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 2014

FINANCIAL HIGHLIGHT

- Revenue decreased by approximately 1.9% from approximately RMB222.8 million for the six months ended 30 June 2013 to approximately RMB218.6 million for the six months ended 30 June 2014.
- The Group recorded a loss of RMB48.8 million for the six months ended 30 June 2014 (six months ended 30 June 2013: a loss of RMB69.1 million).
- Net cash used in operating activities amounted to RMB7.0 million for the six months ended 30 June 2014 (six months ended 30 June 2013: net cash inflow of RMB26.3 million).
- The Board does not recommend the payment of any interim dividend for the six months ended 30 June 2014.
- The auditors of the Company have qualified the Group's interim financial statements for the six months ended 30 June 2014.

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 2014.

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 2014

		Six months ended	
	NOTES	**30.6.2014**	30.6.2013
		RMB'000	*RMB'000*
		(unaudited)	(unaudited)
Revenue	*3*	**218,596**	222,779
Cost of sales		**(176,471)**	(186,318)
Gross profit		**42,125**	36,461
Other income, other gains and losses	*4*	**10,097**	(1,556)
Selling and distribution expenses		**(10,766)**	(9,584)
Research and development expenditure		**(11,053)**	(9,316)
Administrative expenses		**(36,319)**	(32,626)
Impairment losses on trade receivables		**(20,561)**	(33,700)
Impairment losses recognised in respect of property, plant and equipment		**(3,951)**	–
Interest on bank borrowings wholly repayable within five years		**(16,850)**	(17,092)
Loss before tax	*5*	**(47,278)**	(67,413)
Taxation	*6*	**(1,542)**	(1,682)
Loss and total comprehensive expense for the period		**(48,820)**	(69,095)
(Loss)/profit and total comprehensive (expense) income for the period, attributable to:			
Owners of the Company		**(51,539)**	(67,683)
Non-controlling interests		**2,719**	(1,412)
		(48,820)	(69,095)
Basic loss per share (RMB)	*7*	**(0.06)**	(0.08)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 30 JUNE 2014

	NOTES	**30.6.2014**	31.12.2013
		RMB'000	*RMB'000*
		(unaudited)	(audited)
NON-CURRENT ASSETS			
Property, plant and equipment	*9*	**466,747**	524,037
Prepaid lease payments		**251,235**	262,391
Prepayment for acquisition of machinery		**2,443**	2,602
Deferred tax assets		**602**	–
		721,027	789,030
CURRENT ASSETS			
Inventories		**237,159**	240,344
Trade receivables	*10*	**175,566**	177,077
Bills receivable	*11*	**38,487**	87,449
Other receivables	*12*	**139,234**	140,508
Prepaid lease payments		**6,200**	6,241
Income tax recoverable		**2,853**	2,439
Bank balances and cash		**25,410**	57,902
		624,909	711,960
Assets classified as held for sale		**74,091**	80,591
		699,000	792,551
CURRENT LIABILITIES			
Trade and bills payables	*13*	**61,353**	123,995
Other payables	*14*	**127,864**	119,721
Borrowings – due within one year	*15*	**433,481**	464,167
Income tax payable		**3,989**	1,343
		626,687	709,226
NET CURRENT ASSETS		**72,313**	83,325
TOTAL ASSETS LESS CURRENT LIABILITIES		**793,340**	872,355
NON-CURRENT LIABILITY			
Deferred tax liabilities		–	195
		793,340	872,160
OWNERS' EQUITY			
Share capital		**53,560**	53,560
Reserves		**739,780**	799,844
Equity attributable to owners of the Company		**793,340**	853,404
Non-controlling interests		–	18,756
		793,340	872,160

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Operating cash flows before movements in working capital	**32,055**	5,525
Decrease (increase) in trade and bills receivable	**12,233**	(38,434)
(Decrease) increase in trade and bills payable	**(62,642)**	33,804
Other operating activities items	**11,345**	25,438
NET CASH (USED IN) FROM OPERATING ACTIVITIES	**(7,009)**	26,333
INVESTING ACTIVITIES		
Acquisition of additional interest in a subsidiary	**(11,450)**	–
Purchases of property, plant and equipment	**(2,212)**	(31,752)
Prepayment for acquisition of machinery	**159**	(4,949)
Proceeds from redemption of short-term investments	**–**	20,000
Proceeds from disposal of property, plant and equipment	**12,456**	12,258
Deposit received for disposal of subsidiary	**22,100**	–
Other investing activities items	**1,000**	79
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**22,053**	(4,364)
FINANCING ACTIVITIES		
Repayment of borrowings	**(273,350)**	(264,610)
Interest paid	**(16,850)**	(17,092)
New borrowings raised	**242,664**	251,167
NET CASH USED IN FINANCING ACTIVITIES	**(47,536)**	(30,535)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(32,492)**	(8,566)
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**57,902**	61,872
CASH AND CASH EQUIVALENTS AT 30 JUNE, represented by bank balances and cash	**25,410**	53,306

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

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 (the "Listing Rules")

In preparing the condensed consolidated financial statements of the Company, the directors of the Company have given careful consideration to the future liquidity of the Group in light of the fact that Group incurred a loss of RMB48,820,000 for the six months ended 30 June 2014. In the opinion of the directors of the Company, the Group is able to continue as a going concern at least in the coming twelve months taking into consideration the measures which includes, but are not limited to the following:

(a) The Group is able to renew banking facilities from various banks in full upon their maturity based on the past history and good relationships of the Group with the banks, for the operation requirements of the Group.

(b) The disposal of equity interest in Fujian Changfeng Axle Manufacturing Co., Ltd. ("Fuijian Changfeng") and Changfeng Gear Manufacturing Co., Ltd. ("Changfeng Gear") can be duly completed and the remaining proceeds of RMB28,000,000 and RMB12,900,000 would be received by September 2014 and November 2014 respectively.

(c) The disposal of land held by Sichuan Changfeng Axle Co., Ltd. ("Sichuan Changfeng") at a consideration of RMB71,084,000 can be completed and the proceeds would be received by October 2014.

(d) The Group has been applying more stringent selection criteria to select new customers for new sales orders with better repayment terms.

(e) The Group has been actively pursuing buyers for realising the value of the Group's non-core assets.

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 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

Application of new or revised 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:

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities*;
- Amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities*;
- Amendments to HKAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*;

- Amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting*; and
- HK(IFRIC)-Int 21 *Levies*.

Except as described below, the application of the other new amendments to HKFRSs and interpretation 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.

Amendments to HKAS 36 Recoverable Amount Disclosures for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash generating unit ("CGU") to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

3. REVENUE AND SEGMENT INFORMATION

(a) Operating segments

The Group has three reportable 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.

(b) Segment revenue and results

	Segment revenue		**Segment results**	
	Six months ended		**Six months ended**	
	30.6.2014	30.6.2013	**30.6.2014**	30.6.2013
	RMB'000	*RMB'000*	***RMB'000***	*RMB'000*
	(unaudited)	(unaudited)	**(unaudited)**	(unaudited)
OEM and related market	**139,122**	92,783	**17,578**	16,705
Aftermarket	**79,474**	118,585	**24,547**	16,452
Train and railway business	**–**	11,411	**–**	3,304
Total segment and consolidated	**218,596**	222,779	**42,125**	36,461
Other income, other gains and losses			**10,097**	(1,556)
Selling and distribution expenses			**(10,766)**	(9,584)
Research and development expenditure			**(11,053)**	(9,316)
Administrative expenses			**(36,319)**	(32,626)
Impairment losses on trade receivables (note)			**(20,561)**	(33,700)
Impairment losses recognised in respect of property, plant and equipment			**(3,951)**	–
Interest on bank borrowings wholly repayable within five year			**(16,850)**	(17,092)
Loss before tax			**(47,278)**	(67,413)

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 RMB3,745,000 and trade receivables from aftermarket of RMB16,816,000, (six months ended 30 June 2013: RMB7,879,000 and 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	
	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
OEM and related market	**80,188**	83,643
Aftermarket	**95,378**	93,434
Total of all segments	**175,566**	177,077

Segment assets represent trade receivables.

4. OTHER INCOME, OTHER GAINS AND LOSSES

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Bank interest income	**90**	79
Government grants (note)	**6,420**	771
Net foreign exchange gain	**6**	2
Income from suppliers on defects claim	**214**	2,215
Donation	**–**	(12)
Gain (loss) on disposal of property, plant and equipment	**48**	(89)
Others	**3,319**	(4,522)
	10,097	(1,556)

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	
	30.6.2014	30.6.2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Employee benefits expenses (including directors' emoluments):		
– salaries and other benefits	**27,975**	30,816
– retirement benefit scheme contributions	**1,067**	2,749
Total staff costs	**29,042**	33,565
Depreciation of property, plant and equipment	**17,174**	18,946
Release of prepaid lease payments	**3,167**	3,190
Cost of inventories recognised as expenses, included in		
– cost of sales	**176,160**	184,695

6. TAXATION

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Tax expense comprises:		
Current tax expense	**2,340**	1,177
Underprovision in prior year	**–**	139
Deferred tax expense	**(798)**	366
	1,542	1,682

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 2014 and 2013 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. ("Kaifeng Changfeng") and Longyan Shengfeng Machinery Manufacturing Co., Ltd. ("Longyan Shengfeng"), both are wholly-owned subsidiaries of the Company, obtained "High and New Technology Enterprise" status for 3 years and subject to a preferential tax rate of 15% for the period from 2012 to 2014 according to the PRC Tax Law.

The application for renewal has been granted on 26 June 2013 and 5 September 2013, for Kaifeng Changfeng and Longyan Shengfeng respectively, for the period from 2013 to 2015.

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	
	30.6.2014	30.6.2013
	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)	**(51,539)**	(67,683)

	Six months ended 30.6.2014 & 30.6.2013
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 2014 and 2013 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 2013: nil).

9. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT

During the period, the Group acquired property, plant and equipment amounting to approximately RMB2,212,000 with estimated useful lives ranging from 5 to 10 years (six months ended 30 June 2013: approximately RMB33,648,000) for the purpose of maintaining the Group's train and railway business.

The Group disposed of certain property, plant and equipment with an aggregate carrying amount of RMB12,408,000 (six months ended 30 June 2013: RMB12,347,000) for cash proceeds of RMB12,456,000 (six months ended 30 June 2013: RMB12,258,000), resulting in a gain on disposal of RMB48,000 (six months ended 30 June 2013: loss on disposal of RMB89,000).

For the six months ended 30 June 2014, the directors of the Company conducted an impairment assessment on the Group's property, plant and equipment and prepaid lease payments by assessing on the expected recoverable amount based on the higher of value in use and fair value less cost of disposal. For the CGU engaged in manufacturing and selling of axle components and axle assemblies to heavy duty and medium duty truck ("Truck CGU") and the CGU engaged in manufacturing and selling of train and railway component ("Railway CGU"), 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 11.51% (31 December 2013: 12.1%). 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 2014 and hence no further impairment loss is recognised for the six months ended 30 June 2014 (six months ended 30 June 2013: nil). 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:

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Trade receivables	**479,162**	460,112
Less: impairment losses on trade receivables	**(303,596)**	(283,035)
	175,566	177,077

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:

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
0 to 90 days	**78,748**	81,660
91 to 120 days	**14,390**	18,148
121 to 180 days	**18,904**	33,238
181 to 365 days	**47,411**	41,463
Over 365 days	**16,113**	2,568
	175,566	177,077

11. BILLS RECEIVABLE

At the end of the reporting period, bills receivable amounting to RMB19,000,000 (2013: RMB65,114,000) 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:

	30.6.2014 ***RMB'000*** **(unaudited)**	31.12.2013 *RMB'000* (audited)
0 to 90 days	**25,665**	73,507
91 to 120 days	**6,200**	7,070
121 to 180 days	**6,500**	6,872
181 to 365 days	**122**	–
	38,487	87,449

12. OTHER RECEIVABLES

Other receivables comprise the following:

	30.6.2014 ***RMB'000*** **(unaudited)**	31.12.2013 *RMB'000* (audited)
Other receivables	**6,906**	7,580
Advances to suppliers	**109,892**	94,711
Prepaid expenses	**4,590**	1,942
VAT-in recoverable	**17,846**	36,275
	139,234	140,508

13. TRADE AND BILLS PAYABLES

Trade and bills payables comprise the following:

	30.6.2014 ***RMB'000*** **(unaudited)**	31.12.2013 *RMB'000* (audited)
Trade payables	**51,953**	58,880
Bills payable	**9,400**	65,115
	61,353	123,995

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

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**2,566**	19,888
31 to 60 days	**15,623**	8,657
61 to 90 days	**14,301**	8,072
91 to 180 days	**16,157**	10,628
181 to 365 days	**3,248**	11,635
Over 365 days	**58**	–
	51,953	58,880

The following is an aging analysis of bills payable:

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Within 30 days	**1,400**	16,204
31 to 60 days	**3,000**	13,754
61 to 90 days	**5,000**	22,555
91 to 180 days	**–**	12,602
	9,400	65,115

14. OTHER PAYABLES

Other payables comprise the following:

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Advances from customers	**6,790**	13,772
Payables and accruals for property, plant and equipment	**13,400**	40,752
Payroll and welfare payables	**13,189**	7,262
Warranty accrual	**3,316**	1,071
Other accruals	**11,533**	14,762
Other tax payable	**3,644**	5,295
Other payables	**7,342**	8,807
Payable for acquisition of additional interest in a subsidiary	**18,550**	–
Deposit receipt for disposal of subsidiaries	**50,100**	28,000
	127,864	119,721

15. BORROWINGS

During the period, the Group obtained new bank borrowings amounting to approximately RMB194,393,000 (six months ended 30 June 2013: approximately RMB251,167,000) and repaid bank borrowings amounting to approximately RMB273,350,000 (six months ended 30 June 2013: approximately RMB264,610,000). The Group also obtained other borrowing amounted to approximately RMB48,271,000 (six months ended 30 June 2013: nil). The bank borrowings carry interest at variable market rates ranging from 5.50% to 8.61% per annum (six months ended 30 June 2013: 5.88% to 7.87%) and are repayable in one year from the end of the reporting period. The other borrowings carry interest at variable market rates ranging from 0-10.48% per annum (six months ended 30 June 2013: nil) and are repayable in one year from the end of the reporting period.

EXTRACT OF REPORT ON REVIEW OF INTERIM FINANCIAL STATEMENTS

The following is an extract of the auditors' review report on the Group's interim financial statements for the six months ended 30 June 2014:

Basis for Qualified Conclusion

Included in the condensed consolidated financial statements as at 30 June 2014 was property, plant and equipment related to the train and railway business with carrying amount of approximately RMB223,000,000. As set out in note 9 to the condensed consolidated financial statements, the directors of the Company determined that the recoverable amount of the property, plant and equipment approximated to the carrying amount and therefore no impairment loss was recognised for the period ended 30 June 2014.

However, the sales of train and railway components to one of the major customers in Russia have been suspended since May 2014 and have not recommenced as at the date of this report. The cash flow projection on which the Group's impairment analysis is based assumes a significant volume of sales to this customer in the coming twelve months and thereafter. The directors of the Company considered the suspension in the sales to be temporary and therefore did not adjust the assumptions made in the cash flow projection. However, due to the ongoing suspension of sales to this customer, we were unable to satisfy ourselves as to whether such assumption is reasonable and accordingly whether any impairment in respect of the property, plant and equipment should be recognised in respect of the six months ended 30 June 2014. Any adjustments found to be necessary would affect the Group's financial position as at 30 June 2014 and the loss for the six months ended 30 June 2014.

Qualified Conclusion

Except for the adjustments to the condensed consolidated financial statements that we might have become aware of had it not been for the situation described above, based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to note 1 to the condensed consolidated financial statements which indicates that the Group incurred a loss of approximately RMB48,820,000 for the six months then ended. The directors of the Company consider that the Group will have sufficient working capital to finance its operations provided that it is able to successfully renew the banking facilities and implement the other measures as set out in note 1 to the condensed consolidated financial statements. However, these conditions indicate the existence of a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern.

The Board will continue to monitor the matters in relation to the qualified conclusion and emphasis of matter referred to above and keep the shareholders and potential investors informed by way of an announcement as necessary.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The Group is an independent axle component provider for China's medium duty truck ("**MDT**") and heavy duty truck ("**HDT**") aftermarket, and also an independent axle assembly provider 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 two production facilities in the PRC, one of which is located in Kaifeng city, Henan province, and another one is located in Longyan city, Fujian 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.

On 27 June 2014, a wholly-owned subsidiary of the Company, Fujian Changfeng Machinery Manufacturing Co., Ltd. ("**Fujian Changfeng**"), another wholly-owned subsidiary, Longyan Shengfeng Machinery Manufacturing Co., Ltd. ("**Longyan Shengfeng**") and Longyan Changfeng Special Vehicle Co., Ltd. ("**Longyan Special Vehicle**") entered into the equity transfer agreement pursuant to which Longyan Special Vehicle agreed to acquire the entire equity interest in Changfeng Gear Manufacturing Co., Ltd. (the "**JV Company**") and Fujian Changfeng and Longyan Shengfeng agreed to sell their respective 60% and 40% equity interest in the JV Company at a total consideration of RMB35,000,000 (equivalent to approximately HK$43,750,000), details of which are disclosed in the Company's announcement on 29 June 2014.

On 30 July 2014, a wholly-owned subsidiary of the Company, Sichuan Changfeng Axle Co., Ltd. ("**Sichuan Changfeng**") and Jialing District People's Government of Nauchong City, Sichuan Province, the PRC ("**Jialing Local Government**") entered into an agreement pursuant to which Sichuan Changfeng will surrender 2 parcels of land located in Jialing District, Nanchong City to Jialing Local Government to facilitate the urban development of Nanchong City, Sichuan Province for a compensation in an aggregate amount of RMB71,083,706 (equivalent to approximately HK$88,854,633), details of which are disclosed in the Company's announcement on 30 July 2014.

MDT and HDT Aftermarket

The Group is an independent axle component provider for China's MDT and HDT aftermarket with diversified product offerings among independent axle component providers in the PRC. The axle components were sold to customers in the aftermarket through its extensive sales, marketing and services network across the PRC. For the six months ended 30 June 2014, revenue from the aftermarket business segment amounted to approximately RMB79.5 million (30 June 2013: approximately RMB118.6 million) and accounted for approximately 36.4% (30 June 2013: approximately 53.2%) of the Group's total revenue, representing a decrease of approximately 33.0% as compared with the corresponding period in 2013.

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 2014, revenue from the OEM market amounted to approximately RMB139.1 million (30 June 2013: approximately RMB92.8 million) and accounted for 63.6% (30 June 2013: 41.7%) of the Group's total revenue, representing an increase of 49.9% over the corresponding period in 2013.

Train and railway market

The Group commenced the export of the train side frame and train bolster in the second quarter of 2013; however, our business to the CIS market is still in a developing stage. For the six months ended 30 June 2014, due to the unstable political environment in the CIS, no revenue was generated from the train and railway market in the CIS (30 June 2013: RMB11.4 million). The Board will continue to actively monitor the development of the Group's business and investment in this particular business and shall provide updates to shareholders as necessary.

FINANCIAL REVIEW

Revenue

For the six months ended 30 June 2014, the Group recorded a consolidated revenue of approximately RMB218.6 million (30 June 2013: approximately RMB222.80 million), representing a decrease of 1.9% as compared with the corresponding period in 2013. Since the second half of year 2013, there was increasing pressure on the aftermarket and OEM market, the business environment of the truck market remained challenging in the first half of year 2014.

Revenue from the Group's aftermarket segment for the six months ended 30 June 2014 decreased by approximately 33% to RMB79.5 million from RMB118.6 million for the corresponding period of last year. The revenue from aftermarket was diminishing for the six months ended 30 June 2014 since the competition in the aftermarket became more fierce than the corresponding period in 2013 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 2014 increased by approximately 49.9% to RMB139.1 million from RMB92.8 million for the corresponding period of last year. This was caused by the relatively stable growth rate in the trucking industry.

No revenue from the train and railway market was recognised in the first half of year 2014.

Gross profit and gross profit margin

Gross profit for the six months ended 30 June 2014 increased by 15.5% to approximately RMB42.1 million from RMB36.5 million for the corresponding period of last year. Gross profit margin increased from approximately 16.4% for the period ended 30 June 2013 to approximately 19.3% for the period ended 30 June 2014 as there was an improvement in the average unit selling price within the truck industry.

Other income, other gains and losses

Other gains of the Group for the six months ended 30 June 2014 amounted to RMB10.1 million (six months ended 30 June 2013: a loss of RMB1.6 million). The gains were mainly due to the receipt of government grants from local authorities and the waiver of other payable.

Selling and distribution expenses

Selling and distribution expenses of the Group for the six months ended 30 June 2014 increased to approximately RMB10.8 million from approximately RMB9.6 million for the corresponding period of last year. The increase was mainly due to the slight increase in the delivery cost for the axle business.

Administrative expenses

The Group's administrative expenses for the six months ended 30 June 2014 increased to approximately RMB36.30 million from approximately RMB32.6 million for the corresponding period of last year.

Finance costs

The Group incurred finance costs of approximately RMB16.9 million for the six months ended 30 June 2014, which represented approximately 7.7% (six months ended 30 June 2013: approximately 7.7%) of its revenue for the six months ended 30 June 2014. The slight decrease in finance cost was mainly due to the decrease in total amount of borrowings.

Taxation

Income tax expense of RMB1.5 million was recorded for the six months ended 30 June 2014 (six months ended 30 June 2013: RMB1.7 million).

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, cash and cash equivalent of the Group was approximately RMB25.4 million (as at 31 December 2013: approximately RMB57.9 million).

As compared with the corresponding period in 2013, cash and cash equivalent decreased by approximately RMB32.5 million, which was mainly resulted from the net cash outflow from operating activities of approximately RMB7.0 million (30 June 2013: net cash inflow of RMB26.3 million) and net cash outflow from financing activities of approximately RMB47.5 million (30 June 2013: RMB30.5 million).

As at 30 June 2014, net current assets of the Group was approximately RMB72.3 million (as at 31 December 2013: approximately RMB83.3 million). As at 30 June 2014, the current ratio (i.e. total current assets/total current liabilities) of the Group was approximately 111.5% (31 December 2013: approximately 111.7%).

As at 30 June 2014, total assets of the Group were approximately RMB1,420.0 million (as at 31 December 2013: approximately RMB1,581.6 million) and total liabilities were approximately RMB626.7 million (as at 31 December 2013: approximately RMB709.4 million). The debt ratio as at 30 June 2014 (i.e. total liabilities/total assets) was 44.1% as compared to 44.9% as at 31 December 2013.

As at 30 June 2014, the Group had total borrowings of approximately RMB433.5 million (as at 31 December 2013: approximately RMB464.2 million). The gearing ratio (i.e. total borrowing/total equity) was approximately 54.6% (as at 31 December 2013: approximately 53.2%).

Trade and bills receivable

Trade and bills receivables of the Group as at 30 June 2014 were approximately RMB214.1 million (as at 31 December 2013: RMB264.5 million). The decrease in balance was mainly due to the decrease in revenue.

Inventory

The inventory balance of the Group as at 30 June 2014 was approximately RMB237.2 million (as at 31 December 2013: approximately RMB240.3 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 2014 were approximately RMB61.4 million (as at 31 December 2013: approximately RMB124.0 million). The decrease in balance was mainly due to the tightening in the credit period granted by the Group's suppliers.

Contingent Liabilities

As at 30 June 2014, the Group had no significant contingent liabilities (as at 31 December 2013: Nil).

Capital commitment

As at 30 June 2014, the contracted capital commitment of the Group which were not provided in the financial statements were approximately RMB1.8 million (as at 31 December 2013: approximately RMB2.0 million). Such capital commitments were mainly for the capital expenditure in respect of acquisition of plant and machinery.

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 2014, the Group's foreign currencies amounted to approximately RMB1.9 million. During the six months ended 30 June 2014, 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 2014 (30 June 2013: Nil).

PROSPECTS

Having faced with the continuing 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 2014, particularly in relation to its traditional MDT and HDT OEM market. Given these situations, 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 strives 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 advantage, the Group is 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 customers' 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 production facilities located in the PRC which form a strategic production and distribution network for its products, so as to efficiently control the production cost and logistic cost. Besides, the Group will consolidate the production lines and functional departments and dispose of those unutilised facilities 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 2014, 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 Director, Dr. Li Xiuqing were not able to attend the annual general meeting of the Company held on 23 May 2014.

Compliance

The Company has appointed a compliance adviser on an ongoing basis for a two year period as per the direction of the Listing Committee of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), details of which are set out in the announcement of the Stock Exchange dated 9 July 2014.

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 2014. 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 2014.

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 2014.

REVIEW ON INTERIM RESULTS

The Audit Committee has reviewed the accounting principles, practices and treatments adopted by the Group and the unaudited interim results for the six months ended 30 June 2014 of the Group with the management and the auditors of the Company.

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 at www.hkexnews.hk. The interim report of the Company for the six months ended 30 June 2014 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, 28 August 2014

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