offset amounts are as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Deferred tax assets:		
— to be recovered after more than 12 months	**210,941**	107,111
— to be recovered within 12 months	**172,991**	159,608
	383,932	266,719
Deferred tax liabilities:		
— to be settled after more than 12 months	**(969)**	(816)
— to be settled within 12 months	**(22,390)**	(9,315)
	(23,359)	(10,131)
Deferred tax assets — net	**360,573**	256,588

(b) The net movements on the deferred income tax account are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**256,588**	221,886
Recognised in the consolidated statement of comprehensive income *(Note 32)*	**103,985**	34,702
End of the year	**360,573**	256,588

15. DEFERRED INCOME TAX (continued)

(c) The movements in deferred tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, are as follows:

Deferred tax assets	Impairment provision RMB'000	Amortisation of pre-operating expenses RMB'000	Accrued expenses RMB'000	Tax Loss RMB'000	Total RMB'000
As at 1 January 2009	14,522	24,955	183,792	—	223,269
Recognised in the consolidated statement of comprehensive income	20,160	21,062	(44,364)	46,592	43,450
As at 31 December 2009	34,682	46,017	139,428	46,592	266,719
Recognised in the consolidated statement of comprehensive income	22,577	2,761	63,120	28,755	117,213
As at 31 December 2010	**57,259**	**48,778**	**202,548**	**75,347**	**383,932**

Deferred tax liabilities	Accrued bank interest income RMB'000	Accelerated depreciation RMB'000	Total RMB'000
As at 1 January 2009	—	(1,383)	(1,383)
Recognised in the consolidated statement of comprehensive income	(9,315)	567	(8,748)
As at 31 December 2009	(9,315)	(816)	(10,131)
Recognised in the consolidated statement of comprehensive income	(13,075)	(153)	(13,228)
As at 31 December 2010	**(22,390)**	**(969)**	**(23,359)**

15. DEFERRED INCOME TAX (continued)

(d) In accordance with the PRC tax law, tax losses may be carried forward against future taxable income for a period of five years. The Group did not recognise deferred tax assets in respect of losses amounting to RMB502,191,723 (2009: RMB447,094,000), as it is uncertain that future taxable profit will be available against which the tax losses can be utilised. These tax losses will expire between 2011 and 2015.

16. INVENTORIES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Raw materials and consumables	**966,291**	915,096
Work-in-progress	**181,521**	206,220
Finished goods	**1,994,639**	1,248,918
	3,142,451	2,370,234
Less: provision for impairment	**(124,877)**	(127,832)
	3,017,574	2,242,402

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Consumables	**8,802**	7,176

The cost of inventories recognised as expenses and included in cost of sales amounted to RMB43,522,000,000 (2009: RMB37,684,000,000).

17. TRADE AND OTHER RECEIVABLES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade receivables	**812,102**	630,526
Less: Provision for impairment of trade receivables	**(137,706)**	(161,950)
Trade receivables — net	**674,396**	468,576
Bills receivables *(Note (f))*	**1,479,067**	25,713
Deposits	**49,874**	192,776
Entrusted loans *(Note (g))*	**285,000**	260,000
VAT recoverable	**831,675**	33,640
Prepayments	**379,930**	352,602
Dividends receivables	**34,109**	21,881
Other receivables	**528,516**	310,720
	4,262,567	1,665,908

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade receivables — gross	**70,322**	70,322
Less: Provision for impairment of receivables	**(70,322)**	(70,322)
Trade receivables — net	**—**	—
Prepayments	**3,833**	86,790
Other receivables	**145,608**	42,761
Receivables from subsidiaries	**975,148**	489,518
	1,124,589	619,069

17. TRADE AND OTHER RECEIVABLES (continued)

(a) Sales of passenger vehicles were normally made with advance payment. Sales of other products were made on credit terms ranging from 2 to 170 days. Ageing analysis of trade receivables at respective balance sheet dates is as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 3 months	**581,799**	400,686
Between 3 months and 1 year	**83,840**	57,700
Between 1 and 2 years	**7,588**	9,592
Between 2 and 3 years	**3,881**	3,124
Over 3 years	**134,994**	159,424
	812,102	630,526

As at 31 December 2010, most of the trade receivables overdue by more than 1 year were impaired and provided. The individually impaired receivables were mainly related to customers of the Group with long outstanding balances which arose prior to the conversion of the Company into a joint stock limited liability company.

(b) As at 31 December 2010, trade receivables of RMB3,669,000 (2009: RMB8,905,000) were past due but not impaired. These relate to a number of independent customers with no recent history of default. The ageing analysis of these trade receivables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**2,490**	7,441
Between 1 and 2 years	**4**	1,280
Between 2 and 3 years	**1,175**	1
Over 3 years	**—**	183
	3,669	8,905

17. TRADE AND OTHER RECEIVABLES (continued)

(c) As at 31 December 2010, trade receivables of RMB329,838,000 (2009: RMB237,589,000) were impaired and provided for. The amount of the provision was RMB137,706,000 (2009: RMB161,950,000). The individually impaired receivables were mainly related to previous customers, which were in unexpected difficult economic situations. It was assessed that a portion of these receivables is expected to be recovered. The ageing of these trade receivables is as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**184,901**	66,913
Between 1 and 2 years	**7,409**	8,312
Between 2 and 3 years	**3,336**	3,123
Over 3 years	**134,192**	159,241
	329,838	237,589

Movements on the provision for impairment of trade receivables are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**161,950**	236,500
Impairment loss for trade receivables	**1,378**	2,015
Receivables written off as uncollectible	**(2,671)**	(920)
Disposal of subsidiaries	**(22,951)**	(75,645)
End of the year	**137,706**	161,950

The creation and release of provision for impaired receivables have been included in "administrative expenses" in the consolidated statement of comprehensive income (Note 27). Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

17. TRADE AND OTHER RECEIVABLES (continued)

(d) The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
RMB	**4,141,986**	1,566,413
USD	**20**	25,263
HKD	**119,653**	74,125
JPY	**908**	107
	4,262,567	1,665,908

The carrying amounts of the Company's trade and other receivables are denominated in RMB.

(e) The Group was not aware of any credit risk on bills receivables, dividend receivables, deposits and entrusted loan as the counterparties are either state-owned banks or other financial institutions without significant credit risk, or entities without financial difficulties.

(f) The maturity of bills receivable ranges from one to six months since the bills issuance date.

(g) Entrusted loans were provided by a subsidiary of the Group to a third party through China Minsheng Bank Guangzhou Branch.

18. TIME DEPOSITS

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Denominated in:		
— RMB	**9,886,018**	12,634,012
— HKD	**—**	22,093
— USD	**—**	152,612
Total	**9,886,018**	12,808,717

18. TIME DEPOSITS (continued)

The initial term of time deposits was over three months, and the weighted average effective interest rates were from 2.61% to 2.99% per annum for the years ended 31 December 2010 and 2009.

The Company's time deposits were denominated in RMB.

19. RESTRICTED CASH

All restricted cash was denominated in RMB as at 31 December 2010 and 2009.

RMB77,003,000 were pledged for the issuance of bank notes and letters of credit as at 31 December 2010 (2009: RMB78,171,000). In addition, RMB300,000,000 (2009: RMB250,000,000) was deposited into a designated bank account for the formation of new subsidiaries and jointly-controlled entities of the Group as at 31 December 2010.

20. CASH AND CASH EQUIVALENTS

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Denominated in:		
— RMB	**15,025,993**	10,225,814
— HKD	**377,155**	957,400
— USD	**373,501**	137,385
— JPY	**7,504**	4,809
— Others	**196,762**	7,532
	15,980,915	11,332,940

The Company's cash and cash equivalents were denominated in RMB.

20. CASH AND CASH EQUIVALENTS (continued)

(a) At 31 December 2010, the Group's cash and cash equivalents, restricted cash (Note 19) and time deposits (Note 18) were deposited in financial institutions without significant credit risk. Detail ratings of these financial institutions, as published by Standard & Poor's, are set out as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
A+	**2,212,401**	1,636,304
A-	**8,837,573**	8,942,614
BBB	**3,835,248**	4,068,830
BBB-	**4,672,426**	4,438,075
Others and cash on hand	**6,686,288**	5,384,005
Total	**26,243,936**	24,469,828
Representing		
— Time deposits	**9,886,018**	12,808,717
— Restricted cash	**377,003**	328,171
— Cash and cash equivalents	**15,980,915**	11,332,940
	26,243,936	24,469,828

21. SHARE CAPITAL

	Domestic shares of RMB1 each		H shares of RMB1 each		Total	
	Number of shares (thousands)	Ordinary shares RMB'000	Number of shares (thousands)	Ordinary shares RMB'000	Number of shares (thousands)	Ordinary shares RMB'000
As at 1 January 2009	3,499,666	3,499,666	—	—	3,499,666	3,499,666
Capital injection	435,091	435,091	—	—	435,091	435,091
As at 31 December 2009	3,934,757	3,934,757	—	—	3,934,757	3,934,757
Issue of new share	—	—	2,213,300	2,213,300	2,213,300	2,213,300
As at 31 December 2010	**3,934,757**	**3,934,757**	**2,213,300**	**2,213,300**	**6,148,057**	**6,148,057**

As detailed in Note 1, the Company was transformed into a joint stock limited liability company under the PRC Company Law by converting its registered share capital and reserves as of 30 June 2004 into 3,499,665,555 shares of RMB1 each. On 26 August 2010, the Company issued 2,213,300,218 ordinary H shares of RMB1 each. These shares rank pari passu in all respects with the shares in issue.

22. RESERVES

The Group

	Share premium RMB'000	Capital reserve RMB'000	Statutory surplus reserve fund RMB'000 Note (a)	Total other reserves RMB'000	Retained earnings RMB'000	Total reserves RMB'000
As at 1 January 2009	—	53,347	609,174	662,521	7,246,463	7,908,984
Profit for the year	—	—	—	—	2,031,800	2,031,800
Appropriation to reserve fund	—	—	151,665	151,665	(151,665)	—
Distributions	—	—	—	—	(815,800)	(815,800)
As at 31 December 2009	—	53,347	760,839	814,186	8,310,798	9,124,984
Issue of new shares, net of transaction costs *(Note (b))*	15,253,838	—	—	15,253,838	—	15,253,838
Transaction with Public Shareholders of Denway *(Note (b))*	—	(8,657,143)	—	(8,657,143)	—	(8,657,143)
Profit for the year	—	—	—	—	4,295,099	4,295,099
Appropriation to reserve fund	—	—	225,883	225,883	(225,883)	—
Distributions	—	—	—	—	(553,325)	(553,325)
As at 31 December 2010	**15,253,838**	**(8,603,796)**	**986,722**	**7,636,764**	**11,826,689**	**19,463,453**

22. RESERVES (continued)

The Company

	Share premium RMB'000	Deficit on reorganization RMB'000 Note (c)	Other capital reserve RMB'000	Statutory surplus reserve fund RMB'000 Note (a)	Total other reserves RMB'000	Retained earnings RMB'000	Total reserves RMB'000
As at 1 January 2009	—	(1,617,558)	2,506	609,174	(1,005,878)	1,289,335	283,457
Profit for the year	—	—	—	—	—	761,228	761,228
Appropriation to reserve fund	—	—	—	151,665	151,665	(151,665)	—
Distributions	—	—	—	—	—	(815,800)	(815,800)
As at 31 December 2009	—	(1,617,558)	2,506	760,839	(854,213)	1,083,098	228,885
Issue of new shares, net of transaction costs	15,253,838	—	—	—	15,253,838	—	15,253,838
Profit for the year	—	—	—	—	—	1,747,107	1,747,107
Appropriation to reserve fund	—	—	—	225,883	225,883	(225,883)	—
Distributions	—	—	—	—	—	(553,325)	(553,325)
As at 31 December 2010	**15,253,838**	**(1,617,558)**	**2,506**	**986,722**	**14,625,508**	**2,050,997**	**16,676,505**

(a) In accordance with relevant rules and regulations in the PRC, except for Sino-foreign equity joint venture enterprises, all PRC companies are required to transfer 10% of their profit after taxation calculated under PRC accounting rules and regulations to the statutory surplus reserve fund, until the accumulated total of the fund reaches 50% of their registered capital. The statutory surplus reserve fund can only be used, upon approval by the relevant authority, to offset previous years' losses or to increase the capital of respective companies.

(b) Up to 30 August 2010, the privatisation of Denway and the listing of the Company by way of Introduction have been completed. Upon the privatisation scheme become effective, Denway has become a wholly-owned subsidiary of the Company.

(c) As of the date of reorganisation and formation of the joint stock holding company, retained earnings of the company-only financial statements prepared under PRC GAAP amounted to approximately RMB1.6 billion, which mainly resulted from the Company's share of results from its subsidiaries, associates and jointly-controlled entities using equity method. On the conversion of the Company to a joint stock holding company, retained earnings of RMB1.6 billion under PRC GAAP was converted into share capital. Under HKFRS, the results in these investee companies were accounted for using cost method in the company-only financial statements. Accordingly, there was no such RMB1.6 billion in retained earnings in the company-only financial statements to be utilised. Such amount was therefore charged to the capital reserve account of the company. Considering the nature of this deficit balance, the Company will transfer dividends declared by the investees which relate to the profits generated before the reorganisation and formation of the joint stock holding company to capital reserve to the extent that the deficit balance becomes zero.

22. RESERVES (continued)

(d) As at 31 December 2010, consolidated retained earnings included subsidiaries' surplus reserve attributable to the Company, which amounted to RMB1,038,958,000 (2009: RMB913,796,000).

23. BORROWINGS

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Non-current		
Bank borrowings		
— secured *(Note (a))*	**103,663**	30,330
— unsecured	**659,923**	408,856
	763,586	439,186
Corporate bonds		
— secured *(Notes (a) and (h))*	**593,611**	592,268
Debentures		
— unsecured *(Note (i))*	**6,641,677**	6,617,944
Total non-current borrowings	**7,998,874**	7,649,398
Current		
Bank borrowings		
— secured *(Note (a))*	**168,098**	177,699
— unsecured	**1,196,846**	892,670
Total current borrowings	**1,364,944**	1,070,369
Total borrowings	**9,363,818**	8,719,767

23. BORROWINGS (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Non-current		
Bank borrowings		
— unsecured	**200,000**	200,000
Corporate bonds		
— secured *(Notes (a) and (h))*	**593,611**	592,268
Debentures		
— unsecured *(Note (i))*	**6,641,677**	6,617,944
Total non-current borrowings	**7,435,288**	7,410,212

(a) Details of the securities of the Group's and the Company's borrowings are as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Secured by assets of the Group	**271,761**	208,029
Guarantees given by a state-owned financial institution	**593,611**	592,268
Total borrowings	**865,372**	800,297

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Guarantees given by a state-owned financial institution	**593,611**	592,268

23. BORROWINGS (continued)

(b) The exposure of the Group's and the Company's borrowings to interest rate changes and the contractual repricing dates or maturity dates whichever is earlier at the balance sheet dates are as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**1,699,806**	1,297,577
Between 1 and 5 years	**7,070,401**	6,829,922
Over 5 years	**593,611**	592,268
	9,363,818	8,719,767

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Between 1 and 5 years	**6,841,677**	6,817,944
Over 5 years	**593,611**	592,268
	7,435,288	7,410,212

(c) The maturities of the Group's and the Company's total borrowings at respective balance sheet dates are set out as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**1,364,945**	1,070,369
Between 1 and 2 years	**204,922**	11,979
Between 2 and 5 years	**7,200,340**	7,045,151
Over 5 years	**593,611**	592,268
	9,363,818	8,719,767

23. BORROWINGS (continued)

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Between 1 and 5 years	**6,841,677**	6,817,944
Over 5 years	**593,611**	592,268
	7,435,288	7,410,212

(d) The carrying amounts of the Group's borrowings are denominated in the following currencies:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
RMB	**9,039,066**	8,630,172
USD	**324,752**	89,595
	9,363,818	8,719,767

All the Company's borrowings are denominated in RMB.

(e) The weighted average effective interest rates at the respective balance sheet dates are set out as follows:

The Group

	As at 31 December	
	2010	2009
Bank borrowings		
— RMB	**4.36%**	4.95%
— USD	**4.03%**	2.04%
Corporate bonds *(RMB)*	**6.21%**	6.21%
Debentures *(RMB)*	**4.02%**	4.02%

23. BORROWINGS (continued)

The Company

	As at 31 December	
	2010	2009
Bank borrowings	**3.60%**	3.60%
Corporate bonds *(RMB)*	**6.21%**	6.21%
Debentures *(RMB)*	**4.02%**	4.02%

(f) The carrying amounts of current borrowings approximate their fair values. The carrying value and fair value of non-current borrowings are set out as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Carrying amount	**7,998,874**	7,649,398
Fair value	**7,976,670**	7,637,437

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Carrying amount	**7,435,288**	7,410,212
Fair value	**7,427,467**	7,399,098

23. BORROWINGS (continued)

The fair values of non-current borrowings are estimated based on discounted cash flow approach using the prevailing market rates of interest available to the Group for financial instruments with substantially the same terms and characteristics at the respective balance sheet dates was 5.76% (2009: 5.85%).

(g) At each balance sheet date, the Group of the Company had the following undrawn borrowing facilities:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Floating rate		
— Expiring within 1 year	**10,680,139**	5,840,438
— Expiring beyond 1 year	**3,655,868**	3,071,723
	14,336,007	8,912,161

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Floating rate		
— Expiring within 1 year	**2,300,000**	2,300,000

(h) In December 2007, the Company issued corporate bonds with par value of RMB600,000,000 at an interest rate of 6.02% per annum. The related interest is payable on an annual basis. These corporate bonds will be fully redeemed at par in November 2017, and are guaranteed by China Development Bank, a state-owned financial institution and will be used to finance projects related to passenger vehicles. The guarantee provided by China Development Bank will not be released until the full redemption of corporate bonds.

(i) On 10 April 2009 and 27 April 2009, the Company issued debentures with principals of RMB3.3 billion and RMB3.4 billion which bear interest rate of 3.58% per annum and 3.83% per annum respectively. The related interest is payable on an annual basis. These debentures will be fully redeemed at par in April 2014.

24. PROVISIONS

The Group

	Warranty provision RMB'000	Employee termination benefits RMB'000	Total RMB'000
As at 1 January 2009	196,208	38,017	234,225
Additions	353,343	—	353,343
Utilised during the year	(177,005)	(20,150)	(197,155)
Disposal of subsidiaries	—	(10,953)	(10,953)
As at 31 December 2009	372,546	6,914	379,460
Additions	317,754	25	317,779
Utilised during the year	(227,545)	(129)	(227,674)
As at 31 December 2010	**462,755**	**6,810**	**469,565**

Analysis of total provisions

	As at 31 December	
	2010 RMB'000	2009 RMB'000
Non-current		
Warranty provision	**230,183**	201,542
Current		
Warranty provision	**232,572**	171,004
Employee termination benefits	**6,810**	6,914
	239,382	177,918
Total	**469,565**	379,460

(a) The Group provides warranties for certain automobile products and undertakes to repair or replace items that fail to perform satisfactorily. The amount of provision for warranties is estimated based on the sales volume and past experience of the level of repairs and returns and is expected to be settled within two to three years. The estimation is reviewed on an ongoing basis and is revised when appropriate.

25. GOVERNMENT GRANTS

The Group

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**279,846**	182,862
Additions	**265,169**	455,500
Amortisation	**(68,983)**	(654)
Reclassification to current liabilities *(Note a)*	**—**	(357,862)
End of the year	**476,032**	279,846

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Beginning of the year	**109,846**	—
Additions	**21,105**	110,500
Amortisation	**(66,403)**	(654)
End of the year	**64,548**	109,846

(a) Included in the Group's government grants was an amount of RMB358 million which was used to compensate operating expenses incurred by the subsidiary in 2010 upon commencement of production. Such operating expenditures included manufacturing overheads, selling expenses and general administrative expenses incurred after 1 January 2010. Accordingly, government grants to the extent of RMB358 million were classified as current portion of trade and other payables as at 31 December 2009.

26. TRADE AND OTHER PAYABLES

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade payables *(Note (a))*	**5,798,560**	5,570,694
Bills payables	**707,864**	495,364
Advances from customers	**1,599,361**	1,475,762
Staff welfare benefits payable	**789,414**	685,312
Other taxes *(Note (c))*	**846,627**	1,093,680
Accrued sales rebate	**694,210**	409,046
Accrued royalties	**691,623**	583,228
Retention payables and deposits received *(Note (d))*	**754,936**	489,940
Commission fee payables	**51,440**	75,284
Government grants	**57,719**	357,862
Other payables	**2,716,812**	1,312,475
	14,708,566	12,548,647
Less: non-current portion of trade and other payables	**(120,832)**	(55,760)
Current portion	**14,587,734**	12,492,887

The Company

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade payables	**17,276**	17,702
Staff welfare benefits payable	**48,095**	19,559
Other taxes	**5,166**	3,914
Commission fee payable	**51,440**	75,284
Other payables	**760,215**	254,646
Amounts due to subsidiaries	**25,223**	24,987
	907,415	396,092
Less: non-current portion of trade and other payables	**(120,832)**	(55,760)
Current portion	**786,583**	340,332

26. TRADE AND OTHER PAYABLES (continued)

(a) As at 31 December 2010 and 2009, the ageing analysis of the Group's trade payables is as follows:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**5,757,823**	5,505,136
Between 1 and 2 years	**11,752**	8,530
Between 2 and 3 years	**8,381**	18,459
Over 3 years	**20,604**	38,569
	5,798,560	5,570,694

All the Company's trade payables are within 1 year.

(b) The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

The Group

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
RMB	**13,221,310**	11,204,445
HKD	**165,178**	143,971
USD	**822,573**	851,675
JPY	**368,707**	292,796
Others	**9,966**	—
	14,587,734	12,492,887

All the Company's trade and other payables are denominated in RMB.

26. TRADE AND OTHER PAYABLES (continued)

(c) Balances of other taxes include value-added tax payables, business tax payables, consumption tax payables and other taxes payable.

(d) Balances of retention payables and deposits received mainly represent sales deposits received from sales and service centres relating to passenger vehicles products.

27. EXPENSES BY NATURE

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Auditors' remuneration	**9,142**	9,782
Depreciation and amortisation charges *(Notes 7, 8, 9 and 10)*	**1,043,045**	969,729
Impairment charges *(Notes 7, 8 and 10)*	**5,130**	160,641
Impairment of inventories	**82,809**	38,416
Impairment loss for trade and other receivables	**4,443**	23,781
Employee benefit expense *(Note 28)*	**1,832,035**	1,414,949
Changes in inventories of finished goods and work-in-progress	**(725,271)**	(401,075)
Raw materials, goods and consumables used	**43,678,487**	37,003,123
Sales tax and levies	**4,350,265**	3,304,871
Transportation	**899,385**	745,770
Advertising and promotion	**1,279,364**	862,106
Warranty expense *(Note 24)*	**317,754**	353,343
Research costs	**391,126**	447,623
Royalty expenses	**923,052**	824,831
Other expenses	**1,025,664**	846,956
Government grants	**(498,752)**	—
Total cost of sales, selling and distribution costs and administrative expenses	**54,617,678**	46,604,846

28. EMPLOYEE BENEFIT EXPENSE

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Wages and Salaries	**1,273,501**	964,364
Pension scheme costs *(Note (a))*	**208,307**	184,205
Housing benefits *(Note (b))*	**126,732**	119,929
Welfare, medical and other expenses	**223,495**	146,451
	1,832,035	1,414,949

(a) The Group's employees in the PRC are covered by certain defined contribution pension schemes regulated by the relevant municipal and provincial governments in the PRC, pursuant to which the municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and retired employees. The contributions to the scheme are expensed as incurred.

(b) The Group's contributions to the defined contribution housing fund scheme administered by a government agency are determined at a certain percentage of the salaries of the employees. The contributions to the scheme are expensed as incurred.

28. EMPLOYEE BENEFIT EXPENSE (continued)

(c) Directors' and senior management's emoluments

The remuneration of every Director for the year ended 31 December 2010 is set out below:

Name	Fees	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of director:					
Zhang Fangyou	—	—	—	—	—
Zeng Qinghong	—	654	78	292	1,024
Wei Xiaoqin	—	—	—	—	—
Li Tun	260	1,119	49	535	1,963
Liu Huilian	—	567	78	243	888
Yuan Zhongrong	—	625	78	274	977
Fu Shoujie	—	—	—	—	—
Wang Songlin	—	—	—	—	—
Lu Sa	—	616	78	276	970
Li Pingyi	—	—	—	—	—
Name of supervisor:					
Gao Fusheng	—	—	—	—	—
Huang Zhiyong	—	—	—	—	—
He Yuan	—	—	—	—	—
He Jinpei	—	261	78	304	643
Ye Ruiqi	—	372	78	474	924

28. EMPLOYEE BENEFIT EXPENSE (continued)

(c) Directors' and senior management's emoluments (continued)

The remuneration of every Director for the year ended 31 December 2009 is set out below:

Name	Fees	Basic salaries, housing allowances, other allowances and benefits-in-kind	Contributions to pension plans	Discretionary bonuses	Total
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Name of director:					
Zhang Fangyou	—	—	—	—	—
Zeng Qinghong	—	801	19	—	820
Yang Dadong	—	—	—	—	—
Zhang Baoqing	—	—	—	—	—
Liu Huilian	—	691	19	—	710
Yuan Zhongrong	—	764	19	—	783
Fu Shoujie	—	805	19	—	824
Wang Songlin	—	—	—	—	—
Lu Sa	—	745	19	—	764
Li Pingyi	—	—	—	—	—
Name of supervisor:					
Gao Fusheng	—	—	—	—	—
Huang Zhiyong	—	—	—	—	—
He Yuan	—	—	—	—	—
He Jinpei	—	457	19	—	476
Ye Ruiqi	—	672	19	—	691

28. EMPLOYEE BENEFIT EXPENSE (continued)

(d) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include 2 Directors and supervisors (2009: 5) whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining 3 (2009: 0) individual during the year are as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Fees	**—**	—
Basic salaries, housing allowances, other allowances and benefits-in-kind	**1,800**	—
Contributions to pension plans	**235**	—
Discretionary bonuses	**2,209**	—
	4,244	—

The emoluments fall within the following bands:

	Year ended 31 December	
	2010	2009
Senior management		
Nil to HKD1,000,000 (equivalent to RMB866,000)	**—**	—

29. OTHER (GAINS)/LOSSES — NET

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Net foreign exchange losses	**14,589**	18,182
Loss on disposal of property, plant and equipment and land use rights	**7,029**	19,270
Donation *(Note (a))*	**34,103**	451,257
Gain on waiver of liabilities	**—**	(40,689)
Gain on disposal of a subsidiary *(Note 11(b))*	**(85,691)**	—
Others	**(60,757)**	(19,066)
	(90,727)	428,954

(a) In 2008, the Group entered into an agreement with Guangzhou Asian Games Organizing Committee and committed to sponsor these activities to the extent of RMB600 million. In the year ended 31 December 2009, RMB451 million was paid and charged to the consolidated statement of comprehensive income.

30. INTEREST INCOME

Interest income recognised in the consolidated statement of comprehensive income are included as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Interest income from time deposits	**383,141**	350,200
Interest income from restricted cash and cash and cash equivalents	**27,188**	38,845
	410,329	389,045

31. FINANCE COSTS

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Interest expenses:		
— Bank borrowings	**361,201**	304,077
— Others	**49,118**	40,424
	410,319	344,501
Interests capitalised in qualifying assets	**(39,102)**	—
Net foreign exchange gains on financing activities	**(2,054)**	(80)
	369,163	344,421

32. TAXATION

(a) Income tax expense

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Current income tax:		
— Hong Kong profits tax	**53**	6
— PRC enterprise income tax	**1,078,257**	758,706
	1,078,310	758,712
Deferred tax *(Note 15)*	**(103,985)**	(34,702)
	974,325	724,010

32. TAXATION (continued)

(a) Income tax expense (continued)

The difference between the actual income tax charge in the consolidated statement of comprehensive income and the amounts which would result from applying the enacted tax rate to profit before income tax can be reconciled as follows:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit before income tax	**6,491,849**	3,980,050
Tax calculated at domestic tax rates applicable to profits in the respective countries	**1,483,734**	823,607
Effect of tax holiday *(Note (i))*	**(288,133)**	(200,783)
Income not subject to tax *(Note (ii))*	**(303,989)**	(185,552)
Expenses not deductible for tax purposes *(Note (iii))*	**31,896**	107,851
Utilisation of previously unrecognised tax losses	**(49,087)**	(10,224)
Tax losses for which no deferred income tax asset was recognised	**99,904**	189,111
Income tax expense	**974,325**	724,010

(i) All the other Group companies incorporated in Mainland China are subject to Mainland China Corporate Income Tax ("CIT"), which has been calculated on the estimated assessable profit for the year at a rate of 25%, except for enterprises which were established before the publication of the CIT Law on 16 March 2007 and were entitled to preferential treatments of reduced tax rates granted by the relevant authorities, the new corporate income tax rate will gradually increase to 25% within 5 years. For enterprises that enjoyed a reduced income tax rate of 15%, the tax rate was 18% for 2008, 20% for 2009, 22% for 2010, will be 24% for 2011 and 25% for 2012. Enterprises that were entitled to exemptions or reductions from the standard income tax rate for a fixed term may continue to enjoy such treatment until the fixed term expires.

32. TAXATION (continued)

(a) Income tax expense (continued)

Details of the tax rates applicable to the Company and its major jointly-controlled entities are listed as below:

	2009	2010	2011
The Company	25%	25%	25%
GAC Honda Motor Co., Ltd.	20%	22%	24%
GAC Toyota Motor Co., Ltd.	10%	11%	24%

Certain subsidiaries are subject to Hong Kong profits tax, which has been provided at the rate of 16.5% (2009: 16.5%) on the estimated assessable profit for the year ended 31 December 2010.

(ii) Income not subject to tax for the year mainly represented the Group's share of profit of associates.

(iii) Expenses not deductible for tax purposes during the year mainly comprised staff welfare fund and donation.

(b) Consumption tax ("CT") and business tax ("BT")

Certain companies within the Group are subject to CT at rates ranging from 3% to 25% for the sales of passenger vehicles and commercial vehicles.

In addition, the Group is also subject to BT at the rate of 5% for service fee income received and receivable.

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

The sales of products are subject to output value-added tax at 17% normally which is included in the selling price. An input credit is available whereby input VAT previously paid on purchases of raw materials or semi-finished products can be used to offset the output VAT to determine the net VAT payable.

33. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The profit attributable to equity holders of the Company is dealt with in the financial statements of the Company to the extent of RMB1,747,107,000 (2009: RMB761,228,000).

34. EARNINGS PER SHARE

Basic earnings per share is calculated by dividing the consolidated profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit attributable to equity holders of the Company	**4,295,099**	2,031,800
Weighted average number of ordinary shares in issue (thousands)	**4,672,524**	3,753,469
Basic earnings per share (RMB per share)	**0.9192**	0.5413

There were no potential dilutive ordinary shares during 2010 and 2009, diluted earnings per share was equal to the basic earnings per share.

35. DIVIDENDS

The interim dividend paid in 2010 was RMB553,325,000 (RMB0.09 per ordinary share) (2009: nil). A final dividend in respect of the year ended 31 December 2010 of RMB0.11 per ordinary share, amounting to a total dividend of approximately RMB676,286,000, is to be proposed at the forthcoming annual general meeting. These financial statements do not reflect this dividend payable.

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Interim dividend paid of RMB0.09 (2009: nil) per ordinary share	**553,325**	—
Proposed final dividend of RMB0.11 (2009: nil) per ordinary share	**676,286**	—

The aggregate amounts of the dividends paid and proposed during 2010 and 2009 have been disclosed in the consolidated statement of comprehensive income in accordance with the Hong Kong Companies Ordiance.

36. NOTES TO CONSOLIDATED CASH FLOW STATEMENT

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Profit for the year	**5,517,524**	3,256,040
Adjustments for:		
— Income tax expense *(Note 32)*	**974,325**	724,010
— Depreciation *(Notes 8 and 9)*	**922,375**	875,764
— Amortisation *(Notes 7 and 10)*	**120,670**	93,965
— Amortisation of government grants	**(68,983)**	(654)
— Impairment provision	**5,130**	160,641
— Loss on disposal of property, plant and equipment and land use rights *(Note 29)*	**7,029**	19,270
— Interest income *(Note 30)*	**(410,329)**	(389,045)
— Finance costs *(Note 31)*	**369,163**	344,421
— Gain on disposal of investment in associates and subsidiaries	**(85,691)**	(42,991)
— Foreign exchange loss on cash and cash equivalents	**24,617**	613
— Share of profit of associates *(Note 13(a))*	**(1,129,711)**	(715,674)
	6,246,119	4,326,360
Changes in working capital (excluding the effects of acquisition and exchange differences on consolidation):		
— Inventories	**(779,842)**	(566,333)
— Trade and other receivables	**(2,536,090)**	685,664
— Trade and other payables	**1,564,348**	4,098,623
— Provisions	**90,105**	156,188
Cash generated from operations	**4,584,640**	8,700,502

(a) Proceeds from disposal of property, plant and equipment and land use rights

In the consolidated cash flow statement, proceeds from disposal of property, plant and equipment, land use rights and investment properties comprise:

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Net book amount *(Note 7, 8 and 9)*	**71,990**	426,198
Loss on disposal of property, plant and equipment and land use rights *(Note 29)*	**(7,029)**	(19,270)
Proceeds from disposal of property, plant and equipment and land use rights	**64,961**	406,928

37. COMMITMENTS

(a) Capital commitments

Capital commitments as at each of the balance sheet dates during the year are as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Property, plant and equipment		
— Contracted but not provided for	**1,068,787**	542,187
— Authorised but not contracted for	**2,579,387**	393,691
	3,648,174	935,878
Land use rights		
— Contracted but not provided for	**4,215**	108,570
— Authorised but not contracted for	**—**	27,422
	4,215	135,992
Intangible assets		
— Contracted but not provided for	**30,960**	18,419
Investments		
— Contracted but not provided for *(Note (i) and (ii))*	**957,192**	900,000
	4,640,541	1,990,289

(i) According to the board resolutions dated 28 February 2009 and 19 May 2009, the Company entered into an agreement with FIAT Automobiles S.p.A. ("FIAT Group") to set up a joint venture in the PRC for manufacturing of passenger vehicles. Total share capital of the joint venture is RMB1.8 billion of which the Company and FIAT Group will contribute on equal basis. As at 31 December 2010, 50% of the share capital has been injected. The remaining capital should be injected within two years from the set-up of the joint venture.

(ii) According to the agreement signed on 30 Dec 2010, the Group will acquire 50% of the equity interest of Wuyang-Honda Motors (Guangzhou) Co., Ltd., (" Wuyang-Honda") a subsidiary of GAIGC, at a consideration of RMB444,764,750.

37. COMMITMENTS (continued)

(b) Operating lease commitments

The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Within 1 year	**25,403**	23,595
Between 1 and 5 years	**101,821**	82,716
Over 5 years	**198,811**	186,075
	326,035	292,386

38. RELATED PARTY TRANSACTIONS

Related parties are those parties that have the ability to control the other party or exercise significant influence in making financial and operating decisions. Parties are also considered to be related if they are subject to common control. The Group is subject to the control of the PRC Government.

In accordance with HKAS 24 "Related Party Disclosures", other state-owned enterprises and their subsidiaries, directly or indirectly controlled by the PRC Government ("State-owned Enterprises") are regarded as related parties of the Group.

In addition to the related party information shown elsewhere in the consolidated financial statements, the following is a summary of significant related party transactions entered into in the ordinary and usual course of business and balances between the Group and its related parties, including other State-owned Enterprises, during the year.

During the year, the Group had the following significant transactions with related parties.

These transactions were conducted in the ordinary and usual course of business in accordance with terms agreed between the Group and its jointly-controlled entities and their related parties.

38. RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Sales of goods		
Sales of auto parts and materials		
— Jointly-controlled entities	**3,661**	3,481
— Associates	**823,138**	749,725
	826,799	753,206
Sales of passenger vehicles		
— Associates	**285,906**	257,567
	1,112,705	1,010,773
Rendering of labour services		
— Jointly-controlled entities	**91,513**	91,964
— Associates	**104,690**	90,909
	196,203	182,873

Labour services represent management services provided by the personnel of the Group who were assigned to its associates and jointly-controlled entities to monitor their daily operations.

38. RELATED PARTY TRANSACTIONS (continued)

(a) Significant related party transactions (continued)

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Purchases of goods		
Purchases of engines, auto parts and materials		
— Jointly-controlled entities	**48,795**	43,580
— Associates	**6,959,932**	6,296,864
	7,008,727	6,340,444
Purchases of passenger vehicles		
— Jointly-controlled entities	**2,032,403**	1,681,567
	9,041,130	8,022,011
Payment of logistics services		
— Associates	**526,212**	274,047
Purchases of trademarks		
— GAIGC	**—**	25,317
Provision of entrusted loans to related parties		
— Associates	**25,000**	—
— Jointly-controlled entities	**180,000**	—
	205,000	—

Disposals of a subsidiary and an associate

In 2010, the Group transferred the interests in a subsidiary to an entity controlled by GAIGC (parent company of the Group) at a nominal consideration of RMB1 (Note 11(b)).

38. RELATED PARTY TRANSACTIONS (continued)

(b) Balances with related parties

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade and other receivables		
Trade receivables due from		
— Jointly-controlled entities	**7,226**	4,000
— Associates	**69,163**	54,064
	76,389	58,064
Dividend and other receivables due from		
— Jointly-controlled entities	**24,231**	7,864
— Associates	**107,107**	95,322
	131,338	103,186
	207,727	161,250
Trade payables		
— Jointly-controlled entities	**13,135**	—
— Associates	**1,004,664**	1,125,066
	1,017,799	1,125,066
Advances from customers, dividend payables and other payables due to		
— Associates	**215,171**	123,418
	1,232,970	1,248,484

(i) There was no provision for impairment of receivables from related parties for the year.

(ii) The balances with related parties are unsecured, interest free and repayable on demand.

38. RELATED PARTY TRANSACTIONS (continued)

(c) Key management compensation

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Salaries and other short-term employee benefits	**12,469**	10,616
Post-employment benefits	**—**	300
	12,469	10,916

(d) Transactions and balances with other state-owned enterprises in the PRC

The Group operates in an economic environment predominated by State-owned Enterprises. During the year, the Group had transactions with State-owned Enterprises including, but not limited to, sales of automobiles and other automotive components and purchases of raw materials and automotive parts and components.

For the purpose of related party transactions disclosure, the Group has in place procedures to assist the identification of the immediate ownership structure of its customers and suppliers as to whether they are State-owned Enterprises. However, many State-owned Enterprises have multi-layered corporate structure and the ownership structures change over time as a result of transfers and privatisation programs.

Nevertheless, the Directors consider that transactions with other State-owned Enterprises are activities in the ordinary course of the Group's business, and that the dealings of the Group have not been significantly or unduly affected by the fact that the Group and other State-owned Enterprises are ultimately controlled or owned by the PRC Government. The Group has also established pricing policies for products and services, and such pricing policies do not depend on whether or not the customers are State-owned Enterprises. Having due regard to the substance of the relationships, the Directors are of the opinion that none of these transactions are material related party transactions that require separate disclosure except for the transactions with state-owned financial institutions as disclosed below.

(i) Balances with state-owned financial institutions

As at 31 December 2010 and 2009, majority part of the Group's bank balances and borrowings were deposited in or financed from various state-owned financial institutions. The Directors are of opinion that such transactions were conducted in the ordinary course of business and in accordance with normal commercial terms.

38. RELATED PARTY TRANSACTIONS (continued)

(d) Transactions and balances with other state-owned enterprises in the PRC (continued)

(ii) Guarantees given by State-owned Enterprises

As at 31 December 2010 and 2009, information of borrowings secured by guarantees given by a state-owned financial institution is presented in Note 23(a).

39. SIGNIFICANT CONTRACTS

During the year, the Group had the following significant transactions with the foreign shareholders of jointly-controlled entities and their subsidiaries. These transactions were conducted in the ordinary and usual course of business in accordance with terms agreed between the Group and foreign shareholders of jointly-controlled entities and their subsidiaries.

(a) Purchase of goods

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
Purchases of engines and auto parts		
— Entities controlled by foreign shareholders of jointly-controlled entities	**8,567,392**	7,867,047
Purchases of auto parts and materials		
— Foreign shareholders of jointly-controlled entities	**4,621,610**	3,522,253
Purchases of steel		
— Entities controlled by foreign shareholders of jointly-controlled entities	**2,050,627**	1,718,986
	15,239,629	13,108,286

39. SIGNIFICANT CONTRACTS (continued)

(b) Royalty fee and other expenses

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
— Foreign shareholders of jointly-controlled entities	**1,236,584**	1,052,335

(c) Purchases of equipment and patent and proprietary technologies

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
— Foreign shareholders of jointly-controlled entities	**329,692**	302,984

(d) Sales of steel

	Year ended 31 December	
	2010	2009
	RMB'000	RMB'000
— An entity controlled by foreign shareholders of jointly-controlled entities	**989,182**	1,030,139

39. SIGNIFICANT CONTRACTS (continued)

(e) At respective balance sheet date, the balances with the foreign shareholders of jointly-controlled entities and their subsidiaries resulting from the aforementioned significant contracts were as follows:

	As at 31 December	
	2010	2009
	RMB'000	RMB'000
Trade receivables		
— Entities controlled by foreign shareholders of jointly-controlled entities	**9,569**	56,435
Prepayment		
— Foreign shareholders of jointly-controlled entities	**37,931**	75,369
Other receivables		
— Foreign shareholders of jointly-controlled entities	**17,214**	26,369
Trade payables		
— Foreign shareholders of jointly-controlled entities	**874,754**	650,603
— Entities controlled by foreign shareholders of jointly-controlled entities	**179,062**	304,712
Advances from customers and other payables		
— Foreign shareholders of jointly-controlled entities	**1,149,757**	835,672

40. CONTINGENT LIABILITIES

As at 31 December 2010, the Company had provided financial guarantees to its subsidiaries for an amount of RMB12,000,000 (2009: RMB222,440,000).

It is not anticipated that any material liabilities will arise from the financial guarantees given by the Company and the Group.

41. SUBSEQUENT EVENTS

(a) At the date of this report, the Company has paid off the consideration of RMB444,764,750 for acquisition of the equity interest in Wuyang-Honda (Note 37(a)(ii)). After the acquisition, the share capital of Wuyang-Honda then increased by US$ 19,000,000, and the Company has injected US$9,500,000 according to its shared portion.

(b) Pursuant to a Board of director resolution dated 22 March 2011, the Board resolved to merge with GAC Changfeng Motor Co., Ltd. ("GAC Changfeng") by share exchange. The Company will issue Renminbi ordinary share ("A share") to the existing shareholders of GAC Changfeng other than the Company as a consideration. These newly issued shares will then be applied for listing on the Shanghai Stock Exchange. This resolution is subject to approval in the extraordinary general meeting to be held in 2011.

Four-Year Financial Summary

A summary of the published results and of assets, liabilities and non-controlling interests of the Group for the last four financial years, as extracted from the audited financial statements, is set out below

	Year ended 31 December			
	2010	2009	2008	2007
	RMB'000	RMB'000	RMB'000	RMB'000
Revenue	**59,847,923**	50,253,552	43,769,713	42,406,679
Cost of sales	**(49,575,783)**	(41,917,779)	(36,446,193)	(35,276,972)
Gross profit	**10,272,140**	8,335,773	7,323,520	7,129,707
Selling and distribution costs	**(2,767,988)**	(2,142,898)	(2,157,725)	(1,420,416)
Administrative expenses	**(2,273,907)**	(2,544,169)	(2,255,913)	(1,677,354)
Interest income	**383,141**	350,200	345,000	232,000
Other gains/(losses) — net	**90,727**	(428,954)	(6,245)	(28,877)
Operating profit	**5,704,113**	3,569,952	3,248,637	4,235,060
Finance costs	**(369,163)**	(344,421)	(219,165)	(151,565)
Interest income	**27,188**	38,845	30,954	31,219
Share of profit of associates	**1,129,711**	715,674	515,253	838,196
Impairment loss on goodwill	**—**	—	(115,902)	—
Profit before income tax	**6,491,849**	3,980,050	3,459,777	4,952,910
Income tax expense	**(974,325)**	(724,010)	(601,868)	(138,403)
Profit for the year	**5,517,524**	3,256,040	2,857,909	4,814,507
Profit attributable to:				
Equity holders of the Company	**4,295,099**	2,031,800	1,566,814	3,436,785
Non-controlling interests	**1,222,425**	1,224,240	1,291,095	1,377,722
	5,517,524	3,256,040	2,857,909	4,814,507

	As at 31 December			
	2010	2009	2008	2007
	RMB' 000	RMB' 000	RMB'000	RMB'000
Assets, liabilities and non-controlling interests				
Total assets	**51,378,576**	43,628,162	30,070,704	26,750,600
Total liabilities	**25,517,636**	22,166,814	11,240,696	10,148,359
Non-controlling interests	**249,430**	8,401,607	7,421,358	6,764,662

Definitions

In this annual report, unless the context otherwise requires, all terms used shall have the following meaning:

"associated companies"	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 of such entities
"Board"	the board of Directors
"Company Law"	Company Law of the People's Republic of China
"Denway"	Denway Motors Limited (駿威汽車有限公司), a company incorporated in Hong Kong on 23 June 1992 and a wholly-owned subsidiary of the Company
"Director(s)"	the director(s) of the Company
"GAC Bus"	Guangzhou Automobile Group Autobus Co., Ltd (廣州汽車集團客車有限公司) (formerly known as Guangzhou Denway Bus Co., Ltd (廣州駿威客車有限公司)), a company incorporated on 18 January 1993 under PRC law and a wholly-owned subsidiary of our Company
"GAC Changfeng"	GAC Changfeng Motor Co., Ltd. (廣汽長豐汽車股份有限公司) (formerly known as Hunan Changfeng Motor Co. Ltd. (湖南長豐汽車製造股份有限公司)), a company incorporated in November 1996 under PRC Law, in which our Company holds 29% of its equity interest
"GAC Commercial"	Guangzhou Automobile Group Business Co., Ltd (廣州汽車集團商貿有限公司), a company incorporated on 21 March 2000 under PRC law and a wholly-owned subsidiary of our Company
"GAC Component"	Guangzhou Automobile Group Component Co., Ltd. (廣州汽車集團零部件有限公司), a company incorporated on 29 August 2000 under PRC law and is directly owned as to 51% by our Company and is a subsidiary of our Company
"GAC Fiat"	GAC FIAT Automobiles Co., Ltd. (廣汽菲亞特汽車有限公司), a jointly-controlled entity incorporated on 9 March 2010 under PRC law between Fiat Group Automobiles S.p.A. and our Company, in which our Company holds 50% of its equity interest
"GAC Gonow"	GAC Gonow Automobile Co., Ltd (廣州吉奧汽車有限公司), a company incorporated on 8 December 2010 under PRC Law, in which the Company holds 51% of its equity interest
"GAC Hino"	GAC Hino Motors Co., Ltd. (廣汽日野汽車有限公司), a jointly-controlled entity incorporated on 28 November 2007 under PRC law established between Hino and our Company, in which our Company holds 50% of its equity interest

Definitions

"GAC-SOFINCO"	GAC-SOFINCO Automobile Finance Co., Ltd. (廣汽滙理汽車金融有限公司), a joint-venture company incorporated on 25 May 2010 under PRC law established by our Company and Société de Financement Industriel et Commercial (SOFINCO), in which each of our Company and SOFINCO holds 50% of its equity interest
"GAC Toyota"	GAC Toyota Motor Co. Ltd (廣汽豐田汽車有限公司) (formerly known as Guangzhou Toyota Motor Co. Ltd (廣州豐田汽車有限公司)), a company incorporated on 1 September 2004 under PRC law which is a joint-venture company and a jointly-controlled entity held by our Company and Toyota. Our Company holds 50% of its equity interest in GAC Toyota
"GAC Toyota Engine"	GAC Toyota Engine Co., Ltd. (廣汽豐田發動機有限公司), a joint-venture company incorporated on 24 February 2004 under PRC law which is a sino-foreign joint-venture between Toyota and our Company, in which our Company holds 30% of its equity interest
"GAEI"	Guangzhou Automobile Group Company Automotive Engineering Institute, a subsidiary of our Company, established on 29 June 2006 for the purpose of conducting research and development of the products under our self-owned brand and technology of our proprietary right
"GAG"	Guangzhou Automobile Group Ltd. (廣州汽車集團有限公司), a company established on 6 June 1997 under PRC Law, the predecessor of the Company before its conversion into a joint stock limited company
"GAIG"	Guangzhou Automobile Industry Group Co., Ltd. (廣州汽車工業集團有限公司), a state-owned enterprise incorporated on 18 October 2000 under PRC law, a controlling shareholder and one of our Company's founders. Its principal business is the manufacture of automobiles and the operation and management of state-owned assets
"GAMC"	Guangzhou Automobile Group Motor Co. Ltd. (廣州汽車集團乘用車有限公司), a company incorporated on 21 July 2008 under PRC law and is a wholly-owned subsidiary of our Company
"Guangqi Honda"	Guangqi Honda Automobile Co., Ltd. (廣汽本田汽車有限公司) (formerly known as Guangzhou Honda Automobile Co., Ltd (廣州本田汽車有限公司)), a company incorporated on 13 May 1998 under PRC law, a joint-venture company and a jointly-controlled entity held by Guangzhou Auto and Honda Motor Co., Ltd
"HAVECO"	Hangzhou HAVECO Automotive Transmission Co., Ltd. (杭州依維柯汽車變速器有限公司), a joint-venture company incorporated on 26 September 1996 under PRC Law, and a sino-foreign joint-venture equally held by Hangzhou Advance Gearbox Group Co., Ltd., GAC Components and IVECO Ltd
"Honda (China)"	Honda Automobile (China) Co., Ltd. (本田（汽車）中國有限公司), a company incorporated on 8 September 2003 under PRC law of which our Company holds 25% of its equity interest and is one of our Company's associated companies

Definitions

"jointly-controlled entity" or "JCE"	a jointly-controlled entity is a joint-venture company which is subject to direct or indirect joint control, resulting in none of the participating parties having unilateral control over the economic activity of the jointly-controlled entity. A joint venture party's investments in its Jointly-controlled Entities can be accounted for by proportionate consolidation, which involves recognising a proportionate share of the joint venture's assets, liabilities, income and expenses with similar items in the consolidated financial statements of the joint venture party on a line-by line basis. When the profit sharing ratio is different to the joint venture party's equity interests in the Jointly-controlled Entities, the joint venture party's share of their assets, liabilities, income and expenses is determined based on the agreed profit sharing ratio. The results of Jointly controlled Entities are included in the joint venture party's income statement to the extent which reflects the dividends received and receivable by such joint venture party. The joint venture party's investments in Jointly-controlled Entities are treated as long term assets and are stated at cost less impairment losses
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, as amended from time to time
"MPV"	multi-purpose passenger vehicle
"Our Company" or "Company"	Guangzhou Automobile Group Co., Ltd. (廣州汽車集團股份有限公司), a joint stock limited company registered in the PRC on 28 June 2005
"Our Group" or "Group"	the Company and its subsidiary and their respective jointly-controlled entities
"PRC" or "China"	the People's Republic of China. Unless the context otherwise requires, geographical references in this interim report to the PRC or China exclude Hong Kong, Macau and Taiwan
"SFO"	Securities and Futures Ordinance (Cap. 571 of the Laws of Hong Kong)
"Shanghai Hino"	Shanghai Hino Engine Co., Ltd. (上海日野發動機有限公司), a company incorporated on 8 October 2003 under PRC law. Shanghai Hino was held as to 50% by Hino Motors, Ltd., 30% by our Company and 20% by Shanghai Electric
"Share(s)"	ordinary share(s) in the capital of the Company with a nominal value of RMB1.00 each, comprising H shares and domestic shares of the Company
"Shareholder(s)"	shareholders of the Company
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"SUV"	sports utility vehicle

English names of the PRC established companies/entities in this report are translations of their official Chinese names for identification purpose only. In case of inconsistency, the Chinese names prevail.