CHANGFENG AXLE (CHINA) COMPANY LIMITED
暢豐車橋(中國)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 1039)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2011

- For the year ended 31 December 2011, revenue decreased by approximately 30.2% to approximately RMB920.7 million (2010: RMB1,318.7 million).
- For the year ended 31 December 2011, net profit attributable to owners of the Company was approximately RMB59.8 million (2010: RMB285.7 million).
- Basic earnings per share for the year ended 31 December 2011 decreased by approximately 84.1% to RMB0.07 per share (2010: RMB0.44 per share).
- The Board does not recommend payment of any final dividend for the year ended 31 December 2011.

The board of directors (the "**Board**") of Changfeng Axle (China) Company Limited (the "**Company**") is pleased to announce its annual audited consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2011.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2011

	NOTES	**2011**	2010
		RMB'000	*RMB'000*
Revenue	*4*	**920,681**	1,318,709
Cost of sales		**(668,588)**	(879,379)
Gross profit		**252,093**	439,330
Other income and other gains and losses	*5*	**7,680**	2,532
Selling and distribution expenses		**(26,044)**	(22,393)
Research and development expenditure		**(13,857)**	(12,860)
Administrative expenses		**(63,851)**	(48,510)
Impairment loss on trade receivables	*11*	**(48,700)**	–
Finance costs		**(25,900)**	(22,534)
Profit before tax	*7*	**81,421**	335,565
Taxation	*8*	**(21,775)**	(49,890)
Profit and total comprehensive income for the year		**59,646**	285,675
Profit (loss) and total comprehensive income (expense) attributable to:			
Owners of the Company		**59,767**	285,675
Non-controlling interests		**(121)**	–
		59,646	285,675
		RMB	*RMB*
Basic earnings per share	*9*	**0.07**	0.44

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2011

	NOTES	**2011** **RMB'000**	2010 RMB'000
NON-CURRENT ASSETS			
Property, plant and equipment		**612,475**	396,325
Prepaid lease payments		**294,736**	291,172
Prepayment for acquisition of machinery		**42,708**	99,094
Prepayment for acquisition of land use right and buildings		**49,750**	–
Available-for-sale investments		–	1,000
Deferred tax assets		**1,003**	–
		1,000,672	787,591
CURRENT ASSETS			
Inventories		**323,742**	290,287
Trade and other receivables	*11*	**837,380**	474,922
Prepaid lease payments		**6,203**	6,005
Income tax recoverable		**44**	–
Available-for-sales investments		**1,000**	–
Pledged bank deposits		**2,100**	2,177
Bank balances and cash		**134,450**	518,105
		1,304,919	1,291,496
CURRENT LIABILITIES			
Trade and other payables	*12*	**241,798**	257,345
Amount due to a director		**1,500**	800
Borrowings-due within one year		**447,968**	328,450
Income tax payable		**3,785**	28,767
		695,051	615,362
NET CURRENT ASSETS		**609,868**	676,134
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,610,540**	1,463,725
NON-CURRENT LIABILITIES			
Deferred tax liabilities		–	865
Borrowings – due after one year		**47,960**	–
		1,562,580	1,462,860
CAPITAL AND RESERVE			
Share capital		**53,560**	53,560
Reserves		**1,469,067**	1,409,300
Equity attributable to owners of the Company		**1,522,627**	1,462,860
Non-controlling interests		**39,953**	–
		1,562,580	1,462,860

1. GENERAL

The Company was incorporated as an exempted company with limited liability in the Cayman Islands. Its immediate and also the ultimate holding company is Changfeng Axle Holdings Ltd. (incorporated in the British Virgin Islands). The Company's shares were listed on the Stock Exchange of Hong Kong Limited with effect from 24 September 2010. The address of the Company's registered office is at Room 708, 7/F, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Group are manufacture and sale of axle and related components in the People's Republic of China ("PRC").

The consolidated financial statements are presented in Renminbi ("RMB"), which is also the functional currency of the Company.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSS")

In the current year, the Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**").

Amendments to HKFRSs	Improvements to HKFRSs issued in 2010
HKAS 24 (as revised in 2009)	Related Party Disclosures
Amendments to HKAS 32	Classification of Rights Issues
Amendments to HK(IFRIC)-Int 14	Prepayments of a Minimum Funding Requirement
HK(IFRIC)-Int 19	Extinguishing Financial Liabilities with Equity Instruments

The application of the new and revised HKFRSs in the current year has had no material impact on the Group's financial performance and positions for the current and prior years and on the disclosures set out in these consolidated financial statements.

New and revised HKFRS issued but not yet effective

The Group has not early applied the following new and revised HKFRSs that have been issued but are not yet effective:

Amendments to HKFRS 7	Disclosures-Transfers of Financial Assets[1]
	Disclosures-Offsetting Financial Assets and Financial Liabilities[2]
	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[2]
HKFRS 11	Joint Arrangements[2]
HKFRS 12	Disclosure of Interests in Other Entities[2]
HKFRS 13	Fair Value Measurement[2]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[5]
Amendments to HKAS 12	Deferred Tax-Recovery of Underlying Assets[4]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 27 (as revised in 2011)	Separate Financial Statements[2]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[6]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[2]

[1] Effective for annual periods beginning on or after 1 July 2011.
[2] Effective for annual periods beginning on or after 1 January 2013
[3] Effective for annual periods beginning on or after 1 January 2015.
[4] Effective for annual periods beginning on or after 1 January 2012
[5] Effective for annual periods beginning on or after 1 July 2012.
[6] Effective for annual periods beginning on or after 1 January 2014.

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

HKFRS 9 requires all recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent reporting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

The directors have not yet performed a detailed analysis of the impact of the application of this Standard and hence have not qualified the extent of the impact.

New and revised standards on consolidation, joint arrangements, associates and disclosures

In June 2011, a package of five standards on consolidation, joint arrangements, associates and disclosures was issued, including HKFRS 10, HKFRS 11, HKFRS 12, HKAS 27 (as revised in 2011) and HKAS 28 (as revised in 2011).

Key requirements of these five standards are described below.

HKFRS 10 replaces the parts of HKAS 27 *Consolidated and Separate Financial Statements* that deal with consolidated financial statements and HK (SIC)-Int 12 *Consolidation-Special Purpose Entities*. HKFRS 10 includes a new definition of control that contains three elements: (a) power over an investee, (b) exposure, or rights, to variable returns from its involvement with the investee, and (c) the ability to use its power over the investee to affect the amount of the investor's returns. Extensive guidance has been added in HKFRS 10 to deal with complex scenarios.

HKFRS 12 is a disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the disclosure requirements in HKFRS 12 are more extensive than those in the current standards.

These five standards are effective for annual periods beginning on or after 1 January 2013. Earlier application is permitted provided that all of these five standards are applied early at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. However, the directors have not yet performed a detailed analysis of the impact of the application of these Standards and hence have not yet quantified the extent of the impact.

3. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with HKFRSs issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and by the Hong Kong Companies Ordinance.

4. REVENUE AND SEGMENT INFORMATION

(a) Products within each operating segment

The segment information reported was by business, determined by the types of products and the types of customers to which the products are sold, which is consistent with the internal information that is regularly reviewed by the directors of the Company, who are the chief operating decision makers of the Group, for the purposes of resource allocation and assessment of performance.

The Group has two reportable operating segments as follows:

- OEM and related market-manufacturing and selling of axle assemblies and axle components to heavy duty truck and middle duty truck manufacturers and other assembly manufacturers.

- Aftermarket-manufacturing and selling of axle components and axle assemblies to market for providing after-sales services.

(b) Segment revenue and results

	Segment revenue		Segment results	
	2011	2010	**2011**	2010
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
OEM and related market	**382,610**	447,232	**97,111**	118,539
Aftermarket	**538,071**	871,477	**154,982**	320,791
External revenue/segment result	**920,681**	1,318,709	**252,093**	439,330
Other income and other gains and losses			**7,680**	2,532
Selling and distribution expenses			**(26,044)**	(22,393)
Research and development expenditure			**(13,857)**	(12,860)
Administrative expenses			**(63,851)**	(48,510)
Impairment loss on trade receivables *(Note)*			**(48,700)**	–
Finance costs			**(25,900)**	(22,534)
Profit before tax			**81,421**	335,565
Taxation			**(21,775)**	(49,890)
Profit and total comprehensive income for the year			**59,646**	285,675

Revenue reported above represents revenue generated from external customers. There was no inter-segment sales during the year.

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment results represent the gross profit of each operating segment. This is the measure reported to the directors of the Company for the purposes of resources allocation and performance assessment.

Note: The amount consisted of an impairment loss on trade receivables for the OEM and related market of RMB12,098,000 and trade receivables for aftermarket of RMB36,602,000.

(c) Segment assets

	Assets	
	2011	2010
	RMB'000	*RMB'000*
OEM and related market	**130,758**	74,241
Aftermarket	**352,654**	316,225
Total of all segments	**483,412**	390,466
Unallocated	**1,822,179**	1,688,621
Consolidated assets	**2,305,591**	2,079,087

Segment assets represent trade receivables.

Segment liabilities are not presented as liabilities are generally incurred for all operating segments and not presented to the directors for performance assessment and resource allocation.

(d) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). No non-current assets of the Group are located outside the PRC.

All of the Group's revenue from external customers is attributed to the group entities' countries of domicile (i.e. the PRC).

(e) Information about major customers

None of individual customer of the Group contributed over 10% or more of the Group's revenue during each of the years ended 31 December 2011 and 2010.

5. OTHER INCOME AND OTHER GAINS AND LOSSES

	2011	2010
	RMB'000	*RMB'000*
Government grant *(Note)*	**5,556**	1,381
Income from suppliers on defects claim	**3,095**	4,596
Bank interest income	**1,744**	1,674
Loss from disposal of property, plant and equipment	**(2,488)**	–
Net foreign exchange loss	**(339)**	(4,922)
Donation	**–**	(137)
Others	**112**	(60)
	7,680	2,532

Note: The amounts primarily represented incentives granted by local authorities to the group entities located in the PRC for the eminent contribution of tax payment, encouragement of its business development, refund of various taxes paid and award of being successfully listed on the Main Board of Hong Kong Stock Exchange. These grants are accounted for as immediate financial support and award with no future related costs expected to be incurred nor related to any assets.

6. FINANCE COSTS

	2011	2010
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	**24,805**	21,439
Other borrowings wholly repayable within five years	**1,095**	1,095
	25,900	22,534

7. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging:

	2011	2010
	RMB'000	*RMB'000*
Employee benefits expenses (including directors):		
–salaries and other benefits	**65,109**	66,902
–retirement benefit scheme contributions	**8,406**	6,572
Total staff costs	**73,515**	73,474
Depreciation of property, plant and equipment	**31,821**	23,476
Release of prepaid lease payments	**6,144**	1,957
Auditors' remuneration	**1,476**	1,530
Listing expenses (included in administrative expenses)	**–**	15,125
Cost of inventories recognised as expenses (included in cost of sales and research and development expenditure)	**657,226**	885,109

8. TAXATION

	2011	2010
	RMB'000	*RMB'000*
Tax expense comprises:		
Current tax expense	**22,937**	49,115
Underprovision in prior year	**706**	792
Deferred taxation	**(1,868)**	(17)
	21,775	49,890

The income tax expense for the year represents the PRC Enterprise Income Tax which is calculated at the prevailing tax rate of 25% on the taxable income of the group entities in the PRC for the years ended 31 December 2011 and 2010.

The Company was incorporated in the Cayman Islands and is not subject to any income tax.

Chang Feng Holding (Hong Kong) Limited ("Changfeng HK"), a wholly owned subsidiary of the Company, was incorporated in Hong Kong and has had no assessable profit subject to Hong Kong Profits Tax since its incorporation.

Fujian Changfeng Axle Manufacturing Co., Ltd. ("Fujian Changfeng"), a wholly owned subsidiary of the Company, was established in the PRC. In accordance with Foreign Enterprise Income Tax ("FEIT") Laws in PRC, Fujian Changfeng was approved to be exempted from FEIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. Fujian Changfeng was subject to 12.5% tax rate for the years ended 31 December 2010 and 2011, the second and third year entitled for 50% tax relief. Longyan Shengfeng and Kaifeng Changfeng obtained the certificate of High Technology Enterprise in 2010 and the applicable tax rate is 15% for the year ended 31 December 2011.

The tax charge for the year can be reconciled to the profit before tax per consolidated statement of comprehensive income as follows:

	2011	2010
	RMB'000	*RMB'000*
Profit before tax	**81,421**	335,565
Tax at the domestic income tax rate of 25%	**20,355**	83,891
Tax effect of expenses not deductible for tax purpose	**5,796**	5,529
Tax effect of deductible temporary difference not recognised	**12,175**	–
Tax effect of tax losses not recognised	**4,051**	920
Utilisation of tax losses previously not recognised	**(117)**	–
Underprovision in prior year	**706**	792
Effect of tax concessions granted to PRC subsidiaries	**(21,191)**	(41,242)
	21,775	49,890

Under the New Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC subsidiaries amounting to approximately RMB532,631,000 and RMB460,697,000 at 31 December 2011 and 2010, respectively, as the Company is able to control the timing of the reversal of temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

As at 31 December 2011, the Group had deductible temporary difference of RMB48,700,000 attributable to the impairment loss on trade receivables. No deferred tax asset has been recognised in relation to such deductible temporary difference as, in the opinion of directors, the utilisation of such temporary difference is remote.

9. EARNINGS PER SHARE

The calculation of the basic earnings per share attributable to the owners of the Company is based on the following data:

	2011	2010
	RMB'000	*RMB'000*
Earnings		
Earnings for the purposes of basic earnings per share (Profit for the year attributable to owners of the Company)	**59,767**	285,675

	2011	2010
Number of shares		
Weighted average number of ordinary shares for the purposes of basic earnings per share	**800,000,000**	654,246,575

For the year ended 31 December 2011, the weighted average number of ordinary shares amounts to 800,000,000.

For the year ended 31 December 2010, the weighted average number of ordinary shares has been adjusted for 595,000,000 shares upon capitalisation issue retrospectively and 200,000,000 shares issued in global offering.

No diluted earnings per share is presented as the Company did not have any potential ordinary shares in issue during both years or at the end of each reporting period.

10. DIVIDENDS

No dividend was paid or declared by the Company during the years ended 31 December 2011 and 2010.

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2011	2010
	RMB'000	*RMB'000*
Trade receivables	**532,112**	390,466
Less: impairment loss on trade receivables	**(48,700)**	–
	483,412	390,466
Bills receivable	**218,247**	70
Other receivables	**6,321**	5,855
Advances to suppliers	**100,795**	70,222
Prepaid expenses	**3,057**	684
VAT-in recoverable	**25,548**	7,625
Total trade and other receivables	**837,380**	474,922

At the end of the reporting period, bills receivable outstanding amounting to RMB101,504,000 (2010: Nil) have been endorsed to certain creditors. The Group continues to present the endorsed bills as bills receivable until maturity.

The Group allows an average credit period of 90-120 days to its trade customers. The aging analysis of trade receivables and bills receivable is presented based on the invoice date at the end of the reporting period.

The aging of trade receivables (net of impairment loss on trade receivables) is as follows:

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**115,713**	331,885
91 to 120 days	**42,149**	52,245
121 to 180 days	**119,234**	6,336
180 to 365 days	**199,292**	–
Over 365 days	**7,024**	–
	483,412	390,466

The aging of bills receivable is as follows:

	2011	2010
	RMB'000	*RMB'000*
0 to 90 days	**173,021**	70
91 to 120 days	**31,093**	–
121 to 180 days	**14,133**	–
	218,247	70

Before accepting any new customers, the Group has assessed the potential customer's credit quality and defined credit limit of each customer. Limits attributed to customers are reviewed once a year.

In determining the recoverability of a trade receivable, the Group considers any change in the credit quality of the trade receivable from the date credit was initially granted up to the end of the reporting period.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB367,699,000 and RMB7,846,000 at 31 December 2011 and 2010, respectively, which are past due for which the Group has not provided for impairment loss as there has not been a significant change in credit quality and amounts are still considered recoverable based on historical experience.

Aging of trade receivables which are past due but not impaired:

	2011	2010
	RMB'000	*RMB'000*
91 to 120 days	**42,149**	1,510
121 to 180 days	**119,234**	6,336
181 to 365 days	**199,292**	–
Over 365 days	**7,024**	–
	367,699	7,846

Movement in the impairment loss on trade receivables

	2011	2010
	RMB'000	*RMB'000*
1 January	**–**	–
Impairment loss recognised on receivables	**48,700**	–
31 December	**48,700**	–

Included in the impairment loss on trade receivables are individually impaired trade receivables with an aggregate balance of RMB48,700,000 (2010: Nil) which have delayed payments for more than 90 days or ceased business relationship.

12. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	2011	2010
	RMB'000	*RMB'000*
Trade payables	**167,765**	182,337
Bills payable	**20,100**	7,140
	187,865	189,477
Advances from customers	**5,321**	8,897
Payables for land use rights	**–**	20,710
Payables for property, plant and equipments	**19,142**	10,214
Payroll and welfare payables	**4,415**	4,820
Warranty accrual *(Note)*	**1,088**	1,039
Other accruals	**13,704**	4,429
Other tax payable	**5,659**	15,637
Other payables	**4,604**	2,122
	241,798	257,345

Note: At 31 December 2011 and 2010, the warranty provision represents management's best estimate of the Group's liability under 6-month warranty granted on products, based on prior experience and industry practice for defective products.

The following is an aging analysis of trade payables, presented based on invoice date, at the end of each reporting period:

	2011	2010
	RMB'000	*RMB'000*
Within 30 days	**70,153**	79,321
31 to 60 days	**35,916**	28,660
61 to 90 days	**31,972**	18,736
91 to 180 days	**11,790**	28,275
181 to 365 days	**17,934**	27,345
	167,765	182,337

The following is an aging analysis of bills payable, presented based on issuance date, at the end of each reporting period:

	2011	2010
	RMB'000	*RMB'000*
31 to 60 days	**–**	7,140
61 to 90 days	**–**	–
91 to 180 days	**20,100**	–
	20,100	7,140

Trade payables and bills payable principally comprise amounts outstanding for purchase of goods. The credit period for purchase of goods is between 30 to 180 days.

SCOPE OF WORK OF MESSRS. DELOITTE TOUCHE TOHMATSU ON THE PRELIMINARY ANNOUNCEMENT

The figures in respect of the Group's consolidated statement of financial position, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2011 as set out in the Preliminary Announcement have been agreed by the Group's auditor, Messrs. Deloitte Touche Tohmatsu, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by Messrs. Deloitte Touche Tohmatsu in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by Messrs. Deloitte Touche Tohmatsu on the preliminary announcement.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Founded in 2001, the Group is a leading independent axle component provider for China's medium duty truck ("MDT") and heavy duty truck ("HDT") aftermarket, and also one of the largest independent axle assembly providers for China's MDT and HDT original equipment manufacturers ("OEM") market. The Group is principally engaged in the manufacture and sales of axle assemblies and axle components in the People's Republic of China ("PRC").

The Group's diversified axle component product offerings include seven major categories of axle components with over 680 models. The products cover all major axle components, including cast steel and punched steel axle housings, brake drums, axle shafts, axle differentials and reductors, steering knuckles and front axle beams. An extensive range of front, middle and rear axle assemblies and suspension assemblies are also manufactured in over 400 models. The Group adopts vertically integrated production process, with comprehensive axle component production capabilities and research and development abilities enabling the Group to swiftly respond to changes in market trends and meet customer demands. Proprietary processing techniques are used in production process to manufacture quality products which are characterized by their strong durability and competitive prices.

The Group has four production facilities in the PRC, one of which is located in Kaifeng city, Henan province, two of which are located in Longyan city, Fujian province and one of which is located in Nanchong city, Sichuan province. Those production facilities are strategically located in proximity to primary suppliers and OEM customers so as to accelerate the Group's procurement process, reduce product delivery time and transportation costs and improve logistical efficiency to meet customers' demands.

MDT and HDT Aftermarket

The Group is the leading independent axle component provider for China's MDT and HDT aftermarket with the most diversified product offerings among independent axle component providers in China. During the year ended 31 December 2011, the axle components were sold to customers in the aftermarket through its extensive sales, marketing and services network across the PRC. For the year ended 31 December 2011, revenue generated from the aftermarket amounted to approximately RMB538.1 million (2010: approximately RMB871.5 million) and accounted for approximately 58.4% (2010: approximately 66.1%) of the Group's total revenue, representing a decrease of approximately 7.7% as compared with the corresponding period last year.

MDT and HDT OEM market

The Group primarily sells axle assemblies directly to OEMs in the PRC on a made-to-order basis to match its customers' specification requirements. A small portion of axle components is occasionally sold to other axle assembly providers. For the year ended 31 December 2011, revenue from the OEM market amounted to approximately RMB382.6 million (2010: approximately RMB447.2 million) and accounted for 41.6% (2010: 33.9%) of the Group's total revenue, representing an increase of 7.7% as compared with the corresponding period last year.

FINANCIAL REVIEW

Revenue

For the year ended 31 December 2011, the Group recorded a consolidated revenue of approximately RMB920.7 million (2010: approximately RMB1,318.7 million), representing a decrease of 30.2% as compared with the same period in 2010.

Revenue from our aftermarket segment decreased by approximately 38.3% from RMB871.5 million in 2010 to RMB538.1 million in 2011. The decrease in revenue was due to (i) less favorable industry environment caused by the slow down of construction and infrastructure development projects in China, which hampered the demand in the aftermarket industry; and (ii) decrease in unit selling price of certain products under keen competition in the aftermarket industry. The keen competition in the aftermarket industry was mainly due to the slow down of demand in axle components industry and tightening of the credit policy in China, as a result some of the competitors sold their products at a low cost in order to maintain cashflow liquidity. The Group also participated in the price competition during the second half of 2011 in order to maintain its market share. The Group expects the price competition will lessen or come to an end in year 2012 as the less competitive players will be forced to exit the market, and the aftermarket industry market situation will improve.

Revenue from the Group's OEM and related market segment decreased by approximately 14.4% from RMB447.2 million in 2010 to RMB382.6 million in 2011. This was mainly due to the decline in growth rate in the trucking industry together with the delay in the launch of new trucks.

Gross profit and gross profit margin

For the year ended 31 December 2011, the Group's gross profit decreased by 42.6% from approximately RMB439.3 million in 2010 to approximately RMB252.1 million. Gross profit margin decreased from approximately 33.3% in 2010 to approximately 27.4% in 2011 mainly due to the decrease in average unit selling price under the keen competition in selling prices in the aftermarket industry, which increased the Group's pressure on the gross profit margin in the aftermarket segment.

Other income

Other income of the Group increased from approximately RMB2.5 million in 2010 to approximately RMB7.7 million in the 2011, the increase was mainly attributable to the receipt of the government grant for the Group's eminent contribution of tax payment, encouragement for the Group's business development and refund of various taxes paid.

Selling and distribution expenses

Selling and distribution expenses of the Group increased from approximately RMB22.4 million in 2010 to approximately RMB26.0 million in 2011. The increase was mainly due to the increase in staff cost to retain and hire talented sales and marketing personnel.

Administrative expenses

The Group's administrative expenses increased from approximately RMB48.5 million in 2010 to approximately RMB63.9 million in 2011. The increase in administrative expenses was mainly due to (i) the increase in the amortisation of prepaid lease payment; (ii) the increase in the number of administration staff and corresponding staff cost for the supervision of the new production site of the Group; and (iii) increase in miscellaneous expenses incurred for operation of the new production site.

Finance costs

The Group incurred finance costs of approximately RMB25.9 million in 2011, which represented approximately 2.8% (2010: approximately 1.7%) of its revenue and an increase of approximately 14.9% from RMB22.5 million in 2010.

Taxation

Tax charge decreased by approximately 56.4% from RMB49.9 million in 2010 to RMB21.8 million in 2011 due to the decreased profit. The effective tax rate in 2011 was 26.7% (2010: 14.9%).

Profit attributable to equity holders of the Company

For the year ended 31 December 2011, the Group achieved a profit attributable to owners of the Company of approximately RMB59.8 million, which represented a decline of approximately 79.1% as compared with the corresponding period of last year. Basic earnings per share decreased by RMB0.37 from RMB0.44 per share in 2010 to RMB0.07 per share in 2011.

LIQUIDITY AND FINANCIAL RESOURCES

Cash and cash equivalent of the Group were mainly generated from the cash flow deriving from operating activities and financing activities.

As at 31 December 2011, cash and cash equivalent of the Group was approximately RMB134.4 million (2010: approximately RMB518.1 million).

As compared with the year of 2010, cash and cash equivalent decreased by approximately RMB383.7 million, which was mainly resulted from the net cash outflow from operating activities of approximately RMB301.6 million (2010: net cash inflow of RMB209.2 million) and net cash outflow for investing activities of approximately RMB223.6 million (2010: approximately RMB414.4 million).

As at 31 December 2011, net current assets of the Group was approximately RMB609.9 million (2010: approximately RMB676.1 million). As at 31 December 2011, the current ratio (i.e. total current assets / total current liabilities) of the Group was approximately 187.7% (2010: approximately 209.9%).

As at 31 December 2011, total assets of the Group were approximately RMB2,305.6 million (2010: approximately RMB2,079.1 million) and total liabilities were approximately RMB743.0 million (2010: approximately RMB616.2 million). As at 31 December 2011, the debt ratio (i.e. total liabilities/total assets) was 32.2% (2010: 29.6%).

As at 31 December 2011, the Group had total borrowings of approximately RMB495.9 million (2010: approximately RMB328.4 million), and the gearing ratio (i.e. total borrowing/total capital and reserve) was approximately 31.7% (2010: approximately 22.5%).

The Group will continue to strengthen its liquidity and financial resources through the improvement of the working capital (especially collection of trade receivables) and undrawn committed facilities to facilitate the Group's investment activities.

Trade and bills receivable

Trade and bills receivables of the Group in 2011 were approximately RMB750.4 million (2010: RMB390.5 million). The increase in balance was due to the extension of the credit term to customers.

The average turnover days of trade and bills receivable increased from 103 days in 2010 to 226 days in 2011. The increase in average turnover days of trade and bills receivable was due to the increase in the percentage of customers who require longer payment terms.

Inventory

The inventory balance of the Group for the year ended 31 December 2011 amounted to approximately RMB323.7 million (2010: approximately RMB290.3 million) which mainly reflected the increase in raw materials and finished goods required for the market demand for the new production site in Kaifeng and Sichuan.

The average turnover days in inventory increased from 101 days in 2010 to 168 days in 2011. This was mainly due to the commencement of operation in the new production facilities in Kaifeng and Sichuan.

Trade and bills payable

Trade and bills payables of the Group in 2011 were approximately RMB187.9 million (2010: approximately RMB189.5 million). The decrease in balance was due to the decrease in procurement of raw materials.

The average turnover days of trade and bills payables increased from 69 days in 2010 to 103 days in 2011 as the Group has negotiated a longer credit term with suppliers.

Pledged assets

As at 31 December 2011, the Group has pledged assets of approximately RMB269.6 million (2010: approximately 257.1 million) to secure the grant of banking facilities. As at 31 December 2011, the Group did not pledge the equity shares of any of its PRC subsidiaries as collateral to secure bank borrowings (2010: approximately 167.1 million).

Contingent Liabilities

As at 31 December 2011, the Group had no significant contingent liabilities (2010:Nil).

Capital commitment

As at 31 December 2011, the contracted capital commitment of the Group which were not provided in the financial statements were approximately RMB13.8 million (2010: approximately RMB54.0 million). Such capital commitments were mainly for the capital expenditure in respect of upgrading and acquisition of certain production equipment at our production facilities.

During the year under review, Changfeng Gear Manufacturing Co., Ltd ("Changfeng Gear") was incorporated pursuant to the cooperation agreement entered into by and between the Group and an independent third party on 11 November 2010, pursuant to which the Group and the independent third party, being a non-controlling shareholder of Changfeng Gear, owns 60% and 40% of the equity interest therein, respectively. The Group made a cash contribution of RMB60,000,000 to Changfeng Gear whilst the non-controlling shareholder contributed new machineries with an aggregate value of RMB40,000,000 to Changfeng Gear. The Group and the non-controlling shareholder are committed to inject an additional amount of RMB60,000,000 and RMB40,000,000, respectively, in the year 2012.

Employees and remuneration policy

As at 31 December 2011, the Group had 1,867 employees (2010: 2,422 employees). For the year ended 31 December 2011, total staff costs were approximately RMB73.5 million (2010: approximately RMB73.5 million).

The Group also provided internal training, external training and correspondence courses for its staff in order to promote self improvement and enhancement of skills relevant to work. The remuneration of the directors of the Company was determined with reference to their position, responsibilities and experience and prevailing market conditions.

Foreign exchange risk

The business of the Group is mainly located in the PRC and most of the transactions are carried out in Renminbi. Most of the assets and liabilities of the Group are computed in Renminbi. As at 31 December 2011, the Group's foreign currencies amounted to approximately RMB6.8 million. During the year ended 31 December 2011, the Group did not utilize any future contracts, currency borrowings and otherwise to hedge against its foreign exchange risk. However, the Group will monitor the risk exposures and will consider to hedge against material currency risk if required.

DIVIDEND

The Board does not recommend payment of any final dividend for the year ended 31 December 2011 (2010: Nil).

PROSPECTS

Looking forward, riding on its (i) extensive sales, marketing and services network among all axle component providers in China's MDT and HDT aftermarket; (ii) diversified axle component offerings well recognized for high quality by customers; (iii) role as an independent provider of axle products in both the aftermarket and OEM market, enhancing the cross-marketing capabilities and maximising the sales and profit, the Group seeks to strengthen its leading position in the axle industry, to further expand its product offerings and to become a "one-stop" provider of axle components for the MDT and HDT aftermarket in China.

The Group will further enhance the following aspects in order to increase its competitiveness in the market.

Expand overseas market

In order to expand gradually into overseas markets in anticipation of overseas demand for the Group's products, the Company will leverage its broad range of quality product offerings, product development capabilities and cost competitiveness, the Group are well positioned to expand sales of its products into overseas markets. The Group will implement its overseas expansion plan gradually through a variety of efforts, including:

- developing new product models or modifying its existing products to satisfy the specification requirements of different types and models of vehicles used overseas;

- increasing the sales of its axle components products in the overseas axle aftermarket, initially in Southeast Asia, by leveraging the Group's existing overseas distributors and developing new distributors through its marketing channels; and

- increasing the sales of its customized axle assemblies in the overseas OEM market, upon identifying potential OEM customers who may have a need for customized axle assemblies.

Marketing Network

In order to enhance its market penetration of the MDT and HDT aftermarket, the Group will (i) expand its OEM market by selling axle assemblies with higher margin with a view to increase subsequent demand for their corresponding aftermarket products; (ii) expand its extensive sales, marketing and services network vertically and horizontally; and (iii) provide comprehensive models and products offerings, with its strong brand recognition.

Product Development

In order to increase the Group's production efficiency and improve its product development capabilities, the Group strategically cooperates with various research institutions in the PRC. Under such cooperation, new technology and raw materials will be developed for the production of axle components. Besides, the Group plans to develop new processing technologies and establish national-level testing laboratories aimed at increasing the production speed in order to further shorten the product development cycle and conduct the testing of its products in-house for certification purposes within a shorter time frame than at third-party testing facilities, thereby significantly reducing its overall product development cycle.

Cost Control

The Group will make use of the four production facilities located in the PRC which form an even broader strategic production and distribution network for its products, so as to efficiently control the production cost and logistic cost. Besides, the Group will consolidate production lines to lower its production cost. Furthermore, the Group will strategically cooperate with suppliers in order to lengthen the credit terms and reduce the purchase price.

CORPORATE GOVERNANCE

The Company is committed to the establishment of good corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the Company's shareholders. The Board strives to adhere to the principles of corporate governance and has adopted sound corporate governance practices to meet the legal and commercial standards, focusing on areas such as internal control, fair disclosure and accountability to all shareholders to ensure the transparency and accountability of all operations of the Company. The Company believes that effective corporate governance is an essential factor to create more value for its shareholders. The Board will continue to review and improve the corporate governance practices of the Group from time to time to ensure that the Group is led by an effective Board in order to optimize return for shareholders.

During the year ended 31 December 2011, the Company has complied with the Code on Corporate Governance Practices (the "**CG Code**") as set out in Appendix 14 to The Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the "**Listing Rules**").

ANNUAL GENERAL MEETING

The annual general meeting of the Company will be held on Thursday, 7 June 2012. A notice convening the annual general meeting will be published and dispatched to the shareholders of the Company in the manner required by the Listing Rules in due course.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from Monday, 4 June 2012 to Thursday, 7 June 2012, both days inclusive, during which period no transfer of shares will be registered. In order to determine who are entitled to attend and vote at the forthcoming annual general meeting of the Company to be held on Thursday, 7 June 2012, all transfer documents accompanied by the relevant share certificates must be lodged with the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong for registration no later than 4:30 p.m. on Friday, 1 June 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its listed shares during the year ended 31 December 2011. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the year ended 31 December 2011.

COMPLIANCE WITH THE MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers ("**Model Code**") as set out in Appendix 10 of the Listing Rules as its own code of conduct for securities transactions. Specific enquiries have been made with all Directors, who have confirmed that, during the period under review, they were in compliance with the required provisions set out in the Model Code. All Directors declared that they have complied with the Model Code for the year ended 31 December 2011.

AUDIT COMMITTEE

The audit committee of the Company (the "**Audit Committee**") was established in compliance with Rules 3.21 and 3.22 of the Listing Rules and with written terms of reference in compliance with the CG Code. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal control system of the Group and to provide advice and comments to the Board. The members meet regularly with the external auditors and the Company's senior management for the review, supervision and discussion of the Company's financial reporting and internal control procedures and ensure that management has discharged its duty to have an effective internal control system. The Audit Committee consists of three members, namely Mr. Chong Ching Hei, Mr. Zhu Weizhou and Dr Li Xiuqing, all of whom are independent non-executive Directors. Mr. Chong Ching Hei, who has appropriate professional qualifications and experience in accounting matters, was appointed as the chairman of the Audit Committee.

The Audit Committee has reviewed the consolidated financial statements of the Group for the year ended 31 December 2011, including the accounting principles and practices adopted by the Group, selection and appointment of the external auditors.

AUDITOR

The Company appointed Deloitte Touche Tohmatsu as its auditor for the year ended 31 December 2011. The Company will submit a resolution in the forthcoming annual general meeting to re-appoint Deloitte Touche Tohmatsu as the auditor of the Company.

PUBLICATION OF DETAILED RESULTS ANNOUNCEMENT ON THE STOCK EXCHANGE'S WEBSITE

This results announcement is published on the website of the Stock Exchange at www.hkexnews.hk and the website of the Company at www.changfengaxle.com.hk. The annual report of the Company for the year ended 31 December 2011 containing all the information required by the Listing Rules is to be despatched to shareholders of the Company and posted on the above websites in due course.

By the order of the Board of Directors
Changfeng Axle (China) Company Limited
Wong Kwai Mo
Chairman

Hong Kong, 30 March 2012

As at the date of this announcement, the executive Directors are Mr. Wong Kwai Mo, Ms. Wu Ching and Mr. Lai Fengcai; the non-executive Director is Ms. Dong Ying, Dorothy; and the independent non-executive Directors are Mr. Zhu Weizhou, Dr. Li Xiuqing and Mr. Chong Ching Hei.