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 INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended 30 June	
	2012	2011
	RMB'000	RMB'000
Revenue	**288,126**	560,225
Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA")*	**17,475**	162,262
(Loss) profit before taxation	**(163,142)**	134,830
Basic (losses) earnings per share	**RMB(0.20)**	RMB0.15

* EBITDA for the six months ended 30 June 2012 excluded the impairment losses recognised in respect of property, plant and equipment

The board (the "**Board**") of directors (the "**Directors**") of Changfeng Axle (China) Company Limited (the "**Company**") is pleased to announce its interim consolidated results of the Company and its subsidiaries (collectively, the "**Group**") for the six months ended 30 June 2012.

These interim financial statements have not been audited, but have been reviewed by the Company's auditors, Deloitte Touche Tohmatsu, who conducted the review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants and the audit committee of the Company.

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	NOTES	**Six months ended** **30.6.2012** *RMB'000* (unaudited)	30.6.2011 *RMB'000* (unaudited)
Revenue	*3*	**288,126**	560,225
Cost of sales		**(247,558)**	(376,003)
Gross profit		**40,568**	184,222
Other income, other gains and losses	*4*	**(3,546)**	6,312
Selling and distribution expenses		**(10,574)**	(13,125)
Research and development expenditure		**(5,775)**	(6,714)
Administrative expenses		**(27,571)**	(25,450)
Impairment losses recognised in respect of property, plant and equipment		**(136,000)**	–
Interest on bank borrowings wholly repayable within five years		**(20,244)**	(10,415)
(Loss) profit before tax	*5*	**(163,142)**	134,830
Taxation	*6*	**1,473**	(18,426)
(Loss) profit and total comprehensive (expense) income for the period		**(161,669)**	116,404
(Loss) profit and total comprehensive (expense) income for the period, attributable to:			
Owners of the Company		**(161,362)**	116,404
Non-controlling interests		**(307)**	–
		(161,669)	116,404
Basic (losses) earnings per share (RMB)	*7*	**(0.20)**	0.15

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2012

	NOTES	**30.6.2012**	31.12.2011
		RMB'000	*RMB'000*
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**564,764**	612,475
Prepayment for acquisition of machinery		**5,449**	42,708
Prepayment for acquisition of land use right and buildings		–	49,750
Prepaid lease payments		**300,696**	294,736
Deferred tax assets		**638**	1,003
		871,547	1,000,672
CURRENT ASSETS			
Inventories		**389,733**	323,742
Trade receivables	*10*	**468,792**	483,412
Bills receivable	*11*	**191,674**	218,247
Other receivables	*12*	**152,215**	135,721
Prepaid lease payments		**6,388**	6,203
Income tax recoverable		–	44
Available-for-sale investments		–	1,000
Pledged bank deposits		–	2,100
Bank balances and cash		**86,163**	134,450
		1,294,965	1,304,919
CURRENT LIABILITIES			
Trade and bills payables	*13*	**204,373**	187,865
Other payables	*14*	**46,442**	53,933
Amount due to a director		–	1,500
Borrowings – due within one year		**514,786**	447,968
Income tax payable		–	3,785
		765,601	695,051
NET CURRENT ASSETS		**529,364**	609,868
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,400,911**	1,610,540
NON-CURRENT LIABILITY			
Borrowings – due after one year		–	47,960
		1,400,911	1,562,580
OWNERS' EQUITY			
Share capital		**53,560**	53,560
Reserves		**1,307,705**	1,469,067
Equity attributable to owners of the Company		**1,361,265**	1,522,627
Non controlling interests		**39,646**	39,953
		1,400,911	1,562,580

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
(Loss) profit before tax	**(163,142)**	134,830
Adjustments for:		
Finance costs	**20,244**	10,415
Interest income	**(469)**	(1,141)
Impairment losses in respect of property, plant and equipment	**136,000**	–
Depreciation of property, plant and equipment	**21,255**	13,921
Loss from disposal of property, plant and equipment	**6,116**	–
Release of prepaid lease payments	**3,118**	3,096
Operating cash flows before movements in working capital	**23,122**	161,121
Increase in inventories	**(65,991)**	(73,495)
Decrease (increase) in trade receivables	**21,070**	(125,210)
Increase in other receivables	**(16,494)**	(114,066)
Decrease (increase) in bills receivable	**26,573**	(49,659)
Increase (decrease) in trade and bill payables	**26,388**	(11,429)
(Decrease) increase in other payables	**(7,491)**	20,091
Cash generated (used in) from operations	**7,177**	(192,647)
Income tax paid	**(1,903)**	(38,197)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	**5,274**	(230,844)
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(83,268)**	(36,337)
Payment for land use rights	**(9,263)**	(25,535)
Prepayment for acquisition of machinery	**(5,449)**	(83,442)
Placement of pledged bank deposits	**(16)**	(28,683)
Refund (prepayment) for acquisition of land use right and buildings	**43,300**	(11,492)
Proceeds from release of pledged bank deposits	**2,116**	2,191
Other investing activities items	**1,905**	1,141
NET CASH USED IN INVESTING ACTIVITIES	**(50,675)**	(182,157)

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Repayment of borrowings	**(192,578)**	(167,030)
Interest paid	**(20,244)**	(10,415)
Decrease in amount due to a director	**(1,500)**	–
New borrowings raised	**211,436**	192,039
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(2,886)**	14,594
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(48,287)**	(398,407)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**134,450**	518,105
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**86,163**	119,698

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with HKAS 34 *Interim Financial Reporting* issued by the Hong Kong Institute of Certified Public Accountants as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Group had bank borrowings of approximately RMB514,786,000 at 30 June 2012. The directors are in the opinion that, taking into account the banking facilities currently available and the continuing banking facilities renewal procedures being in place and internally generated net operating cash inflow of the Group, the Group has sufficient working capital for its present requirements, that is for at least the next 12 months commencing from the date of the condensed consolidated financial statements. Hence, the condensed consolidated financial statements have been prepared on a going concern basis.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

Except as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2012 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2011.

Application of amendments to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"):

- amendments to HKFRS 7 *Financial Instruments: Disclosures – Transfers of Financial Assets;* and
- amendments to HKAS 12 *Deferred Tax: Recovery of Underlying Assets.*

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in the condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(a) Operating segments

The Group has two reportable and 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 Six months ended		Segment results Six months ended	
	30.6.2012	30.6.2011	**30.6.2012**	30.6.2011
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
OEM and related market	**169,598**	218,863	**26,755**	59,832
Aftermarket	**118,528**	341,362	**13,813**	124,390
Total segment and consolidated	**288,126**	560,225	**40,568**	184,222
Other income, other gains and losses			**(3,546)**	6,312
Selling and distribution expenses			**(10,574)**	(13,125)
Research and development expenditure			**(5,775)**	(6,714)
Administrative expenses			**(27,571)**	(25,450)
Impairment losses recognised in respect of property, plant and equipment			**(136,000)**	–
Interest on bank borrowings			**(20,244)**	(10,415)
(Loss) profit before tax			**(163,142)**	134,830

Revenue reported above represents revenue generated from external customers.

(c) Segment assets

	Assets	
	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
OEM and related market	**173,808**	130,758
Aftermarket	**294,984**	352,654
Total of all segments	**468,792**	483,412
Unallocated	**1,697,720**	1,822,179
Consolidated assets	**2,166,512**	2,305,591

Segment assets represent trade receivables.

4. OTHER INCOME, OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**469**	1,141
Government grants *(note)*	**2,012**	4,060
Net foreign exchange gain (loss)	**11**	(168)
Income from suppliers on defects claim	**34**	1,436
Donation	**(9)**	(3)
Loss on disposal of property, plant and equipment	**(6,116)**	–
Others	**53**	(154)
	(3,546)	6,312

Note: Grants primarily represented incentives received from local authorities by the Group entities for the eminent contribution of tax payment and encouragement of its business development. These grants are accounted for as immediate financial support with no future related costs expected to be incurred nor related to any assets.

5. (LOSS) PROFIT BEFORE TAX

(Loss) profit before tax has been arrived at after charging:

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors' emoluments):		
– salaries and other benefits	**32,792**	32,390
– retirement benefit scheme contributions	**2,454**	2,446
Total staff costs	**35,246**	34,836
Depreciation of property, plant and equipment	**21,255**	13,921
Release of prepaid lease payments	**3,118**	3,096
Auditors' remuneration	**738**	588
Cost of inventories recognised as expenses, included in		
– cost of sales	**246,464**	372,659
– research and development expenditure	**1,963**	2,925

6. TAXATION

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tax (credit) expense comprises:		
Current tax expense	**19**	18,434
Overprovision in prior year	**(1,857)**	–
Deferred tax expense (credit)	**365**	(8)
	(1,473)	18,426

The income tax expense represents the People's Republic of China ("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 six months ended 30 June 2012 and 2011.

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

On 15 August 2010 and 29 October 2010, Kaifeng Changfeng Axle Manufacturing Co., Ltd. ("Kaifeng Changfeng") and Longyan Shengfeng Machinery Manufacturing Co., Ltd. ("Longyan Shengfeng"), both are wholly-owned subsidiaries of the Company, obtained "High and New Technology Enterprise" status for 3 years, respectively, that entitled Kaifeng Changfeng and Longyan Shengfeng a preferential tax rate of 15% for the period from 2011 to 2013 according to the PRC Tax Law.

7. (LOSSES) EARNINGS PER SHARE

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

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
(Losses) earnings		
(Losses) earnings for the purpose of basic (losses) earnings per share ((Loss) profit for the period attributable to owners of the Company)	**(161,362)**	116,404

	Six months ended 30.6.2012 & 30.6.2011
Number of shares	
Number of ordinary shares for the purposes of basic (losses) earnings per share	**800,000,000**

No diluted (losses) earnings per share is presented as the Company did not have any potential ordinary shares in issue during the six months ended 30 June 2012 and 2011 or at the end of each reporting period.

8. DIVIDENDS

No dividends were paid, declared or proposed during the interim reporting period. The directors of the Company do not recommend the payment of an interim dividend (six months ended 30 June 2011: nil).

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment amounting to approximately RMB116,096,000 (six months ended 30 June 2011: approximately RMB61,262,000) for the purpose of expanding the Group's business.

The Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB6,552,000 (six months ended 30 June 2011: nil) for cash proceeds of RMB436,000, resulting in a loss on disposal of RMB6,116,000 (six months ended 30 June 2011: nil).

During the period ended 30 June 2012, as the Group incurred operating losses of RMB27,142,000, the directors of the Company considered this was an impairment indicator. Thus, the directors of the Company conducted an impairment assessment on the Group's property, plant and equipment. With reference to the valuation report issued by an independent external valuer, the directors have made impairment losses of RMB136,000,000 in respect of property, plant and equipment as at 30 June 2012. The impairment loss was recognised for the Group for which the recoverable amount, which was based on value in use, was less than the carrying amount. The value in use calculation used cash flow projections which significant management judgment is involved. The cash flow projections was using a discount rate of 9.5% together with estimations of a range of economic conditions that will exist over the remaining useful life of assets.

10. TRADE RECEIVABLES

Trade receivables comprise the following:

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**517,492**	532,112
Less: impairment loss on trade receivables	**(48,700)**	(48,700)
	468,792	483,412

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

The following is an aging analysis of trade receivables (net of impairment loss on trade receivables), presented based on the invoice date, at the end of the reporting period:

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 90 days	**157,870**	115,713
91 to 120 days	**33,902**	42,149
121 to 180 days	**30,228**	119,234
181 to 365 days	**167,402**	199,292
Over 365 days	**79,390**	7,024
	468,792	483,412

11. BILLS RECEIVABLE

At the end of the reporting period, bills receivable outstanding amounting to RMB135,449,000 (2011: RMB101,504,000) have been endorsed to certain creditors. The Group continues to present the endorsed bills as bills receivable until maturity.

The following is an aging analysis of bills receivable:

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 90 days	**97,897**	173,021
91 to 120 days	**41,037**	31,093
121 to 180 days	**51,840**	14,133
181 days to 365 days	**900**	–
	191,674	218,247

12. OTHER RECEIVABLES

Other receivables comprise the following:

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Other receivables	**17,522**	6,321
Advances to suppliers	**102,957**	100,795
Prepaid expenses	**1,625**	3,057
VAT-in recoverable	**30,111**	25,548
	152,215	135,721

13. TRADE AND BILLS PAYABLES

Trade and bills payables comprise the following:

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**201,873**	167,765
Bills payable	**2,500**	20,100
	204,373	187,865

The following is an aging analysis of trade payables:

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**35,276**	70,153
31 to 60 days	**37,333**	35,916
61 to 90 days	**49,133**	31,972
91 to 180 days	**61,489**	11,790
181 to 365 days	**18,642**	17,934
	201,873	167,765

The following is an aging analysis of bills payable.

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
31 to 60 days	**–**	–
61 to 90 days	**–**	–
91 to 180 days	**2,500**	20,100
	2,500	20,100

14. OTHER PAYABLES

Other payables comprise the following:

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Advances from customers	**7,974**	5,321
Payables and accruals for property, plant and equipment	**9,262**	19,142
Payroll and welfare payables	**3,198**	4,415
Warranty accrual	**1,174**	1,088
Other accruals	**14,834**	13,704
Other tax payable	**4,120**	5,659
Other payables	**5,880**	4,604
	46,442	53,933

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

Founded in 2001, the Group is one of the leading independent axle component providers 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 manufacturing 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 one of the leading independent axle component providers for China's MDT and HDT aftermarket with the most diversified product offerings among independent axle component providers in China. The axle components were sold to customers in the aftermarket through its extensive sales, marketing and services network across China. For the six months ended 30 June 2012, revenue from the aftermarket business segment amounted to approximately RMB118.5 million (30 June 2011: approximately RMB341.4 million) and accounted for approximately 41.1% (30 June 2011: approximately 60.9%) of the Group's total revenue, representing a decrease of approximately 65.3% over the corresponding period in 2011.

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 six months ended 30 June 2012, revenue from the OEM market amounted to approximately RMB169.6 million (30 June 2011: approximately RMB218.9 million) and accounted for 58.9% (30 June 2011: 39.1%) of the Group's total revenue, representing a decrease of 22.5% over the corresponding period in 2011.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2012, the Group recorded a consolidated revenue of approximately RMB288.1 million (30 June 2011: approximately RMB560.2 million), representing a decrease of 48.6% as compared with the same period in 2011. Since the second half of year 2011, there was increasing pressure on the aftermarket and OEM market, the business environment of the truck market continues to remain challenging in year 2012.

Revenue from the Group's aftermarket segment for the six months ended 30 June 2012 decreased by approximately 65.3% to RMB118.5 million from RMB341.4 million for the corresponding period of last year. The decrease in revenue was mainly 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.

Revenue from the Group's OEM and related market segment for the six months ended 30 June 2012 decreased by approximately 22.5% to RMB169.6 million from RMB218.9 million for the corresponding period of last year. This was caused by 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

Gross profit for the six months ended 30 June 2012 decreased by 78.0% to approximately RMB40.6 million from RMB184.2 million for the corresponding period of last year. Gross profit margin decreased from approximately 32.9% in 2011 to approximately 14.1% in 2012 mainly due to the decrease in average unit selling price under the keen competition in selling prices within the truck industry, which increased the Group's pressure on the gross profit in the truck market.

Other income, other gains and losses

Other losses of the Group for the six months ended 30 June 2012 amounted to RMB3.5 million (six months ended 30 June 2011: other gains of RMB6.3 million), the losses was mainly due to the loss on disposal of property, plant and equipment in an aggregate amount of RMB6.1 million.

Selling and distribution expenses

Selling and distribution expenses of the Group for the six months ended 30 June 2012 decreased to approximately RMB10.6 million from approximately RMB13.1 million for the corresponding period of last year. The decrease was mainly due to the decrease in the transportation cost.

Administrative expenses

The Group's administrative expenses for the six months ended 30 June 2012 increased to approximately RMB27.6 million from approximately RMB25.5 million for the corresponding period of last year. The increase in administrative expenses was due to the increase of amortisation and administrative expenses for the new production factory in Sichuan and Kaifeng.

Finance costs

The Group incurred finance costs of approximately RMB20.2 million for the six months ended 30 June 2012, which represented approximately 7% (six months ended 30 June 2011: approximately 1.9%) of its revenue in the corresponding period in 2010. The increase in finance cost was mainly due to the increase in borrowings (total borrowings as at 30 June 2012: RMB514.8 million; 30 June 2011: RMB353.5 million) and borrowing rate.

Taxation

Income tax credit of RMB1.5 million was recorded for the six months ended 30 June 2012 (six months ended 30 June 2011: income tax expense of RMB18.4 million). The decrease in taxation expenses for the first half of 2012 was mainly resulted from the decreased profit and overprovision of taxation expenses as compared to the prior year.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2012, cash and cash equivalent of the Group was approximately RMB86.2 million (as at 31 December 2011: approximately RMB134.5 million).

As compared with the corresponding period in 2011, cash and cash equivalent decreased by approximately RMB48.3 million, which was mainly resulted from the net cash outflow from investing activities of approximately RMB50.7 million (30 June 2011: RMB182.2 million).

As at 30 June 2012, net current assets of the Group was approximately RMB529.4 million (as at 31 December 2011: approximately RMB609.9 million). As at 30 June 2012, the current ratio (i.e. total current assets / total current liabilities) of the Group was approximately 1.69 times as compared with 1.88 times as at 31 December 2011.

As at 30 June 2012, total assets of the Group were approximately RMB2,166.5 million (as at 31 December 2011: approximately RMB2,305.6 million) and total liabilities were approximately RMB765.6 million (as at 31 December 2011: approximately RMB743.0 million). The debt ratio as at 30 June 2011 (i.e. total liabilities/total assets) was 35.3% as compared to 32.2% as at 31 December 2011.

As at 30 June 2012, the Group had total borrowings of approximately RMB514.8 million (as at 31 December 2011: approximately RMB495.9 million). The gearing ratio (i.e. total borrowing/total equity) was approximately 36.7% (as at 31 December 2011: approximately 31.7%).

Trade and bills receivable

Trade and bills receivables of the Group as at 30 June 2012 were approximately RMB660.5 million (as at 31 December 2011: RMB701.7 million). The decrease in balance was mainly due to the decrease in revenue and strengthen of the credit control policy.

Inventory

The inventory balance of the Group as at 30 June 2012 was approximately RMB389.7 million (as at 31 December 2011: approximately RMB323.7 million) which mainly reflected the increase in raw materials and finished goods for the new production site in Kaifeng and Sichuan.

Trade and bills payable

Trade and bills payables of the Group as at 30 June 2012 were approximately RMB204.3 million (as at 31 December 2011: approximately RMB187.9 million). The increase in balance was mainly due to the negotiation for a longer credit term with suppliers.

Contingent Liabilities

As at 30 June 2012, the Group had no significant contingent liabilities (as at 31 December 2011: Nil).

Capital commitment

As at 30 June 2012, the contracted capital commitment of the Group which were not provided in the financial statements were approximately RMB15.7 million (as at 31 December 2011: approximately RMB13.8 million). Such capital commitments were mainly for the capital expenditure in respect of acquisition of production facilities.

In year 2011, 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.

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 30 June 2012, the Group's foreign currencies amounted to approximately RMB10.3 million. During the year ended 30 June 2012, 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 has resolved not to recommend any payment of interim dividend for the six months ended 30 June 2012 (2011: Nil).

PROSPECTS

Faced with the increasing uncertainty in the global economic situation and fierce competition in the China truck market, the Group expects business to be more challenging in the second half of 2012. To ensure the sustaintable success, the management has formulated the strategies to cope with these challenges. Strategies include diversifying the range of our casting and punching products, exploring the opportunities in overseas market and improvement of our product quality management program.

Looking forward, riding on the Group's (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:

- diversifying and developing the new casting and punching products to satisfy the customer requirements in various industries and countries;

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

Cost Control

The Group will make use of its 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 functional departments and production lines to lower its administrative and production cost. Furthermore, the Group will strategically cooperate with suppliers in order to lengthen the credit terms and reduce the purchase price.

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 cooperations, 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.

CORPORATE GOVERNANCE

The Company is committed to maintaining high standards of corporate governance practices and procedures with a view to being a transparent and responsible organization which is open and accountable to the shareholders of the Company. These can be achieved by an effective Board, segregation of duties with clear accountability, sound internal control, appropriate risk assessment procedures and transparency of the Company. The Board will continue to review and improve the corporate governance practices from time to time to ensure the Group is led by an effective Board in order to optimize returns for the shareholders of the Company. During the period from 1 January 2012 till 31 March 2012, the Company has applied the principles of and has complied with all code provisions of the Code on Corporate Governance Practices (the "**CG Code**") as set forth in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") and the revised CG Code for the period from 1 April 2012 till 30 June 2012, save for the deviation as set forth below:

Code Provision A.6.7

Code Provision A.6.7 of the CG Code provides that independent non-executive directors and non-executive directors should attend general meetings of the Company. Due to prior business engagements external to the Company, the non-executive director of the Company, Ms. Dong Ying, Dorothy, and the independent non-executive directors of the Company, Mr. Zhu Weizhou, Dr. Li Xiuqing and Mr. Chong Ching Hei were not able to attend the annual general meeting of the Company held on 7 June 2012.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S SHARES

The Company has not redeemed any of its listed shares during the six months ended 30 June 2012. Neither the Company nor any of its subsidiaries had purchased, sold or repurchased any of the listed shares of the Company during the six months ended 30 June 2012.

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 and declared that they have complied with the required standards set out in the Model Code throughout the six months ended 30 June 2012.

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 six months ended 30 June 2012.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT

The interim results announcement is published on the websites of the Company at www.changfengaxle.com.hk and The Stock Exchange of Hong Kong Limited at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2012 containing all the information required by the Listing Rules will be despatched to shareholders of the Company and made available on the same websites in due course.

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

Hong Kong, 29 August 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.