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 2013

FINANCIAL HIGHLIGHT

- Revenue decreased by approximately 22.7% from approximately RMB288.1 million for the six months ended 30 June 2012 to approximately RMB222.8 million for the six months ended 30 June 2013.

- The Group recorded a loss of RMB69.1 million for the six months ended 30 June 2013 (six months ended 30 June 2012: a loss of RMB161.7 million).

- Net cash generated from operating activities amount to RMB26.3 million for the six months ended 30 June 2013 (six months ended 30 June 2012: RMB5.3 million).

- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2013.

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 2013.

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 PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2013

		Six months ended	
	NOTES	**30.6.2013**	30.6.2012
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**222,779**	288,126
Cost of sales		**(186,318)**	(247,558)
Gross profit		**36,461**	40,568
Other income, other gains and losses	*4*	**(1,556)**	(3,546)
Selling and distribution expenses		**(9,584)**	(10,574)
Research and development expenditure		**(9,316)**	(5,775)
Administrative expenses		**(32,626)**	(27,571)
Impairment losses on trade receivables		**(33,700)**	–
Impairment losses recognised in respect of property, plant and equipment		–	(136,000)
Interest on bank borrowings wholly repayable within five years		**(17,092)**	(20,244)
Loss before tax	*5*	**(67,413)**	(163,142)
Taxation	*6*	**(1,682)**	1,473
Loss and total comprehensive expense for the period		**(69,095)**	(161,669)
Loss and total comprehensive expense for the period, attributable to:			
Owners of the Company		**(67,683)**	(161,362)
Non-controlling interests		**(1,412)**	(307)
		(69,095)	(161,669)
Basic loss per share (RMB)	*7*	**(0.08)**	(0.2)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2013

	NOTES	**30.6.2013** **RMB'000** **(unaudited)**	31.12.2012 *RMB'000* (audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**580,531**	578,176
Prepaid lease payments		**294,371**	297,730
Prepayment for acquisition of machinery		**23,848**	18,899
Deferred tax assets		–	37
		898,750	894,842
CURRENT ASSETS			
Inventories		**249,421**	278,733
Trade receivables	*10*	**223,077**	255,397
Bills receivable	*11*	**145,872**	108,818
Other receivables	*12*	**139,990**	136,534
Prepaid lease payments		**6,405**	6,236
Income tax recoverable		**2,439**	2,439
Short-term investments		–	20,000
Bank balances and cash		**53,306**	61,872
		820,510	870,029
CURRENT LIABILITIES			
Trade and bills payables	*13*	**135,893**	100,193
Other payables	*14*	**64,954**	65,372
Borrowings-due within one year		**485,117**	498,560
Income tax payable		**1,847**	531
		687,811	664,656
NET CURRENT ASSETS		**132,699**	205,373
TOTAL ASSETS LESS CURRENT LIABILITIES		**1,031,449**	1,100,215
NON-CURRENT LIABILITY			
Deferred tax liabilities		**329**	–
		1,031,120	1,100,215
OWNERS' EQUITY			
Share capital		**53,560**	53,560
Reserves		**940,406**	1,008,089
Equity attributable to owners of the Company		**993,966**	1,061,649
Non controlling interests		**37,154**	38,566
		1,031,120	1,100,215

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2013

	Six months ended	
	30.6.2013	30.6.2012
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
OPERATING ACTIVITIES		
Loss before tax	**(67,413)**	(163,142)
Adjustments for:		
Interests on bank borrowings wholly repayable within five years	**17,092**	20,244
Impairment losses on trade receivables	**33,700**	–
Impairment losses in respect of property, plant and equipment	**–**	136,000
Depreciation of property, plant and equipment	**18,946**	21,255
Loss on disposal of property, plant and equipment	**89**	6,116
Release of prepaid lease payments	**3,190**	3,118
Bank interest income	**(79)**	(469)
Operating cash flows before movements in working capital	**5,525**	23,122
Decrease (increase) in inventories	**29,312**	(65,991)
(Increase) decrease in trade receivables	**(1,380)**	21,070
Increase in other receivables	**(3,456)**	(16,494)
(Increase) decrease in bills receivable	**(37,054)**	26,573
Increase in trade and bill payables	**33,804**	26,388
Decrease in other payables	**(418)**	(7,491)
Cash generated from operations	**26,333**	7,177
Income tax paid	**–**	(1,903)
NET CASH FROM OPERATING ACTIVITIES	**26,333**	5,274
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	**(31,752)**	(83,268)
Prepayment for acquisition of machinery	**(4,949)**	(5,449)
Proceeds from disposal of held for trading investments	**20,000**	–
Payment for land use rights	**–**	(9,263)
Placement of pledged bank deposits	**–**	(16)
Refund for acquisition of land use right and buildings	**–**	43,300
Proceeds from release of pledged bank deposits	**–**	2,116
Other investing activities items	**12,337**	1,905
NET CASH USED IN INVESTING ACTIVITIES	**(4,364)**	(50,675)

	Six months ended	
	30.6.2013	30.6.2012
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
FINANCING ACTIVITIES		
Repayment of borrowings	**(264,610)**	(192,578)
Interest paid	**(17,092)**	(20,244)
New borrowings raised	**251,167**	211,436
Repayment to a director	**–**	(1,500)
NET CASH USED IN FINANCING ACTIVITIES	**(30,535)**	(2,886)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(8,566)**	(48,287)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**61,872**	134,450
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**53,306**	86,163

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").

In preparing the condensed consolidated financial statements of the Company, the directors recognise that although the Group had a net current asset position of RMB132,699,000 as at 30 June 2013, the Group recorded a net loss of RMB69,095,000 for the six-month period then ended. In addition, the Group had bank borrowings due within one year of approximately RMB485,117,000 as at 30 June 2013. The directors are of the opinion that the existing banking facilities could be successfully renewed upon maturity based on the past history and good relationships of the Group with the banks.

Subsequent to the end of the reporting period, the Group had renewed facilities on their expiry to the extent of approximately RMB82,000,000 in full for one year. Taking into account the availability of the Group's banking facilities, together with expected net cash inflows generated from the Group's business operations, the directors believe that the Group will have sufficient working capital for its present requirements. Accordingly, 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 2013 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2012.

Application of new and revised to Hong Kong Financial Reporting Standards ("HKFRSs")

In the current interim period, the Group has applied, for the first time, the following new or revised Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") that are relevant for the preparation of the Group's condensed consolidated financial statements for the six months ended 30 June 2013:

- HKFRS 10 *Consolidated Financial Statements*;
- HKFRS 11 *Joint Arrangements*;
- HKFRS 12 *Disclosure of Interests in Other Entities*;
- Amendments to HKFRS 10, HKFRS 11 and HKFRS 12 *Consolidated Financial Statements, Joint Arrangements and Disclosure of Interest in Other Entities: Transition Guidance*;
- HKFRS 13 *Fair Value Measurement*;
- HKAS 19 (as revised in 2011) *Employee Benefits*;
- HKAS 28 (as revised in 2011) *Investments in Associates and Joint Ventures*;
- Amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities*;
- Amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*;
- Amendments to HKFRSs *Annual Improvements to HKFRSs 2009-2011 Cycle*; and
- HK(IFRIC) – Int 20 *Stripping Costs in the Production Phase of a Surface Mine*.

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

In the current interim period, the Group has applied for the first time HKFRS 10, HKFRS 11, HKFRS 12 and HKAS 28 (as revised in 2011) together with the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 regarding the transitional guidance. HKAS 27 (as revised in 2011) is not applicable to these condensed consolidated financial statements as it deals only with separate financial statements.

The impact of the application of these standards is set out below.

Impact of the application of HKFRS 10

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 changes the definition of control such that an investor has control over an investee when a) it has power over the investee, b) it is exposed, or has rights, to variable returns from its involvement with the investee and c) has the ability to use its power to affect its returns. All three of these criteria must be met for an investor to have control over an investee. Previously, control was defined as the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Additional guidance has been included in HKFRS 10 to explain when an investor has control over an investee.

In particular, the directors of the Company have assessed the impact on HKFRS 10 which changes the definition of control over an investee, and concluded that no material effect on the condensed consolidated financial statements.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current interim period. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements, and replaces those requirements previously included in various HKFRSs. Consequential amendments have been made to HKAS 34 to require certain disclosures to be made in the interim condensed consolidated financial statements.

The scope of HKFRS 13 is broad, and applies to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, subject to a few exceptions. HKFRS 13 contains a new definition for 'fair value' and defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

In accordance with the transitional provisions of HKFRS 13, the Group has applied the new fair value measurement and disclosure requirements prospectively. The application of this HKFRS has had no impact on the amounts reported in the condensed consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 introduce new terminology for statement of comprehensive income and income statement. Under the amendments to HKAS 1, a statement of comprehensive income is renamed as a statement of profit or loss and other comprehensive income and an income statement is renamed as a statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss; and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the existing option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes.

Amendments to HKAS 34 Interim Financial Reporting
(as part of the Annual Improvements to HKFRSs 2009-2011 Cycle)

The Group has applied the amendments to HKAS 34 *Interim Financial Reporting* as part of the *Annual Improvements to HKFRSs 2009-2011 Cycle* for the first time in the current interim period. The amendments to HKAS 34 clarify that the total assets and total liabilities for a particular reportable segment would be separately disclosed in the interim financial statements only when the amounts are regularly provided to the chief operating decision maker (CODM) and there has been a material change from the amounts disclosed in the last annual financial statements for that reportable segment.

Since the CODM does not review liabilities of the Group's reportable segments for performance assessment and resource allocation purposes, the Group has not included total liabilities information as part of segment information.

Except as described above, the application of the other new or revised HKFRSs in the current interim period has had no material effect on the amounts reported and/or disclosures set out in these condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(a) Operating segments

The Group has three reportable and operating segments as follows:

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

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

- Train and railway business – manufacturing and selling of train and railway components which commenced sales and became a new operating segment since 2013.

(b) Segment revenue and results

	Segment revenue		Segment results	
	Six months ended		Six months ended	
	30.6.2013	30.6.2012	**30.6.2013**	30.6.2012
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
OEM and related market	**92,783**	169,598	**16,705**	26,755
Aftermarket	**118,585**	118,528	**16,452**	13,813
Train and railway business	**11,411**	–	**3,304**	–
Total segment and consolidated	**222,779**	288,126	**36,461**	40,568
Other income, other gains and losses			**(1,556)**	(3,546)
Selling and distribution expenses			**(9,584)**	(10,574)
Research and development expenditure			**(9,316)**	(5,775)
Administrative expenses			**(32,626)**	(27,571)
Impairment losses on trade receivables (note)			**(33,700)**	–
Impairment losses recognised in respect of property, plant and equipment			**–**	(136,000)
Interest on bank borrowings wholly repayable within five year			**(17,092)**	(20,244)
Loss before tax			**(67,413)**	(163,142)

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

Note: The amount consisted of impairment losses on trade receivables from the OEM and related market of RMB7,879,000 and trade receivables from aftermarket of RMB25,821,000, respectively, based on an analysis of the recoverability by customer portfolio. In determining the recoverability, the background, financial strength, sales, repayment ability, historical settlement patterns of each debtor are regularly reviewed. The amount of impairment loss is determined based on estimated future cash flows that is considered as irrecoverable in the current and prior interim periods.

(c) Segment assets

	Assets	
	30.6.2013	30.6.2012
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
OEM and related market	**81,183**	71,992
Aftermarket	**137,331**	183,405
Train and railway business	**4,563**	–
Total of all segments	**223,077**	255,397

Segment assets represent trade receivables.

4. OTHER INCOME, OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2013	30.6.2012
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**79**	469
Government grants (note)	**771**	2,012
Net foreign exchange gain	**2**	11
Income from suppliers on defects claim	**2,215**	34
Donation	**(12)**	(9)
Loss on disposal of property, plant and equipment	**(89)**	(6,116)
Others	**(4,522)**	53
	(1,556)	(3,546)

Note: Grants primarily represented incentives received from local authorities by the group entities as 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 BEFORE TAX

Loss before tax has been arrived at after charging:

	Six months ended	
	30.6.2013	30.6.2012
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors' emoluments):		
– salaries and other benefits	**30,816**	32,792
– retirement benefit scheme contributions	**2,749**	2,454
Total staff costs	**33,565**	35,246
Depreciation of property, plant and equipment	**18,946**	21,255
Release of prepaid lease payments	**3,190**	3,118
Auditors' remuneration	**791**	738
Cost of inventories recognised as expenses, included in		
– cost of sales	**184,695**	246,464
– for research and development purposes (included in 'research and development' expenditure)	**6,260**	1,963

6. TAXATION

	Six months ended	
	30.6.2013	30.6.2012
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tax (credit) expense comprises:		
Current tax expense	**1,177**	19
Under(over)provision in prior year	**139**	(1,857)
Deferred tax expense	**366**	365
	1,682	(1,473)

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 2013 and 2012 except for the group entities described below.

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. and Longyan Shengfeng Machinery Manufacturing Co., Ltd., both are wholly-owned subsidiaries of the Company, obtained "High and New Technology Enterprise" status for 3 years and subject to a preferential tax rate of 15% for the period from 2011 to 2013 according to the PRC Tax Law.

7. LOSS PER SHARE

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

	Six months ended	
	30.6.2013	30.6.2012
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Losses		
Losses for the purpose of basic loss per share (Loss for the period attributable to owners of the Company)	**(67,683)**	(161,362)

	Six months ended 30.6.2013 & 30.6.2012
Number of shares	
Number of ordinary shares for the purposes of basic loss per share	800,000,000

No diluted loss per share is presented as the Company did not have any potential ordinary shares in issue during the six months ended 30 June 2013 and 2012 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 2012: nil).

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment amounting to approximately RMB33,648,000 with estimated useful lives ranging from 5 to 10 years (six months ended 30 June 2012: approximately RMB116,096,000) for the purpose of expanding the Group's train and railway and gearwheel business.

The Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB12,347,000 (six months ended 30 June 2012: RMB6,552,000) for cash proceeds of RMB12,258,000 (six months ended 30 June 2012: RMB436,000), resulting in a loss on disposal of RMB89,000 (six months ended 30 June 2012: RMB6,116,000).

For the six months ended 30 June 2013, the directors of the Company conducted an impairment assessment on the Group's property, plant and equipment and prepaid lease payments. With reference to the valuation report issued by an independent valuer, the recoverable amounts of the relevant assets have been determined on the basis of the value in use calculation using a pre-tax discount rate of 13.61% (six months ended 30 June 2012: 13.25%). This calculation uses cash flow projections based on financial forecasts approved by management of the Group covering five years with the cash flows beyond such period are extrapolated using a steady growth rate till the end of useful lives of the relevant assets. Key assumptions for the value in use calculations relate to the estimation of cash inflow/outflows which include budgeted sales and gross margin, such estimation is based on the management's expectations for the prospective market and market development. The value-in-use calculation of the relevant assets exceeds their carrying amounts as at 30 June 2013 and hence no further impairment loss is recognised for the six months ended 30 June 2013 (six months ended 30 June 2012: impairment loss of RMB136,000,000 as the recoverable amounts were less than the carrying amounts of the relevant assets). The directors of the Company made reference to the recent market prices of the leasehold land located in the similar location as the Group's leasehold land on which the property, plant and equipment is situated and concluded no impairment on prepaid lease payments is required.

10. TRADE RECEIVABLES

Trade receivables comprise the following:

	30.6.2013 ***RMB'000*** **(unaudited)**	31.12.2012 *RMB'000* (audited)
Trade receivables	**454,420**	453,040
Less: impairment losses on trade receivables	**(231,343)**	(197,643)
	223,077	255,397

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, which approximated the respective revenue recognition date, at the end of the reporting period:

	30.6.2013	31.12.2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 90 days	**112,328**	100,367
91 to 120 days	**39,986**	11,242
121 to 180 days	**19,980**	40,937
181 to 365 days	**32,185**	72,889
Over 365 days	**18,598**	29,962
	223,077	255,397

11. BILLS RECEIVABLE

At the end of the reporting period, bills receivable amounting to RMB78,873,000 (2012: RMB55,266,000) 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:

	30.6.2013	31.12.2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 90 days	**63,872**	91,670
91 to 120 days	**50,606**	8,698
121 to 180 days	**29,394**	8,450
181 days to 365 days	**2,000**	–
	145,872	108,818

12. OTHER RECEIVABLES

Other receivables comprise the following:

	30.6.2013	31.12.2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Other receivables	**16,600**	13,313
Advances to suppliers	**94,143**	88,783
Prepaid expenses	**2,530**	1,978
VAT – in recoverable	**26,717**	32,460
	139,990	136,534

13. TRADE AND BILLS PAYABLES

Trade and bills payables comprise the following:

	30.6.2013	31.12.2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade payables	**133,893**	100,193
Bills payable	**2,000**	–
	135,893	100,193

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

	30.6.2013	31.12.2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**13,573**	27,600
31 to 60 days	**26,050**	17,251
61 to 90 days	**21,317**	20,306
91 to 180 days	**42,475**	24,697
181 to 365 days	**25,461**	10,339
Over 365 days	**5,017**	–
	133,893	100,193

The following is an aging analysis of bills payable.

	30.6.2013	31.12.2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
91 to 180 days	**2,000**	–

14. OTHER PAYABLES

Other payables comprise the following:

	30.6.2013	31.12.2012
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Advances from customers	**22,095**	12,997
Payables and accruals for property, plant and equipment	**5,259**	7,155
Payroll and welfare payables	**8,074**	7,761
Warranty accrual	**667**	1,065
Other accruals	**12,585**	20,586
Other tax payable	**6,529**	8,935
Other payables	**9,745**	6,873
	64,954	65,372

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

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 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 December 2012, Kaifeng Changfeng Axle Company Limited ("**Kaifeng Changfeng**"), a wholly owned subsidiary of the Company, has achieved a new milestone for the Group by obtaining accreditation as a supplier of the train bolster and train side frame to the Commonwealth of Independent States ("**CIS**") and setting the platform for the Group's entrance into the international railway industry. Through the effort of the casting experts and breakthrough in the casting process of the Group, Kaifeng Changfeng has obtained the Authentication of Production Certificate from the Authority of The Republic of Belarus to manufacture the train bolster and train side frame (the "**train components**"). Kaifeng Changfeng has commenced the delivery of such train bolster and train side frame in the second quarter of 2013.

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 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 2013, revenue from the aftermarket business segment amounted to approximately RMB118.6 million (30 June 2012: approximately RMB118.5 million) and accounted for approximately 53.2% (30 June 2012: approximately 41.1%) of the Group's total revenue.

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 2013, revenue from the OEM market amounted to approximately RMB92.8 million (30 June 2012: approximately RMB169.6 million) and accounted for 41.7% (30 June 2012: 58.9%) of the Group's total revenue, representing a decrease of 45.3% over the corresponding period in 2012.

Train and railway market

The Group commenced the export of the train side frame and train bolster in the second quarter of 2013. For the six months ended 30 June 2013, revenue from the train and railway market amounted to approximately RMB11.4 million (30 June 2012: Nil) and accounted for 5.1% (30 June 2012: Nil) of the Group's total revenue.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2013, the Group recorded a consolidated revenue of approximately RMB222.8 million (30 June 2012: approximately RMB288.1 million), representing a decrease of 22.7% as compared with the corresponding period in 2012. Since the second half of year 2012, there was increasing pressure on the aftermarket and OEM market, the business environment of the truck market continued to remain challenging in the first half of year 2013.

Revenue from the Group's aftermarket segment for the six months ended 30 June 2013 remained the same at approximately RMB118.6 million. The revenue from aftermarket was relatively stable for the six months ended 30 June 2013 since the competition in the aftermarket became more rational than the corresponding period in 2012 under the slow down of investment in the construction market and infrastructure development projects.

Revenue from the Group's OEM and related market segment for the six months ended 30 June 2013 decreased by approximately 45.3% to RMB92.8 million from RMB169.6 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.

Revenue from the train and railway market of RMB11.4 million was recognised after the commencement of delivery of the train and railway components since the second quarter of 2013.

Gross profit and gross profit margin

Gross profit for the six months ended 30 June 2013 decreased by 10.1% to approximately RMB36.5 million from RMB40.6 million for the corresponding period of last year. Gross profit margin increased from approximately 14.1% for the period ended 30 June 2012 to approximately 16.4% for the period ended 30 June 2013 as the average unit selling price remained relatively stable within the truck industry.

Other income, other gains and losses

Other losses of the Group for the six months ended 30 June 2013 amounted to RMB1.6 million (six months ended 30 June 2012: RMB3.5 million), representing a decrease of 56.1% as compared with the corresponding period in 2012. The losses was mainly due to the loss on miscellaneous tax expenses.

Selling and distribution expenses

Selling and distribution expenses of the Group for the six months ended 30 June 2013 decreased to approximately RMB9.6 million from approximately RMB10.6 million for the corresponding period of last year. The decrease was mainly due to the decrease in the delivery cost for the axle business.

Administrative expenses

The Group's administrative expenses for the six months ended 30 June 2013 increased to approximately RMB32.6 million from approximately RMB27.6 million for the corresponding period of last year. The increase was due to the increase of administrative expenses for the new production line in Kaifeng catered for the train and railway business.

Finance costs

The Group incurred finance costs of approximately RMB17.1 million for the six months ended 30 June 2013, which represented approximately 7.7% (six months ended 30 June 2012: approximately 7.0%) of its revenue for the six months ended 30 June 2013. The decrease in finance cost was mainly due to the decrease in borrowing rate.

Taxation

Income tax expense of RMB1.7 million was recorded for the six months ended 30 June 2013 (six months ended 30 June 2012: income tax credit of RMB1.5 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, cash and cash equivalent of the Group was approximately RMB53.3 million (as at 31 December 2012: approximately RMB61.9 million).

As compared with the corresponding period in 2012, cash and cash equivalent decreased by approximately RMB8.6 million, which was mainly resulted from the net cash outflow from investing activities of approximately RMB4.4 million (30 June 2012: RMB50.7 million) and net cash outflow from financing activities of approximately RMB30.5 million (30 June 2012: RMB2.9 million).

As at 30 June 2013, net current assets of the Group was approximately RMB132.7 million (as at 31 December 2012: approximately RMB205.4 million). As at 30 June 2013, the current ratio (i.e. total current assets / total current liabilities) of the Group was approximately 119.3% (31 December 2012: approximately 130.9%).

As at 30 June 2013, total assets of the Group were approximately RMB1,719.3 million (as at 31 December 2012: approximately RMB1,764.9 million) and total liabilities were approximately RMB688.1 million (as at 31 December 2012: approximately RMB664.7 million). The debt ratio as at 30 June 2013 (i.e. total liabilities/total assets) was 40.0% as compared to 37.7% as at 31 December 2012.

As at 30 June 2013, the Group had total borrowings of approximately RMB485.1 million (as at 31 December 2012: approximately RMB498.6 million). The gearing ratio (i.e. total borrowing/total equity) was approximately 47.0% (as at 31 December 2012: approximately 45.3%).

Trade and bills receivable

Trade and bills receivables of the Group as at 30 June 2013 were approximately RMB368.9 million (as at 31 December 2012: RMB364.2 million). The increase in balance was mainly due to the increase in bills receivables.

Inventory

The inventory balance of the Group as at 30 June 2013 was approximately RMB249.4 million (as at 31 December 2012: approximately RMB278.7 million) which was in line with the change of sales volume.

Trade and bills payable

Trade and bills payables of the Group as at 30 June 2013 were approximately RMB135.9 million (as at 31 December 2012: approximately RMB100.2 million). The increase in balance was mainly due to the increase in the credit period granted by the Group’s suppliers.

Contingent Liabilities

As at 30 June 2013, the Group had no significant contingent liabilities (as at 31 December 2012: Nil).

Capital commitment

As at 30 June 2013, the contracted capital commitment of the Group which were not provided in the financial statements were approximately RMB9.4 million (as at 31 December 2012: approximately RMB28.6 million). Such capital commitments were mainly for the capital expenditure in respect of acquisition of production facilities.

In 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 an independent third party, being the non-controlling shareholder of Changefeng Gear, owns as to 60% and 40% of the equity interest of Changfeng Gear, 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 Changefeng Gear. The Group and the non-controlling shareholder were committeed to inject an additional amount of RMB60,000,000 and RMB40,000,000, respectively in the year 2012. However, due to change in development plan, on 31 December 2012, the Group and the non-controlling shareholder entered into a supplemental agreement to postpone the capital injection schedule to 31 December 2013. As at 30 June 2013, there was a capital commitment of RMB48 million (31 December 2012: RMB60 million) being made by the Group for such capital injection.

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 2013, the Group's foreign currencies amounted to approximately RMB5.1 million. During the year ended 30 June 2013, 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 2013 (30 June 2012: Nil).

PROSPECTS

Having faced with the increasing uncertainty in the global economic situation and fierce competition in the China truck market, the Company expects business to continue to be challenging in the second half of year 2013. To ensure the sustaintable success, the Group's management has formulated various strategies and measures to cope with these challenges. The strategies and measures include diversifying the range of the Group's casting and punching products in other industry, exploring the opportunities in overseas market and improvement of the Group's product quality management program.

Looking forward, in light of the Group's (i) recognition in the overseas train and railway industry; (ii) extensive sales, marketing and services network among all axle component providers in the aftermarket; (iii) diversified axle component offerings well recognized for high quality by customers; and (iv) 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 strive to strengthen its position in the railway and truck industry, to further expand its product offerings in China, CIS and overseas market.

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

Expansion to overseas markets

In order to expand gradually into other overseas markets in anticipation of overseas demand for the Group's products (both railways and truck components), 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 other overseas markets. The Group will implement its overseas expansion plan gradually through a variety of efforts, including:

- exploring the new markets for its train and railway products;
- 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; 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.

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 train and railway industry, MDT industry and HDT aftermarket, the Group will (i) expand its overseas and local market by selling components with higher margin with a view to increase subsequent demand for their corresponding 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 railway and axle components.

CORPORATE GOVERNANCE

The Company is committed to maintain 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 six months ended 30 June 2013, the Company has applied the principles of and has complied with all code provisions as set forth in the Corporate Governance Code (the "**CG Code**") as contained in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), 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 and personal commitments, the non-executive Director, Ms. Dong Ying, Dorothy and the independent non-executive Directors, Mr. Zhu Weizhou and Dr. Li Xiuqing were not able to attend the annual general meeting of the Company held on 7 June 2013.

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 2013. 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 2013.

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 2013.

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 condensed consolidated financial statements of the Group for the six months ended 30 June 2013.

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 2013 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, 30 August 2013

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.