CHINA VEHICLE COMPONENTS TECHNOLOGY HOLDINGS LIMITED
中國車輛零部件科技控股有限公司
(incorporated in the Cayman Islands with limited liability)
(Stock Code: 1269)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2012

HIGHLIGHTS

- Revenue of the Group was approximately RMB215.7 million for the reporting period, representing a decrease of RMB108.9 million or 33.5% as compared to approximately RMB324.6 million for the six months ended 30 June 2011.

- Profit attributable to owners of the Company for the reporting period amounted to approximately RMB2.4 million, representing a decrease of RMB35.6 million or 93.7% as compared to approximately RMB38.0 million for the six months ended 30 June 2011.

- Basic and diluted earnings per share attributable to the ordinary equity holders of the Company for the reporting period was approximately RMB0.01, representing a decrease of RMB0.15 or 93.8% as compared to approximately RMB0.16 for the six months ended 30 June 2011.

- The Board does not recommend payment of interim dividend for the six months ended 30 June 2012.

The Board of Directors (the "**Board**") of China Vehicle Components Technology Holdings Limited (the "**Company**") is pleased to announce the unaudited interim consolidated results for the six months ended 30 June 2012 of the Company and its subsidiaries (collectively, the "**Group**").

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2012

		Six months ended	
		30.6.2012	30.6.2011
	NOTES	***RMB'000***	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**215,743**	324,564
Cost of sales		**(175,630)**	(239,426)
Gross profit		**40,113**	85,138
Other income, other gains and losses	*4*	**9,475**	19,011
Selling and distribution expenses		**(12,559)**	(16,852)
Research and development expenditure		**(7,076)**	(9,737)
Administrative expenses		**(19,954)**	(14,553)
Listing expenses		**–**	(8,328)
Finance costs		**(6,461)**	(7,544)
Profit before tax	*5*	**3,538**	47,135
Taxation	*6*	**(1,147)**	(9,184)
Profit and total comprehensive income for the period attributable to owners of the Company		**2,391**	37,951
Earnings per share – Basic *(RMB)*	*8*	**0.01**	0.16

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*	**314,732**	194,525
Prepaid lease payments		**99,748**	100,845
Deposits paid for acquisition of land use rights		**46,582**	46,211
Deposits for acquisition of property, plant and equipment		**1,255**	73,573
Intangible assets		**1,085**	1,310
Goodwill		**29,655**	29,655
Deferred tax assets		**3,401**	2,907
		496,458	449,026
CURRENT ASSETS			
Inventories		**67,147**	56,182
Trade and other receivables	*10*	**220,386**	232,580
Prepaid lease payments		**2,153**	2,153
Restricted bank balances		**53,000**	41,985
Bank balances and cash		**30,715**	122,621
		373,401	455,521
TOTAL ASSETS		**869,859**	904,547
CURRENT LIABILITIES			
Trade and other payables	*11*	**244,342**	255,541
Advance from customers		**2,128**	1,185
Borrowings – due within one year		**211,000**	181,000
Income tax payable		**14,592**	16,001
Deferred income		**1,556**	1,556
Provisions		**4,315**	7,628
		477,933	462,911
NON-CURRENT LIABILITIES			
Borrowings – due after one year		**105,157**	156,210
Other payables		**1,820**	2,048
Deferred income		**8,234**	9,054
		115,211	167,312
TOTAL LIABILITIES		**593,144**	630,223

	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
NET CURRENT LIABILITIES	**(104,532)**	(7,390)
TOTAL ASSETS LESS CURRENT LIABILITIES	**391,926**	441,636
OWNERS' EQUITY		
Share capital	**26,217**	26,217
Reserves	**250,498**	248,107
	276,715	274,324
TOTAL LIABILITIES AND OWNERS' EQUITY	**869,859**	904,547

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)
NET CASH FROM OPERATING ACTIVITIES	**3,110**	3,498
INVESTING ACTIVITIES		
Additions of property, plant and equipment	**(50,077)**	(6,625)
Deposit paid for acquisition of property, plant and equipment	**(1,255)**	(40,573)
Grants received in relation to acquisition of property, plant and equipment	**–**	6,500
Release of restricted bank deposits	**41,985**	56,469
Placement of restricted bank deposits	**(53,000)**	(42,076)
Other investing cash flows	**495**	(662)
NET CASH USED IN INVESTING ACTIVITIES	**(61,852)**	(26,967)
FINANCING ACTIVITIES		
Interest paid	**(12,111)**	(7,638)
New borrowings raised	**100,000**	158,674
Repayment of borrowings	**(121,053)**	(123,321)
NET CASH (USED IN) FROM FINANCING ACTIVITIES	**(33,164)**	27,715
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	**(91,906)**	4,246
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	**122,621**	42,033
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD, represented by bank balances and cash	**30,715**	46,279

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE SIX MONTHS ENDED 30 JUNE 2012

	Share capital *RMB'000*	Share premium *RMB'000*	Reserves: Capital reserves *RMB'000*	Reserves: Surplus reserves *RMB'000*	Reserves: Retained earnings *RMB'000*	Total owners' equity *RMB'000*
At 1 January 2011 (audited)	330	–	42,899	12,379	10,647	66,255
Profit and total comprehensive income for the period	–	–	–	–	37,951	37,951
Group Reorganisation	(326)	70,380	18	–	–	70,072
As at 30 June 2011 (unaudited)	4	70,380	42,917	12,379	48,598	174,278
Profit and total comprehensive income for the period	–	–	–	–	18,942	18,942
Issue of new share	6,554	85,207	–	–	–	91,761
Transaction cost attributable to issue of shares	–	(10,657)	–	–	–	(10,657)
Capitalisation issue	19,659	(19,659)	–	–	–	–
Appropriations	–	–	–	7,013	(7,013)	–
As at 31 December 2011 (audited)	26,217	125,271	42,917	19,392	60,527	274,324
At 1 January 2012 (audited)	26,217	125,271	42,917	19,392	60,527	274,324
Profit and total comprehensive income for the period	–	–	–	–	2,391	2,391
As at 30 June 2012 (unaudited)	26,217	125,271	42,917	19,392	62,918	276,715

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2012

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 (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.

As at 30 June 2012, the Group had net current liabilities of approximately RMB104,532,000. The directors of the Company are of the opinion that, taking into account the presently available banking facilities and internal financial resources of the Group, the Group has sufficient working capital for its present requirements that is for at least the next twelve 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.

In the current interim period, the Group has adopted and applied, for the first time, certain amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are mandatorily effective for the current interim period.

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 the condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(a) Products within each operating segment

The segment information reported was 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 are regularly reviewed by the executive directors of the Company, who are the chief operating decision makers (the "CODM") of the Group, for the purposes of resource allocation and assessment of performance.

The Group has two operating segments as follows:

- OEM Market ("OEM") – manufacturing and selling of automobile shock absorber and suspension system products to the automobile market of original automobile manufacturers.

- Automobile Aftermarket – manufacturing and selling of automobile shock absorber and suspension system products to the secondary market of the automobile industry.

(b) Segment revenue and segment 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	**194,099**	307,335	**34,236**	79,225
Automobile Aftermarket	**21,644**	17,229	**5,877**	5,913
Total segment and consolidated	**215,743**	324,564	**40,113**	85,138
Other income, other gains and losses			**9,475**	19,011
Selling and distribution expenses			**(12,559)**	(16,852)
Research and development expenditure			**(7,076)**	(9,737)
Administrative expenses			**(19,954)**	(14,553)
Listing expenses			**–**	(8,328)
Finance costs			**(6,461)**	(7,544)
Profit before tax			**3,538**	47,135

Revenue reported above represents revenue generated from sales of goods to external customers. There were no inter-segment sales during the six months ended 30 June 2011 and 2012.

Segment results represent the gross profit of each operating segment, conforming to the same measurement reported to the CODM for the purposes of resources allocation and performance assessment.

(c) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries) and all of the revenue reported above are generated from external customers within the PRC.

4. OTHER INCOME, OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Government grants *(note)*	**5,000**	8,000
Gain from settlement of legal proceedings	**–**	5,367
Gain from scrap sales	**2,073**	4,481
Gain (loss) on disposal of property, plant and equipment	**133**	(23)
Income from suppliers on defects claim	**33**	38
Interest income from bank deposits	**655**	440
Others	**(23)**	399
Rental income	**2,500**	2,000
Less: direct operating expenses	**(2,191)**	(1,983)
	309	17
Reversal of allowance for doubtful debts	**–**	71
Release of asset-related government grants	**820**	221
Storage services income	**475**	–
	9,475	19,011

Note: The grants of RMB5,000,000 received during the six months ended 30 June 2012 are incentives received by a group entity for eminent contribution in promoting its business and market publicity. For the six months ended 30 June 2011, the amount represents reimbursement from local authority received by a group entity for termination benefits payment made to staff in prior years. These grants are accounted for as immediate financial support with no future related costs expected to be incurred nor related to any assets.

5. PROFIT BEFORE TAX

Profit before tax has been arrived at after charging (crediting):

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors):		
– salaries and other benefits	**22,741**	19,839
– retirement benefit scheme contributions	**4,524**	4,946
Total staff costs	**27,265**	24,785
Auditor's remuneration	**410**	–
Amortisation of intangible assets (included in administrative expenses)	**225**	225
Depreciation of property, plant and equipment	**7,643**	7,793
Release of prepaid lease payments	**1,097**	841

6. TAXATION

	Six months ended	
	30.6.2012	30.6.2011
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax expense	**1,642**	6,038
Deferred tax (credit) expense	**(495)**	3,146
	1,147	9,184

7. DIVIDENDS

No dividends were paid, declared or proposed during the six months ended 30 June 2012 and 2011. The directors of the Company have determined that no dividend will be paid in respect of the current interim period.

8. EARNINGS PER SHARE

The calculation of basic 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
Earnings		
Profit for the period attributable to owners of the Company for the purpose of basic earnings per share (RMB'000)	**2,391**	37,951
Number of shares		
Weighted average number of ordinary shares for the purpose of basic earnings per share	**320,000,000**	240,000,000

For the six months ended 30 June 2011, the weighted average number of ordinary shares has been adjusted retrospectively for (i) the 50,000 shares issued at the date of incorporation of the Company and pursuant to the reorganisation; and (ii) 239,950,000 shares issued pursuant to the capitalisation issue as disclosed in the Group's annual financial statements for the year ended 31 December 2011.

No diluted earnings per share are presented as there was no potential ordinary share outstanding during the period or as at the end of reporting period.

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the current interim period, the Group acquired property, plant and equipment amounting to approximately RMB10,794,000 (six months ended 30 June 2011: approximately RMB4,861,000) for the purpose of upgrading its production capacity.

In addition, during the current interim period, the Group had approximately RMB117,134,000 (six months ended 30 June 2011: approximately RMB14,445,000) addition to construction in progress, including approximately RMB4,278,000 (six months ended 30 June 2011: RMB793,000) interest capitalised in relation to new facilities in the PRC.

10. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	As at	
	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**185,580**	188,308
Less: allowance for doubtful debts	**(7,318)**	(7,318)
	178,262	180,990
Bills receivables	**9,580**	23,610
Other receivables	**28,217**	25,035
Advances to suppliers	**4,327**	2,945
	220,386	232,580

The Group generally allows a credit period of 90 days to its trade customers. The ageing of trade receivables presented based on invoice date, net of allowance for doubtful debts, at the end of each reporting period is as follows:

	As at	
	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 90 days	**150,410**	157,545
91 to 180 days	**14,950**	9,612
181 to 365 days	**12,902**	13,833
	178,262	180,990

The ageing of bills receivables, presented based on receipt date, is as follows:

	As at	
	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 90 days	**9,580**	23,610

11. TRADE AND OTHER PAYABLES

Trade and other payables comprise the following:

	As at	
	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**157,404**	172,646
Bills payables	**60,950**	54,480
Other payables	**8,266**	5,618
Other payables to employees	**1,246**	2,929
Other tax payable	**8,276**	10,845
Other accruals	**4,024**	4,188
Payroll and welfare payables	**5,996**	6,883
	246,162	257,589
Less: Amount shown under non-current liabilities	**(1,820)**	(2,048)
Total	**244,342**	255,541

The following is an ageing analysis of trade payables presented based on invoice date at the end of the reporting periods:

	As at	
	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 90 days	**137,605**	151,411
91–180 days	**13,383**	16,147
181–365 days	**2,500**	3,561
1–2 years	**3,916**	1,527
	157,404	172,646

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

	As at	
	30.6.2012	31.12.2011
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**26,470**	–
31 to 60 days	**–**	6,600
61 to 90 days	**–**	–
91 to 180 days	**34,480**	47,880
	60,950	54,480

MANAGEMENT DISCUSSION AND ANALYSIS

INTRODUCTION

Engaged in the research and development, design, manufacturing and sale of various automobile shock-absorbers, the Group has 50 years of experience in the automobile industry. Through years of development, the Group has become a leading independent supplier of automobile shock-absorbers in the PRC and has established stable and long-term business relationships with leading automobile manufacturers in the PRC, including FAW-Volkswagen, Chery, Haima Auto, Dongfeng Automobile, Beijing Automobile, Changan Automobile, Chongqing Lifan, Geely, Jianghuai Automobile, SAIC Motor and Dongfeng Peugeot.

MARKET REVIEW

The slowdown of the macro-economy of the PRC and the continuously sluggish external environment dragged down the sales of automobiles there. From January to June 2012, the sales volume of automobiles in the PRC achieved 9,600,000 units, representing a slight increase of approximately 2.93%[1] over the corresponding period of 2011, which represents the lowest growth rate in the past few years. With links to the automobile manufacturing industry, the automotive component industry was considerably affected. In light of the unfavorable market environment, some domestic-branded automakers reduced their orders to component suppliers, while in recent years, labour costs in the PRC have risen drastically along with arising domestic consumer price index. All these factors brought adverse effects to the Group's operation.

The Group's main products are shock-absorbers for various types of vehicles and are mainly sold to customers from the domestic OEM market and the domestic aftermarket. The Group is well-known for its diversified and comprehensive product range which covers a wide range of car models. The Group's current suite of automobile shock-absorber products comprises eleven series, covering more than 200 product models. As an outstanding national and new technology enterprise, the Group was recognized as the Henan Province Innovative Trial Enterprise in 2011. With two major production bases in Xichuan County, Nanyang City, Henan Province in the PRC, the annual production capacity of the Group amounted to 8,000,000 units as at 30 June 2012. For the six months ended 30 June 2012, the Group sold 2,024,000 units of automobile shock-absorbers, representing a decrease of approximately 831,000 units or 29.1% over the corresponding period last year. The Group's operating revenue amounted to RMB215.7 million, representing a decrease of RMB108.9 million or 33.5% over the corresponding period last year. Profit attributable to shareholders amounted to RMB2.4 million, representing a decline of RMB35.6 million or 93.7%. Basic earnings per share amounted to RMB0.01. In terms of principal business segments, domestic OEM business achieved a sales income of RMB194.1 million, and the domestic automobile aftermarket business achieved a sales income of RMB21.6 million, accounting for 90% and 10% of the total income, respectively.

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[1] Source: China Association of Automobile Manufactures
(http://www.caam.org.cn/zhengche/20120711/1605075103.html)

DOMESTIC OEM MARKET

During the first half of 2012, as the downturn trend of the domestic automobile industry in 2011 continued, domestic-branded automakers generally reduced their production volume, leading to a drop in demand and orders for the Group's products. For the six months ended 30 June 2012, the Group's sales volume of shock-absorbers in the domestic OEM market amounted to 1,751,000 units, representing a decrease of approximately 885,000 units or 33.6% over the corresponding period of 2011. Under this backdrop, the sales income derived from the domestic OEM market for the six months ended 30 June 2012 amounted to RMB194.1 million, representing a decline of RMB113.2 million or approximately 36.8% over the corresponding period of 2011.

DOMESTIC AFTERMARKET

While demand from the domestic OEM market remained low, the Group stepped up its efforts to expand its aftermarket and develop new products. With unremitted dedication to the development of the after-sales market, the sales volume of the Group performed well despite the falling demand. For the six months ended 30 June 2012, the Group's sales income derived from the domestic after-sales market amounted to RMB21.6 million, representing an increase of approximately RMB4.4 million or approximately 25.6% over the corresponding period of 2011, which was mainly driven by the growth in sales volume. For the six months ended 30 June 2012, the Group's sales volume generated from the aftermarket was approximately 273,000 units, up approximately 24.6% over the corresponding period of 2011.

OUTLOOK

2012 is an important transitional year for the PRC government's "12th Five-Year Plan". In order to maintain a steady and moderate economic growth, the government has started to introduce policies to stimulate domestic demand, and continues to carry out the structural adjustment of specific sectors based on its industrial revitalization plan. As one of the ten industries to be developed under the revitalization plan, the organizational structure of the automobile industry will be optimized, thereby driving the consumption of automobiles and also facilitating the fast recovery and long-term development of the domestic automarket. The Group is confident about the prospects of the automobile industry in the PRC. Meanwhile, the "Foreign Investment Industrial Guidance Catalogue (as amended in 2011)(《外商投資產業指導目錄(二零一一年修訂)》)" which was effective from 30 January 2012 has made corresponding adjustments to the policies governing the automobile industry by transforming the focus from "automobile manufacturing" to "production, research and development of major components". Under these circumstances, the automotive components industry will enjoy much regulatory support and encouragement from the State.

Looking ahead, the Group will continue to focus on its business in the PRC domestic OEM market to reinforce its current leading position in the industry. Meanwhile, it will rapidly increase its market share in the domestic aftermarket and aggressively expand into overseas markets. It is the Group's long-term strategy to develop and strengthen its leading position in the international OEM market and the domestic after-sales market. The Group will continue to develop its principal business and strengthen its core competitive edges.

The Group aims to achieve these objectives by implementing the following strategies:

(i) Expanding production facilities and enhancing production technologies and efficiency

In order to cope with its plan to expand the product range, market share and new business regions, the Group is actively seeking to expand production facilities and enhance production capacity through staged construction and investment. Currently, the Group owns eight production lines with an annual production capacity of approximately 8,000,000 units of automobile shock-absorbers. The Group plans to increase to an aggregate of 15 production lines with a production capacity of approximately 15,000,000 units of shock-absorbers by the end of 2012. Meanwhile, the Group plans to increase the production capacities of some major components such as piston rods, storage tanks and working cylinders so as to maintain its cost advantage and production quality as well as minimizing its reliance on component suppliers. The completion of the expansion of production facilities will help the Group maintain its leading position in the shock-absorber manufacturing industry in the PRC.

(ii) Gaining new customers and opening up new market segments to increase market share

For the six months ended 30 June 2012, nearly 90% of the Group's revenue was derived from the sales in the domestic OEM market. On the one hand, the Group will continue to supply quality, reliable and high-standard products to those customers and consolidate cooperation with them in order to be qualified to supply existing customers with shock-absorbers of new car models, and thus increase the market share in the PRC. On the other hand, the Group will continue to gain new customers in the domestic OEM market, as well as extend its reach to the overseas OEMs (such as Europe and North America) who purchase automobile parts and components in the PRC.

At the end of 2011, automobile ownership in the PRC was approximately 100,000,000[2]. The lifetime of automobile shock-absorbers is generally around two years. Accordingly, it is expected that the demand for shock-absorbers in the automobile after-sales market will be significant. For the six months ended 30 June 2012, the sales amount in the automobile after-sales market accounted for approximately 10% of the Group's revenue. The Group will strive to develop the automobile after-sales market and further increase its market share therein by establishing a nation-wide distribution network.

(iii) Enhancing the standard of research and development and technologies to strengthen competitiveness

The Group has obtained approval from the Henan Province Science and Technology Bureau (河南省科學技術廳) to establish a Provincial Level Technology Research Centre for Shock Absorbers Engineering. Pursuant to the approval, the Group is now establishing a new R&D centre which is equipped with sophisticated facilities from overseas and is recruiting qualified and experienced staff, including foreign engineers, to work in this centre. In addition, the Group is setting up an overseas R&D centre in Europe as part of its plan to enhance overall R&D capabilities and enter overseas markets. It is the Group's belief that establishing R&D centres in both the PRC and Europe concurrently will not only substantially enhance its overall research and development capabilities and technology standards, but also build its reputation and improve its corporate image in the PRC, Europe and North America.

[2.] Source: Ministry of Public Security of the People's Republic of China (http://www.gov.cn/jrzg/2011-09/18/content_1950359.htm)

(iv) Maintaining cost advantages

The Group will strive to seek more flexible procurement terms and reduce procurement costs through strengthening the scale of production and product R&D, and capitalizing on the effectiveness from the economies of scale. Meanwhile, the Group will maintain its cost advantages by upgrading production lines, improving the level of automation, streamlining the production process, and improving the capability and level of self-production of key components, and therefore improving profit margin and strengthening profitability.

(v) Developing the shock absorber market for railway transportation (high speed rails)

Along with the PRC's rapid economic growth over the years, railway transportation in the PRC has made several remarkable achievements, therefore bringing huge potential for growth of the shock-absorber market, especially in terms of greater demand for shock absorbers for high speed rails. Following years of R&D and testing, a trial run of railway shock-absorbers developed by the Group was completed. Currently, the Group is proactively seeking approval from relevant departments to become a qualified supplier and repairer of railway shock-absorbers. The Group believes that railway transportation (including high speed rails) will become a market with significant future growth potential featuring high profits and high entry barriers. Once such approval has been obtained, the Group will be able to actively participate in the development of railway transportation and capture the business opportunities arising from this huge market.

The Group believes that by implementing the above strategies, it will be able to further strengthen its competitive edge and consolidate its leading position in the market, which will in turn help to satisfy the rising demand and increasingly stringent product requirements of customers, capture the growth opportunities arising from market changes, and create long-term value for shareholders.

FINANCIAL REVIEW

Revenue

During the six months ended 30 June 2012, the Group's revenue decreased by RMB108.9 million or approximately 33.5% to RMB215.7 million from RMB324.6 million in the corresponding period of 2011. Among which, revenue from the OEM Market declined by RMB113.2 million or approximately 36.8% to RMB194.1 million from RMB307.3 million in the first half year of 2011, which was attributable to the weak domestic automobile manufacturing market and the drop of demand. Revenue from the Automobile Aftermarket increased by 25.6% to RMB21.6 million from RMB17.2 million in the first half year of 2011. Such increase was mainly due to the Group's active expansion of its customer base in the after-sale market and the launch of new products.

The table below is an analysis of the Group's sales volume, average selling price and revenue by its business segment for first half year of 2012 and 2011:

First half year of 2012	**Sales volume** *(Units)*	**Average selling price** *(RMB)*	**Revenue** *(RMB'000)*
OEM Market	1,751,488	111	194,099
Automobile Aftermarket	272,904	79	21,644
Total	2,024,392		215,743

First half year of 2011	**Sales volume** *(Units)*	**Average selling price** *(RMB)*	**Revenue** *(RMB'000)*
OEM Market	2,636,679	117	307,335
Automobile Aftermarket	219,040	79	17,229
Total	2,855,719		324,564

Cost of sales

For the six months ended 30 June 2012, the Group's cost of sales dropped by 26.6% to RMB175.6 million from RMB239.4 million for the corresponding period of 2011. Cost of sales for the OEM Market decreased by 29.9% to RMB159.9 million from RMB228.1 million in 2011, which was mainly due to the decrease in sales volume but increase in unit production cost. Cost of sales for Automobile Aftermarket increased by 38.9% to RMB15.7 million from RMB11.3 million in the first half year of 2011. Such increase was primarily driven by the business growth in the Automobile Aftermarket and the increase in unit production cost.

Gross profit

For the half year ended 30 June 2012, the overall gross profit decreased by 52.9% to RMB40.1 million from RMB85.1 million in the corresponding period of 2011. Of which:

Gross profit for the OEM Market

The gross profit of the Group for the OEM Market decreased by 56.8% from RMB79.2 million to RMB34.2 million. Such decrease was mainly attributable to the drop of income due to reduced sales volume as well as the rise in production cost caused by the increased labour cost.

Gross profit for the Automobile Aftermarket

For the six months ended 30 June 2012, the gross profit of the Group for the Automobile Aftermarket remained stable as compared to that of the corresponding period of 2011, amounting to approximately RMB5.9 million. It was mainly due to the increase in income and gross profit driven by the uplifted sales volume, while the increase in gross profit was offset by the increase in unit production cost.

The table below is an analysis of the Group's revenue, gross profit and gross profit margin by its business segment for the first half year of 2012 and the corresponding period of 2011:

First half year of 2012	**Revenue** *(RMB'000)*	**Gross Profit** *(RMB'000)*	**Gross Profit Margin** *(%)*
OEM Market	194,099	34,236	17.6
Automobile Aftermarket	21,644	5,877	27.2
Total	215,743	40,113	18.6

First half year of 2011	**Revenue** *(RMB'000)*	**Gross Profit** *(RMB'000)*	**Gross Profit Margin** *(%)*
OEM Market	307,335	79,225	25.8
Automobile Aftermarket	17,229	5,913	34.3
Total	324,564	85,138	26.2

Gross profit margin

For the six months ended 30 June 2012, the overall gross profit margin descended by 7.6 percentage point to 18.6% from 26.2% for corresponding period of 2011. Such change was mainly attributable to decrease in sales volume but increase in unit production cost.

Other income, other gains and losses

Other income, other gains and losses dropped from approximately RMB19.0 million to RMB9.5 million, which was mainly due to the combined effect of (i) the decrease of RMB3.0 million of the one-off government grant obtained by the Group; (ii) the decreased gain from scrap sales of RMB2.4 million; (iii) the decrease in the gain from settlement of legal proceeding of RMB5.4 million.

Selling and distribution expenses

Selling and distribution expenses mainly include salaries and welfare for sales staff, travelling expenses, expenses related to the sales office, expenses related to sales and distribution and entertainment expenses. The selling and distribution expenses decreased by 25.4% from RMB16.9 million to RMB12.6 million. Such change was a net effect of the decreased sales volume and the increased transportation cost.

Research and development expenditure

Research and development expenditure represents the expense on researching and developing absorber related new technologies and products. Expenditure on research activities is recognised as an expense in the period in which it is incurred. The research and development expenditure decreased by 27.3% from RMB9.7 million to RMB7.1 million. Such change was attributable to the decreased number of new product development during the period as compared to that of the corresponding period last year.

Administrative expenses

Administrative expenses mainly include salaries and welfare for management and administrative staff, amortisation and depreciation, office expenses and utilities, traveling and entertainment. The administrative expenses increased by 37.1% from RMB14.6 million to RMB20.0 million. Such increase was mainly due to (i) the increase in the salaries, welfare and the related social insurance premium for the staff; and (ii) the increase in professional fees upon the Company's listing on the Main Board of the Stock Exchange on 23 November 2011.

Finance costs

Finance costs, mainly consisting of interest expense on bank loans and other finance charges, dropped by 14.4% to RMB6.5 million from RMB7.5 million for the first half year of 2011. The decrease was a result of the decreased bank borrowings and the relatively lower interest cost upon renewal of the loan facility in 2012.

During the reporting period, approximately RMB4.3 million (six months ended 30 June 2011: RMB0.8 million) of the interest expense has been capitalized as property under development in respect of the expansion project for Nanyan Xichuan production base.

Income tax expense

For the half year ended 30 June 2012, the Group's overall income tax expense was approximately RMB1.1 million, while the income tax expense was approximately RMB9.2 million for the corresponding period of 2011. The decrease in income tax expense was mainly due the decrease in the taxable income generated by the Nanyang Cijan Auto Shock Absorber Co., Ltd. in 2012. The effective tax rate for 2012 was 32.4% (six months ended 30 June 2011: 19.5%).

Net profit for the period and basic earnings per share

Profit for the period declined significantly by 93.7% from approximately RMB38.0 million to RMB2.4 million. The decrease in net profit of the Group was caused by the drop of sales income due to reduced orders, and the decrease in the amount of the other one-off gain.

Basic earnings per share decreased from RMB0.16 per share for the six months ended 30 June 2011 to RMB0.01 per shares for the six months ended 30 June 2012.

Liquidity and financial resources

Net current liabilities

As at 30 June 2012, the Group's net current liabilities increased to RMB104.5 million from RMB7.4 million as of 31 December 2011. Such increase was primarily due to: (i) the decrease in cash and bank balances of RMB91.9 million, which was mainly attributable to the investment made by Nanyang Cijan Auto Shock Absorber Co., Ltd., a wholly-owned subsidiary of the Company, for the expansion of production capability, and the decrease in revenue; (ii) the decrease in bank borrowings – due within one year of approximately RMB30 million due to net effect of repayment of RMB91 million short term bank loans and raising of RMB112 million bank loans and transfer certain bank loans from non-current borrowings during the current interim period.

Financial position and bank borrowings

As at 30 June 2012, the Group's total cash and bank balances and restricted bank balances, most of which were denominated in RMB, amounted to approximately RMB83.7 million, representing an decrease of approximately 49.1% as compared with that of approximately RMB164.6 million, most of which denominated in RMB as at 31 December 2011. The decrease was attributable to the investment made by Nanyang Cijan Auto Shock Absorber Co., Ltd., an wholly-owned subsidiary of the Company, for the expansion of production capability, and the decline in revenue for the period.

As at 30 June 2012, the Group's total borrowings amounted to approximately RMB316.2 million, representing a decline of approximately 6.2% as compared with that of approximately RMB337.2 million as at 31 December 2011.

As at 30 June 2012, the Group's gearing ratio, presented as a percentage of total borrowings and bills payable divided by total assets, was approximately 43.4% (31 December 2011: approximately 43.3%).

Working capital

As at 30 June 2012, the Group's gross inventories, mainly comprising raw materials, work-in-progress and finished products, amounted to approximately RMB67.1 million, representing an increase of 19.4% from approximately RMB56.2 million as at 31 December 2011. The Group's management team reviews and monitors its inventory level regularly. As at 30 June 2012, the average inventory turnover days were 63.2 days (six months ended 30 June 2011: 47.6 days). Inventory turnover days are arrived at by dividing the arithmetic means of the beginning and ending balances of inventory for the relevant period by cost of sales of the relevant period and multiplying by 180 days. The increase in average inventory turnover days was mainly caused by the significant decrease in sales income for the period and the expanded production capability and scale.

As at 30 June 2012, the Group's trade receivables amounted to approximately RMB178.3 million, representing a drop of 1.5% from approximately RMB181.0 million as at 31 December 2011. For the half year ended 30 June 2012, the average turnover days of trade receivables were 149.9 days (six months ended 30 June 2011: 101.9 days). Turnover days of trade receivables are calculated by dividing the average of the beginning and ending trade receivable balances of the period by the revenue for the period and multiplied by 180 days. The average trade receivables turnover days for 2011 to 2012 were higher than the Group's credit period granted to customers, which was generally 90 days. The main reason was that certain OEM market customers requested for longer credit periods from the Group.

As at 30 June 2012, the Group's trade payables amounted to approximately RMB157.4 million, representing a decrease of 8.8% from approximately RMB172.6 million as at 31 December 2011. For the half year ended 30 June 2012, the average turnover days of trade payables were 169.1 days (six months ended 30 June 2011: 146.3 days). Trade payable turnover days are calculated by dividing the average of the beginning and ending trade payable balances of the period by cost of sales for the period and multiplied by 180 days. The average trade payables turnover days of the Group were higher than that the Group's credit period granted by suppliers, which was generally 90 days. The main reason was the bargaining power of the Group has been relatively higher than that of the suppliers and hence the Group managed to extend the credit period of certain payments beyond the general payment terms.

Capital expenditures and capital commitments

For the six months ended 30 June 2012, capital expenditures were approximately RMB51.3 million (six months ended 30 June 2011: RMB47.2 million). The Group has been financing its capital expenditures primarily through cash generated from operations and bank borrowings. The Group's capital expenditures are primarily related to acquisition of land use rights, construction of production facilities and expenditures for plant, machinery and equipment for business expansion of the Nanyang Xichuan production base.

The Group will continue to expand its existing production facilities and construct new plants and new research and development centre as part of its plan to expand production facilities. At as 30 June 2012, the Group had commitments for acquisition of plant and machinery of approximately RMB20.9 million (31 December 2011: RMB36.0 million)

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate upon changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the restricted bank balances and bank balances. The Group's borrowings have fixed interest rates and therefore, are subject to fair value interest rate risk. No sensitivity analysis was prepared for restricted bank balances and bank balances as the financial impact arising from the changes in interest rates was minimal for the half year ended 30 June 2011 and 2012. The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises.

Foreign exchange risk

The businesses of the Group are located in China, and its major operating transactions are dominated in RMB. In addition to certain bank balances and other borrowings of the Group, as well as certain payable professional expenses dominated in HK dollars and US dollars mainly caused by the listing, most of the assets and liabilities of the Group are dominated in RMB. Since RMB is not freely convertible, there exists the risk that the Chinese government may implement measures to interfere the exchange rates, which in turn may bring effects to the Group's net asset value, profit and the dividends declared to the extent that such dividends are subject to foreign exchange, and the Group have no hedging measures against such exchange risks. However, the management of the Group monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arises.

Human resources

For the half year ended 30 June 2012, the Group had 1,420 employees (31 December 2011: 1,429 employees) with total remuneration and welfare expenses amounted to approximately RMB27.3 million (six months ended 30 June 2011: RMB24.8 million). The Group's remuneration policy is primarily based on the job responsibilities, working performance and years of services of each employee and the current market conditions. The Group also provided internal and external trainings and courses to its employees to encourage self-improvement and to enhance their technical skills. The determination of the remuneration to the Directors will be based on their job duties and responsibilities, experience and current market condition.

Share option scheme

Pursuant to an ordinary resolution passed in the Company's general meeting held on 19 October 2011, a share option scheme was approved and adopted (the "Scheme"). The Scheme will remain in force for a period of 10 years from the date of its adoption.

During the half year ended 30 June 2012, no share options were granted under the Scheme by the Company. In addition, as at 30 June 2012, no share options under the Scheme were outstanding.

Contingent liabilities

As at 30 June 2012 and 31 December 2011, the Group did not have any material contingent liabilities.

Significant investments held

Except for investment in subsidiaries, during the six months ended 30 June 2012, the Group did not hold any significant investment in equity interest in any company.

Future plans for material investments and capital assets

Save as disclosed in the Company's prospectus dated 11 November 2011 (the "Prospectus") in connection with the Global Offering of the Company in November 2011, the Group did not have other plans for material investments and capital assets.

Material acquisitions and disposals of subsidiaries and affiliated companies

During the six months ended 30 June 2012, the Group did not have any material acquisitions and disposals of subsidiaries and affiliated companies.

Pledge of assets

As at 30 June 2012, certain of the Group's buildings and equipment with a net carrying amount of RMB39.5 million (31 December 2011: RMB40.2 million), and leasehold lands with a carrying amount of RMB89.8 million (31 December 2011: RMB90.7 million), were pledged to secure the Group's bank loan facilities.

As at 30 June 2012, certain of the Group's restricted bank balances with a carrying amount of RMB53.0 million (31 December 2011: RMB42.0 million) were pledged to secure the Group's bills payable which had an original maturity of three months or less from its issuance to suppliers for the purchase of raw materials, and to secure the bank borrowings with maturity of three to six months.

The use of proceeds from the Global Offering

The Company was listed on the Main Board of the Stock Exchange on 23 November 2011. The aggregate net proceeds, after deducting underwriting fees and expenses payable in connection with the Global Offering, amounted to approximately HK$78.1 million (please refer to the Prospectus for details). As at 30 June 2012, the proceeds from the Global Offering available for use and already used by the Company are as follow:

	Net proceeds from the Global Offering	
Use of Proceeds	**Available for use** *(HK$ million)*	**Already used** *(HK$ million)*
Purchases and installation of the expanding production facilities	36.2	31.1
Construction of factory and buildings	22.7	17.2
Support and strengthen product research and development	18.7	5.6
General working capital	0.5	0.5
Total	78.1	54.4

Interim Dividend

The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2012 (six months ended 30 June 2011: Nil).

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES AND THE CORPORATE GOVERNANCE CODE

For the six months ended 30 June 2012, the Company has adopted the code provisions set out in the Code on Corporate Governance Practice (amended as the Corporate Governance Code from 1 April 2012) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). None of the Directors is aware of any information which would reasonably indicate that the Company was not in compliance with the Corporate Governance Code during the period ended 30 June 2012.

AUDIT COMMITTEE

The Company established an audit committee pursuant to Rule 3.21 and 3.22 of the Listing Rule, with written terms of reference in compliance with the Corporate Governance Code. The Audit Committee (the "Audit Committee") comprises three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Li Zhiqiang and Mr. Zhang Jinhua and the Audit Committee is chaired by Mr. Chu Kin Wang, Peleus. The primary duties of the Audit Committee are to review and supervise the Group's financial reporting process and internal control system. The Audit Committee had held one meeting to discuss matters relating to the audit, internal control and financial reporting of the Company, including review of the accounting policies and matters relating to accounting practices adopted by the Company; review of nature and scope of the audit; discussion with the external auditors and the management in respect of possible accounting exposures. In addition, the Audit Committee also reviewed the unaudited financial statements and interim report of the Group for the half year ended 30 June 2012 and is of the opinion that such report complied with the applicable accounting standards, the Listing Rules, other applicable legal requirements and that adequate disclosures have been made.

The preliminary unaudited interim results announcement of the Group for the half year ended 30 June 2012 has been reviewed by the Audit Committee.

CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules has been adopted by the Company as the code of conduct for securities transactions by its Directors. Having made specific enquiries to them, all Directors confirmed that they had complied with the required standards set out in the Model Code during the six months ended 30 June 2012.

COMPETITION AND CONFLICT OF INTERESTS

None of the Directors or any of their respective associates (as defined under the Listing Rules) has any interest in any business that competes or may compete, either directly or indirectly, with the businesses of the Group, or has any other conflict of interests with the Group as at the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the listed securities of the Company during the six months ended 30 June 2012.

SIGNIFICANT LEGAL PROCEEDINGS

For the half year ended 30 June 2012, the Group has not been involved in any significant legal proceedings or arbitration. To the best of the knowledge and belief of the Directors, there is no significant legal proceedings or claims pending or threatened against the Company.

PUBLICATION OF INTERIM RESULTS AND INTERIM REPORT ON WEBSITES OF THE STOCK EXCHANGE AND THE COMPANY

This results announcement is published on the website of the Stock Exchange at www.hkex.com.hk and the Company's website at www.china-cvct.com. The interim report of the Company for the six months ended 30 June 2012, which contains all information as required by the Listing rules, will be dispatched to shareholders of the Company and will be available on the above websites in due course.

REVIEW OF INTERIM RESULTS

The unaudited interim results of the Group for the six months ended 30 June 2012 have been reviewed by Deloitte Touche Tohmatsu (the auditors of the Company) and the Audit Committee, which consists of three independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Li Zhiqiang and Mr. Zhang Jinhua. The Audit Committee expressed no disagreement with the accounting policies and principles adopted by the Company.

APPRECIATION

I would like to express my sincere appreciation for the unremitted effort and dedication made by the Board, the management and all our staff members, as well as the continuous support from our shareholders, government, business partners, professional advisers and loyal customers.

By order of the Board
China Vehicle Components Technology Holdings Limited
Xi Chunying
Chairman

Nanyang, the PRC
30 August 2012

As at the date of this announcement, the Board comprises 3 executive Directors, namely Mr. Zhao Zhijun, Mr. Wang Wenbo and Ms. Yang Weixia; 3 non-executive Directors, namely Mr. Xi Chunying, Mr. Xie Qingxi and Mr. Fu Pengxu; and 3 independent non-executive Directors, namely Mr. Chu Kin Wang, Peleus, Mr. Li Zhiqiang and Mr. Zhang Jinhua.