THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

If you are in any doubt as to any aspect of this circular or as to the action to be taken, you should consult your licensed securities dealer, registered institution in securities, bank manager, solicitors, professional accountant or other professional adviser.

If you have sold or transferred all your shares in Changfeng Axle (China) Company Limited (the "**Company**"), you should at once hand this circular and accompanying form of proxy to the purchaser or transferee, or to the bank, licensed securities dealer, registered institution in securities or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

This circular is for information purposes only and does not constitute an invitation or offer to acquire, purchase or subscribe for any securities of the Company nor is it calculated to invite any such offer.

畅丰

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)

(1) SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE AND CONNECTED TRANSACTION; (2) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 51% INTEREST IN TARGET COMPANY AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; (3) APPLICATION FOR WHITEWASH WAIVER; (4) APPOINTMENT OF DIRECTORS; AND (5) NOTICE OF EXTRAORDINARY GENERAL MEETING

Financial Adviser to Century East

建银国际
CCB International

Financial Adviser to the Company

Alliance Capital Partners Limited
同 人 融 資 有 限 公 司

Independent Financial Adviser to the Independent Board Committee and the Independent Shareholders

SOMERLEY CAPITAL LIMITED

A letter from the Board is set out on pages 8 to 39 of this circular and a letter from the Independent Board Committee containing its recommendation to the Independent Shareholders is set out on pages 40 to 41 of this circular. A letter from Somerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders, containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 42 to 72 of this circular.

A notice convening the EGM of the Company to be held at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on 10 March 2015, Tuesday at 2 p.m. is set out on pages EGM-1 to EGM-3 of this circular. A proxy form for use by the Shareholders for the EGM is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete the enclosed form of proxy in accordance with the instructions printed thereon and return the same to the Company's Hong Kong share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible and in any event not less than 48 hours before the time appointed for holding the EGM or any adjourned meeting thereof (as the case may be). Completion and return of the proxy form will not preclude you from attending and voting in person at the EGM or any adjourned meeting thereof (as the case may be) should you so wish.

17 February 2015

CONTENT

In this circular, unless the context otherwise requires, capitalized terms used shall have the following meanings:

"Acquisition"	the acquisition by the Company of the Sale Shares under the Acquisition Agreement
"Acquisition Agreement"	the share purchase agreement in relation to the Acquisition entered into between the Company and Century East on 26 September 2014 (as supplemented by a side letter of the parties dated 31 January 2015)
"Acquisition Completion"	the completion of the Acquisition
"acting in concert"	has the same meaning ascribed to it under the Takeovers Code
"Announcement"	the announcement of the Company dated 10 October 2014 relating to, among others, the Acquisition, the Subscription and the Whitewash Waiver
"Appointment of Directors"	the appointment of Mr. Jerome Cheng and Mr. Yuan Weitao as executive Directors, and Mrs. Guo Yan and Mr. Feng Xiaohui as non-executive Directors, which will take effect from Subscription Completion
"associate"	has the meaning ascribed to it in the Listing Rules
"Beijing Century"	北京世紀新干線網絡技術有限公司 (Beijing Century Fortunet Network Technology Co., Ltd*), a wholly foreign owned enterprise established under the laws of the PRC and an indirect wholly owned subsidiary of the Target Company
"Board"	the board of Directors
"Business Day(s)"	a day (other than a Saturday or Sunday or public holiday or a day on which a tropical cyclone warning No. 8 or above or a "black rainstorm warning signal" is hoisted in Hong Kong at any time between 9:00 a.m. and 5:00 p.m.) on which banks are open in Hong Kong for general commercial business
"BVI"	the British Virgin Islands
"Century East"	Century East Network Limited, a company incorporated in BVI and owned as to 69% by CIH, as to 15% by Starr Investments Cayman V, Inc., as to 11.5% by Jinyu Developments and as to 4.5% by SDF II Holdings

"Changfeng BVI"	Changfeng Axle Holdings Limited, a company incorporated in BVI and owned as to 50% by Wu Ching and as to 50% by Wong Kwai Mo, holder of 406,128,560 Shares as at the Latest Practicable Date
"China Mobile"	中國移動通信集團公司 (China Mobile Communications Corporations)
"China Unicom"	中國聯合通信有限公司 (China United Network Communications Corporations Limited*)
"CIH"	Century Investment (Holding) Limited, a company incorporated in BVI and whose entire issued share capital was owned by Ms. Pun Tang as at the Latest Practicable Date
"CMBSat"	China Mobile Broadcasting Satellite Limited（中國移動廣播衛星有限公司）
"Company"	Changfeng Axle (China) Company Limited（暢豐車橋(中國)有限公司）, a company incorporated in the Cayman Islands, the securities of which are listed on the Main Board of the Stock Exchange
"connected person(s)"	has the meaning ascribed to it under the Listing Rules
"Consideration Shares"	122,121,212 new Shares to be allotted and issued by the Company to the shareholders of Century East at the Issue Price for settlement of the consideration of the Acquisition pursuant to the Acquisition Agreement
"CSMM"	中衛星空移動多媒體網絡有限公司 (China Satellite Mobile Media Limited*), a subsidiary of 中國電信集團公司 (China Telecommunications Corporation*)
"Director(s)"	director(s) of the Company
"EGM"	an extraordinary general meeting of the Company to be convened to consider and, if thought fit, approve, among other things, the Subscription Agreement, the Acquisition Agreement and the respective transactions contemplated thereunder (including the Loan and the allotment and issue of the Subscription Shares and the Consideration Shares), the Whitewash Waiver and the Appointment of Directors

"Executive"	the executive director of the Corporate Finance Division of the SFC from time to time and any delegate of such executive director
"Fortunet HK"	Fortunet Holding Limited, a company incorporated in Hong Kong and a wholly owned subsidiary of the Target Company
"Group"	the Company and its subsidiaries prior to completion of the Acquisition
"HK$"	Hong Kong dollar, the lawful currency of Hong Kong
"Hong Kong"	the Hong Kong Special Administrative Region of the People's Republic of China
"IT"	information technology
"Independent Board Committee"	an independent board committee, comprising all the non-executive Directors (other than Ms. Dong Ying, Dorothy, the non-executive Director, being a director of Starr Investments Cayman II, Inc., an associate of Starr Investments Cayman V, Inc., and thus considered having a material interest in the Subscription Agreement, the Acquisition Agreement and the respective transactions contemplated thereunder as well as the Whitewash Waiver) formed to advise the Independent Shareholders as to whether (1) the terms and conditions of the Subscription Agreement, the Acquisition Agreement, the Loan and all transactions contemplated thereunder (including issue and allotment of the Consideration Shares and the Subscription Shares under the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and (2) the terms and conditions of the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole
"Independent Shareholders"	Shareholders other than Starr Investments Cayman II, Inc., the parties acting in concert with Starr Investments Cayman II, Inc., Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and other Shareholders who are interested or involved in the Subscription, the Acquisition, the Loan or the Whitewash Waiver

"Issue Price"	HK$0.33 per Consideration Share
"Jinyu Developments"	Jinyu Developments Limited (錦御發展有限公司), a company incorporated in BVI and whose entire issued share capital was owned by Ms. Jindi Wu as at the Latest Practicable Date
"Last Trading Day"	17 September 2014, being the last day on which the Shares were traded on the Stock Exchange prior to the release of the Announcement
"Latest Practicable Date"	13 February 2015, being the latest practicable date prior to the printing of this circular for the purpose of ascertaining certain information contained herein
"Listing Committee"	has the meaning ascribed to it under the Listing Rules
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange
"Loan"	an unsecured loan up to the principal amount of US$26,000,000 to be granted by the Company to the Target Company on the terms set out in the Acquisition Agreement, details of which are set out in the paragraph headed "Loan to the Target Company" of the section headed "A. Subscription" of the Letter from the Board of this circular
"Loan Agreement"	the loan agreement to be entered into between the Company as lender and the Target Company as borrower for the Loan
"Long Stop Date"	31 March 2015 or such later date as the Company and Century East may agree in writing pursuant to the Subscription Agreement or the Acquisition Agreement (as the case may be)
"OPCo"	北京世紀鑫網科技有限公司 (Beijing Century Fortunet Technology Co., Ltd.*), a company established under the laws of the PRC and an indirect non-wholly owned subsidiary of the Target Company. As at the Latest Practicable Date, it is owned as to 92.6% by Beijing Century and as to 7.4% by 上海仁福投資有限公司 (Shanghai Renfu Investment Company Limited*)

"PRC"	the People's Republic of China, excluding Hong Kong, the Macau Special Administrative Region of the People's Republic of China and Taiwan (Republic of China) for the purposes of this circular
"Public Float Requirement"	the public float requirement under Rule 8.08(1)(a) of the Listing Rules
"Public Float Undertaking"	the undertaking of Changfeng BVI given to the Company to dispose of such number of Shares so that the Company will remain in compliance with the Public Float Requirement upon the Subscription Completion and the Acquisition Completion
"Relevant Period"	the period beginning six months immediately prior to the date of the publication of the Announcement and ending on the Latest Practicable Date
"Relevant Securities"	has the meaning ascribed to it under Note 4 to Rule 22 of the Takeovers Code
"RMB"	Renminbi, the lawful currency of the PRC
"Sale Shares"	51 fully paid ordinary shares in the Target Company legally and beneficially owned by Century East, representing 51% of the entire issued share capital of the Target Company as at the Acquisition Completion
"SDF II Holdings"	SDF II Holdings Limited, a company incorporated in BVI and whose entire issued share capital owned by Mr. Hui Ching Lau as at the Latest Practicable Date
"Share(s)"	the ordinary share(s) of the Company with a nominal value of US$0.01 each
"Share Option Scheme"	the share option scheme adopted by the Company on 28 June 2010
"Shareholder(s)"	the holder(s) of the Share(s)
"SFO"	Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
"SFC"	the Securities and Futures Commission

"Specific Mandate"	the specific mandate to allot and issue the Subscription Shares and the Consideration Shares to be sought from the Independent Shareholders at the EGM to satisfy the Subscription and the consideration of the Acquisition
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"Subscription"	the subscription for the Subscription Shares by Century East under the Subscription Agreement
"Subscription Agreement"	the subscription agreement dated 26 September 2014 and entered into between the Company and Century East in relation to the Subscription (as supplemented by a side letter of the parties dated 31 January 2015)
"Subscription Completion"	completion of the Subscription
"Subscription Price"	a subscription price of HK$0.33 per Share
"Subscription Shares"	610,606,060 new Shares to be allotted and issued by the Company to the shareholders of Century East at the Subscription Price pursuant to the Subscription Agreement
"subsidiary"	any undertaking in relation to which another undertaking is its parent undertaking under the Companies Ordinance (Chapter 622 of the Laws of Hong Kong)
"substantial shareholder(s)"	has the meaning ascribed to it under the Listing Rules
"Target Company"	Century Network Holding Limited, a company incorporated in the BVI with limited liability
"Target Group"	the Target Company, Fortunet HK, Beijing Century and OPCo
"Takeovers Code"	The Code on Takeovers and Mergers
"US$"	United States dollar(s), the lawful currency of the United States of America

"Whitewash Waiver"	waiver as may be granted by the Executive in favour of the Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) in respect of their obligations to extend a general offer to acquire the issued Shares (excluding the issued Shares which are owned or agreed to be acquired by them) in accordance with the Takeovers Code as a result of the Subscription Completion and the Acquisition Completion
"%"	per cent

For illustration purposes, amounts in RMB have been translated into HK$ at RMB1.00 = HK$1.26 and amounts in US$ have been translated into HK$ at US$1 = HK$7.75 in this circular.

* *For identification purposes only*

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)

Executive Directors:
Mr. Wong Kwai Mo *(Chairman)*
Ms. Wu Ching
Mr. Lai Fengcai

Non-executive Director:
Ms. Dong Ying, Dorothy

Independent non-executive Directors:
Mr. Zhu Weizhou
Dr. Li Xiuqing
Mr. Chong Ching Hei

Registered office:
Cricket Square
Hutchins Drive
P.O. Box 2681
Grand Cayman
KY1-1111
Cayman Islands

Principal place of business in Hong Kong:
Room 708, 7/F
Delta House
3 On Yiu Street
Shatin
New Territories
Hong Kong

17 February 2015

To the Shareholders

Dear Sir or Madam,

(1) SUBSCRIPTION OF NEW SHARES UNDER SPECIFIC MANDATE AND CONNECTED TRANSACTION; (2) DISCLOSEABLE AND CONNECTED TRANSACTION IN RELATION TO ACQUISITION OF 51% INTEREST IN TARGET COMPANY AND ISSUE OF CONSIDERATION SHARES UNDER SPECIFIC MANDATE; (3) APPLICATION FOR WHITEWASH WAIVER; (4) APPOINTMENT OF DIRECTORS; AND (5) NOTICE OF EXTRAORDINARY GENERAL MEETING

INTRODUCTION

Reference is made to the Announcement.

The purpose of this circular is to provide you with, among other things, (i) further details of the Subscription, the Loan and the Acquisition; (ii) details of the application for the Whitewash Waiver; (iii) details of the Specific Mandate; (iv) further details of the Target Group; (v) a letter of advice from the Independent Board Committee to the Independent

Shareholders; (vi) a letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the Acquisition Agreement and all transactions contemplated thereunder (including the Loan and the allotment and issue of the Subscription Shares and the Consideration Shares under the Specific Mandate) and the Whitewash Waiver; (vii) details on the Appointment of Directors; (viii) a notice of the EGM; and (ix) other information as required under the Listing Rules and the Takeovers Code.

A. THE SUBSCRIPTION

Subscription Agreement

Date: 26 September 2014

Parties:
(a) the Company; and

(b) Century East.

Subscription Shares

Pursuant to the Subscription Agreement, the Company has conditionally agreed to allot and issue, and Century East has conditionally agreed to subscribe for, the Subscription Shares at the Subscription Price of HK$0.33 per Share. The Subscription Shares shall be allotted and issued to the shareholders of Century East at the direction of Century East as follows:

Name	**No. of Subscription Shares**
CIH	421,318,182
Starr Investments Cayman V, Inc.	91,590,909
Jinyu Developments	70,219,697
SDF II Holdings	27,477,272
Total	610,606,060

The Subscription Shares represent (i) approximately 76.33% of the issued share capital of the Company as at the Latest Practicable Date; (ii) 43.29% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares; and (iii) 39.84% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Consideration Shares.

Starr Investments Cayman V, Inc., a substantial shareholder of Century East, is an associate of Starr Investments Cayman II, Inc, a substantial shareholder of the Company. Save as aforesaid, to the best of the Directors' knowledge, information and belief, having made all reasonable enquires, Century East and its ultimate beneficial shareholders are third parties independent of the Company and connected persons of the Company.

Subscription Price

The Subscription Price represents:

(i) a discount of approximately 29.03% to the closing price of HK$0.465 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 23.26% to the average closing price per Share of HK$0.43 for the last 5 consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 21.43% to the average closing price per Share of HK$0.42 for the last 10 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 19.51% to the average closing price per Share of HK$0.41 for the last 30 consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 73.60% to the unaudited consolidated net asset value per Share of approximately HK$1.25 as at 30 June 2014; and

(vi) a discount of approximately 47.62% to the closing price of HK$0.63 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Subscription Price was arrived at after arm's length negotiations between the Company and Century East with reference to the liquidity and recent trading performance of the Shares, and the financial performance and the business outlook of the Group. The Directors consider that the Subscription Price and the terms of the Subscription Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Conditions of the Subscription

The Subscription is conditional upon, among others:

(a) the Executive having granted the Whitewash Waiver;

(b) all conditions attached to the Whitewash Waiver having been satisfied;

(c) the Shareholders having at the EGM:

  (i) approved the specific mandate to allot and issue the Subscription Shares in accordance with the requirements of the Listing Rules and the allotment and issue of the Subscription Shares in connection with the Subscription;

  (ii) approved the Subscription Agreement and the transactions contemplated thereunder;

  (iii) approved the Whitewash Waiver in accordance with the Takeovers Code; and

  (iv) elected the nominees of Century East to be the Directors, effective upon the Subscription Completion;

(d) the Independent Shareholders having at the EGM approved the Acquisition and the Loan;

(e) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares, and such approval not having been revoked prior to the Subscription Completion;

(f) all regulatory consents and authorisations of any governmental or regulatory body which are necessary for and required by the Company and Century East for implementing and completing the Acquisition and the Loan having been obtained and remained in full force and effect pursuant to the provisions of any laws or regulations in any relevant jurisdiction;

(g) the Loan Agreement having been entered into and all conditions set out in the Acquisition Agreement (other than that relating to the satisfaction or waiver of the conditions of the Subscription Agreement) and the Loan Agreement (other than that relating to the Subscription Completion or the Acquisition Completion) that are capable of being satisfied at or before the Subscription Completion having been duly satisfied or otherwise waived in accordance with the terms therein;

(h) the Company having obtained or having caused all relevant members of the Group to obtain any necessary and required consents for the Acquisition and the Loan under any loan agreements or security documents to which any relevant member of the Group is a borrower or obligor;

(i) the Company having given or having caused all relevant members of the Group to give any necessary and required notifications for the Acquisition and the Loan under any loan agreements or security documents to which any relevant member of the Group is a borrower or obligor;

(j) the existing Directors (other than Ms. Wu Ching and Ms. Dong Ying Dorothy) having resigned or otherwise not continuing to serve as Directors and having confirmed to the Company that they have no claims whatsoever against any member of the Group, effective upon Subscription Completion;

(k) the Company having complied with all of its undertakings, which are required to be complied with at or before Subscription Completion, under the Subscription Agreement;

(l) Changfeng BVI, the controlling shareholder of the Company as at the Latest Practicable Date, having performed its obligations under the Public Float Undertaking and the Subscription Completion not resulting in the Company being in non-compliance with the Public Float Requirement on the date of the Subscription Completion; and

(m) no material adverse change having occurred since the date of the Subscription Agreement.

The conditions in clauses (c)(iv), (g), (h), (i), (j), (k) and (m) above may be waived at any time by notice in writing by Century East while the other conditions may not be waived by either party. According to Century East, Century East may waive the conditions (or part thereof) that it is entitled to do so under the Subscription Agreement after having considered the likelihood of the fulfilment of the relevant conditions (or part thereof) in a foreseeable future, the availability of remedies to it and the risks involved in the failure of fulfilment and is of the view that it is commercially justifiable to waive the relevant conditions (or part thereof). As at the Latest Practicable Date, Century East had no current intention to waive any condition under the Subscription Agreement and none of the conditions had been fulfilled.

If the conditions have not been fulfilled on or before 31 March 2015 (or such later date as the parties may agree in writing), then the Subscription Agreement shall terminate automatically (other than in respect of certain provisions having the effect of surviving the termination). In such event, neither party shall have any claim under the Subscription Agreement of any nature whatsoever against the other party except in respect of any rights and liabilities which have accrued before termination or under certain provisions having the effect of surviving the termination.

Completion

Subscription Completion shall take place simultaneously with the Acquisition Completion on the fifth Business Day after the satisfaction or waiver of all of the conditions set out above or at such other time or date as the parties may agree.

Appointment of Directors

Pursuant to the Subscription Agreement, subject to the satisfaction of the conditions to the Subscription Completion (including the condition that the Shareholders having at the EGM elected the nominees of Century East to be the Directors), the Company and Century East agreed that upon Subscription Completion, the Board will consist of nine Directors and Century East will nominate five persons to be the Directors; three of whom will be executive Directors (including Ms. Wu Ching) and two of whom will be non-executive Directors; one of whom should be the chairman of the Board. The Company shall have no obligation as to the designation of offices and retention of Directors as aforesaid.

Century East has proposed four candidates for election as Directors at the EGM. Mr. Jerome Cheng and Mr. Yuan Weitao are proposed to be appointed as executive Directors, and Mrs. Guo Yan and Mr. Feng Xiaohui as non-executive Directors. If the appointments of the above candidates as Directors are approved by the Shareholders at the EGM, their appointments as Directors will take effect from the Subscription Completion. As agreed between Century East and Ms. Wu Ching and Ms. Dong Ying Dorothy, the latter two will remain on the Board, and Mr. Wong Kwai Mo, Mr. Lai Feng Cai and all the existing independent non-executive Directors shall resign effective upon Subscription Completion.

The Company will identify suitable candidates as independent non-executive Directors. Further announcement will be made in respect of any proposed appointment and resignation of any Directors in accordance with the Listing Rules.

The biographical details of the above candidates are set out below:

Cheng Jerome

Mr. Cheng Jerome, French citizen, aged 62, joined Beijing Century in December 2014 and currently serves as the Chief Information Officer of Beijing Century.

Mr. Cheng graduated from University Paris 7 with a DEA (D'Etudes approfondies) French degree in Information Technology in 1986. He has working experience of over 24 years in the IT industry, serving the AXA Group and Oracle Corporation, both of which are among the Top 500 worldwide fortune companies.

From 1986 to 1994, Mr. Cheng served the AXA Group successively as Network Engineer and Architect, Head of Network Architecture Team and Head of Information Technology System Performance. From 1998 to 2008, Mr. Cheng worked for BEA Systems, Inc., a company specialized in enterprise infrastructure software products which was acquired by Oracle Corporation in 2008, as Principal Consulting Engineer in BEA France, as Managing Consulting Engineer in BEA France, as Pre-sales Consulting Manager in BEA APAC region and and as Senior Manager of BEA Technology Centre in Beijing, China. In June 2008, Mr. Cheng joined Oracle Systems Hong Kong Limited as the Senior Manager of Soft Development and served as Principal Solution Architect of Oracle Fusion Middleware World Wide Architecture Team from May 2010 to December 2014.

It is proposed that Mr. Cheng will be appointed as an executive Director and the chairman of the board of Directors. Subject to the Company having obtained the approval of the Shareholders to appoint Mr. Cheng as an executive Director at the EGM and the Subscription Completion have taken place, the Company and Mr. Cheng will enter into a service contract for a term of three years commencing from the date of Subscription Completion, subject to retirement by rotation at the annual general meetings of the Company in accordance with the Articles of Association of the Company. The Board will fix the remuneration of Mr. Cheng with reference to the prevailing market conditions and the prospective roles and responsibilities of Mr. Cheng in the Group after Mr. Cheng's appointment is approved by the Shareholders at the EGM.

Save as disclosed herein, as at the Latest Practicable Date, Mr. Cheng (i) did not have any relationship with any directors, senior management, substantial shareholders, or controlling shareholders of the Company; (ii) did not have any interests in the Shares within the meaning of Part XV of the SFO; (iii) did not hold any position with the Company and/or any of its subsidiaries; and (iv) had not held any directorship in any public listed companies in the last three years preceding the Latest Practicable Date.

Save as disclosed above, there is no information relating to Mr. Cheng that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules nor is there any matter about him that needs to be brought to the attention of the Shareholders.

Yuan Weitao

Mr. Yuan Weitao, aged 48, joined OPCo in September 2014 and currently serves as OPCo's Executive Vice President, and the director of each of CIH, Century East and OPCo.

Mr. Yuan graduated from Tsinghua University with a bachelor's degree in Engineering in 1989 and a master's degree in Engineering in 1992. He has working experience of over 20 years in international trade, telecommunications, media industries.

Mr. Yuan joined China National Electronics Import & Export Company (中國電子進出口總公司), formerly administered by the Ministry of Mechanical Electronic Devices of PRC, after his graduation and worked in its overseas subsidiary as a marketing manager in 1994. Mr. Yuan joined CIH as Vice President in 1999 and was responsible for project development and external cooperation of CIH. Mr. Yuan had been the general manager of Beijing United Online Technology Co. Ltd (北京聯合在綫科技有限公司), a subsidiary of China Mobile, in 2000; a vice-president and the representative of the China office of

CMBSat, which was a subsidiary of Echostar, one of the US leading satellite TV operators, in 2006; and a vice general manager of CSMM, a subsidiary of China Telecom, from 2010 to August 2014.

It is proposed that Mr. Yuan will be appointed as an executive Director. Subject to the Company having obtained the approval of the Shareholders to appoint Mr. Yuan as an executive Director at the EGM and the Subscription Completion have taken place, the Company and Mr. Yuan will enter into a service contract for a term of three years commencing from the date of Subscription Completion, subject to retirement by rotation at the annual general meetings of the Company in accordance with the Articles of Association of the Company. The Board will fix the remuneration of Mr. Yuan with reference to the prevailing market conditions and the prospective roles and responsibilities of Mr. Yuan in the Group after Mr. Yuan's appointment is approved by the Shareholders at the EGM.

Save as disclosed herein, as at the Latest Practicable Date, Mr. Yuan (i) did not have any relationship with any directors, senior management, substantial shareholders, or controlling shareholders of the Company; (ii) did not have any interests in the Shares within the meaning of Part XV of the SFO; (iii) did not hold any position with the Company and/or any of its subsidiaries; and (iv) had not held any directorship in any public listed companies in the last three years preceding the Latest Practicable Date.

Save as disclosed above, there is no information relating to Mr. Yuan that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules nor is there any matter about him that needs to be brought to the attention of the Shareholders.

Guo Yan

Mrs. Guo Yan, aged 42, has working experience of over 17 years in the IT industry. She has experience in the management of IT sales and operation of over 15 years. She has led numerous information/communications technology projects and has extensive experience particularly in the new mobile internet business model.

Mrs. Guo graduated in Testing Technology and Instruments（檢測技術與儀器） from Xi'dian University in 1994 and obtained a postgraduate diploma in Astronomical Instruments and Methods （天文儀器與方法） from the Chinese Academy of Science in 1997.

From 1997 to 2014, Mrs Guo worked for Huawei Technologies Co., Ltd（華為技術有限公司）as a Senior Client Manager of Eastern China Region, a director of Mobile System Division of China Region, a director of the IT Purchasing Division of the China Region. Mrs. Guo also participated in the market development of China Mobile Shanghai as a team leader and acted as a project manager in the project of the IT centralized purchasing bid of China Unicom.

It is proposed that Mrs. Guo will be appointed as a non-executive Director. Subject to the Company having obtained the approval of the Shareholders to appoint Mrs. Guo as a non-executive Director at the EGM and the Subscription Completion have taken place, the Company and Mrs. Guo will enter into a service contract for a term of three years commencing from the date of Subscription Completion, subject to retirement by rotation at the annual general meetings of the Company in accordance with the Articles of Association of the Company. The Board will fix the remuneration of Mrs. Guo with reference to the prevailing market conditions and the prospective roles and responsibilities of Mrs. Guo in the Group after Mrs. Guo's appointment is approved by the Shareholders at the EGM.

Save as disclosed herein, as at the Latest Practicable Date, Mrs. Guo (i) did not have any relationship with any directors, senior management, substantial shareholders, or controlling shareholders of the Company; (ii) did not have any interests in the Shares within the meaning of Part XV of the SFO; (iii) did not hold any position with the Company and/or any of its subsidiaries; and (iv) had not held any directorship in any public listed companies in the last three years preceding the Latest Practicable Date.

Save as disclosed above, there is no information relating to Mrs. Guo that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules nor is there any matter about her that needs to be brought to the attention of the Shareholders.

Feng Xiaohui

Mr. Feng Xiaohui, aged 37, has working experience of over 13 years in the communications and the IT industry and currently serves as the Vice President of Beijing Century.

Mr. Feng graduated from Xi'an Institute of Statistics with a bachelor's degree in Economics in 1999. From August 1999 to April 2014, Mr. Feng worked for Putian Eastcom Communication Co., Ltd（普天東方通信股份有限公司）, Huawei Technologies Co., Ltd（華為技術有限公司）as a department head, and Peopleyun Co., Ltd（上海雲人信息科技有限公司）as vice president.

It is proposed that Mr. Feng will be appointed as a non-executive Director. Subject to the Company having obtained the approval of the Shareholders to appoint Mr. Feng as a non-executive Director at the EGM and the Subscription Completion have taken place, the Company and Mr. Feng will enter into a service contract for a term of three years commencing from the date of Subscription Completion, subject to retirement by rotation at the annual general meeting of the Company in accordance with the Articles of Association of the Company. The Board will fix the remuneration of Mr. Feng with reference to the prevailing market conditions and the prospective roles and responsibilities of Mr. Feng in the Group after Mr. Feng's appointment is approved by the Shareholders at the EGM.

Save as disclosed herein, as at the Latest Practicable Date, Mr. Feng (i) did not have any relationship with any directors, senior management, substantial shareholders, or controlling shareholders of the Company; (ii) did not have any interests in the shares in the Company within the meaning of Part XV of the SFO; (iii) did not hold any position with the Company and/or any of its subsidiaries; and (iv) had not held any directorship in any public listed companies in the last three years preceding the Latest Practicable Date.

Save as disclosed above, there is no information relating to Mr. Feng that is required to be disclosed pursuant to paragraphs (h) to (v) of Rule 13.51(2) of the Listing Rules nor is there any matter about him that needs to be brought to the attention of the Shareholders.

Undertakings

The Company undertakes to Century East, among others:

(a) to the extent permissible under applicable law and except as may be approved by the prior written consent of Century East, among others, to conduct the business of the Group in the ordinary and usual course of business in accordance with the Subscription Agreement prior to the Subscription Completion;

(b) to provide Century East with information generally related to the Group and/or business of the Group as soon as practicable upon reasonable request by Century East;

(c) within ten days after the date of the Subscription Agreement and to the extent permissible under applicable law, to provide Century East with the following details of the senior management of the Group as disclosed in the annual report of the Company for the year ended 31 December 2013:

(i) length of service;

(ii) the standard terms and conditions of employment and benefits (including any redundancy payment scheme); and

(iii) the terms of all share incentive schemes, or profit sharing, bonus or other incentive schemes applicable to such senior management (including any payments to be made to any of them by the Group or any of its affiliates) or which any of the member of the Group is proposing to introduce; and

(d) to use the net proceeds available from the Subscription (a) firstly, for the advancement of the Loan, (b) secondly, for the payment of the reasonable costs and expenses agreed to be borne by the Company in connection with the Acquisition, the Subscription and the respective transactions in connection therewith, and (c) thirdly, for general corporate purposes of the Group as directed by the Board after Subscription Completion.

Public Float Undertaking

For the purpose of fulfillment of one of the conditions to the Subscription Agreement, Changfeng BVI has entered into the Public Float Undertaking pursuant to which, Changfeng BVI agrees to dispose of such number of Shares as may be necessary to enable the Company to comply with the Public Float Requirement upon the Subscription Completion and the Acquisition Completion.

Termination

Century East may terminate the Subscription Agreement without liability to the Company by giving notice in writing to the Company, at any time prior to Subscription Completion upon occurrence or continuance of any of the following events:

(a) there is or has been any breach of any of the warranties of the Company in the Subscription Agreement which has had or could reasonably be expected to have a material adverse effect;

(b) a statute, rule, regulation, order, decree, ruling or injunction has been enacted, entered, promulgated, endorsed or threatened or is pending by or before any governmental authority or body of competent jurisdiction which in any material respect restricts, prohibits or threatens to restrict or prohibit the consummation of any of the transactions contemplated by the Subscription Agreement; or

(c) if there shall develop, occur, exist or come into effect a moratorium on commercial banking activities, or a material disruption in commercial banking or securities settlement or clearance services in Hong Kong, London, New York or Singapore for a continuous period of ten trading days.

The Company may terminate the Subscription Agreement without liability to the Company by giving notice in writing to Century East, at any time prior to Subscription Completion if (a) there is or has been any breach of the warranties of Century East in the Subscription Agreement; or (b) a statute, rule, regulation, order, decree, ruling or injunction has been enacted, entered, promulgated, endorsed or threatened or is pending by or before any governmental authority or body of competent jurisdiction which in any material respect restricts, prohibits or threatens to restrict or prohibit the consummation of any of the transactions contemplated by the Subscription Agreement.

Loan to the Target Company

Subject to satisfaction of the conditions set out below, the Subscription Agreement provides that the Company shall grant an unsecured loan to the Target Company with the principal terms as follows:

Loan purpose	for general working capital and capital expenditure of the Target Company
Loan amount	at the option of the Target Company, up to US$26 million
Conditions	the Loan is conditional upon: (i) the Subscription Completion having taken place; (ii) the Acquisition Completion having taken place; and (iii) the Independent Shareholders having at the EGM approved the Acquisition and the advancement of the Loan
Drawdown	the fifth Business Day from the date on which the last condition of the Loan Agreement is satisfied or such other date as the Target Company and the Company may agree in writing
Interest rate	benchmark interest rate of loans for three years of The People's Bank of China per annum as increased by 50% （中國人民銀行三年貸款利息基準利率上浮50%） (on the basis of a 365-day year), payable in advance semi-annually
Interest payment date	throughout the term of the Loan Agreement from the drawdown date, the 1st day of each June and December, being a date upon which interest on the outstanding principal is due and payable
Maturity date	the third anniversary of the drawdown date or such later date as the Target Company and the Company may agree in writing, being the date for repayment of the Loan and the interest accrued thereon in full
Prepayment	the Target Company may at any time prior to the maturity date repay the Loan in whole or in part (and/or the interest accrued thereon), without any penalty at any time after the Loan has been advanced

Ranking of the Subscription Shares

The Subscription Shares, when allotted and issued, will rank equally in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares.

Mandate to issue the Subscription Shares

The Subscription Shares will be allotted and issued under the Specific Mandate which is subject to the Independent Shareholders' approval.

Application for listing

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Subscription Shares.

REASON FOR THE SUBSCRIPTION AND USE OF PROCEEDS

Net proceeds from the Subscription will amount to approximately HK$198 million and will be used for (a) firstly, for the advancement of the Loan, (b) secondly, for the payment of the reasonable costs and expenses agreed to be borne by the Company in connection with the Acquisition, the Subscription and the respective transactions (including the Loan and the allotment and issue of the Subscription Shares and the Consideration Shares under the Specific Mandate) in connection therewith, and (c) thirdly, for general corporate purposes of the Group as directed by the Board after Subscription Completion, as aforesaid.

The Directors consider that the Subscription represents an opportunity for the Group to introduce a long-term strategic investor and at the same time to raise capital for the Company for future business development of the Group and the Target Group. For further information, please refer to the paragraph headed "Information on the Company and reasons for the Acquisition" below.

FUND RAISING ACTIVITIES OF THE COMPANY IN THE LAST TWELVE MONTHS

The Company has not carried out any equity fund raising activities during the twelve months immediately preceding the Latest Practicable Date, save for the Subscription.

LISTING RULES IMPLICATIONS

Since Starr Investments Cayman V, Inc. is an associate of Starr Investments Cayman II, Inc., which was beneficially interested in 114,801,600 Shares, representing approximately 14.35% of the issued share capital of the Company as at the date of the Subscription Agreement, Starr Investments Cayman V, Inc. is a connected person of the Company and the Subscription is a connected transaction of the Company subject to announcement, reporting and Independent Shareholder's approval requirements. As Ms. Dong Ying Dorothy is a director of Starr Investments Cayman II, Inc., she is considered to have a material interest in the Subscription Agreement and the transactions contemplated thereunder. Ms. Dong Ying Dorothy abstained from voting on the board resolution approving the Subscription Agreement. Further, Starr Investments Cayman II, Inc. will be required to abstain from voting, in respect of its 114,801,600 Shares, on the resolution to approve the Subscription and the transactions contemplated under the Subscription Agreement at the EGM.

Starr Investments Cayman V, Inc. is an associate of Starr Investments Cayman II, Inc., a substantial shareholder of the Company. Therefore, the Subscription constitutes a connected transaction of the Company. Upon the Subscription Completion and the Acquisition Completion, the Target Company will be owned as to 51% by the Company and as to 49% by Century East, which will be a connected person of the Company. The Target Company will therefore be a connected person of the Company pursuant to Rule 14A.16 of the Listing Rules. Accordingly, the Loan will constitute a financial assistance provided to a connected person of the Company which is subject to the requirements of reporting, announcement and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

Save as aforesaid, none of the Shareholders have any material interest in the transactions contemplated under the Subscription Agreement and are therefore required to abstain from voting at the EGM.

B. DISCLOSEABLE AND CONNECTED TRANSACTION

THE ACQUISITION

Acquisition Agreement

Date: 26 September 2014

Parties:
(a) the Company; and
(b) Century East.

Assets to be acquired

Century East has conditionally agreed to sell and the Company has conditionally agreed to purchase the Sale Shares.

Conditions of the Acquisition

The Acquisition is conditional upon, among others:

(a) the Company being reasonably satisfied with the results of such enquiries, investigations and due diligence reviews of the business, affairs, operations and financial position of the Target Group by the Company or any of its officers, employees, agents, professional advisers or other agents as the Company in its discretion deems necessary, desirable or appropriate to undertake;

(b) the Independent Shareholders' approval at the EGM in relation to (i) the entering into of the Acquisition Agreement; (ii) the allotment and issue of the Consideration Shares; and (iii) all other transactions contemplated under the Acquisition Agreement having been obtained, in accordance and compliance with the Listing Rules;

(c) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange, and such approval shall not be revoked prior to the Acquisition Completion;

(d) the warranties under the Acquisition Agreement remaining true and accurate in all respects and not misleading in any respect as of the date of the Acquisition Completion by reference to the facts and circumstances subsisting thereat;

(e) no notice, order, judgment, action or proceeding of any court, arbitrator, authority, statutory or regulatory body having been served, issued or made which restrains, prohibits or makes unlawful any transaction contemplated by the Acquisition Agreement or which is reasonably likely to materially and adversely affect the right of the Company to own the legal and beneficial title to the Sale Shares, free from encumbrances, following the Acquisition Completion;

(f) save for the approvals and consents referred to in (b) and (c) above, all necessary approvals and consents required to be obtained by any of the parties to the Acquisition Agreement from any authority or other third party in respect of the Acquisition Agreement and/or the transactions contemplated thereunder having been obtained unconditionally and irrevocably, or where such approval or consent is given subject to conditions, on such conditions as are acceptable to the Company;

(g) the conditions contained in the Subscription Agreement (other than that relating to satisfactions/waiver of conditions under the Acquisition Agreement, the Subscription Completion and the Acquisition Completion) having been satisfied or waived in accordance with the terms therein;

(h) Century East having complied with all its obligations under the Acquisition Agreement which are required to be complied with before Acquisition Completion; and

(i) Century East having delivered to the Company legal opinions as to the laws of the BVI, Hong Kong and PRC.

If the conditions above (other than those set out in (d), (e) and (g) above) are not satisfied or waived on or before the Long Stop Date or, in respect of the conditions set out in (d), (e) and (g) above, not satisfied or waived by the Company on the date of the Acquisition Completion, the Acquisition Agreement shall lapse automatically, without prejudice to the rights and liabilities of any party accrued prior to such lapse. The waiver is to provide flexibility in situations where only a small part of a particular condition may not have been fulfilled or the benefit which the Company may derive from the Acquisition greatly outweighs the loss which the Company may suffer as a result of the waiver of a particular condition. Without the right on the part of the Company to waive the conditions, Century East may terminate the Acquisition Agreement on the grounds that the conditions have not been fulfilled in situations which Century East sees expedient in termination. Such rights to waive fulfillment of the conditions are common in agreements of similar natures. The Directors will exercise due care in discharge of their duties in deciding whether to waive a particular condition. As at the Latest Practicable Date, the condition in clause (i) has been satisfied and the Company does not intend to invoke the waiver which has been included in the Acquisition Agreement for the benefit of the Company.

Consideration

The consideration for the Sale Shares is US$5,200,000 (equivalent to approximately HK$40,300,000).

The Board is of the view that the consideration for the Acquisition is fair and reasonable and was determined after arm's length negotiation between the parties with reference to the unaudited consolidated net asset value of the Target Group as at 31 August 2014, the business model and prospects of the Target Group and the prevailing economic and market conditions.

The consideration for the Acquisition will be settled by the allotment and issue of the Consideration Shares to the shareholders of Century East, credited as fully paid, at the Issue Price upon Acquisition Completion as follows:

Name	No. of Consideration Shares
CIH	84,263,636
Starr Investments Cayman V, Inc.	18,318,182
Jinyu Developments	14,043,939
SDF II Holdings	5,495,455
Total	122,121,212

The Consideration Shares represent approximately 15.27% of the issued share capital of the Company as at the Latest Practicable Date and approximately 7.97% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Consideration Shares.

Issue Price

The Issue Price represents:

(i) a discount of approximately 29.03% to the closing price of HK$0.465 per Share as quoted on the Stock Exchange on the Last Trading Day;

(ii) a discount of approximately 23.26% to the average closing price per Share of HK$0.43 for the last 5 consecutive trading days up to and including the Last Trading Day;

(iii) a discount of approximately 21.43% to the average closing price per Share of HK$0.42 for the last 10 consecutive trading days up to and including the Last Trading Day;

(iv) a discount of approximately 19.51% to the average closing price per Share of HK$0.41 for the last 30 consecutive trading days up to and including the Last Trading Day;

(v) a discount of approximately 73.60% to the unaudited consolidated net asset value per Share of approximately HK$1.25 as at 30 June 2014; and

(vi) a discount of approximately 47.62% to the closing price of HK$0.63 per Share as quoted on the Stock Exchange on the Latest Practicable Date.

The Issue Price, which is equal to the Subscription Price, was arrived at after negotiations between the Company and Century East with reference to the liquidity and recent trading performance of the Shares. The Directors consider that the Issue Price and the terms of the Acquisition Agreement are fair and reasonable and are in the interests of the Company and the Shareholders as a whole.

Ranking of the Consideration Shares

The Consideration Shares, when allotted and issued, will rank equally in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares.

Mandate to issue the Consideration Shares

The Consideration Shares will be allotted and issued under the Specific Mandate which is subject to the Shareholders' approval.

Application for listing

Application will be made by the Company to the Listing Committee for the listing of, and permission to deal in, the Consideration Shares.

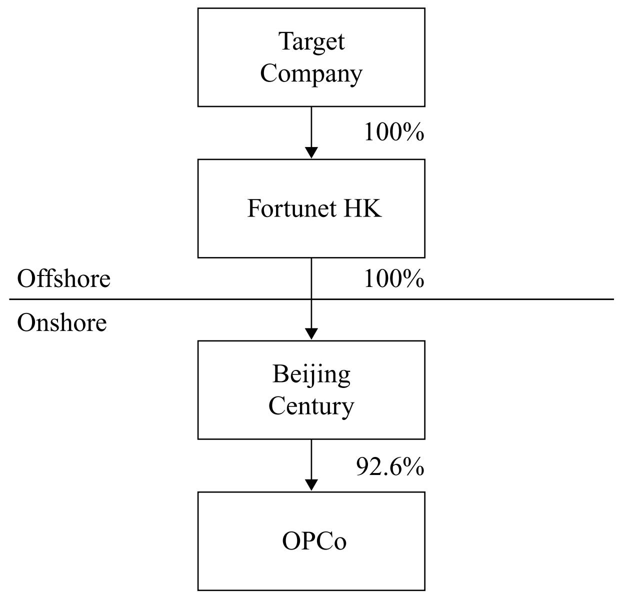
Completion

Subject to the fulfilment of the conditions of the Subscription and the Acquisition, Acquisition Completion will take place simultaneously with the Subscription Completion.

INFORMATION OF THE TARGET GROUP

Corporate Structure

The corporate structure of the Target Group is as follows:



The Target Company is a company incorporated in the BVI. As at the date of the Acquisition Agreement, the Target Company was wholly owned by Century East. Following the Acquisition Completion, each member of the Target Group will become a subsidiary of the Company.

The Target Group started its electronic commerce business in May 2013 through the establishment of a cross-border business-to-business electronic distribution platform, CCIGMALL.com., where the Target Group sources, imports and channels authentic goods from suppliers abroad, and then distributes and resells such goods to domestic retailers in the PRC.

Since May 2013, the Target Group has conducted thorough market operation researches, liaised with overseas suppliers, secured co-operation and distribution channels, and developed the platform for the operation of CCIGMALL.com. As at the Latest Practicable Date, the Target Group had built the beta version of CCIGMALL for testing, secured a number of distributors and overseas suppliers, and entered into co-operation agreements with each of CHINAUMS (a subsidiary of China Unionpay), Bank of China and China Telecom Bestpay.

The business model of the Target Group is to set up a direct path between pre-identified overseas suppliers, distributors and domestic retailers in the PRC. The CCIGMALL.com platform adopts the order driven model in that retailers place their orders at designated terminals through the CCIGMALL.com platform and the orders will then be pulled together by the Target Group and sent to distributors and suppliers online directly. The distributors, upon accepting the orders and completing customs clearance, will then deliver the goods to the retailers in the PRC. The key value and competitive strength of such business model is that it incurs less intermediaries cost, unlike the traditional trading business model.

The Target Group, as the operator of the CCIGMALL.com platform, generates revenue from the spread between the selling price asked by the overseas suppliers and the purchase cost offered by the domestic retailers, unlike the traditional electronic commerce trading platform where the platform operator generates revenue by receiving commission or platform service fee.

Besides, CCIGMALL.com platform targets to maintain a vast database and analysing system, which could collect and analyse data of users' consumption behaviour and generate data of stock and supplies of distributors to continually guide and optimize suppliers' product procurement and downstream retailers' network expansion. The platform would also provide data support for the pricing of wholesaling and retailing products.

In particular, the Target Group has already entered into an agreement with CHINAUMS to leverage on the network of the latter to promote the CCIGMALL.com platform terminal to the millions of retailers of the latter. It is envisaged that each terminal of China Unionpay will be equipped with software applications to allow retailers access to the CCIGMALL.com platform.

The Target Group is managed by a team with extensive experience in telecommunications, information technology and e-commerce industry, including but not limited to, the areas of software and website development and engineering, sales and marketing, brand and operation management gathered through their previous positions at various prestigious corporations.

The original cost of the Target Group to Century East was approximately RMB3.76 million.

The CCIGMALL.com website, a business-to-business platform that provides connection capability among suppliers, dealers and retailers through internet, was officially launched to the public on 5 December 2014. As at the Latest Practicable Date, the Target Group had selected about 300 out of 500 qualified suppliers from Italy, and secured 30 suppliers to offer over 200 products. Over 2,600 retailers in the PRC have installed CCIG terminals that are connected to the CCIGMALL platform and the products offered include food, personal care products, clothes and accessories and footwear. The Target Group aims at securing 500 products and 5,000 retailers in the first quarter of 2015, and 100 suppliers and 2,000 products by the end of 2015. The trading function of CCIGMALL.com had not yet been in operation as at the Latest Practicable Date. Century East expects that CCIGMALL.com may perform its trading function for the users in the second quarter of 2015.

In respect of CCIGMALL.com, Century East plans to implement the following development strategies:

– expand the supplier base and product range;

– recruit and develop sales and procurement teams;

– increase the public awareness of the platform through various promotion and advertising campaigns (i.e. advertising on search engines, websites, outdoor billboard and transportation, and offering festive promotions);

– induce recurrent sales by offering promotional discounts or other promotional offers; and

– continuously upgrade the functionality of the platform, including maintaining a database and analyzing system that collects and analyzing user behavior as mentioned above.

To implement the above strategies, assuming that the drawdown amount of the Loan is to be US$26 million (approximately RMB160 million), the Target Group intends to utilize the fund as follows:

	RMB'000	%
Human resource – salary, wages and recruitment	56	35%
Research and development	26	16%
Marketing and advertising	21	13%
Outsourcing of sales function	20	13%
Capital expenditure – acquisition of software and hardware	18	11%
Finance costs	12	8%
Other administrative expenses	7	4%
Total	160	100%

Should the drawdown amount be less than US$26 million, the Target Group would downwards adjust the above allocation proportionately.

The Target Company acquired the OPCo in August 2014. Before OPCo started its electronic commerce business in May 2013, it also held 46% interest in CSMM via a wholly-owned subsidiary (the "**Subsidiary**"). The Subsidiary is principally engaged in project management and investment management. CSMM is a subsidiary of China Telecom and is principally engaged in satellite communication, satellite multimedia broadcasting, satellite differential precise positioning and satellite value-added telecom services. In April 2014, to focus on the electronic commerce business, the OPCo disposed of its 100% interest in the Subsidiary to its then equity holders. Subsequent to such disposal, OPCo has not held any subsidiary or associate company.

FINANCIAL INFORMATION ON THE TARGET GROUP

Set out below is the audited consolidated financial information of the Target Group based on Hong Kong Financial Reporting Standards ("**HKFRS**") for the period commencing from 8 March 2013 (i.e. date of incorporation of the Target Company) to 31 December 2013 and the eight months ended 31 August 2014:

	From 8 March 2013 to 31 December 2013	**For the eight months ended 31 August 2014**
	RMB'000	*RMB'000*
Net consolidated profit (loss) before and after tax	–	3,899

Set out below is the audited consolidated financial information of OPCo and its subsidiaries based on HKFRS for the two years ended 31 December 2013 and for the eight months ended 31 August 2014:

	For the year ended 31 December 2012	**For the year ended 31 December 2013**	**For the eight months ended 31 August 2014**
	RMB'000	*RMB'000*	*RMB'000*
Net loss before and after tax	(2,183)	(4,794)	(11,116)

The audited consolidated net assets of the Target Group as at 31 August 2014 was RMB62,911,631 and the audited net assets of OPCo as at 31 August 2014 was RMB46,166,043.

INFORMATION ON CENTURY EAST

Century East is a company incorporated in BVI and is principally engaged in investment holding.

INFORMATION ON THE COMPANY AND REASONS FOR THE ACQUISITION

The Company 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 Company is principally engaged in the manufacturing and selling of axle assemblies and axle components in the PRC.

As mentioned in the Company's interim report for the six months ended 30 June 2014, the Directors consider that 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. In particular, the Group recorded a consolidated loss attributable to owners of the Company of approximately RMB 51.54 million for the six months ended 30 June 2014 and RMB 208.25 million for the year ended 31 December 2013.

In view of the recent unsatisfactory financial results, the Directors are of the view that it is appropriate for the Company to seek other suitable business opportunities and income streams to diversify the existing business of the Group to strive for growth potential and maximize the returns to the Shareholders. The Directors (other than the independent non-executive Directors) are of the view that the Subscription and the Acquisition represent a valuable opportunity for the Group to bring in solid strategic corporate investors (in particular, the CIH Group) which have extensive experience, strong expertise and a wide business network in the telecommunication, information technology and e-commerce industry and to develop the online peer-to-peer business in the PRC.

CIH, its subsidiaries (collectively the "**CIH Group**") and/or their management team have over 20 years of experience in the telecommunication and media industry and have participated in:

(1) the preparatory work and the sponsorship of China Unicom and the planning and design of China Unicom's nationwide fiber-optic network, and the investment and construction work of GSM mobile communication network and China Unicom satellite signalling system number 7 communications network;

(2) the establishment of CMBSat with a US leading satellite TV operator, Echostar, to design and build a high power S-band satellite. CMBSat was selected as a partner by the State Administration of Press, Publication, Radio, Film and Television of The People's Republic of China (formerly known as State Administration of Radio, Film, and Television（中國國家廣播電影電視總局）to participate in the China Mobile Multimedia broadcasting service project;

(3) the operation of CSMM; and

(4) the development of satellite and ground supplementary network, conduct market research and user survey, network and operation system design and project operation and service planning for the China Telecom satellite and terrestrial mobile multimedia project.

Starr Investments Cayman V, Inc. is an investment vehicle indirectly wholly-owned by Starr International Company Inc., which is ultimately owned by Starr International Foundation, a charitable foundation established in Switzerland. Since 2006, Starr International Company Inc. has invested close to US$ one billion as direct investments in China outside the insurance sector and China focused private equity funds. Among its investments, it has a strong focus on technology, media, telecom, internet consumer, healthcare services and logistics sectors. As a financial investor, Starr International Company Inc. will use its global network and industrial resources to assist the management team of the Company to grow its business.

Both Jinyu Developments and SDF II Holdings are principally engaged in investment holdings and their respective shareholders, namely Ms. Jindi Wu and Mr. Hui Ching Lau, are individual investors.

The Directors consider that the Acquisition and the transactions contemplated thereunder are on normal commercial terms after arm's length negotiation between the parties, fair and reasonable and in the interests of the Company and the Shareholders as a whole.

LISTING RULES IMPLICATIONS

As one or more of the applicable percentage ratios of the Listing Rules in respect of the Acquisition exceeds 5% and all of the applicable percentage ratios are less than 25%, the Acquisition constitutes a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

In addition, upon the Subscription Completion and the Acquisition Completion, the shareholders of Century East will in aggregate be interested in 732,727,272 Shares, representing approximately 47.81% of the issued share capital of the Company as enlarged by the allotment and issue of the Subscription Shares and the Consideration Shares. Century East and its shareholders, being substantial shareholders of the Target Company according to Rule 14A.29 of the Listing Rules, will therefore become the controlling shareholders and the controllers, within the meaning of the Listing Rules, of the Company. Accordingly the entering into of the Acquisition Agreement also constitutes a connected transaction of the Company according to Rule 14A.28 of the Listing Rules and the transactions contemplated under the Acquisition Agreement, including the issue of the Consideration Shares, are subject to the requirements of reporting, announcement and Independent Shareholders' approval under Chapter 14A of the Listing Rules.

Since Starr Investments Cayman II, Inc., which is beneficially interested in 114,801,600 Shares, representing approximately 14.35% of the issued share capital of the Company as at the date of the Acquisition Agreement, is an associate of Starr Investments Cayman V, Inc., a shareholder of Century East, Starr Investments Cayman II, Inc. is considered to have a material interest in the Acquisition Agreement and the transactions contemplated thereunder and will therefore be required to abstain from voting, in respect of its 114,801,600 Shares, on the resolution to approve the Acquisition and the transactions contemplated under the Acquisition Agreement at the EGM. As Ms. Dong Ying Dorothy is a director of Starr Investments Cayman II, Inc., she is considered to have a material interest in the Acquisition Agreement and the transactions contemplated thereunder. Ms. Dong Ying Dorothy abstained from voting on the board resolution approving the Acquisition Agreement.

Save as aforesaid, none of the Shareholders have any material interest in the transactions contemplated under the Acquisition Agreement and are therefore required to abstain from voting at the EGM.

INTENTION OF CENTURY EAST, CIH, STARR INVESTMENTS CAYMAN V, INC., JINYU DEVELOPMENTS AND SDF II HOLDINGS

Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings consider and confirm that:

(i) it is intended that the Group will continue with its existing business following the Subscription Completion and the Acquisition Completion;

(ii) they share the view of the Directors as disclosed in the paragraph headed "Information on the Company and reasons for the Acquisition" above, in which it is mentioned that the Subscription and the Acquisition are in the interests of the Group in the long term and they represent suitable business opportunities and income streams to diversify the existing business of the Group and to strive for growth potential and maximize the returns to the Shareholders; and

(iii) there is no current intention to introduce any major changes to the existing business of the Group or the continued employment of the Group's employees and there is no current intention to redeploy the fixed assets of the Group other than in its ordinary course of business.

The Board considers that the intentions of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings in respect of the Group and its employees will maintain the continuity of the business of the Group which is in the interests of the Company and the Shareholders as a whole.

The Company has not entered into or proposed to enter into any agreement, arrangement, understanding or undertaking, whether formal or informal, express or implied, and negotiation (whether concluded or not) with an intention to acquire any new asset, business or body corporate, other than pursuant to the Acquisition Agreement and in the ordinary course of business, and/or to dispose of the existing business of the Group.

CHANGES TO THE SHAREHOLDING IN THE COMPANY AS A RESULT OF THE ISSUE OF THE SUBSCRIPTION SHARES AND THE CONSIDERATION SHARES

The following table sets out the shareholding structure of the Company (based on the best knowledge of the Directors) (i) as at the Latest Practicable Date; (ii) immediately upon the Subscription Completion; and (iii) immediately upon the Subscription Completion and the Acquisition Completion (assuming that save for the issue of the Subscription Shares and the Consideration Shares, there is no issue or repurchase of Shares by the Company from the Latest Practicable Date to the date of the Subscription Completion and there is no exercise of any options granted under the Share Option Scheme):

	As at the Latest Practicable Date		**Upon Subscription Completion**		**Upon Subscription Completion and Acquisition Completion**	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
1. Changfeng BVI *(Note 1)*	406,128,560	50.77%	406,128,560	28.79%	406,128,560	26.49%
2. Starr Investments Cayman II, Inc. *(Note 2)*	114,801,600	14.35%	114,801,600	8.14%	114,801,600	7.49%
3. CIH	0	0%	421,318,182	29.87%	505,581,818	32.99%
4. Starr Investments Cayman V, Inc. *(Note 3)*	0	0%	91,590,909	6.49%	109,909,091	7.17%
Public Shareholders						
5. Jinyu Developments	0	0%	70,219,697	4.98%	84,263,636	5.50%
6. SDF II Holdings	0	0%	27,477,272	1.95%	32,972,727	2.15%
Subtotal (2+3+4+5+6)	***114,801,600***	***14.35%***	***725,407,660***	***51.43%***	***847,528,872***	***55.30%***
7. Other public Shareholders	279,069,840	34.88%	279,069,840	19.78%	279,069,840	18.21%
Total	800,000,000	100%	1,410,606,060	100%	1,532,727,272	100%

Notes:

1. Changfeng BVI is owned as to 50% by Wu Ching and as to 50% by Wong Kwai Mo.

2. Starr Investments Cayman II, Inc. is wholly-owned by Starr International Cayman, Inc., which is in turn wholly-owned by Starr Insurance and Reinsurance Ltd.. Starr Insurance and Reinsurance Ltd. is a wholly-owned subsidiary of Starr International Investments Ltd., which is in turn wholly-owned by Starr International Company Inc. Starr International Company Inc. is wholly-owned by Starr International AG, which is wholly-owned by Starr International Foundation, a charitable foundation established in Switzerland.

3. Starr Investments Cayman V, Inc. is wholly-owned by Starr International Investments Ltd., which is in turn wholly-owned by Starr International Company Inc.. Starr International Company Inc. is wholly-owned by Starr International AG, which is wholly-owned by Starr International Foundation, a charitable foundation established in Switzerland.

4. As at the Latest Practicable Date, Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) are interested in 114,801,600 Shares, representing approximately 14.35% of the issued share capital of the Company. Upon Subscription Completion and Acquisition Completion, Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) will be interested in 847,528,872 Shares, representing approximately 55.30% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Consideration Shares.

ARRANGEMENTS AND AGREEMENTS BETWEEN SHAREHOLDERS OF CENTURY EAST AND BETWEEN CENTURY EAST AND ITS SHAREHOLDERS

The Company has been advised by Century East and CIH as follows:

(a) Under each of the subscription agreements in respect of the subscription of shares of Century East entered into between (i) Century East and (ii) Starr Investments Cayman V, Inc. and SDF II Holdings, certain covenants of Century East and its subsidiaries in relation to the operation and management of Century East and its subsidiaries will terminate immediately prior to but subject to the consummation of (i) the listing of the securities of Century East or any of its subsidiaries on the stock exchanges specified including the Main Board of the Stock Exchange or any combination of such exchanges ("**Qualified IPO**") or (ii) the acquisitions by Century East or its shareholders of not less than 30% of the issued share capital of a listed issuer on the Main Board of the Stock Exchange carrying voting rights, leading to the shareholders of Century East together becoming the controlling shareholder (as defined in the Listing Rules) of the listed issuer, and a disposal of at least the majority interest in the Target Company to the said listed issuer such that the Target Company becomes a subsidiary of the said listed issuer (the "**Proposed Transaction**").

(b) The investors' rights agreement entered into between Century East, CIH, Ms. Pun Tang (the sole shareholder of CIH) and Starr Investments Cayman V, Inc. governing the relationship between CIH and Starr Investments Cayman V, Inc. as shareholders in Century East (including the restrictions on the transfer of equity securities in Century East and CIH and the pre-emptive and co-sale rights of Starr Investments Cayman V, Inc. in respect of the equity securities of Century East) and the management of Century East and its subsidiaries will terminate immediately prior to but subject to the consummation of (i) the Qualified IPO or (ii) the Proposed Transaction.

(c) CIH and Ms. Pun Tang (the sole shareholder of CIH) have granted to each of Starr Investments Cayman V, Inc. and SDF II Holdings the rights to sell the shares of Century East held by it, at the put price which is equivalent to the original subscription price that it paid plus a premium representing an internal rate of return of 10% per annum, compounded annually, if Century East fails to effect (i) the Qualified IPO or (ii) the Proposed Transactions on or prior to 23 September 2017 (which can be extended twice for an additional year each upon written approval of Starr Investments Cayman V, Inc. or SDF II Holdings (as the case may be)) or such other date as Century East, CIH, Starr Investments Cayman V, Inc. or SDF II Holdings (as the case may be) may all agree in writing. If any of CIH, Century East, Ms. Pun Tang and certain subsidiaries of Century East refuses to (i) procure the Qualified IPO or (ii) effect the Proposed Transactions without sufficient and valid reason after the approvals of the regulatory authorities have been granted, the price at which the put option may be exercised by Starr Investments Cayman V Inc. or SDF II Holdings (as the case may be) will be the subscription price that they paid plus the premium representing an internal rate of return of 20% per annum, compounded annually.

(d) Century East and Starr Investments Cayman V, Inc. have entered into an agreement pursuant to which Century East agreed to, among other things, take all steps to authorise Century East to distribute, and to exercise its rights to cause the Company to distribute, the Subscription Shares and the Consideration Shares to Starr Investments Cayman V, Inc. in accordance with the Subscription Agreement and the Acquisition Agreement respectively.

Save for (i) the arrangements and agreements disclosed in the Announcement and this circular and (ii) being Century East's shareholders, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings do not have any other relationships with each other.

TAKEOVERS CODE IMPLICATIONS

Upon Subscription Completion and Acquisition Completion, a total of 732,727,272 Shares will be issued to CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings. CIH, Starr Investments Cayman V, Inc, Jinyu Developments and SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) will in aggregate hold 847,528,872 Shares, representing approximately 55.30% of the issued share capital of the Company as enlarged by the issue of the Subscription Shares and the Consideration Shares (assuming that no other Shares will be issued or repurchased by the Company from the Latest Practicable Date and up to the Subscription Completion and the Acquisition Completion). Accordingly, Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments, SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.), in the absence of the Whitewash Waiver, would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by them. Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments, SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) have made an application to the Executive for the Whitewash Waiver. The Whitewash Waiver, if granted, would usually be subject to the approval of the Independent Shareholders at the EGM, among others.

If the Whitewash Waiver is approved by the Independent Shareholders, then the obligation by Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments, SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) to make a mandatory general offer under Rule 26 of the Takeovers Code will be waived.

If the Whitewash Waiver is approved by the Independent Shareholders, the aggregate shareholding of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments, SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) in the Company will exceed 50%. They may as a concert group further increase their shareholdings in the Company without incurring any further obligations under Rule 26 of the Takeovers Code to make a general offer.

Save for the Subscription Agreement and the Acquisition Agreement, Century East, CIH, Starr Investments Cayman V, Inc. Jinyu Developments and SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) have not acquired or disposed of or entered into any agreement or arrangement to acquire or dispose of, voting rights in the Company during the Relevant Period.

As at the Latest Practicable Date and save as disclosed in this circular, each of Century East, CIH, Starr Investments Cayman V, Inc. Jinyu Developments, SDF II Holdings and Starr Investments Cayman II, Inc. has confirmed that:

(i) none of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings or parties acting in concert with them (including Starr Investments Cayman II, Inc.) has received an irrevocable commitment from anyone to vote for the Subscription, the Acquisition and the Whitewash Waiver;

(ii) none of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings or parties acting in concert with them (including Starr Investments Cayman II, Inc.) holds any shares, convertible securities, warrants or options of the Company or over which it has control or direction;

(iii) none of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings or any person acting in concert with them (including Starr Investments Cayman II, Inc.) has entered into outstanding derivative in respect of securities in the Company;

(iv) there are no arrangements (whether by way of option, indemnity or otherwise) in relation to the shares of Century East or the Company and which might be material to the Subscription, the Acquisition or the Whitewash Waiver;

(v) there is no agreement or arrangement to which any of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments, SDF II Holdings and nor any person acting in concert with them (including Starr Investments Cayman II, Inc.) is party which relates to the circumstances in which any of them may or may not invoke or seek to invoke a pre-condition or a condition to the Subscription, the Acquisition or the Whitewash Waiver (save as the conditions precedent to the Subscription and the Acquisition); and

(vi) there are no Relevant Securities in the Company which Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings or any person acting in concert with them (including Starr Investments Cayman II, Inc.) has borrowed or lent, save for any borrowed shares which have been either on-lent or sold.

GENERAL INFORMATION

Independent Board Committee and Independent Financial Adviser

The Independent Board Committee has been established to consider the terms and conditions of the Subscription Agreement, the Acquisition Agreement, the Loan and all transactions contemplated thereunder (including issue and allotment of the Consideration Shares and the Subscription Shares under the Specific Mandate) and the Whitewash Waiver, and advise the Independent Shareholders as to whether (1) the terms and conditions of the Subscription Agreement, the Loan, the Acquisition Agreement and the respective transactions contemplated thereunder (including issue and allotment of the Consideration Shares and the Subscription Shares under the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole and; (2) the terms and conditions of the Whitewash Waiver are fair and reasonable and in the interests of the Company and the Shareholders as a whole, and to give its recommendation as to the voting in respect of the resolutions to be proposed at the EGM for approving the Subscription Agreement and all transactions contemplated thereunder (including issue and allotment of the Subscription Shares under the Specific Mandate and the Loan), the Acquisition Agreement (including issue and allotment of the Consideration Shares under the Specific Mandate) and the Whitewash Waiver, after taking into account the recommendation of Somerley Capital Limited, which has been appointed in this regard to advise the Independent Board Committee and the Independent Shareholders, and such appointment has been approved by the Independent Board Committee.

The Independent Board Committee has been established in compliance with Rule 14A.41 of the Listing Rules and Rule 2.8 of the Takeovers Code comprising all of the independent non-executive Directors, namely Mr. Zhu Weizhou, Dr. Li Xiuqing and Mr. Chong Ching Hei. According to Rule 2.8 of the Takeovers Code, the independent board committee established thereunder should comprise all non-executive Directors who have no direct or indirect interest in the Whitewash Waiver. Ms. Dong Ying, Dorothy, the non-executive Director, is a director of Starr Investments Cayman II, Inc., an associate of Starr Investments Cayman V, Inc., she is thus considered to have a material interest in the Subscription Agreement, the Acquisition Agreement and the respective transactions contemplated thereunder as well as the Whitewash Waiver. Accordingly, she is not offered membership of the Independent Board Committee.

The letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Subscription Agreement, the Loan, the Acquisition Agreement and the respective transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Subscription Shares under the Specific Mandate) and the Whitewash Waiver is set out on pages 42 to 72 of this circular. Shareholders are advised to read the letter carefully.

Shareholders and potential investors should note that the Subscription Agreement and the Acquisition Agreement are subject to the fulfilment of a number of conditions, and accordingly, the transactions contemplated thereunder may or may not proceed. Shareholders and potential investors should exercise extreme caution when dealing in the Shares.

EGM

The Company will convene the EGM at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on 10 March 2015 (Tuesday) at 2 p.m. to consider and if thought fit, approve the Subscription Agreement and all transactions contemplated thereunder (including the allotment and issue of the Subscription Shares under the Specific Mandate and the Loan), the Acquisition Agreement (including issue and allotment of the Consideration Shares under the Specific Mandate), the Whitewash Waiver and the Appointment of Directors. The notice of the EGM is set out on pages EGM-1 and EGM-3 of this circular. The voting on such resolutions will be conducted by way of poll in accordance with Rule 13.39(4) of the Listing Rules and Rule 2.9 of the Takeovers Code.

To the best of the Directors' knowledge, information and belief, after having made reasonable enquiries, save for Starr Investments Cayman II, Inc. (which was interested in 114,801,600 Shares as at the Latest Practicable Date), no other Shareholders are required to abstain from voting at the EGM in respect of the resolutions to approve the Subscription Agreement and all transactions contemplated thereunder (including the allotment and issue of the Subscription Shares under the Specific Mandate and the Loan), the Acquisition Agreement (including issue and allotment of the Consideration Shares under the Specific Mandate) and the Whitewash Waiver.

The Company will publish an announcement on the results of the EGM in accordance with Rule 13.39(5) of the Listing Rules and Rule 2.9 of the Takeovers Code after the EGM.

A form of proxy for the EGM for use by the Shareholders is enclosed with this circular. Whether or not you are able to attend the EGM in person, you are requested to complete and return the form of proxy in accordance with the instructions printed thereon and return the same to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong as soon as possible but in any event no later than 48 hours before the time appointed for the holding of the EGM or any adjournment thereof (as the case may be). Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM or any adjournment thereof should you so wish (as the case may be).

RECOMMENDATIONS

You are advised to read carefully the letter from the Independent Board Committee on pages 40 to 41 of this circular. The Independent Board Committee, having taken into account the advice of Somerley Capital Limited, the text of which is set out on pages 42 to 72 of this circular, consider that (1) the terms and conditions of the Subscription Agreement, the Acquisition Agreement, the Loan and all transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Subscription Shares under the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (2) the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole. Accordingly, the Independent Board Committee recommends the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

The Directors, consider that (1) the terms and conditions of the Subscription Agreement, the Loan, the Acquisition Agreement and the respective transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Subscription Shares under the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; (2) the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (3) the Appointment of Directors is in the interests of the Company and the Shareholders as a whole, and recommend the Independent Shareholders to vote in favour of the relevant resolutions to be proposed at the EGM.

ADDITIONAL INFORMATION

Your attention is drawn to the additional information set out in the appendices to this circular.

Yours faithfully,
By Order of the Board
Changfeng Axle (China) Company Limited
Mr. Wong Kwai Mo
Chairman

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)

17 February 2015

To: the Independent Shareholders

Dear Sir or Madam,

We refer to the circular of the Company to the Shareholders dated 17 February 2015 (the "**Circular**"), of which this letter forms part. Unless the context requires otherwise, capitalized terms used in this letter will have the same meanings as defined in the Circular unless the context otherwise requires.

We have been authorised by the Board to form the Independent Board Committee to advise the Independent Shareholders as to whether (1) the terms and conditions of the Subscription Agreement, the Loan, the Acquisition Agreement and the respective transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Subscription Shares under the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (2) the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole.

We wish to draw your attention to the letter of advice from Somerley Capital Limited appointed to advise the Independent Board Committee and the Independent Shareholders on the terms and conditions of the Subscription Agreement, the Loan, the Acquisition Agreement and the respective transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Subscription Shares under the Specific Mandate) and the Whitewash Waiver as set out on pages 42 to 72 of the Circular and the letter from the Board as set out on pages 8 to 39 of the Circular.

Having considered the factors and reasons considered, and the opinions as stated in its letter of advice, we consider that (1) the terms and conditions of the Subscription Agreement, the Loan, the Acquisition Agreement and the respective transactions contemplated thereunder (including the allotment and issue of the Consideration Shares and the Subscription Shares under the Specific Mandate) are on normal commercial terms, fair and reasonable and in the interests of the Company and the Shareholders as a whole; and (2) the Whitewash Waiver is fair and reasonable and in the interests of the Company and the Shareholders as a whole and accordingly recommend the Independent Shareholders to vote in favour of the ordinary resolutions in relation to the Subscription Agreement and all transactions contemplated thereunder (including issue and allotment of the Subscription Shares under the Specific Mandate and the Loan), the Acquisition Agreement (including issue and allotment of the Consideration Shares under the Specific Mandate) and the Whitewash Waiver to be proposed at the EGM.

Yours faithfully,
For and on behalf of the
Independent Board Committee of
Changfeng Axle (China) Company Limited
Mr. Zhu Weizhou
Dr. Li Xiuqing
Mr. Chong Ching Hei
Independent Non-executive Directors

The following is the full text of a letter of advice from Somerley Capital Limited, the independent financial adviser to the Independent Board Committee and the Independent Shareholders in connection with the Subscription Agreement, the Acquisition Agreement and the respective transactions contemplated thereunder, and the Whitewash Waiver, which has been prepared for the purpose of incorporation into this circular.

SOMERLEY CAPITAL LIMITED
20th Floor
China Building
29 Queen's Road Central
Hong Kong

17 February 2015

To: the Independent Board Committee and the Independent Shareholders

Dear Sirs,

(I) SUBSCRIPTION OF NEW SHARES AND CONNECTED TRANSACTION (II) DISCLOSEABLE AND CONNECTED TRANSACTION (III) FINANCIAL ASSISTANCE TO A CONNECTED PERSON (IV) WHITEWASH WAIVER APPLICATION

INTRODUCTION

We refer to our appointment to advise the Independent Board Committee and the Independent Shareholders in relation to:

(i) the acquisition by the Company of 51% of the entire issued share capital of the Target Company from Century East pursuant to the Acquisition Agreement;

(ii) the subscription by Century East of 610,606,060 new Shares pursuant to the Subscription Agreement;

(iii) the unsecured loan granted by the Company to the Target Company pursuant to the Loan Agreement; and

(iv) the Whitewash Waiver application made by Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments, SDF II Holdings and parties acting in concert with them (including Starr Investments Cayman II, Inc.) as a result of the Acquisition and the Subscription.

Details of the Acquisition, the Subscription, the Loan and the Whitewash Waiver are contained in the circular to the Shareholders dated 17 February 2015 (the "**Circular**"), of which this letter forms a part. Unless the context otherwise requires, capitalised terms used in this letter shall have the same meanings as those defined in the Circular.

The Acquisition and the Subscription will result in a change in the controlling shareholder of the Company and composition of the Board. Upon the Acquisition Completion and Subscription Completion, CIH will become the controlling shareholder of the Company whereas Changfeng BVI will become the second largest shareholder of the Company. Moreover, Century East proposes to nominate four candidates as the Directors, with experience in the fields of, among other things, information technology. Save as Ms. Wu Ching and Ms. Dong Ying Dorothy, all other existing Directors shall resign with effect from the Subscription Completion. For details of the proposed directors, please refer to the sub-section headed "Appointment of Directors" under the section headed "A. The Subscription" in "Letter from the Board" contained in the Circular. Despite the aforesaid changes, it is intended that the Group will continue with its existing business following the Acquisition Completion and Subscription Completion, as disclosed in "Letter from the Board" contained in the Circular.

Century East and its shareholders will become the controlling shareholders of the Company upon the Acquisition Completion and Subscription Completion. Accordingly, the Acquisition will constitute a connected transaction of the Company under Rule 14A.28 of the Listing Rules. In addition, the Acquisition will constitute a discloseable transaction of the Company under Chapter 14 of the Listing Rules.

Starr Investments Cayman V, Inc., a substantial shareholder of Century East, is an associate of Starr Investments Cayman II, Inc., a substantial shareholder of the Company, and is therefore a connected person of the Company. Accordingly, the Subscription is a connected transaction of the Company.

Upon the Acquisition Completion and Subscription Completion, the Target Company will be owned as to 51% by the Company and as to 49% by Century East which will be a connected person of the Company. The Target Company will therefore be a connected person of the Company under Rule 14A.16 of the Listing Rules. Accordingly, the Loan will constitute financial assistance provided to a connected person of the Company.

As the shareholders of Century East and parties acting in concert with them (including Starr Investments Cayman II, Inc.) will in aggregate hold more than 30% of the issued share capital of the Company upon the Acquisition Completion and Subscription Completion, they would be obliged to make a mandatory general offer under Rule 26 of the Takeovers Code for all the Shares and other securities of the Company not already owned or agreed to be acquired by them unless the Whitewash Waiver is granted by the Executive and approved by the Independent Shareholders.

The Acquisition, the Subscription, the Loan and the Whitewash Waiver (including the issue of the Consideration Shares and the Subscription Shares under the Specific Mandate) are subject to the approval by the Independent Shareholders by way of poll at the EGM. Starr Investments Cayman II, Inc., an associate of Starr Investments Cayman V, shall abstain from voting on the resolutions to approve the Acquisition, the Subscription, the Loan and the Whitewash Waiver.

The Independent Board Committee comprising all independent non-executive Directors, namely Mr. Zhu Weizhou, Dr. Li Xiuqing and Mr. Chong Ching Hei, has been formed to advise the Independent Shareholders in respect of the terms of the Acquisition Agreement, the Subscription Agreement and the Loan Agreement and the transactions contemplated thereunder, and the Whitewash Waiver. The Independent Board Committee has approved the appointment of Somerley Capital Limited as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in this regard.

We are not associated or connected with the Company, Century East or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them and, accordingly, are considered eligible to give independent advice on the Acquisition, the Subscription, the Loan and the Whitewash Waiver. Apart from normal professional fees payable to us in connection with this appointment, no arrangement exists whereby we will receive any fees or benefits from the Company, Century East or their respective substantial shareholders or any party acting, or presumed to be acting, in concert with any of them.

In formulating our advice, we have reviewed, among other things, the Acquisition Agreement, the Subscription Agreement, the annual reports of the Company for the year ended 31 December 2013 (the "**Annual Reports**"), the interim report (the "**Interim Report**") of the Company for the six months ended 30 June 2014 and the material change statement (the "**Material Change Statement**") made by the Directors and set out in Appendix I to the Circular. We have also discussed the businesses and future prospects of the Group with the management of the Group. We have relied on the information and facts supplied, and the opinions expressed, by the Directors and the management of the Group and have assumed that they are true, accurate and complete in all material aspects. Shareholders will be informed as soon as practicable if we become aware of any material change to such information. We have also sought and received confirmation from the Directors that all material relevant information has been supplied to us and that no material facts have been omitted from the information supplied and opinions expressed to us. We have no reason to doubt the truth or accuracy of the information provided to us, or to believe that any material information has been omitted or withheld. We have relied on such information and consider that the information we have received is sufficient for us to reach our advice and recommendation as set out in this letter and to justify our reliance on such information. However, we have not conducted any independent investigation into the business and affairs of any of the Group, the Target Group, Century East and its shareholders.

PRINCIPAL FACTORS AND REASONS CONSIDERED

(A) ACQUISITION

1. Background of the Group

The Group is principally engaged in (i) manufacturing and selling of axle assemblies and axle components to heavy duty truck ("**HDT**") and medium duty truck ("**MDT**") market (the "**OEM and Related Market**"); (ii) providing after-sales axle components to HDT and MDT (the "**Aftermarket Segment**"); and (iii) manufacturing and selling of train and railway components (the "**Train and Railway Business**"). In

2013, the OEM and Related Market, the Aftermarket Segment and the Train and Railway Business accounted for approximately 40.2%, 51.9% and 7.9% of total revenue of the Group respectively.

As disclosed in the Interim Report, the Directors expect that the uncertainty in the global economic situation and fierce competition in the China truck market will continue to affect the business of the Group, in particular its traditional HDT and MDT original equipment manufacturers market. The Group commenced the business of export of train and railway components to the Commonwealth of Independent States (the "**CIS**") in the second quarter of 2013. However, revenue generated from the train and railway market in the CIS for the year ended 31 December 2014 amounted to only approximately RMB 1,175,000. For the year ended 31 December 2013 and the six months ended 30 June 2014, the Group recorded a loss attributable to the Shareholders of approximately RMB208.2 million and RMB51.5 million respectively.

To cope with these situations, the Group has formulated various strategies and measures which include diversifying the range of the Group's products in the train and railway market, exploring the opportunities in the CIS and improvement of the Group's product quality management program, as mentioned in the Interim Report. To increase its competitiveness within the market in the future, the Group will, among other things, (i) explore new overseas markets for its train and railway products; (ii) develop new product models or modify its existing products to suit customers' requirements; (iii) lower its administrative and production costs through disposal of those unutilised facilities and negotiation with suppliers for longer credit terms and lower purchase prices; and (iv) develop new technology for the production of railway and axle components. While it is intended the Group will continue with its existing business following the Acquisition Completion and Subscription Completion, the Acquisition represents an opportunity for the Group to diversify its existing business and to strive for growth potential.

The Group has been disposing of certain assets and subsidiaries with a view to obtaining additional funding for the expected challenging business environment in the future, enhancing the cash flows of the Group and therefore improving the Group's working capital and financial strength. In December 2013, the Group agreed to (i) sell its entire equity interest in Fujian Changfeng Axle Manufacturing Company Limited ("**Fujian Changfeng Axle**") for a consideration of RMB56 million; and (ii) sell certain tools, equipment and machinery (for the production of gears) of a non-wholly owned subsidiary, Changfeng Gear Manufacturing Co., Ltd. ("**Changfeng Gear**"), for a consideration of RMB38 million. Fujian Changfeng Axle is principally engaged in manufacturing and sale of axle assemblies and axle components. After the disposal of Fujian Changfeng Axle, the relevant functions and activities performed by Fujian Changfeng Axle were primarily relocated to other subsidiaries of the Group in the same province. Changfeng Gear was principally engaged in manufacturing and sale of high quality gears for automobile and construction machinery in the PRC. Revenue of Changfeng Gear for the year ended 31 December 2013 was approximately RMB2.5 million representing approximately 0.6% of the Group's revenue for the year ended 31 December 2013. Subsequently, in June 2014, the Group agreed to sell its entire equity interest in Changfeng Gear for a consideration of RMB35 million.

According to the Interim Report, the Directors are of the view that the Group will have sufficient working capital to finance its operations provided that in particular: (i) the Group is able to renew banking facilities from various banks in full upon their maturity; (ii) the remaining proceeds from disposal of Fujian Changfeng Axle and Changfeng Gear as mentioned above will be received in 2014; and (iii) the Group will be able to realise the value of its non-core assets by pursuing different buyers. However, the auditors of the Company considered that 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. As advised by the management of the Company, the remaining proceeds from disposal of Fujian Changfeng Axle and Changfeng Gear have been received as at the Latest Practicable Date.

As set out in the Material Change Statement, based on the preliminary assessment of the unaudited management accounts of the Group during the nine months ended 30 September 2014, the Group's operating losses were approximately RMB77.8 million during the period, as compared to approximately RMB56.7 million for the corresponding period in 2013, representing an increase in loss of approximately 37.2%. This was mainly attributable to a decrease in sales by approximately RMB47.4 million as compared with the corresponding period in 2013. Revenue generated from the Train and Railway Business in the CIS for the year ended 31 December 2014 amounted to only approximately RMB1,175,000. Impairment provisions on the property, plant and equipment and inventory relating to the Train and Railway Business may be made at the end of 2014 if the Group's operating environment does not improve. However, it is currently premature to estimate the amount of impairments to be made, if any.

2. Review of the financial information of the Group

Following the Acquisition, the Target Company will become a non-wholly-owned subsidiary of the Company, and the financial results and financial position of the Target Group would be consolidated into the financial statements of the Group.

(i) Financial performance

Set out below are the consolidated statements of profit or loss of the Group for the two years ended 31 December 2013 as extracted from the Annual Reports and for the six months ended 30 June 2014 as extracted from the Interim Report:

	For the six months ended 30 June		**For the year ended 31 December**	
	2014	**2013**	**2013**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Revenue	218,596	222,779	429,795	503,841
Cost of sales	(176,471)	(186,318)	(356,915)	(415,512)

	For the six months ended 30 June		For the year ended 31 December	
	2014	2013	2013	2012
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
	(unaudited)	(unaudited)	(audited)	(audited)
Gross profit	42,125	36,461	72,880	88,329
Other income (expense), other gains and losses	10,097	(1,556)	2,573	(54,391)
Selling and distribution expenses	(10,766)	(9,584)	(25,656)	(28,194)
Research and development expenditure	(11,053)	(9,316)	(23,988)	(70,236)
Administrative expeneses	(36,319)	(32,626)	(68,204)	(64,872)
Impairment losses on trade receivables	(20,561)	(33,700)	(89,600)	(154,892)
Impairment losses recognised in respect of property, plant and equipment	(3,951)	–	(52,133)	(136,000)
Impairment losses recognised in respect of prepaid lease payments	–	–	(30,332)	–
Reversal of impairment losses recognised in respect of property, plant and equipment classified as assets classified as held for sale	–	–	19,602	–
Finance costs	(16,850)	(17,092)	(32,552)	(39,379)
Loss before tax	(47,278)	(67,413)	(227,410)	(459,635)
Taxation	(1,542)	(1,682)	(645)	(1,103)
Loss for the period	(48,820)	(69,095)	(228,055)	(460,738)
Loss attributable to the Shareholders	(51,539)	(67,683)	(208,245)	(459,351)
Basic loss per Share (RMB)	(0.06)	(0.08)	(0.26)	(0.57)

(a) Six months ended 30 June 2014 compared to six months ended 30 June 2013

Revenue for the six months ended 30 June 2014 decreased by approximately 1.9% to approximately RMB218.6 million, as compared to approximately RMB222.8 million for the corresponding period in 2013. Revenue contributed from the OEM and Related Market during the same period increased by approximately RMB46.3 million, mainly attributable to the relatively stable growth rate in the truck industry. This was offset by the decrease in revenue contributed from the Aftermarket Segment of approximately RMB39.1 million due to the fierce competition in the aftermarket as a result of the slowdown of investment in the construction market and infrastructure development projects and less wear and tear of axle components.

Loss attributable to the Shareholders for the six months ended 30 June 2014 was approximately RMB51.5 million, as compared to approximately RMB67.7 million for the corresponding period in 2013. Such decrease in loss was mainly attributable to (1) the overall increase in gross profit; (2) the other gains recognised in the period mainly due to the receipt of government grants from local authorities and the waiver of payable to Lonking (Jiangxi) Machinery Co., Ltd. under a debt waiver agreement in December 2013; and (3) the decrease in impairment losses on trade receivables, being partially offset by the increase in administrative expenses and the loss on disposal of the relevant assets of Changfeng Gear.

As disclosed in the Interim Report, the sales of train and railway components to a major customer in Russia have been suspended. No impairment loss was recognised in respect of the property, plant and equipment related to the Train and Railway Business with carrying amount of approximately RMB223.0 million as at 30 June 2014 as the Directors considered such suspension to be temporary. However, due to the ongoing suspension in the sales to this customer, the auditors of the Company were unable to satisfy themselves on whether any impairment in respect of the property, plant and equipment should be recognised for 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. This resulted in the auditors of the Company forming a qualified conclusion in their review of the interim results of the Group for the six months ended 30 June 2014. In addition, as mentioned above, the auditors of the Company considered that there is a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. The financial performance of the Group deteriorated further for the nine months ended 30 September 2014 according to the Material Change Statement.

(b) 2013 compared to 2012

Revenue decreased by approximately 14.7% from approximately RMB503.8 million in 2012 to approximately RMB429.8 million in 2013, mainly attributable to (1) the less favorable industry environment caused by the slowdown of construction and infrastructure development projects in China, resulting in lower demand in the Aftermarket Segment; (2) the decrease in unit selling prices of certain products under the keen competition in the Aftermarket Segment; and (3) the decline in the growth rate of the truck industry, giving rise to a decrease in revenue generated from the OEM and Related Market. Overall gross profit margin decreased from approximately 17.5% in 2012 to approximately 17.0% in 2013, mainly due to the decrease in average unit selling price under the keen competition in the Aftermarket Segment.

Loss attributable to the Shareholders decreased from RMB459.4 million in 2012 to RMB208.2 million in 2013, mainly attributable to (1) the recognition of a gain in 2013 compared to a loss in 2012 as a result of the decrease in loss on sale of scrap materials; (2) the decrease in research and development in the Group's Train and Railway Business due to the significant research and development expenses incurred for the Train and Railway Business in 2012 so as to obtain the relevant certificate to manufacture the train bolster and train side frame; and (3) the decrease in impairment losses on trade receivables and property, plant and equipment.

(ii) ***Financial position***

Set out below summarise the consolidated statements of financial position of the Group as at 30 June 2014, 31 December 2013 and 31 December 2012 as extracted from the Interim Report and the Annual Reports:

	As at 30 June	**As at 31 December**	
	2014	**2013**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(audited)	(audited)
Non-current assets	721,027	789,030	894,842
Current assets	699,000	792,551	870,029
TOTAL ASSETS	1,420,027	1,581,581	1,764,871
Current liabilities	(626,687)	(709,226)	(664,656)
Non-current liabilities	–	(195)	–
TOTAL LIABILITIES	(626,687)	(709,421)	(664,656)
NET CURRENT ASSETS	72,313	83,325	205,373
EQUITY ATTRIBUTABLE TO THE SHAREHOLDERS	793,340	853,404	1,061,649
GEARING RATIO	54.6%	53.2%	45.3%

As at 30 June 2014, non-current assets of the Group mainly comprised (a) property, plant and equipment of approximately RMB466.7 million, principally buildings and machinery; and (b) prepaid lease payments of approximately RMB251.2 million, being the Group's medium-term leasehold land located in the PRC.

As at 30 June 2014, current assets of the Group mainly comprised (a) inventories of approximately RMB237.2 million; (b) trade receivables, bills receivables and other receivables of approximately RMB353.3 million; and (c) bank balances and cash of approximately RMB25.4 million.

As at 30 June 2014, liabilities of the Group mainly represented (a) bank and other borrowings of approximately RMB433.5 million; and (b) other payables of approximately RMB127.9 million, principally relating to the payable for acquisition of additional interest in a subsidiary and the deposit receipt for disposal of subsidiaries. As at 30 November 2014, bank and other borrowings of the Group were approximately RMB324.7 million.

Gearing ratio, being total borrowings divided by total equity, was approximately 54.6% as at 30 June 2014. Bank and other borrowings of approximately RMB433.5 million were much higher than the bank balances and cash of approximately RMB25.4 million as at 30 June 2014, giving rise to a net debt position. The Group had negative operating cash flows of approximately RMB7.0 million for the six months ended 30 June 2014.

As mentioned above, the auditors of the Company were of the view that the financial position of the Group as at 30 June 2014 would be affected if any impairment on property, plant and equipment is made in view of the ongoing suspension of the sales of train and railway components to a major customer in Russia. Property, plant and equipment related to the Train and Railway Business was approximately RMB223 million as at 30 June 2014.

Sales of train and railway components have not resumed by the end of 2014, as disclosed in the Material Change Statement. If such operating condition persists, the Directors may consider to make provision of impairment for the Group's related investments in property, plant and equipment and inventory at the end of 2014.

With the Subscription and the satisfaction of the consideration for the Acquisition by issuing new Shares, the net asset base of the Group is expected to be enlarged upon the Acquisition Completion and Subscription Completion. Given the Subscription Price and the Issue Price of HK$0.33 per Share is significantly lower than the Group's unaudited consolidated net asset value per Share of approximately HK$1.25 as at 30 June 2014, it is expected that there will be a dilution of the Group's net asset value per Share upon the Acquisition Completion and Subscription Completion. The gearing of the Group is expected to be lowered upon the Acquisition Completion and Subscription Completion given an enlarged net asset base of the Group. With the net proceeds from the Subscription, the working capital will improve upon the Subscription Completion.

(iii) Cash flow

Set out below are the consolidated statements of cash flows of the Group for the two years ended 31 December 2013 as extracted from the Annual Reports and for the six months ended 30 June 2014 as extracted from the Interim Report:

	For the six months ended 30 June	**For the year ended 31 December**	
	2014	**2013**	**2012**
	RMB'000	*RMB'000*	*RMB'000*
	(unaudited)	(audited)	(audited)
Net cash inflows/(outflows) generated from/(used in):			
– operating activities	(7,009)	62,916	56,636
– investing activities	22,053	59	(90,967)
– financing activities	(47,536)	(66,945)	(38,247)
Net decrease in cash and cash equivalents	(32,492)	(3,970)	(72,578)
Cash and cash equivalents at the beginning of period/year	57,902	61,872	134,450
Cash and cash equivalents at the end of period/year	25,410	57,902	61,872

The Group recorded a net decrease in cash and cash equivalents for each of the year ended 31 December 2012 and 2013 and the six months ended 30 June 2014.

For the six months ended 30 June 2014, the Group recorded a net decrease in cash and cash equivalents of approximately RMB32.5 million. Such decrease was principally attributable to the net repayment of borrowings of approximately RMB30.7 million, the interest paid of approximately RMB16.9 million and the net cash used in operating activities of approximately RMB7.0 million, being offset by the deposit received from disposal of a subsidiary of approximately RMB22.1 million.

For the year ended 31 December 2013, the Group recorded a net decrease in cash and cash equivalents to approximately RMB4.0 million, as a result of the net repayment of borrowings of approximately RMB34.4 million, the interest paid of approximately RMB32.6 million, being offset by the net cash generated from operating activities of approximately RMB62.9 million.

For the year ended 31 December 2012, the Group recorded a net decrease in cash and cash equivalents of approximately RMB72.6 million, primarily attributable to the purchase of property, plant and equipment and held for trading investments of approximately RMB83.2 million and the interest paid of approximately RMB39.4 million, being offset by the net cash generated from operating activities of approximately RMB56.6 million.

(iv) Overall comment

The Company was listed on the Stock Exchange in September 2010 and recorded a profit in 2010 and 2011. However, the Group has been loss making since 2012. There was a net decrease in cash and cash equivalents for each of the year ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014. In the first half of 2014, the Group even recorded a negative net operating cash flow. The Group was in a net debt position as at 30 June 2014, being borrowings in excess of bank balances and cash. The Group may be faced with uncertainty as to its ability to continue as a going concern, as mentioned in the Interim Report. From the industry perspective, the China truck market saw a fierce competition as commented by the management of the Company in the Annual Reports and the Interim Report. The Material Change Statement also mentioned the deteriorating operating loss of the Group for the nine months ended 30 September 2014, the continued suspension of sales of train and railway components and the possible impairment on the property, plant and equipment and inventory relating to the Train and Railway Business by the end of 2014.

We note the qualification in the letter from Deloitte Touche Tohmatsu contained in Appendix III to the Circular as regards carrying amount of the property, plant and equipment related to the Group's train and railway business, which in our view, reflecting uncertainty for business in Russia. This confirms our comments that the business environment of the Group is expected to remain challenging and reinforces our view that a measure of diversification would be beneficial to the Company and its shareholders.

3. Reasons for and benefits of the Acquisition

As disclosed in "Letter from the Board" contained in the Circular, it is intended that the Group will continue with its existing business following the Acquisition Completion and Subscription Completion. In view of the recent financial performance of the Group and the competitive nature of its business, the Group has formulated various strategies and measures as mentioned in the section headed "Background of the Group" in order to increase its competitiveness within the market and survive through the trough of the market. In the meantime, the management of the Company considers that it is beneficial for the Group to seek suitable business opportunities from time to time to diversify its existing business into businesses with growth potential which, if successful, may broaden its source of income and improve the financial position of the Group. The Acquisition, coupled with the Subscription, represents an opportunity for the Group to bring in strategic investors, in particular the CIH Group, and new

Directors who have experience in the fields of (among other things) information technology. We consider that the Group may leverage such opportunity in diversifying its business into the online peer-to-peer business of the Target Group in the PRC.

4. Principal terms of the Acquisition Agreement

(i) Subject matters

Pursuant to the Acquisition Agreement, the Company conditionally agreed to purchase the Sale Shares, representing 51% of the issued share capital of the Target Company from Century East. Upon the Acquisition Completion, each member of the Target Group will become a subsidiary of the Company.

(ii) Consideration

The consideration for the Sale Shares is US$5,200,000 (equivalent to approximately HK$40,300,000), which shall be satisfied by the allotment and issue of 122,121,212 Consideration Shares to the shareholders of Century East under the Specific Mandate at an issue price of HK$0.33 per Consideration Share upon the Acquisition Completion. The Consideration Shares, when allotted and issued, will rank equally in all respects with the Shares in issue on the date of allotment and issue of the Consideration Shares.

The consideration was principally determined based on arm's length negotiation between the Company and Century East after taking into account, among other things, the unaudited consolidated net asset value of the Target Group as at 31 August 2014 and the prospects of the Target Group.

The number of Consideration Shares of 122,121,212 is equivalent to the consideration of US$5,200,000 (equivalent to approximately HK$40,300,000) divided by the issue price of HK$0.33 per Consideration Share which is determined with reference to the liquidity and recent trading performance of the Shares. The Consideration Shares represented approximately 15.3% of the issued share capital of the Company as at the Latest Practicable Date and approximately 8.0% of the issued share capital of the Company as enlarged by the Consideration Shares and the Subscription Shares.

As at 30 June 2014, the Group had a net debt position of approximately RMB408.1 million, being borrowings less bank balances and cash. In light of the current business environment, it is necessary for the management of the Company to take a cautious approach to preserve sufficient funds for its financial needs. As a result, it would not be prudent for the Group to finance the Acquisition from internal resources. Furthermore, if the Acquisition were financed by further borrowings, additional interest expenses would be incurred and the gearing level of the Group would increase. As at 30 June 2014, the Group had bank borrowings and other borrowings with interest rates up to 8.61% and 10.48% respectively. On the other hand, a rights issue or open offer, which would give an opportunity to all Shareholders to participate in the financing of the Acquisition, cannot be used to introduce a new strategic investor such as the CIH Group. On these bases, we concur with the management of the Company that it is prudent for the Company to issue the Consideration Shares to satisfy the consideration for the Acquisition.

(iii) Conditions precedent

Acquisition Completion is conditional upon, among other things:

(a) the Independent Shareholders' approval at the EGM the transactions contemplated under the Acquisition Agreement (including the allotment and issue of the Consideration Shares);

(b) the Listing Committee of the Stock Exchange having granted the listing of, and permission to deal in, the Consideration Shares on the Stock Exchange, and such approval shall not be revoked prior to the Acquisition Completion;

(c) the warranties under the Acquisition Agreement remaining true and accurate in all respects and not misleading in any respect as of the date of the Acquisition Completion;

(d) no notice, order, judgment, action or proceeding of any court, arbitrator, authority, statutory or regulatory body having been served, issued or made which restrains, prohibits or makes unlawful any transaction contemplated by the Acquisition Agreement or which is reasonably likely to materially and adversely affect the right of the Company to own the legal and beneficial title to the Sale Shares, free from encumbrances, following the Acquisition Completion; and

(e) the conditions contained in the Subscription Agreement (other than that relating to satisfactions/waiver of conditions under the Acquisition Agreement, the Subscription Completion and the Acquisition Completion) having been satisfied or waived in accordance with the terms therein.

If the conditions above (other than those set out in (c), (d) and (e) above) are not satisfied or waived on or before the Long Stop Date or, in respect of the conditions set out in (c), (d) and (e) above, not satisfied or waived on the date of the Acquisition Completion, the Acquisition Agreement shall lapse.

Subject to the fulfilment of the conditions of the Subscription and the Acquisition, Acquisition Completion will take place simultaneously with the Subscription Completion.

5. Information on the Target Group

(i) Background and business of the Target Group

The Target Company is incorporated in the BVI and currently a wholly-owned subsidiary of Century East. The Target Group commenced the preparation of its electronic commerce business in May 2013 through the establishment of a cross-border business-to-business electronic distribution platform, CCIGMALL.com, and is principally engaged in sourcing, importing and channelling goods from overseas suppliers and distributing and reselling such goods to domestic retailers in the PRC.

The business model of the Target Group is to set up a direct path between pre-identified overseas suppliers, distributors and PRC retailers. Retailers in the PRC place their orders at designated terminals through the CCIGMALL.com platform and the orders will then be pulled by the Target Group and sent to distributors and suppliers online directly. Upon accepting the orders and completing customs clearance, distributors will then deliver the goods to the PRC retailers. The Target Group generates revenue from the spread between the selling price asked by the overseas suppliers and the purchase cost offered by the domestic retailers. CCIGMALL.com was officially launched in December 2014 and trading function of the platform may commence in the second quarter of 2015.

As disclosed in "Letter from the Board" contained in the Circular, in respect of CCIGMALL.com, Century East plans to implement a number of development strategies, including but not limited to, recruiting and developing sales and procurement teams, increasing the public awareness of its online platform through various marketing campaigns and continuously upgrading the functionality of the platform. At the Latest Practicable Date, the Target Group has secured 30 overseas suppliers and over 2,600 retailers in the PRC with terminals installed and connected to the CCIGMALL.com platform, and has entered into co-operation agreements with each of CHINAUMS (a subsidiary of China Unionpay), Bank of China and China Telecom Bestpay. Through the network of CHINAUMS, the Target Group can promote the CCIGMALL.com platform to millions of retailers of CHINAUMS, in order to secure more business. These factors demonstrate potential business opportunities of the Target Group in the future.

(ii) Financial information on the Target Group

(a) Financial performance

The Target Group aims to generate revenue from the spread between the selling price asked by the overseas suppliers and the purchase cost offered by the domestic retailers. The Target Group has not generated any revenue since the commencement of the preparation of its electronic commerce business in May 2013.

For the period from 8 March 2013 (date of incorporation of the Target Company) to 31 August 2014, the profit attributable to the shareholders of the Target Company was approximately RMB4.1 million, mainly attributable to a gain on the purchase of a subsidiary (i.e. OPCo) in August 2014 of approximately RMB6.8 million, being offset by administrative expenses of approximately RMB2.9 million. The gain on purchase represented the difference between the fair values of total identifiable net assets of OPCo as at the date of acquisition of approximately RMB10.6 million and the consideration of approximately RMB3.8 million paid by the Target Group.

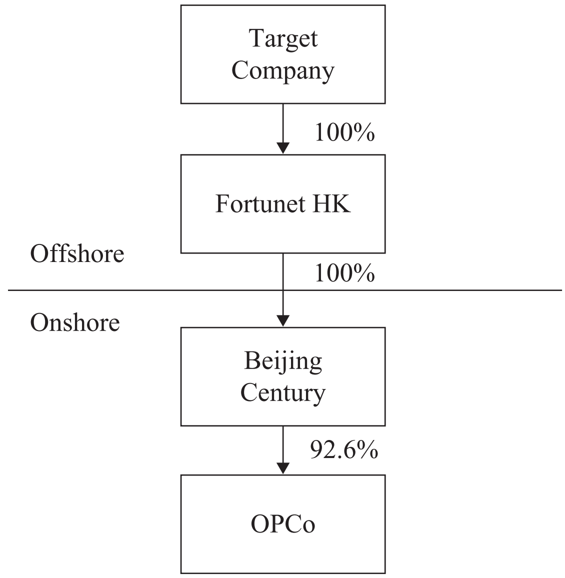
(b) Financial position

As at 31 August 2014, total assets of the Target Group were approximately RMB78.8 million which mainly consisted of (i) intangible assets of approximately RMB21.2 million, representing the platform acquired through the acquisition of OPCo; and (ii) cash and cash equivalent of approximately RMB49.2 million.

As at 31 August 2014, total liabilities of the Target Group were approximately RMB15.9 million which comprised other payables of approximately RMB4.2 million, non-interest bearing loans of approximately RMB6.3 million and deferred tax liabilities of approximately RMB5.3 million. Other payables mainly represented the consideration payable for the acquisition of OPCo of approximately RMB3.8 million.

As at 31 August 2014, net assets attributable to the shareholders of the Target Company were approximately RMB59.5 million (equivalent to approximately HK$75.0 million). Based on the consideration for the Acquisition of US$5.2 million (equivalent to approximately HK$40.3 million) and an exchange rate of US$1:RMB6.1485 as at 31 August 2014 as extracted from Bloomberg, the Acquisition represents a price to book multiple ("**P/B**") of approximately 1.1 times.

(c) Shareholding structure of the Target Group



(iii) Prospect of the electronic commerce market in China

Pursuant to a press article published by 中華人民共和國國家統計局 (National Bureau of Statistics of the People's Republic of China) in January 2014, a survey was conducted with 308,000 PRC enterprises on their electronic commerce transactions. The survey revealed that the electronic commerce market has been developing rapidly in the PRC with expanding transaction amounts and such way of conducting business has been widely adopted in various industries. However, enterprises with electronic commerce activities accounted for less than 10%, indicating that there is a huge room for development in the domestic electronic commerce market in the future.

According to a report published by 中國電子商務研究中心 (China Electronic Commerce Research Centre) in August 2014, during the first half of 2014, the transaction amounts in the PRC's electronic commerce market was approximately RMB5,850 billion, representing an increase of 34.5% as compared to the corresponding period in 2013. It has been increasing at a compound annual growth rate of approximately 31% from approximately RMB4,500 billion in 2010 to approximately RMB10,200 billion in 2013. This shows a growth potential in the domestic electronic commerce market.

The business of the Target Group is newly set up and has no financial track record. With intense competition persisted in the Group's existing business, the Acquisition provides an opportunity for the Group to diversify into a new market with growth potential as described above and to broaden its source of income if the Target Group is able to take advantage of such growth potential.

6. Evaluation of the consideration

The Group is now acquiring a 51% stake in the Target Group, which in turn indirectly holds 92.6% in OPCo, for a consideration of US$5.2 million (equivalent to approximately HK$40.3 million) and will grant the Loan up to US$26 million (equivalent to approximately HK$201.5 million) to the Target Company upon the Acquisition Completion and Subscription Completion. Upon the Acquisition Completion, the Group is expected to consolidate the results of OPCo into the financial statements of the Group.

The Target Group has neither generated any revenue nor profit from its electronic commerce business since the commencement of the preparation of its electronic commerce business in May 2013. As such, we have evaluated the consideration for the Acquisition based on the net asset value of the Target Group.

As shown in the sub-section 5(ii) headed "Financial information on the Target Group" above, the Acquisition represents a P/B of approximately 1.1 times. Given the fact that the Company is acquiring not only the net assets of the Target Group, but also the business opportunities and growth potential to be generated by the electronic commerce business of the Target Group as explained in the sub-section 5(i) headed "Background and business of the Target Group" and the sub-section 5(iii) headed "Prospect of the electronic commerce market in China" above, we consider a small premium of approximately 1.1 times P/B fair and reasonable.

Taking into account that (i) the business of the Target Group has growth potential which, if successful, may improve the financial performance and position of the Group by broadening the Group's business; (ii) the Group is acquiring a controlling stake in the Target Group at a P/B of approximately 1.1 times; and (iii) the Target Group has been incurring certain start-up costs with the capital contributed by previous shareholders since its establishment which the Group does not have to bear mostly when acquiring the Target Company, we consider the consideration is fair and reasonable.

7. Evaluation of the Issue Price

(i) Price comparison of the Issue Price

The issue price of HK$0.33 per Consideration Share represents:

(a) a discount of approximately 29.0% to the closing price of the Shares of HK$0.465 on the Last Trading Day;

(b) a discount of approximately 23.3% to the average closing price of the Shares of approximately HK$0.43 for the last 5 consecutive trading days up to and including the Last Trading Day;

(c) a discount of approximately 21.4% to the average closing price of the Shares of approximately HK$0.42 for the last 10 consecutive trading days up to and including the Last Trading Day;

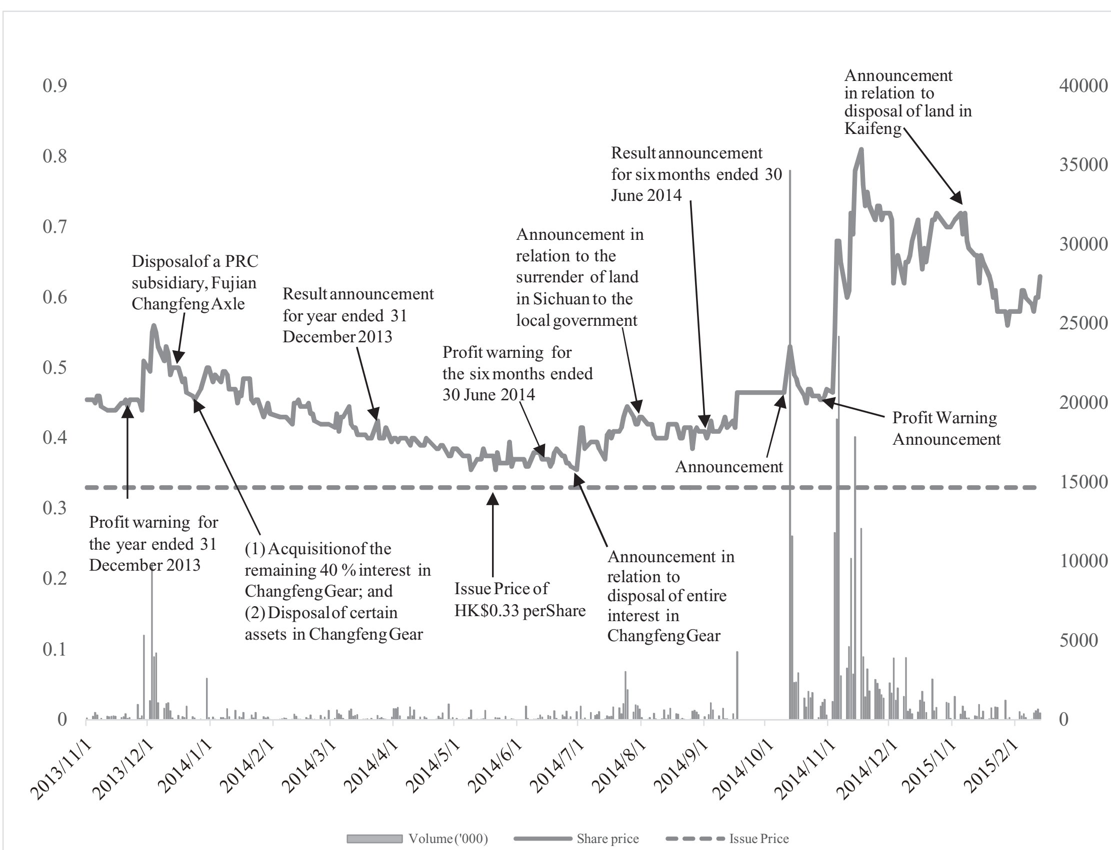
(d) a discount of approximately 19.5% to the average closing price of the Shares of approximately HK$0.41 for the last 30 consecutive trading days up to and including the Last Trading Day;

(e) a discount of approximately 17.5% to the average closing price of the Shares of approximately HK$0.40 for the last 90 consecutive trading days up to and including the Last Trading Day; and

(f) a discount of approximately 47.6% to the closing price of the Shares of HK$0.63 as at the Latest Practicable Date.

(ii) Analysis of historical Share price performance

Set out below is the movement of the closing prices of the Shares on the Stock Exchange from 1 November 2013 up to and including the Latest Practicable Date (the "**Review Period**"):



Source: Bloomberg

As shown in Chart 1 above, during the Review Period, the Shares initially traded on a downward trend until 30 June 2014 when the Shares started trading on an upward trend.

We noted that the price movement and trading volume of the Shares were unusual on the Last Trading Day when the Shares closed at HK$0.465, representing an increase of approximately 12.0% from the previous trading day. The trading volume of the Shares was approximately 4.3 million Shares, representing approximately 81.0% of total trading volume of the Shares in the previous month. As a result, we consider it not appropriate to compare the Issue Price with the closing price on the Last Trading Day (i.e. HK$0.465).

Trading in the Shares was suspended before the publication of the Announcement. The Shares closed at HK$0.53 on 13 October 2014, being the first trading day immediately after the release of the Announcement, representing an increase of approximately 14.0%, as compared to that on the Last Trading Day. Immediately after the publication of the profit warning announcement dated 27 October 2014 (the "**Profit Warning Announcement**"), the closing price of the Shares fell by approximately 1.1% to HK$0.455 on 28 October 2014. From the date of publication of the Announcement to the Latest Practicable Date (the "**Post Announcement Period**"), the closing price of the Shares has fluctuated within a range of HK$0.45 to HK$0.81 with an average of HK$0.63. The Shares traded on an upward trend during the Post-Announcement Period. As at the Latest Practicable Date, the Shares closed at HK$0.63.

(iii) Comparable Share Placements

We have considered an exhaustive list of transactions (the "**Comparable Share Placements**") involving whitewash waiver applications as a result of the issue of consideration shares or the subscription of new shares (to be listed on the Stock Exchange) for the purpose of acquiring assets or introducing new investors or repayment of loans by companies having a market capitalization as at the date of their respective announcements not more than HK$1,000 million, announced during the period from 2 January 2014 to the Latest Practicable Date. Taking into account that the Acquisition and Subscription, for the purpose of acquiring the Target Group and bringing in strategic investors, shall take place simultaneously and are conditioned on a whitewash waiver application, we are of the view that the Comparable Share Placements represent a fair and representative sample for the purpose of assessing the discount of the Issue Price to the market prices.

For each of the Comparable Share Placements identified, we compared the premium or discount of its issue/subscription price to (a) the closing price on the last trading day (the "**LTD**"); (b) the 5-day average closing price; (c) the 10-day average closing price; (d) the 30-day average closing price; and (e) the 90-day average closing price, prior to and including the LTD before the release of the respective announcement, as summarised in the following table:

Date of announcement	Company name	Stock code	Principal activities	Market capitalization	Nature of transaction	Issue / subscription price	Premium / (discount) of the issue/subscription price over/(to) the closing price on the LTD	Premium / (discount) of the issue/subscription price over/(to) the 5-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 10-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 30-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 90-day average closing price prior to and including the LTD
				(HK$ million)		*(HK$)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*
							(Approx.)	(Approx.)	(Approx.)	(Approx.)	(Approx.)
10 January 2014	Agritrade Resources Ltd.	1131	Mining, exploration, logistics, sales of coal and other mining-related activities; time chartering of leased vessels.	393.1	Subscription of shares and introduction of a new strategic investor	0.5	(25.4)	(24.7)	(31.1)	(33.9)	(0.1)
27 January 2014	Yusei Holdings Ltd.	96	Design, development and fabrication of plastic injection moulds and the manufacture of plastic components in the PRC.	149.6	Issue of shares to directors and new investors for construction of a new plant	0.8	(5.9)	(4.5)	(7.4)	(10.9)	(8.9)
5 February 2014	Far East Holdings International Ltd.	36	Manufacturing and sale of garments and property investment.	193.1	Acquisition of properties from a substantial shareholder by cash and by consideration shares	0.425	0.0	(7.2)	(8.5)	5.8	15.2
5 June 2014	China Investments Holdings Ltd.	132	Property development and investment, hotel operation and investment holding.	760.5	Acquisition of assets from a substantial shareholder by cash and by issuing convertible bonds	0.632	(1.3)	1.6	(0.2)	1.3	2.6
13 June 2014	KuangChi Science Ltd. (formerly known as "Climax Int'l Company Ltd.")	439	Manufacture and sale of paper packaging products, paper gift items and the printing of paper promotional materials and property investment.	485.6	Subscription of shares and introduction of new investors	0.08	(76.1)	(74.9)	(75.2)	(74.2)	(70.1)

Date of announcement	Company name	Stock code	Principal activities	Market capitalization	Nature of transaction	Issue / subscription price	Premium / (discount) of the issue/subscription price over/(to) the closing price on the LTD	Premium / (discount) of the issue/subscription price over/(to) the 5-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 10-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 30-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 90-day average closing price prior to and including the LTD
				(HK$ million)		*(HK$)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*
							(Approx.)	(Approx.)	(Approx.)	(Approx.)	(Approx.)
14 August 2014	Ko Yo Chemical (Group) Ltd.	827	Research and development, manufacture, marketing and distribution of chemical products, chemical fertilizers and bulk blending fertilizers.	791.5	Subscription of shares and convertible bonds by existing shareholders for repayment of loans and working capital	0.32	(41.8)	(28.3)	(25.3)	(22.4)	(20.1)
25 September 2014	Bestway International Holdings Ltd.	718	Trading of goods, mining business, sale of medical devices and equipment and provision of relevant services as well as investments in medical, health care and pharmaceutical industry.	805.4	Subscription of shares and convertible bonds by existing shareholders for repayment of loans and working capital	0.56	(27.3)	(25.3)	(22.5)	(20.9)	(18.8)
21 November 2014	China Star Cultural Media Group Ltd.	8172	Provision of artists management services and film production and distribution.	643.9	Subscription of shares and introduction of new investors	0.2	(71.4)	(64.4)	(63.5)	(57.8)	(49.6)
29 January 2015	Good Fellow Resources Holding Ltd.	109	Provision of investment and financial services, and distribution and trading.	939.6	Subscription of shares and convertible bonds and introduction of a new investor for working capital and business expansion	0.439	(31.4)	(20.8)	(20.6)	(24.0)	(24.6)
2 February 2015	Jin Cai Holdings Company Ltd.	1250	Engaged in design, printing and sale of cigarette packages in the PRC.	448.0	Subscription of shares and convertible preference shares and introduction of new investors for new businesses	0.79	(43.6)	(42.0)	(38.7)	(36.2)	(37.6)
						Maximum	0	1.6	(0.2)	5.8	15.2
						Mean	(32.4)	(29.0)	(29.3)	(27.3)	(21.2)
						Median	(29.3)	(25.0)	(23.9)	(23.2)	(19.5)
						Minimum	(76.1)	(74.9)	(75.2)	(74.2)	(70.1)

Date of announcement	Company name	Stock code	Principal activities	Market capitalization	Nature of transaction	Issue / subscription price	Premium / (discount) of the issue/subscription price over/(to) the closing price on the LTD	Premium / (discount) of the issue/subscription price over/(to) the 5-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 10-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 30-day average closing price prior to and including the LTD	Premium / (discount) of the issue/subscription price over/(to) the 90-day average closing price prior to and including the LTD
				(HK$ million)		*(HK$)*	*(%)*	*(%)*	*(%)*	*(%)*	*(%)*
							(Approx.)	(Approx.)	(Approx.)	(Approx.)	(Approx.)
26 September 2014	**The Company**	**1039**	**Manufacturing and selling of axle assemblies and axle components to heavy duty truck and medium duty truck market and providing after-sales services, manufacturing and selling of train and railway components.**			**0.33**	**(29.0)**	**(23.3)**	**(21.4)**	**(19.5)**	**(17.5)**

Source: Bloomberg and the Stock Exchange's website

As shown in the table above, the discounts of the Issue Price to the closing price on the Last Trading Day and the 5-day, 10-day, 30-day and 90-day average closing prices prior to and including the Last Trading Day are lower than the average of those of the Comparable Share Placements. On this basis, we consider the discount of the Issue Price is appropriate.

Taking into account (a) that the Acquisition, if successful, helps to diversify the existing business of the Group into a new business with growth potential given the current difficult environment in the truck industry; (b) that the Acquisition, together with the Subscription, allows the Group to bring in strategic investors like the CIH Group which could assist the Group in developing the electronic commerce business of the Target Group; (c) the current financial performance and position of the Group; and (d) the results of the Comparable Share Placements, we consider the discount of the Issue Price to the current market price acceptable.

(iv) Trading volume of the Shares

Set out in the table below are the monthly total trading volumes of the Shares and the percentages of such monthly total trading volumes to the total issued share capital and the public float of the Company during the Review Period:

	Monthly total trading volume of the Shares *(Note 1)*	Percentage of the monthly total trading volume of the Shares to the total issued Shares *(Note 2)*	Percentage of the monthly total trading volume of the Shares to the public float *(Notes 2 & 3)*
2013			
November	9,960,000	1.25%	3.55%
December	28,493,000	3.56%	10.16%
2014			
January	4,235,000	0.53%	1.51%
February	2,627,000	0.33%	0.94%
March	4,526,000	0.57%	1.61%
April	6,782,340	0.85%	2.42%
May	2,262,000	0.28%	0.81%
June	4,517,000	0.56%	1.61%
July	14,266,000	1.78%	5.09%
August	5,313,000	0.66%	1.89%
September	8,038,000	1.00%	2.88%
October	64,814,000	8.10%	23.23%
November	130,031,000	16.25%	46.59%
December	29,445,000	3.68%	10.55%
2015			
January	9,545,000	1.19%	3.42%
From 1 February to the Latest Practicable Date	3,407,000	0.43%	1.22%

Notes:

1. Source: Bloomberg

2. The calculation is based on the monthly total trading volume of the Shares divided by the total issued share capital of the Company or the total number of the Shares in public hands at the end of each month or at the Latest Practicable Date.

3. The total number of the Shares in public hands is calculated based on the number of total issued Shares excluding those held by Changfeng BVI and Starr Investments Cayman II, Inc.

As illustrated in the above table, except for December 2013 in which the trading volume of the Shares was high with approximately 28.5 million Shares, during the period from November 2013 to September 2014, the monthly trading volume of the Shares ranged between approximately 2.3 million Shares and 14.3 million Shares, representing approximately 0.28% to 1.78% of the total Shares in issue and approximately 0.81% to 5.09% of the public float, which we consider relatively thin. However, the trading volume of the Shares on the Last Trading Day was approximately 4.3 million Shares, representing approximately 81.0% of total trading volume of the Shares in the previous month. We therefore consider it not appropriate to compare the Subscription Price and the Issue Price with the closing price on the Last Trading Day. The trading volume of the Shares reached the highest in November 2014 following the publication of the Announcement.

(B) SUBSCRIPTION AGREEMENT

1. Reasons for the Subscription and use of proceeds

The net proceeds from the Subscription of approximately HK$198 million will be used for (i) the advancement of the Loan for the general working capital and capital expenditure of the Target Company upon the Acquisition Completion and Subscription Completion; (ii) the payment of the costs and expenses incurred by the Company in connection with the Acquisition and Subscription; (iii) general corporate purposes of the Group. We concur with the management of the Company that the Subscription represents an opportunity for the Group to introduce long-term strategic investors like the CIH Group and to raise capital for the Company primarily for future business development of the Target Group.

2. Principal terms of the Subscription

(i) Subscription Shares

Pursuant to the Subscription Agreement, the Company conditionally agreed to allot and issue 610,606,060 Subscription Shares to the shareholders of Century East at the direction of Century East at the subscription price of HK$0.33 per Share. The Subscription Shares, when allotted and issued, will rank equally in all respects with the Shares in issue on the date of allotment and issue of the Subscription Shares.

The Subscription Shares represented approximately 76.3% of the issued share capital of the Company as at the Latest Practicable Date and approximately 39.8% of the issued share capital of the Company as enlarged by the Consideration Shares and the Subscription Shares.

(ii) Conditions precedent

The Subscription is conditional upon, among other things:

(a) the Executive having granted the Whitewash Waiver;

(b) the Independent Shareholders having approved at the EGM the transactions contemplated under the Subscription Agreement (including the allotment and issue of the Subscription Shares), the Acquisition, the Loan and the Whitewash Waiver;

(c) the Company having obtained the approval from the Stock Exchange for the listing of, and permission to deal in, the Subscription Shares, and such approval not having been revoked prior to the Subscription Completion; and

(d) the Loan Agreement having been entered into and all conditions set out in the Acquisition Agreement (other than that relating to the satisfaction or waiver of the conditions of the Subscription Agreement) and the Loan Agreement (other than that relating to the Subscription Completion or the Acquisition Completion) that are capable of being satisfied at or before the Subscription Completion having been duly satisfied or otherwise waived in accordance with the terms therein.

The conditions (a) to (c) may not be waived by either party. If the conditions to the Subscription have not been fulfilled on or before 31 March 2015 (or such later date as the parties may agree in writing), then the Subscription Agreement shall terminate automatically (other than in respect of certain provisions having the effect of surviving the termination).

Subscription Completion shall take place simultaneously with the Acquisition Completion on the fifth Business Day after the satisfaction or waiver of all of the conditions to the Subscription or at such other time or date as the parties may agree.

3. Other alternative methods of financing

The management of the Company has also considered other alternative financing methods instead of the Subscription, including debt and other equity financings such as a rights issue or open offer to existing Shareholders. Taking into account the requirement of interest payments and the Group's current gearing, the management of the Company is of the view that obtaining further debt financings for future development of the Group and the Target Group, which would increase the Group's gearing, is not in the interests of the Shareholders. As regards a rights issue or open offer, the management of the Company wishes to introduce new strategic investors like the CIH Group to assist in developing the business of the Target Group, which cannot readily be done through a rights issue or open offer. On this basis, we concur with the management of the Company that a rights issue or open offer may not be an appropriate means of raising fund for the Acquisition.

4. Evaluation of the Subscription Price

The Subscription Price is equal to the Issue Price and the Acquisition shall take place simultaneously with the Subscription. The Acquisition and the Subscription, which combine the acquisition of a new business and the introduction of strategic investors to assist the Group in developing the new business, should be evaluated as a package. Based on the factors and reasons discussed above in relation to the Acquisition and that the funding to be raised under the Subscription will be used primarily for future development of the businesses of the Target Group given the anticipated challenge in the truck industry in the future and that the business of the Target Group is in an early stage, we consider the terms of the Subscription, including the Subscription Price, to be fair and reasonable. For the assessment of the Subscription Price, please refer to the sub-section 7 headed "Evaluation of the Issue Price" under the section headed "(A) Acquisition" above.

The fund to be raised under the Subscription will be primarily applied to implement a number of development strategies of the Target Group as described in the sub-section 5(i) headed "Background and business of the Target Group" under the section headed "(A) Acquisition" above. Despite the uncertainty in the global economic situation and fierce competition in the China truck market as commented by the management of the Company in the Annual Reports and the Interim Report and evidenced in the recent financial performance of the Group, the Group will continue with its existing business following the Acquisition Completion and Subscription Completion.

(C) LOAN TO THE TARGET COMPANY

Pursuant to the Subscription Agreement, the Company shall grant an unsecured three-year loan to the Target Company. The Loan, which is used for the business development of the Target Group upon the Acquisition Completion and Subscription Completion, should be considered with the Acquisition and Subscription as a whole, which we consider fair and reasonable.

The principal terms of the Loan are as follows:

Loan amount	up to US$26 million
Use of proceeds	for general working capital and capital expenditure of the Target Company

Maturity date	the third anniversary of the drawdown date or such later date as the Target Company and the Company may agree in writing, being the date for repayment of the Loan and the interest accrued thereon in full
Interest rate	benchmark interest rate of loans for three years of The People's Bank of China ("**PBOC**") per annum as increased by 50% (on the basis of a 365-day year), payable in advance semi-annually *(Note)*
Conditions	The Loan is conditional upon: (i) the Subscription Completion having taken place; (ii) the Acquisition Completion having taken place; and (iii) the Independent Shareholders having at the EGM approved the Acquisition and the advancement of the Loan

Note: As at the Latest Practicable Date, the benchmark interest rate of loans for three years as announced by the PBOC was 6.00%, and accordingly, the interest rate charged under the Loan would be approximately 9.00%.

(D) SHAREHOLDING STRUCTURE

The following table sets out the shareholding structure of the Company as at the Latest Practicable Date and immediately upon the Subscription Completion and Acquisition Completion (assuming no further Shares are issued between the Latest Practicable Date and the date of issue of the Subscription Shares and the Consideration Shares):

	As at the Latest Practicable Date		Upon the Subscription Completion		Upon the Subscription Completion and Acquisition Completion	
	No. of Shares	*Approximate %*	*No. of Shares*	*Approximate %*	*No. of Shares*	*Approximate %*
Changfeng BVI	406,128,560	50.77%	406,128,560	28.79%	406,128,560	26.49%
Starr Investments Cayman II, Inc.	114,801,600	14.35%	114,801,600	8.14%	114,801,600	7.49%
CIH	–	–	421,318,182	29.87%	505,581,818	32.99%
Starr Investments Cayman V, Inc.	–	–	91,590,909	6.49%	109,909,091	7.17%
Public Shareholders						
Jinyu Developments	–	–	70,219,697	4.98%	84,263,636	5.50%
SDF II Holdings	–	–	27,477,272	1.95%	32,972,727	2.15%
Other public Shareholders	279,069,840	34.88%	279,069,840	19.78%	279,069,840	18.21%
Total	800,000,000	100%	1,410,606,060	100%	1,532,727,272	100%

Assuming there is no further issue of Shares between the Latest Practicable Date and the date of issue of the Consideration Shares and the Subscription Shares, existing public shareholders' holdings would be diluted by approximately 47.8% (or 16.67 percentage points) upon the Acquisition Completion and Subscription Completion, from approximately 34.88% to approximately 18.21%. The public float requirement under the Listing Rules would still be complied with after taking into account the shareholdings of Jinyu Developments and SDF II Holdings, the incoming Shareholders upon the Acquisition Completion and Subscription Completion. We regard this as a significant dilution and an unattractive feature in itself. However, given the limited alternative ways of financing and the benefits to be brought by the Acquisition and the Subscription as discussed above, we consider such dilution acceptable.

(E) WHITEWASH WAIVER

1. Background

Upon the Acquisition Completion and Subscription Completion, the shareholders of Century East and parties acting in concert with them (including Starr Investments Cayman II, Inc.) will hold approximately 55.30% of the issued share capital of the Company as enlarged by the issue of the Consideration Shares and the Subscription Shares. Pursuant to Rule 26 of the Takeovers Code, the acquisition of voting rights under such circumstances would trigger a mandatory general offer by the shareholders of Century East and parties acting in concert with them for all the securities of the Company other than those already owned (or agreed to be acquired) by the shareholders of Century East and parties acting in concert with them, unless the Whitewash Waiver is obtained from the Executive and approved by the Independent Shareholders by way of poll. An application has been made by the shareholders of Century East and parties acting in concert with them to the Executive for the Whitewash Waiver pursuant to Note 1 on dispensations from Rule 26 of the Takeovers Code. The Whitewash Waiver, if granted by the Executive, will be subject to the approval of the Independent Shareholders at the EGM by way of poll and such other condition(s) as may be imposed by the Executive.

2. The Whitewash Waiver as a condition of the Subscription, the Acquisition and the Loan

Shareholders should note that the Subscription is conditional on, among other things, (i) the Executive having granted the Whitewash Waiver; and (ii) the Independent Shareholders having approved the Whitewash Waiver, the Acquisition and the Loan at the EGM, which cannot be waived. The Acquisition is, on the other hand, conditional on, among other things, the satisfaction or waiver of the conditions contained in the Subscription Agreement, and shall complete simultaneously with the Subscription. The Loan is conditional on, among other things, the Acquisition Completion and the Subscription Completion having taken place. The approval of the Whitewash Waiver by the Independent Shareholders will be therefore necessary for the Group to proceed to the Acquisition Completion and to raise the capital primarily for the future business development of the Target Group through the Subscription and the Loan.

DISCUSSION AND ANALYSIS

1. Prospects of the Group

The Acquisition shall take place simultaneously with the Subscription which is in turn conditional on, among other things, the entering into of the Loan Agreement. As such, they should be considered as a package.

As disclosed in the Interim Report, the intense competition in the China truck market is expected to continue to affect the existing business of the Group. Revenue generated from the Train and Railway Business (newly commenced in 2013) for the year ended 31 December 2014 amounted to only approximately RMB1,175,000 (2013: RMB34,162,000). The Group has recorded a loss attributable to the Shareholders since 2012, and a net decrease in cash and cash equivalents for each of the year ended 31 December 2011, 2012 and 2013 and for the six months ended 30 June 2014. In the first half of 2014, the Group even recorded a negative net operating cash flow. As at 30 June 2014, the Group had a net debt position of approximately RMB408.1 million, being borrowings less bank balances and cash. The auditors of the Company consider, in the Interim Report, that there is a material uncertainty which may cast significant doubt about the Group's ability to continue as a going concern. In December 2013 and June 2014, disposals of assets and subsidiaries were made by the Group with the view of obtaining additional funding. Pursuant to the Material Change Statement, the financial performance of the Group deteriorated further for the nine months ended 30 September 2014 with continued suspension of Train and Railway Business. The management of the Company expects that the business environment of the Group will continue to be challenging but various strategies and measures are in place to strengthen its position in the railway and truck industry and to expand its product offerings in overseas markets as detailed in the sub-section headed "1. Background of the Group" under the section headed "(A) Acquisition" above.

While it is intended the Group will continue with its existing business following the Acquisition Completion and Subscription Completion, the Acquisition will provide an opportunity for the Group to diversify into a new area with growth potential which, if successful, will broaden the Group's source of income. The Subscription (coupled with the Acquisition) allows the Group to bring in new strategic investors, in particular the CIH Group, and new Directors who have experience in the fields of (among other things) information technology and may leverage on such experience in developing the online peer-to-peer business of the Target Group in the PRC. Given the existing cash position of the Group, the fund raised through the Subscription will primarily help to develop the business of the Target Group (via the Loan).

2. Consideration for the Acquisition

The Company is acquiring a controlling stake in the Target Company at a small premium of approximately 1.1 times P/B, which we consider justifiable given that the Acquisition represents an opportunity for the Group to diversify its existing business and to strive for growth potential. The Target Group has not generated any revenue or profits from its electronic commerce business so far, and has been incurring certain start-up costs. However, these have been mostly funded with the capital contributed by previous shareholders.

3. Issue Price of the Consideration Shares and the Subscription Price of the Subscription Shares compared to market and net asset value

The Issue Price and the Subscription Price represent a significant discount to the current market price and the net asset value per Share. However, given (i) that the Acquisition helps to diversify the Group's existing business and provides with growth potential for the Group; (ii) that the Subscription allows the Group to introduce strategic investors and new Directors and to raise additional funds for the development of the Target Group's business; (iii) the current financial performance and position of the Group; and (iv) the discounts of the Comparable Share Placements, we consider such discount acceptable. We consider the closing price on the Last Trading Day not relevant in comparing the Issue Price and the Subscription Price in light of the unusual price movement and trading volume of the Shares on that day.

4. Decrease in public Shareholders' percentage shareholding

Existing public Shareholders' holdings would be diluted upon the Acquisition Completion and Subscription Completion, from approximately 34.88% to approximately 18.21%, yet the public float would still be maintained at approximately 25.86%. We regard this as a significant dilution but a considerable degree of dilution was inevitable once it was decided to finance the Acquisition entirely in equity and to raise additional funds through the issue of new Shares, which we agree is prudent. Financing the Acquisition through borrowings would place further burden on the financial performance of the Group through interest payments. A rights issue or open offer was also considered by the Board but the inability to introduce strategic investors was deemed unfavourable. The dilution is an unattractive feature in itself, but in our view should be viewed in the context of the Acquisition and the Subscription as a whole, which we consider fair on the grounds summarised above.

5. Whitewash Waiver

The Whitewash Waiver is a condition to the Subscription which shall complete simultaneously with the Acquisition, and cannot be waived. We consider the issue of the Consideration Shares and the Subscription Shares, which gives rise to the need for the Whitewash Waiver, is the most appropriate means of financing the Acquisition and raising additional funds for the Group.

OPINION AND RECOMMENDATION

Taking into account the above principal factors and reasons, we consider that the Acquisition Agreement, the Subscription Agreement and the Loan are on normal commercial terms which are fair and reasonable so far as the Independent Shareholders are concerned. We also consider that the Whitewash Waiver is fair and reasonable so far as the Independent Shareholders are concerned. Accordingly, we advise the Independent Board Committee to recommend, and we ourselves recommend, the Independent Shareholders to vote in favour of the resolutions to be proposed at the EGM.

Yours faithfully,
for and on behalf of
SOMERLEY CAPITAL LIMITED

M. N. Sabine — *Chairman*

David Ching — *Director*

Mr. M. N. Sabine is a licensed person registered with the SFC and as a responsible officer of Somerley Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over twenty years of experience in the corporate finance industry.

Mr. David Ching is a licensed person registered with the SFC and as a responsible officer of Somerley Capital Limited to carry out Type 1 (dealing in securities) and Type 6 (advising on corporate finance) regulated activities under the SFO and has over ten years of experience in the corporate finance industry.

A. SUMMARY OF FINANCIAL INFORMATION

The auditor of the Company for the years ended 31 December 2011, 31 December 2012 and 31 December 2013 is Deloitte Touche Tohmatsu. The audit opinions of Deloitte Touche Tohmatsu in respect of the above mentioned periods were not qualified. A summary of the audited consolidated income statement of the Group as extracted from the annual reports of the Company for the years ended 31 December 2011, 2012 and 2013 are as below:

	2013	2012	2011
	RMB'000	*RMB'000*	*RMB'000*
Revenue	429,795	503,841	920,681
Cost of sales	(356,915)	(415,512)	(668,588)
Gross profit	72,880	88,329	252,093
Other income (expense) and other gains and losses	2,573	(54,391)	7,680
Selling and distribution expenses	(25,656)	(28,194)	(26,044)
Research and development expenditure	(23,988)	(70,236)	(13,857)
Administrative expenses	(68,204)	(64,872)	(63,851)
Impairment loss on trade receivables	(89,600)	(154,892)	(48,700)
Impairment loss recognised in respect of property, plant and equipment	(52,133)	(136,000)	–
Impairment loss recognised in respect of prepaid lease payments	(30,332)	–	
Reversal of impairment loss recognised in respect of property, plant and equipment classified as assets classified as held for sale	19,602	–	
Finance costs	(32,552)	(39,379)	(25,900)
(Loss)/Profit before tax	(227,410)	(459,635)	81,421
Income tax expense	(645)	(1,103)	(21,775)
(Loss)/Profit and total comprehensive (expense)/income for the year	(228,055)	(460,738)	59,646
(Loss)/Profit and total comprehensive (expense)/income attributable to:			
Owners of the Company	(208,245)	(459,351)	59,767
Non-controlling interests	(19,810)	(1,387)	(121)
	(228,055)	(460,738)	59,646
	RMB	*RMB*	*RMB*
Basic (loss)/earnings per share	(0.26)	(0.57)	0.07

There were no exceptional items for the three years ended 31 December 2013.

B. AUDITED ANNUAL FINANCIAL STATEMENTS

The following is an extract of audited financial statements of the Group for each of the three years ended 31 December 2013 together with the notes thereto from the annual report of the Company for the year ended 31 December 2012 and 2013:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	NOTES	2013 *RMB'000*	2012 *RMB'000*
Revenue	*8*	429,795	503,841
Cost of sales		(356,915)	(415,512)
Gross profit		72,880	88,329
Other income (expense) and other gains and losses	*9*	2,573	(54,391)
Selling and distribution expenses		(25,656)	(28,194)
Research and development expenditure	*10*	(23,988)	(70,236)
Administrative expenses		(68,204)	(64,872)
Impairment loss on trade receivables	*22*	(89,600)	(154,892)
Impairment loss recognised in respect of property, plant and equipment		(52,133)	(136,000)
Impairment loss recognised in respect of prepaid lease payments		(30,332)	–
Reversal of impairment loss recognised in respect of property, plant and equipment classified as assets classified as held for sale		19,602	–
Finance costs	*11*	(32,552)	(39,379)
Loss before tax	*12*	(227,410)	(459,635)
Income tax expense	*13*	(645)	(1,103)
Loss and total comprehensive expense for the year		(228,055)	(460,738)
Loss and total comprehensive expense attributable to:			
Owners of the Company		(208,245)	(459,351)
Non-controlling interests		(19,810)	(1,387)
		(228,055)	(460,738)
		RMB	*RMB*
Basic loss per share	*15*	(0.26)	(0.57)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2013 RMB'000	2012 RMB'000
Non-current assets			
Property, plant and equipment	17	524,037	578,176
Prepaid lease payments	18	262,391	297,730
Prepayment for acquisition of machinery		2,602	18,899
Deferred tax assets	20	–	37
		789,030	894,842
Current assets			
Inventories	21	240,344	278,733
Trade receivables	22	177,077	255,397
Bills receivables	22	87,449	108,818
Other receivables	22	140,508	136,534
Prepaid lease payments	18	6,241	6,236
Tax recoverable		2,439	2,439
Held for trading investments	19	–	20,000
Bank balances and cash	23	57,902	61,872
		711,960	870,029
Assets classified as held for sale	24	80,591	–
		792,551	870,029
Current liabilities			
Trade and bills payables	25	123,995	100,193
Other payables	25	119,721	65,372
Borrowings-due within one year	26	464,167	498,560
Tax liabilities		1,343	531
		709,226	664,656

	NOTES	2013 RMB'000	2012 RMB'000
NET CURRENT ASSETS		83,325	205,373
TOTAL ASSETS LESS CURRENT LIABILITIES		872,355	1,100,215
NON-CURRENT LIABILITIES			
Deferred tax liabilities	20	195	–
		872,160	1,100,215
CAPITAL AND RESERVE			
Share capital	27	53,560	53,560
Reserves		799,844	1,008,089
Equity attributable to owners of the Company		853,404	1,061,649
Non-controlling interests		18,756	38,566
		872,160	1,100,215

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital RMB'000	Share premium RMB'000	Capital reserves RMB'000 (note a)	Surplus reserves RMB'000 (note b)	Special reserves RMB'000	Shares held under awarded shares compensation scheme RMB'000	Retained earnings RMB'000	Total RMB'000	Non-controlling interests RMB'000	Total RMB'000
At 1 January 2012	53,560	599,296	226,982	149,020	822	–	492,947	1,522,627	39,953	1,562,580
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(459,351)	(459,351)	(1,387)	(460,738)
Purchase of shares for the purpose of awarded shares compensation scheme *(note 28)*	–	–	–	–	–	(1,627)	–	(1,627)	–	(1,627)
At 31 December 2012 and 1 January 2013	53,560	599,296	226,982	149,020	822	(1,627)	33,596	1,061,649	38,566	1,100,215
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(208,245)	(208,245)	(19,810)	(228,055)
At 31 December 2013	53,560	599,296	226,982	149,020	822	(1,627)	(174,649)	853,404	18,756	872,160

Notes:

a. The balance represents deemed distribution, transfer and deemed contribution arising from group reorganisation for listing purposes which took place in 2008 and 2009.

b. The balance comprising statutory surplus reserve and discretionary surplus reserve, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China ("PRC") and by the board of directors of the PRC subsidiaries in accordance with the Article of Association of the subsidiaries. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company. Discretionary surplus reserve can be used to expand the existing operations of the Company's PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

	2013	2012
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
Loss before tax	(227,410)	(459,635)
Adjustments for:		
Impairment loss on trade receivables	89,600	154,892
Depreciation of property, plant and equipment	38,214	36,604
Finance costs	32,552	39,379
Release of prepaid lease payments	6,436	6,236
Impairment loss recognised in respect of property, plant and equipment	52,133	136,000
Impairment loss recognised in respect of prepaid lease payments	30,332	–
Reversal of impairment loss recognised in respect of property, plant and equipment classified as assets classified as held for sale	(19,602)	–
(Gain) loss from disposal of property, plant and equipment	(580)	12,794
Interest income	(216)	(749)
Operating cash flows before movements in working capital	1,459	(74,479)
Decrease in inventories	38,389	45,009
(Increase) decrease in trade receivables	(11,280)	73,123
Decrease in bills receivables	21,369	63,191
Increase in other receivables	(3,974)	(813)
Increase (decrease) in trade and bill payables	23,802	(41,434)
Decrease in other payables	(7,248)	(548)
Purchase of shares for purpose of awarded shares compensation scheme	–	(1,627)
Cash generated from operations	62,517	62,422
Income tax refund	644	–
Income tax paid	(245)	(5,786)
NET CASH FROM OPERATING ACTIVITIES	62,916	56,636

	2013	2012
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Prepayment for acquisition of machinery	(40,083)	(52,191)
Purchases of property, plant and equipment	(10,582)	(63,219)
Payment of prepaid lease payments	(7,217)	(9,263)
Placement of pledged bank deposits	–	(2,517)
Release of pledged bank deposits	–	4,617
Disposal of available-for-sale investment	–	1,000
Refund of deposit for acquisition of land use right and buildings	–	49,750
Interest received	216	749
Proceeds on disposal of property, plant and equipment	9,725	107
Proceeds from disposal of (purchases of) held for trading investments	20,000	(20,000)
Deposit receipt from disposal of a subsidiary	28,000	–
NET CASH FROM (USED IN) INVESTING ACTIVITIES	59	(90,967)
FINANCING ACTIVITIES		
Repayments of borrowings	(553,470)	(523,920)
Interest paid	(32,552)	(39,379)
Repayment to a director	–	(1,500)
New borrowings raised	519,077	526,552
NET CASH USED IN FINANCING ACTIVITIES	(66,945)	(38,247)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(3,970)	(72,578)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	61,872	134,450
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	57,902	61,872

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability in the Cayman Islands. Its immediate and also its ultimate holding company is Changfeng Axle Holdings Ltd. (incorporated in the British Virgin Islands), which 50.6% equity interests are owned by Wong Kwai Mo and Wu Ching in aggregate. The Company's shares were listed on the Stock Exchange of Hong Kong Limited with effect from 24 September 2010. The address of the Company's registered office is at Room 708, 7/F, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Group are manufacture and sale of axle and related components in the People's Republic of China ("PRC"). Particulars of the subsidiaries of the Company are set out in note 33.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements of the Company, the directors recognise that although the Group had a net current asset position of RMB83,325,000 as at 31 December 2013 and recorded a net loss of RMB228,055,000 for the year then ended. In addition, the Group had bank borrowings due within one year of approximately RMB464,167,000 as at 31 December 2013. Subsequent to the end of the reporting period, the Group had renewed facilities on their expiry to the extent of approximately RMB224,000,000 in full. The directors are of the opinion that the remaining existing banking facilities will be able to be successfully renewed upon maturity based on the past history and good relationships of the Group with the banks.

The directors have been implementing the following operating and financing measures to improve and strengthen the liquidity of the Company:

(a) Apply more stringent selection criteria to select new customers for new sales orders with better margin and repayment terms from customers.

(b) Apply cost control measures to reduce unnecessary expenditure.

(c) Actively pursuing buyers for realising the value of the Group's non core assets.

On this basis, the directors are of the opinion that, the Group will have sufficient working capital to meet its financial obligations as they fall due in the next twelve months from the date of this report. Accordingly, the consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

The Group has applied the following new and revised HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year.

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle
Amendments to HKFRS 1	Government Loans
Amendments to HKFRS 7	Disclosures – Offsetting Financial Assets and Financial Liabilities
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 13	Fair Value Measurement
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine

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

Amendments to HKFRS 7 Disclosures-Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKFRS 7 *Disclosures – Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKFRS 7 require entities to disclose information about:

a) recognised financial instruments that are set off in accordance with HKAS 32 Financial Instruments: Presentation; and

b) recognised financial instruments that are subject to an enforceable master netting agreement or similar agreement, irrespective of whether the financial instruments are set off in accordance with HKAS 32.

The amendments to HKFRS 7 have been applied retrospectively. The application of the amendments has had no material impact on the amounts reported in the Group's consolidated financial statements.

Impact of the application of HKFRS 12

HKFRS 12 is a new disclosure standard and is applicable to entities that have interests in subsidiaries, joint arrangements, associates and/or unconsolidated structured entities. In general, the application of HKFRS 12 has resulted in more extensive disclosures in the consolidated financial statements.

HKFRS 13 Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for, and disclosures about, fair value measurements. The scope of HKFRS 13 is broad: the fair value measurement requirements of HKFRS 13 apply 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, except for share-based payment transactions that are within the scope of HKFRS 2 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of 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.

HKFRS 13 requires prospective application. In accordance with the transitional provisions of HKFRS 13, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. Upon the adoption of the amendments to HKAS 1, the Group's 'statement of comprehensive income' is renamed as the 'statement of profit or loss and other comprehensive income'. Furthermore, 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 option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

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

New and revised HKFRS issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2010-2012 Cycle[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011-2013 Cycle[2]
HKFRS 9	Financial Instruments[3]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
HKFRS 14	Regulatory Deferral Accounts[5]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[1]
Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions[2]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets[1]
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC)-Int 21	Levies[1]

1 Effective for annual periods beginning on or after 1 January 2014, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 July 2014, with early application is permitted.
3 Available for application-the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised.
4 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions.
5 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016.

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.

The directors anticipate that the new or revised HKFRSs, other than those set out above, will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, that are measured at fair values, as explained in accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs and termination benefits

Payments made to state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Share-based payment transactions

Equity-settled share-based payment transactions

Share award scheme

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in awarded shares compensation reserve.

When trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under awarded shares compensation scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held under awarded shares compensation scheme. Accordingly, the related expense of the granted shares vested is reversed from awarded shares compensation reserve. The difference arising from such transfer is debited/credited to accumulated profits.

When the share awards are forfeited, the amount previously recognised in awarded shares compensation reserve will be transferred to accumulated profits.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss and other comprehensive income because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax base used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of assets other than construction in progress less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development activities (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised in profit or loss in the period in which it is incurred.

Impairment on tangible assets and intangible assets other than goodwill

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately in profit or loss.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

Financial assets are classified into financial assets at fair value through profit or loss ("FVTPL"), and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial asset at FVTPL

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item in the consolidated statement of profit or loss and other comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivable, other receivables, and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

Other financial liabilities

Other financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises a financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of property, plant and equipment and prepaid lease payments

Whenever certain events or changes in circumstances indicate that the carrying amount of property, plant and equipment and prepaid lease payments may not be recoverable. The directors conducted an impairment review by comparing its recoverable amount (higher of value in use and fair value less costs to sell) to the carrying amount on the property, plant and equipment related to the group's production. When the recoverable amount is determined based on the value in use calculation, the value-in-use calculation is determined based on the expected future cash flows arising from the usage of these assets discounted by a suitable discount rate. Where the future cash flow are less than expected, a material impairment loss may arise. As at 31 December 2013, no further impairment loss is recognised (2012: Impairment of RMB136,000,000) in respect of properties, plant and equipment and prepaid lease payments related to the group's production as disclosed in note 17.

For the property, plant and equipment and prepaid lease payments not for use in group's production, and/or held for sale, the directors conducted an impairment review by comparing its net realisable value less cost to sell to the carrying amount. As at 31 December 2013, the Group recognised an impairment loss amounting to approximately RMB52,133,000 and RMB30,332,000 in respect of property, plant and equipment and prepaid lease payments that are not for use in group's production, respectively.

(b) Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition), together with the consideration of subsequent settlement and the aging of the trade receivables. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2013, the carrying amount of trade receivables is approximately RMB177,077,000 (net of impairment loss of RMB283,035,000) (2012: RMB255,397,000 net of impairment loss of RMB197,643,000), after an additional impairment loss of RMB89,600,000 has been provided during the year.

(c) Impairment of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor the risk as a significant proportion of the Group's working capital is devoted to inventories. Procedure-wise, the management reviews the inventory aging listing on a regular basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. Although the Group carried periodic review on the net realisable value of inventory, the actual realisable value of inventory is not known until the sales take place.

(d) Provision for warranty claims

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the financial year. In case where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. Warranty provision has been included in trade and other payables with carrying amount of approximately RMB1,071,000 at 31 December 2013 (2012: RMB1,065,000).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts which include bank and other borrowings disclosed in note 26, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital and reserves.

The directors of the Group review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues and share buy backs as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Financial instrument classification	Carrying amount 2013	2012
		RMB'000	*RMB'000*
Financial assets			
Trade and other receivables	Loans and receivables	184,657	268,710
Bills receivables	Loans and receivables	87,449	108,818
Bank balances and cash	Loans and receivables	57,902	61,872
Held for trading investments	Held for trading investments	–	20,000
		330,008	459,400
Financial liabilities			
Trade and other payables*	At amortised cost	209,019	121,982
Borrowings	At amortised cost	464,167	498,560
		673,186	620,542

* Excluded advances from customers, warranty accrual, other tax payables and accruals.

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, cash and bank balances, held for trading investments, trade and other payables, and borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments included market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Currency risk

Certain bank balances of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Assets 2013	2012
	RMB'000	*RMB'000*
United States dollars ("US$")	114	3,642
Hong Kong dollars ("HK$")	1,949	1,518

Sensitivity analysis

The following table details the Group's sensitivity to a 5% (2012: 2%) appreciation and depreciation in RMB, the functional currency of the respective group entities, against the relevant foreign currencies for the year ended 31 December 2013 and 2012. The sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates with reference to historical fluctuation of foreign exchange rates during the year. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2013 and 2012 for a corresponding change in foreign currencies rates. A negative number below indicates an increase in post-tax loss for the year ended 31 December 2013 and 2012 where RMB strengthens against the relevant currencies. For a weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the post-tax loss for the year ended 31 December 2013 and 2012.

	2013	**2012**
	RMB'000	*RMB'000*
US$	(6)	(58)
HK$	(91)	(28)

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances.

The Group's borrowings have fixed interest rates and therefore, are subjected to fair value interest rate risk.

Sensitivity analysis

The following analysis is prepared assuming the bank balances outstanding at the end of the reporting period remain the same for the whole year and all other variables were held constant. A 25 basis point (2012: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For those bank balances with an interest rate of 0.001% per annum, the analysis below reflects the sensitivity that the interest rate may drop to 0%. The pre-tax loss for both years would decrease/(increase) as follows:

	2013	**2012**
	RMB'000	*RMB'000*
25 basis points higher	145	155
25 basis points lower	(140)	(142)

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(e) Other price risk

The Group has no exposure to other price risk at the end of the reporting period.

For the year ended 31 December 2012, the Group was exposed to other price risk through its held for trading investments (as disclosed in note 19). If the price of the held for trading investments had been 5% higher/lower, the Group's loss would decrease/increase by approximately RMB1,000,000 as a result of the changes in fair value of held for trading investments.

(f) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations.

The Group has concentration of credit risk as 12.5% (2012: 18.6%) and 35.8% (2012: 41.5%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. The Group also has concentration of credit risk by geographical location as trade and bills receivable comprise various debtors which are located in the PRC.

The Group manages this risk by reviewing the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group set up a committee ("Committee") to focus on the settlement of the trade receivables in September 2011 due to the downturn of economy. The Committee regularly reviewed, on the recoverability of trade receivables (including regularly communicate with individual debtor, held internal meeting to discuss and analysis the status on individual debtor, and seek for lawyer review on the status of debtor with financial or operational problems). Based on the nature of customers, the Committee classified the customers to different portfolios for analysis. The works of Committee included understanding of background, financial strength, sales and repayment of each portfolio.

As at 31 December 2013, the Group had trade receivables amounted to RMB460,112,000 (2012: RMB453,040,000) before impairment loss of RMB283,035,000 (2012: RMB197,643,000). It was noted by the Committee that some of the debtors had financial problems and the recoverability of these receivables were low, and a report was prepared by the Committee suggesting a provision of RMB89,600,000 (2012: RMB154,892,000) based on an analysis of the recoverability by customer portfolio. The analysis was based on the present value of estimated future cash flows discounted at individual debtors original effective interest rate, together with the subsequent settlement and aging of individual debtors.

The board of directors has reviewed the report of the Committee and considered the provision suggested is adequate but not excessive and the remaining trade receivables at 31 December 2013 of RMB177,077,000 (after impairment loss of RMB283,035,000) is collectable.

The board of directors considered the credit risk of the bills receivables and liquid funds is limited because the majority of counterparties are reputable state-owned banks located in the PRC.

Other than the concentration of the credit risk on trade receivables, bills receivable and bank balances and pledged bank deposits, the Group does not have any other significant concentration of credit risk.

(g) Liquidity risk

In the management of the liquidity risk, the Group closely monitors the utilisation of bank and other borrowings, its cash position resulting from its operations and maintains a level of cash and cash equivalents to finance the Group's operation and mitigate the effects of fluctuations in cash flows.

The Group relies on bank borrowings as a significant source of liquidity. As at 31 December 2013, the Group has short-term bank loan facilities of approximately RMB464,167,000 (31 December 2013: RMB498,560,000). Details of which are set out in note 26.

The following table details the Group's remaining contractual maturity for its financial liabilities as at 31 December 2013 and 2012. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk table

	Weighted average interest rate	Within 3 months	3 months to 1 year	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2013					
Trade and other payables	–	174,154	34,865	209,019	209,019
Borrowings	6.12	215,828	259,716	475,544	464,167
		389,982	294,581	684,563	673,186
2012					
Trade and other payables	–	86,946	35,036	121,982	121,982
Borrowings	6.78	202,084	289,055	491,139	498,560
		289,030	324,091	613,121	620,542

(h) Fair value

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

For held for trading investments, the fair value is determined with reference to price quoted by the bank (Level 3).

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Recognition of level 3 fair value measurement of held for trading investments

	RMB'000
At 1 January 2012	–
Purchases	20,000
At 31 December 2012 and 1 January 2013	20,000
Settlements	(20,000)
At 31 December 2013	–

8. REVENUE AND SEGMENT INFORMATION

(a) Products within each operating segment

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

The Group has three reportable operating segments as follows:

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

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

- 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	
	2013	**2012**	**2013**	**2012**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
OEM and related market	172,769	264,493	29,726	45,134
Aftermarket	222,864	239,348	34,035	43,195
Train and railway business	34,162	–	9,119	–
External revenue/segment result	429,795	503,841	72,880	88,329
Other income (expense) and other gains and losses			2,573	(54,391)
Selling and distribution expenses			(25,656)	(28,194)
Research and development expenditure			(23,988)	(70,236)
Administrative expenses			(68,204)	(64,872)
Impairment loss on trade receivables *(note)*			(89,600)	(154,892)
Impairment loss recognised in respect of property, plant and equipment			(52,133)	(136,000)
Impairment loss recognised in respect of prepaid lease payments			(30,332)	–
Reversal of impairment loss recognised in respect of property, plant and equipment classified as assets classified as held for sale			19,602	–
Finance costs			(32,552)	(39,379)
Loss before tax			(227,410)	(459,635)
Taxation			(645)	(1,103)
Loss and total comprehensive expense for the year			(228,055)	(460,738)

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the gross profit of each operating segment. This is the measure reported to the directors of the Company for the purposes of resources allocation and performance assessment.

Note: The amount consisted of an impairment loss on trade receivables for the OEM and related market of RMB31,112,000 (2012: RMB34,820,000) and trade receivables for aftermarket of RMB58,488,000 (2012: RMB120,072,000).

(c) Segment assets

	Assets	
	2013	**2012**
	RMB'000	*RMB'000*
OEM and related market	83,643	71,992
Aftermarket	93,434	183,405
Train and railway business	–	–
Total of all segments	177,077	255,397
Unallocated	1,404,504	1,509,474
Consolidated assets	1,581,581	1,764,871

Segment assets represent trade receivables.

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

(d) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). All non-current assets of the Group are located in the PRC.

The Group's revenue from external customers are attributed to the PRC of RMB395,633,000 and Russia of RMB34,162,000.

(e) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total sales of the Group are as follows:

	2013	**2012**
	RMB'000	*RMB'000*
Customer A[1]	51,617	N/A[2]
Customer B[1]	47,460	N/A[2]

1 Revenue from OEM and related market.
2 The corresponding revenue did not contribute over 10% of the total sales of the Group.

9. OTHER INCOME (EXPENSE) AND OTHER GAINS AND LOSSES

	2013	2012
	RMB'000	*RMB'000*
Government grant *(note)*	6,255	6,176
Income from suppliers on defects claim	3,869	1,590
Bank interest income	216	749
Gain (loss) from disposal of property, plant and equipment	580	(12,794)
Net foreign exchange loss	(522)	(51)
Sale of scrap materials	(7,176)	(55,167)
Others	(649)	5,106
	2,573	(54,391)

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.

10. RESEARCH AND DEVELOPMENT EXPENDITURE

For the year ended 31 December 2012, the balance includes an amount of approximately RMB60,000,000 in relation to the trial production and quality test on the production of train bolster, train side frame and related train components for Russia railway project. Sales to the Russia railway project commenced in 2013.

11. FINANCE COSTS

	2013	2012
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	31,675	38,365
Other borrowings wholly repayable within five years	877	1,014
	32,552	39,379

12. LOSS BEFORE TAX

Loss before tax has been arrived at after charging:

	2013	2012
	RMB'000	*RMB'000*
Employee benefits expenses (including directors):		
– salaries and other benefits	64,332	62,599
– retirement benefit scheme contributions	8,238	7,478
Total staff costs (included RMB43,712,000 (2012: RMB41,962,000) in cost of sales, RMB2,904,000 (2012: RMB3,906,000) in selling and distribution expenses, RMB2,498,000 (2012: RMB1,140,000) in research and development expenditure, and RMB23,456,000 (2012: RMB23,069,000) in administrative expenses)	72,570	70,077
Depreciation of property, plant and equipment	38,214	36,604
Release of prepaid lease payments	6,436	6,236
Auditors' remuneration	1,562	1,582
Cost of inventories recognised as expenses		
– included in cost of sales	353,904	413,128
– included in research and development expenditure	15,217	68,761

13. INCOME TAX EXPENSE

	2013	2012
	RMB'000	*RMB'000*
Tax expense comprises:		
Current tax expense	1,862	137
Overprovision in prior year	(1,449)	–
Deferred taxation *(note 20)*	232	966
	645	1,103

The income tax expense for the year represents the PRC Enterprise Income Tax which is calculated at the prevailing tax rate of 25% on the taxable income of the group entities in the PRC for the years ended 31 December 2013 and 2012.

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 2010 to 2012 according to the PRC Tax Law.

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

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

	2013	**2012**
	RMB'000	*RMB'000*
Loss before tax	(227,410)	(459,635)
Tax at the domestic income tax rate of 25%	(56,853)	(114,909)
Tax effect of expenses not deductible for tax purpose	20,950	36,838
Tax effect of deductible temporary difference not recognised	22,393	38,723
Tax effect of tax losses not recognised	21,294	40,451
Tax effect of preferential tax rate	(5,690)	–
Overprovision in prior year	(1,449)	–
	645	1,103

Under the New Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC subsidiaries amounting to approximately RMB197,917,000 and RMB300,414,000 for the year ended at 31 December 2013 and 2012 respectively, as the Company is able to control the timing of the reversal of temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

As at 31 December 2013, the Group had deductible temporary difference of RMB283,035,000 (2012: RMB197,643,000) attributable to the impairment loss on trade receivables. No deferred tax asset has been recognised in relation to such deductible temporary difference as, in the opinion of directors, the utilisation of such temporary difference is remote.

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments of the directors and the chief executive on a name basis are as follows:

For the year ended 31 December 2013

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wong Kwai Mo*	–	1,245	12	1,257
Wu Ching*	–	1,245	12	1,257
Lai Feng Cai*	–	600	17	617
Dong Ying, Dorothy	–	–	–	–
Zhu Wei Zhou	–	81	–	81
Li Xiu Qing	–	81	–	81
Chong Ching Hei	–	81	–	81
	–	3,333	41	3,374

For the year ended 31 December 2012

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wong Kwai Mo*	–	1,261	22	1,283
Wu Ching*	–	1,261	22	1,283
Lai Feng Cai*	–	126	5	131
Dong Ying, Dorothy	–	–	–	–
Zhu Wei Zhou	–	78	–	78
Li Xiu Qing	–	78	–	78
Chong Ching Hei	–	78	–	78
	–	2,882	49	2,931

* Executive directors

Lai Feng Cai is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

None of the directors waived any emoluments during the years ended 31 December 2013 and 2012.

(b) Employees' emoluments

During the year ended 31 December 2013, of the five individuals with the highest emoluments in the Group, three (2012: three) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the five individuals are as follows:

	2013	2012
	RMB'000	*RMB'000*
Salaries and other benefits	4,463	3,829
Contributions to retirement benefits scheme	69	64
	4,532	3,893

Their emoluments were within the following bands:

	No. of individuals	
	2013	2012
Nil to HK$1,000,000 (equivalents to approximately Nil to RMB797,900)	2	2
HK$1,000,001 to HK$1,500,000 (equivalents to approximately RMB797,901 to RMB1,196,850)	1	1
HK$1,500,001 to HK$2,000,000 (equivalents to RMB1,196,851 to RMB1,595,800)	2	2

During both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

15. LOSS PER SHARE

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

	2013	2012
	RMB'000	*RMB'000*
Loss for the purposes of basic loss per share		
Loss for the year attributable to owners of the Company	(208,245)	(459,351)

	2013	2012
Number of shares		
Number of ordinary shares for the purposes of basic loss per share	800,000,000	800,000,000

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

16. DIVIDENDS

No dividend was paid or declared by the Company during the years ended 31 December 2013 and 2012.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Furniture, fixture and equipment	Machinery	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 31 December 2011 and 1 January 2012	222,359	6,159	5,563	325,397	137,850	697,328
Additions	39,973	183	924	37,996	72,130	151,206
Transfer	85,463	–	50	41,429	(126,942)	–
Disposal	–	–	–	(14,155)	–	(14,155)
At 31 December 2012 and 1 January 2013	347,795	6,342	6,537	390,667	83,038	834,379
Additions	13,308	306	702	51,301	34,942	100,559
Transfer	54,928	–	5	52,988	(107,921)	–
Reclassified as held for sale *(note 24)*	(15,452)	–	(459)	(111,330)	–	(127,241)
Disposal	(10,000)	–	–	–	–	(10,000)
At 31 December 2013	390,579	6,648	6,785	383,626	10,059	797,697
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 31 December 2011 and 1 January 2012	22,803	1,376	2,144	58,530	–	84,853
Provided for the year	7,974	962	869	26,799	–	36,604
Impairment loss recognised in profit or loss	53,027	106	499	82,368	–	136,000
Disposal	–	–	–	(1,254)	–	(1,254)
At 31 December 2012 and 1 January 2013	83,804	2,444	3,512	166,443	–	256,203
Provided for the year	10,377	956	873	26,008	–	38,214
Impairment loss recognised in profit or loss	15,709	–	290	36,134	–	52,133
Reversal of impairment loss recognised in profit or loss	(7,100)	–	–	(12,502)	–	(19,602)
Reclassified as held for sale *(note 24)*	(7,432)	–	(123)	(44,878)	–	(52,433)
Disposal	(855)	–	–	–	–	(855)
At 31 December 2013	94,503	3,400	4,552	171,205	–	273,660
CARRYING VALUES						
At 31 December 2013	296,076	3,248	2,233	212,421	10,059	524,037
At 31 December 2012	263,991	3,898	3,025	224,224	83,038	578,176

The above items of property, plant and equipment, other than construction in progress, are depreciated on straight-line basis at the following rates after taking into account residual values:

Buildings	Over the shorter of the term of lease, or 4.5%
Motor vehicles	18%
Furniture, fixture and equipment	18%
Machinery	9%

The Group has pledged certain buildings to secure general banking facilities grant to the Group at the end of each reporting period as detailed in note 26.

During the year ended 31 December 2013, the Group had entered into a conditional agreement in respect of disposal of its entire equity interest in a wholly owned subsidiary, Fujian Changfeng Axle Manufacturing Co., Ltd ("Fujian Changfeng") and a sales agreement in respect of disposal of certain machineries in a non-wholly owned subsidiary, Changfeng Gear Manufacturing Co., Ltd ("Changfeng Gear"), which is planned for manufacture and sales of gear. Relevant assets with carrying amount of RMB13,706,000 (net of impairment of RMB19,602,000) and RMB41,500,000 (net of impairment of RMB20,974,000) for Fujian Changfeng and Changfeng Gear, respectively, had been classified as assets classified held for sale. Details are set out in note 24.

In addition, as the Group had terminated its plan on manufacturing and sales of gear, the remaining machineries in Changfeng Gear (excluding certain machinery held for sale at RMB41,500,000 mentioned above), with carrying amount of RMB15,449,000 are fully impaired as of 31 December 2013.

For certain non-core leasehold land and building premises remain inactive as of 31 December 2013, recoverable amounts of the relevant assets have been determined on the basis of net realisable value less cost to sell with reference to the valuation report issued by an independent valuer-Roma Appraisals Limited, by reference to recent market price of respective building. The independent valuer has adopted the direct comparison approach assuming sale of property in its existing state by making reference to comparable sales transactions as available in the relevant market. Impairment loss of RMB5,008,000 and RMB10,701,000 on building premises had been recognised for Changfeng Gear and Sichuan Changfeng, and impairment loss of RMB30,332,000 on leasehold land for Sichuan Changfeng, respectively.

In relation to the fixed assets related to the Group's current production, 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-Peak Vision Appraisals Limited, 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 12.10% (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 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 31 December 2013 and hence no further impairment loss is recognised for the year ended 31 December 2013 (2012: impairment loss of RMB136,000,000 as 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 on which the property, plant and equipment used for the Group's current production is situated and concluded no impairment on prepaid lease payments is required.

18. PREPAID LEASE PAYMENTS

	RMB'000
At 1 January 2012	300,939
Additions	9,263
Released to profit or loss	(6,236)
At 31 December 2012 and 1 January 2013	303,966
Additions	7,217
Reclassified as held for sale *(note 24)*	(5,783)
Released to profit or loss	(6,436)
Impairment loss recognised in profit or loss	(30,332)
At 31 December 2013	(268,632)

	2013	**2012**
	RMB'000	*RMB'000*
Analysed for reporting purpose:		
Current assets	6,241	6,236
Non-current assets	262,391	297,730
	268,632	303,966

At 31 December 2013, the Group's prepaid lease payments comprise medium-term lease leasehold land located in PRC.

Prepaid lease payments are released to profit or loss over the lease terms ranging from 45 to 50 years.

The Group is in the process of obtaining the land use right certificate of a parcel of land included in prepaid lease payments with carrying amount of approximately RMB7,217,000 at 31 December 2013 (2012: RMB4,009,000).

For the details of the impairment assessment of the leasehold land refer to note 17.

19. HELD FOR TRADING INVESTMENTS

	2013	**2012**
	RMB'000	*RMB'000*
Wealth management products	–	20,000

The amount represents units subscribed in the wealth management products managed by a financial institution in the PRC.

The return of the investment fund is based on the yield as quoted by the financial institution.

The fair value is measured at the subscription price provided by the financial institution at the end of the reporting period.

The investment was redeemed for cash in January 2013 at RMB20 million.

20. DEFERRED TAX

The following are the major deferred tax liabilities (assets) recognised and movement thereon during the years ended 31 December 2013 and 2012:

	Revaluation of identifiable assets and liabilities	Unrealised profit for inventories	Total
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2012	848	(1,851)	(1,003)
(Credit) charge to profit or loss	(33)	999	966
At 31 December 2012 and 1 January 2013	815	(852)	(37)
(Credit) charge to profit or loss	(35)	267	232
At 31 December 2013	780	(585)	195

The revaluation of the prepaid lease payments, buildings, machinery, motor vehicles, furniture, fixtures and equipment and inventories arose from the acquisition of a subsidiary, Longyan Shengfeng in prior years.

No deferred tax asset has been recognised in respect of the tax losses principally attributable to subsidiaries in the PRC due to the unpredictability of future profit streams. The tax losses of the PRC subsidiaries can be carried forward for five years.

As at 31 December 2013, the Group had deductible temporary difference of RMB283,035,000 (2012: RMB197,643,000) attributable to the impairment loss on trade receivables. No deferred tax asset has been recognised in relation to such deductible temporary difference as, in the opinion of directors, the utilisation of such temporary difference is remote. No deferred tax asset has been recognised.

The Group has no other significant unprovided deferred tax for the years ended 31 December 2013 and 2012.

The Group had unrecognised tax losses as follows:

	2013	2012
	RMB'000	*RMB'000*
Expiry date		
2014	958	958
2015	3,679	3,679
2016	15,736	15,736
2017	161,804	161,804
2018	77,146	–
	259,323	182,177

21. INVENTORIES

	2013	2012
	RMB'000	*RMB'000*
Raw materials	109,845	119,150
Work-in-progress	51,677	86,796
Finished goods	78,822	72,787
	240,344	278,733

22. TRADE, BILLS AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2013	2012
	RMB'000	*RMB'000*
Trade receivables	460,112	453,040
Less: impairment loss on trade receivables	(283,035)	(197,643)
	177,077	255,397
Bills receivable	87,449	108,818
Other receivables	7,580	13,313
Advances to suppliers	94,711	88,783
Prepaid expenses	1,942	1,978
VAT-in recoverable	36,275	32,460
Total trade and other receivables	405,034	500,749

At the end of the reporting period, trade receivables with outstanding amount of RMB29,409,000 (2012: RMB58,369,000) have been factored to certain banks. The Group continues to present the factored trade receivables as trade receivables until maturity.

At the end of the reporting period, bills receivable with outstanding amount of RMB65,114,000 (2012: RMB55,266,000) have been endorsed to certain creditors. The Group continues to present the endorsed bills as bills receivable until maturity.

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

The aging of trade receivables (net of impairment loss on trade receivables) is presented based on the invoice date, which approximated the respective revenue recognition date as follows:

	2013	2012
	RMB'000	*RMB'000*
0 to 90 days	81,660	100,367
91 to 120 days	18,148	11,242
121 to 180 days	33,238	40,937
181 to 365 days	41,463	72,889
Over 365 days	2,568	29,962
	177,077	255,397

The aging of bills receivable is as follows:

	2013	2012
	RMB'000	*RMB'000*
0 to 90 days	73,507	91,670
91 to 120 days	7,070	8,698
121 to 180 days	6,872	8,450
	87,449	108,818

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

In determining the recoverability of a trade receivable, a committee of the Group ("the Committee"), that is responsible for understanding background, financial strength, sales and repayment ability of each debtor, regularly reviewed recoverability of trade receivables (including regularly communicating with individual debtor, holding internal meeting to discuss and analyse the status of each individual debtor, and seeking for lawyer review on the status of debtor with financial or operational problems). Based on the nature of customers, the Committee classified the customers to different portfolios for analysis.

It was noted by the Committee that some of the debtors had financial problems and the recoverability of these receivables were low, and a report was prepared by the Committee suggesting a provision of RMB283,035,000 (2012: RMB197,643,000) based on an analysis of the recoverability by customer portfolio. The analysis was based on the present value of estimated future cash flows discounted at individual debtors original effective interest rate, together with the subsequent settlement and aging of individual debtors. The board of directors has reviewed the report of the Committee and considered the provision suggested is adequate but not excessive.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB95,417,000 and RMB155,030,000 at 31 December 2013 and 2012, respectively, which are past due for which the Group has not provided for impairment loss as continuous business relationship and subsequent settlement of RMB20,982,000 is noted from those debtors and the remaining amounts are still considered recoverable based on historical experience.

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

	2013	2012
	RMB'000	*RMB'000*
91 to 120 days	18,148	11,242
121 to 180 days	33,238	40,937
181 to 365 days	41,463	72,889
Over 365 days	2,568	29,962
	95,417	155,030

Movement in the impairment loss on trade receivables

	2013	2012
	RMB'000	*RMB'000*
1 January	197,643	48,700
Impairment loss recognised on receivables	89,600	154,892
Amounts recovered during the year	(4,208)	(5,949)
31 December	283,035	197,643

22A. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2013 and 2012 that were transferred to banks or suppliers by factoring or discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 26) or trade payables, respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2013

	Trade receivables factored to banks with full recourse	Bills receivables endorsed to suppliers with full recourse	Total
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	29,409	65,114	94,523
Carrying amount of associated liabilities	(26,467)	(65,114)	(91,581)
Net position	2,942	–	2,942

As at 31 December 2012

	Trade receivables factored to banks with full recourse	Bills receivables endorsed to suppliers with full recourse	Total
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	58,369	55,266	113,635
Carrying amount of associated liabilities	(51,560)	(55,266)	(106,826)
Net position	6,809	–	6,809

23. BANK BALANCES AND CASH

Bank and cash of the Group comprise bank balance and cash. The deposits carry interest rate ranging from 0.01% to 3.85% (2012: 0.01% to 4.75%).

24. ASSETS CLASSIFIED AS HELD FOR SALE

(a) On 16 December 2013, the Group entered into a conditional agreement with an independent third party in respect of disposal of its entire equity interest in Fujian Changfeng in an aggregate cash consideration of RMB56,000,000. Fujian Changfeng is established in the PRC and is engaged in manufacture and sale of axle and related business, and remained inactive as of the date of the agreement. Deposit of RMB28,000,000 had been received as of 31 December 2013.

The assets attributable to Fujian Changfeng, which are expected to be sold within twelve months from the end of the reporting period, have been classified as "assets classified as held for sale" and are presented separately in the consolidated statement of financial position (see below).

The net proceeds of disposal exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

The major classes of assets of Fujian Changfeng classified as held for sale are as follows:

	2013
	RMB'000
Property, plant and equipment *(note 17)*	33,308
Prepaid lease payments *(note 18)*	5,783
Assets classified as held for sale	39,091

(b) On 27 December 2013, the Group entered into sales agreement in respect of disposal of certain machineries at net consideration of RMB 41,500,000. As the net carrying amount of the relevant assets is higher than the net proceeds of disposal, RMB20,974,000 impairment loss has been recognised in profit and loss.

25. TRADE, BILLS AND OTHER PAYABLES

Trade and other payables comprise the following:

	2013	2012
	RMB'000	*RMB'000*
Trade payables	58,880	44,927
Bills payables	65,115	55,266
	123,995	100,193
Advances from customers	13,772	12,997
Payables for property, plant and equipment	40,752	7,155
Deposit receipt for disposal of a subsidiary	28,000	–
Payroll and welfare payables	7,262	7,761
Warranty provision *(note)*	1,071	1,065
Other accruals	14,762	20,586
Other tax payable	5,295	8,935
Other payables	8,807	6,873
	243,716	165,565

Note: Movement of warranty provision is as follows:

	Warranty provision
	RMB'000
At 1 January 2012	1,088
Additional provision in the year	8,194
Utilisation of provision	(8,217)
At 31 December 2012 and 1 January 2013	1,065
Additional provision in the year	8,931
Utilisation of provision	(8,925)
At 31 December 2013	1,071

At 31 December 2013 and 2012, the warranty provision represents management's best estimate of the Group's liability under 6-month warranty granted on products, based on prior experience and industry practice for defective products.

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

	2013	2012
	RMB'000	*RMB'000*
Within 30 days	19,888	16,790
31 to 60 days	8,657	3,491
61 to 90 days	8,072	3,057
91 to 180 days	10,628	11,250
181 to 365 days	11,635	10,339
	58,880	44,927

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

The aging of bills payable is as follows:

	2013	2012
	RMB'000	*RMB'000*
Within 30 days	16,204	10,810
31 to 60 days	13,754	13,760
61 to 90 days	22,555	17,249
91 to 180 days	12,602	13,447
	65,115	55,266

26. BORROWINGS

	2013	2012
	RMB'000	*RMB'000*
Bank borrowings	451,167	485,560
Other borrowings	13,000	13,000
	464,167	498,560
Unsecured	68,000	78,000
Secured	396,167	420,560
	464,167	498,560
Carrying amount repayable:		
Within one year	464,167	498,560
Less: Amount due within one year shown under current liabilities	(464,167)	(498,560)
Amount shown under non-current liabilities	–	–

All borrowings are denominated in RMB, carry fixed interest rates and shown under current liabilities.

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2013	**2012**
Fixed-rate borrowings	5.5%-7.872% per annum	5.88%-7.872% per annum

The Group has pledged certain assets to secure banking facilities granted to the Group. The carrying values of the assets pledged are as follows:

	2013	**2012**
	RMB'000	*RMB'000*
Buildings	91,638	96,773
Machinery	37,500	44,829
Land use rights	52,010	84,225
Trade receivables	29,409	58,369
	210,557	284,196

27. SHARE CAPITAL

	Number of shares	**Amount**
		US$'000
Ordinary shares of the United States dollars ("US$") US$0.01 each		
Authorised:		
At 31 December 2012, 1 January 2013 and 31 December 2013	5,000,000,000	50,000
Issued & fully paid:		
At 31 December 2012, 1 January 2013 and 31 December 2013	800,000,000	8,000

	2013 & 2012
	RMB'000
Shown on the consolidated statement of financial position	53,560

28. SHARE-AWARD SCHEME

The Company's share award scheme (the "Scheme"), was approved and adopted pursuant to a resolution passed on 30 August 2012. The Company resolved that a sum of HK$10,000,000 be provided to the Share Award Scheme for the purchase of shares of US$0.01 each in the capital of the Company. Such Shares will be awarded to the selected employees to be selected by the board, or the Executive Committee acting on behalf of the board, for the purpose of recognising contributions of and giving incentive to the selected employees in order to retain them for the continual operation and development of the Company.

At the date of adoption of the Scheme, the maximum number of shares that can be purchased approximately to 19,230,000 shares, represents approximately 2.4% of the issued share capital of the Company. 2,832,000 shares have been purchased during year 2012 by the trustee through the Stock Exchange of Hong Kong Limited under the Scheme:

Month of purchase	No. of ordinary shares of US$0.01 each	Average price per share	Aggregate consideration paid
		HK$	*RMB'000*
November 2012	2,832,000	0.71	1,627

No shares have been granted to selected employees during the year ended 31 December 2013 and 2012.

29. OPERATING LEASE

Minimum lease payments paid under operating leases in respect of office premises amounted to RMB1,235,000 and RMB189,000 for the year ended 31 December 2013 and 2012 respectively.

At the end of each reporting period, the Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	2013	2012
	RMB'000	*RMB'000*
Within one year	124	128
In the second to fifth year inclusive	88	10

Operating lease payments represent rental payable by the Group for certain office premises and warehouse properties. Leases are negotiated for a term of 1 to 2 years with fixed rate.

30. OTHER COMMITMENTS

	2013	2012
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of plant and machinery – contracted for but not provided in the consolidated financial statements *(note 1)*	2,010	28,635
Capital expenditure in respect of capital contribution to a subsidiary – contracted for but not provided in the consolidated financial statements *(note 2)*	48,000	60,000

notes:

1. The capital expenditure in both year 2013 and 2012 is related to the construction of production facilities for expansion of the Group's operation.

2. The capital expenditure in year 2012 is related to the capital contribution of Fujian Changfeng, the reduction of amount was due to a RMB12 million contribution during the year.

31. RETIREMENT BENEFIT PLAN

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

32. RELATED PARTY DISCLOSURES

Compensation of key management personnel

The remuneration of directors and other members of key management during the years ended 31 December 2013 and 2012 was as follows:

	2013	2012
	RMB'000	*RMB'000*
Short-term benefits	3,981	3,943
Post-employment benefits	96	68
	4,077	4,011

33. PARTICULARS OF SUBSIDIARIES

The Company has the following indirectly held, unless otherwise stated, subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group as at 31 December				Principal activities
			Directly		Indirectly		
			2013	2012	2013	2012	
Changfeng Holding (Hong Kong) Limited	Hong Kong 14 February 2008	HK$10,000	100%	100%	–	–	Investment holding
Fujian Changfeng Axle Manufacturing Co., Ltd. *(note)*	PRC 5 March 2001	RMB26,000,000	–	–	100%	100%	Manufacture and sale of axle and related components
Fujian Changfeng Machinery Manufacturing Co., Ltd. *(note)*	PRC 8 July 2013*	RMB787,000,000	–	–	100%	–	Manufacture and sale of axle and related components
Longyan Shengfeng Machinery Manufacturing Co., Ltd.	PRC 29 March 2006	RMB356,000,000	–	–	100%	100%	Manufacture and sale of roughcast
Kaifeng Changfeng Axle Co., Ltd.	PRC 19 April 2006	RMB375,000,000	–	–	100%	100%	Manufacture and sale of axle
Kaifeng Changfeng Machinery Manufacturing Co., Ltd.	PRC 9 August 2012	RMB50,000,000	–	–	100%	100%	Manufacture and sale of train bolster, train side frame and related train components
Beijing Changfeng Axle Research Institution Co., Ltd.	PRC 6 July 2010	RMB1,000,000	–	–	100%	100%	Research and development of axle and related components
Sichuan Changfeng Axle Co., Ltd.	PRC 16 July 2009	RMB160,000,000	–	–	100%	100%	Manufacture and sale of axle
Changfeng Gear Manufacturing Co., Ltd.	PRC 21 July 2011	RMB100,000,000	–	–	60%	60%	Manufacture and sale of gear

* incorporate in 2013

Note: Pursuant to the approval granted by local government, a new entity, Fujian Changfeng Machinery Manufacturing Co., Ltd. had been split out from the original entity, Fujian Changfeng Axle Manufacturing Co., Ltd, on 8 July 2013, with a registered capital of RMB787,000,000.

34. DETAILS OF NON-WHOLLY OWNED SUBSIDIARIES THAT HAVE MATERIAL NON-CONTROLLING INTERESTS

The table below shows details of non-wholly-owned subsidiaries of the Group that have materials non-controlling interests:

(1) For illustrative purpose, it is assumed that the Group has only one subsidiary with non-controlling interests that are material to the Group.

(2) The amounts disclosed below do not reflect the elimination of intragroup transactions.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Loss allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	**2012**	**2013**	**2012**	**2013**	**2012**
				RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Changfeng Gear Manufacturing Co., Ltd.	PRC	40%	40%	(19,810)	(1,387)	18,756	38,566

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

Changfeng Gear Manufacturing Co., Ltd.

	2013	**2012**
	RMB'000	*RMB'000*
Current assets	67,699	11,691
Non-current assets	38,992	87,698
Current liabilities	59,913	3,085
Non-current liabilities	–	–
Equity attributable to owners of the Company	28,022	57,738
Non-controlling interests	18,756	38,566

	2013 *RMB'000*	2012 *RMB'000*
Revenue	2,458	–
Expenses	(51,984)	(3,467)
Loss for the year	(49,526)	(3,467)
Loss attributable to owners of the Company	(29,716)	(2,080)
Loss attributable to the non-controlling interests	(19,810)	(1,387)
Loss for the year	(49,526)	(3,467)
Total comprehensive expenses attributable to owners of the Company	(29,716)	(2,080)
Total comprehensive expenses attributable to the non-controlling interests	(19,810)	(1,387)
Total comprehensive expenses for the year	(49,526)	(3,467)
Net cash inflow (outflow) from operating activities	18,980	(8,890)
Net cash outflow from investing activities	(39,726)	(48,255)
Net cash inflow from financing activities	16,313	1,926
Net cash outflow	(4,433)	(55,219)

35. FINANCIAL SUMMARY OF THE COMPANY

RESULTS

	2013 *RMB'000*	2012 *RMB'000*
Administrative expenses	(7,717)	(6,274)
Loss for the year	(7,717)	(6,274)

ASSETS AND LIABILITIES

	2013	2012
	RMB'000	*RMB'000*
NON-CURRENT ASSET		
Investment in a subsidiary	863,894	863,894
CURRENT ASSET		
Bank balance	643	667
CURRENT LIABILITIES		
Other payables	10,396	8,849
Amount due to a subsidiary	26,427	20,281
	36,823	29,130
Net current liabilities	(36,180)	(28,463)
Total assets less current liabilities	827,714	835,431
OWNERS' EQUITY		
Share capital	53,560	53,560
Reserves	774,154	781,871
	827,714	835,431

36. RESERVES

	Share premium	Capital reserve	Shares held under awarded shares compensation scheme	Accumulated deficits	Total
	RMB'000	*RMB'000* *(Note)*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2012	599,296	226,982	–	(36,506)	789,772
Loss and total comprehensive expense for the year	–	–	–	(6,274)	(6,274)
Purchase of shares for the purpose of awarded shares compensation scheme *(note 28)*	–	–	(1,627)	–	(1,627)
At 31 December 2012 and 1 January 2013	599,296	226,982	(1,627)	(42,780)	781,871
Loss and total comprehensive expense for the year	–	–	–	(7,717)	(7,717)
At 31 December 2013	599,296	226,982	(1,627)	(50,497)	774,154

Note: The balance represents deemed distribution, transfer and deemed contribution arising from the group reorganisation for listing purposes which took place in 2008 and 2009.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

	NOTES	2012 RMB'000	2011 RMB'000
Revenue	8	503,841	920,681
Cost of sales		(415,512)	(668,588)
Gross profit		88,329	252,093
Other income (expense) and other gains and losses	9	(54,391)	7,680
Selling and distribution expenses		(28,194)	(26,044)
Research and development expenditure	9a	(70,236)	(13,857)
Administrative expenses		(64,872)	(63,851)
Impairment loss on trade receivables	21	(154,892)	(48,700)
Impairment losses recognised in respect of property, plant and equipment		(136,000)	–
Finance costs	10	(39,379)	(25,900)
(Loss) profit before tax	11	(459,635)	81,421
Taxation	12	(1,103)	(21,775)
(Loss) profit and total comprehensive (expense) income for the year		(460,738)	59,646
(Loss) profit and total comprehensive (expense) income attributable to:			
Owners of the Company		(459,351)	59,767
Non-controlling interests		(1,387)	(121)
		(460,738)	59,646
		RMB	RMB
Basic (loss) earnings per share	14	(0.57)	0.07

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	2012 RMB'000	2011 RMB'000
Non-current assets			
Property, plant and equipment	*16*	578,176	612,475
Prepaid lease payments	*17*	297,730	294,736
Prepayment for acquisition of machinery		18,899	42,708
Prepayment for acquisition of land use right and buildings		–	49,750
Deferred tax assets	*19*	37	1,003
		894,842	1,000,672
Current assets			
Inventories	*20*	278,733	323,742
Trade receivables	*21*	255,397	483,412
Bills receivables	*21*	108,818	218,247
Other receivables	*21*	136,534	135,721
Prepaid lease payments	*17*	6,236	6,203
Income tax recoverable		2,439	44
Available-for-sales investments	*18*	–	1,000
Held for trading investments	*18a*	20,000	–
Pledged bank deposits	*22*	–	2,100
Bank balances and cash	*22*	61,872	134,450
		870,029	1,304,919
Current liabilities			
Trade and bills payables	*23*	100,193	187,865
Other payables	*23*	65,372	53,933
Amount due to a director	*30(a)*	–	1,500
Borrowings-due within one year	*24*	498,560	447,968
Income tax payable		531	3,785
		664,656	695,051
NET CURRENT ASSETS		205,373	609,868

	NOTES	2012 RMB'000	2011 RMB'000
TOTAL ASSETS LESS CURRENT LIABILITIES		1,100,215	1,610,540
NON-CURRENT LIABILITIES			
Borrowings-due after one year	24	–	47,960
		1,100,215	1,562,580
CAPITAL AND RESERVE			
Share capital	25	53,560	53,560
Reserves		1,008,089	1,469,067
Equity attributable to owners of the Company		1,061,649	1,522,627
Non-controlling interests		38,566	39,953
		1,100,215	1,562,580

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital	Share premium	Capital reserves	Surplus reserves	Special reserves	Shares held under awarded Share compensation scheme	Retained earnings	Total	Non-controlling interests	Total
	RMB'000	*RMB'000*	*RMB'000* *(note a)*	*RMB'000* *(note b)*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
At 1 January 2011	53,560	599,296	226,982	120,048	822	–	462,152	1,462,860	–	1,462,860
Profit and total comprehensive income for the year	–	–	–	–	–	–	59,767	59,767	(121)	59,646
Appropriations	–	–	–	28,972	–	–	(28,972)	–	–	–
Capital contribution from non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	40,074	40,074
At 31 December 2011 and 1 January 2012	53,560	599,296	226,982	149,020	822	–	492,947	1,522,627	39,953	1,562,580
Loss and total comprehensive expense for the year	–	–	–	–	–	–	(459,351)	(459,351)	(1,387)	(460,738)
Purchase of shares for the purpose of awarded shares compensation scheme *(note 26)*	–	–	–	–	–	(1,627)	–	(1,627)	–	(1,627)
At 31 December 2012	53,560	599,296	226,982	149,020	822	(1,627)	33,596	1,061,649	38,566	1,100,215

Notes:

a. The balance represents deemed distribution, transfer and deemed contribution arising from group reorganisation for listing purposes which took place in 2008 and 2009.

b. The balance comprising statutory surplus reserve and discretionary surplus reserve, which are non-distributable and the transfer to these reserves is determined according to the relevant laws in the People's Republic of China ("PRC") and by the board of directors of the PRC subsidiaries in accordance with the Article of Associate of the subsidiaries. Statutory surplus reserve can be used to make up for previous year's losses or convert into additional capital of the PRC subsidiaries of the Company. Discretionary surplus reserve can be used to expand the existing operations of the Company's PRC subsidiaries.

CONSOLIDATED STATEMENT OF CASH FLOWS

	2012	2011
	RMB'000	*RMB'000*
OPERATING ACTIVITIES		
(Loss) profit before tax	(459,635)	81,421
Adjustments for:		
Impairment loss on trade receivables	154,892	48,700
Depreciation of property, plant and equipment	36,604	31,821
Finance costs	39,379	25,900
Release of prepaid lease payments	6,236	6,144
Impairment loss recognised in respect of property, plant and equipment	136,000	–
Loss from disposal of property, plant and equipment	12,794	2,488
Interest income	(749)	(1,744)
Operating cash flows before movements in working capital	(74,479)	194,730
Decrease (increase) in inventories	45,009	(33,455)
Decrease (increase) in trade receivables	73,123	(141,646)
Decrease (increase) in bills receivables	63,191	(218,177)
Increase in other receivables	(813)	(51,335)
Decrease in trade and bill payables	(41,434)	(1,612)
Decrease in other payables	(548)	(1,453)
Purchase of shares for purpose of awarded shares compensation scheme	(1,627)	–
Cash generated from (used in) operations	62,422	(252,948)
Income tax paid	(5,786)	(48,669)
NET CASH FROM (USED IN) OPERATING ACTIVITIES	56,636	(301,617)

	2012	2011
	RMB'000	*RMB'000*
INVESTING ACTIVITIES		
Purchases of property, plant and equipment	(63,219)	(141,301)
Prepayment for acquisition of machinery	(52,191)	(5,761)
Purchases of held for trading investments	(20,000)	–
Payment of prepaid lease payments	(9,263)	(30,616)
Placement of pledged bank deposits	(2,517)	(30,859)
Release of pledged bank deposits	4,617	30,936
Disposal of available-for-sale investment	1,000	–
Proceeds on disposal of property, plant and equipment	107	1,991
Interest received	749	1,744
Refund of (prepayment for) deposit for acquisition of land use right and buildings	49,750	(49,750)
NET CASH USED IN INVESTING ACTIVITIES	(90,967)	(223,616)
FINANCING ACTIVITIES		
Repayments of borrowings	(523,920)	(388,499)
Interest paid	(39,379)	(25,900)
Repayment to a director	(1,500)	–
New borrowings raised	526,552	555,977
NET CASH (USED IN) FROM FINANCING ACTIVITIES	(38,247)	141,578
NET DECREASE IN CASH AND CASH EQUIVALENTS	(72,578)	(383,655)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR	134,450	518,105
CASH AND CASH EQUIVALENTS AT THE END OF YEAR, represented by bank balances and cash	61,872	134,450

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. GENERAL

The Company was incorporated in the Cayman Islands as an exempted company with limited liability in the Cayman Islands. Its immediate and also its ultimate holding company is Changfeng Axle Holdings Ltd. (incorporated in the British Virgin Islands), which 50.6% equity interests are owned by Wong Kwai Mo and Wu Ching in aggregate. The Company's shares were listed on the Stock Exchange of Hong Kong Limited with effect from 24, September 2010. The address of the Company's registered office is at Room 708, 7/F, Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

The principal activity of the Company is investment holding. The principal activities of the Group are manufacture and sale of axle and related components in the People's Republic of China ("PRC"). Particulars of the subsidiaries of the Company are set out in note 31.

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

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

In preparing the consolidated financial statements of the Company, the directors recognise that although the Group had a net current asset position of RMB205,373,000 as at 31 December 2012, the Group recorded a net loss of RMB460,738,000 for the year then ended. In addition, the Group had bank borrowings due within one year of approximately RMB498,560,000 as at 31 December 2012. 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 RMB159,000,000 in full. 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 consolidated financial statements have been prepared on a going concern basis.

3. APPLICATION OF new and revised HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

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

Amendments to HKAS 12	Deferred Tax: Recovery of Underlying Assets; and
Amendments to HKFRS 7	Financial Instruments: Disclosures-Transfers of Financial Assets

Amendments to HKFRS 7 Disclosures-Transfers of Financial Assets

The Group has applied for the first time the amendments to HKFRS 7 *Disclosures-Transfers of Financial Assets* in the current year. The amendments increase the disclosure requirements for transactions involving the transfer of financial assets in order to provide greater transparency around risk exposures when financial assets are transferred.

The Group has arrangements with various banks to transfer to the banks its contractual rights to receive cash flows from certain trade receivables. The arrangements are made through discounting those receivables to banks on a full recourse basis. Specifically, if the trade receivables are not paid at maturity, the banks have the right to request the Group to pay the unsettled balance. As the Group has not transferred the significant risks and rewards relating to these trade receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 24). The relevant disclosures have been made regarding the transfer of these trade receivables on application of the amendments to HKFRS 7 (see note 21a). In accordance with the transitional provisions set out in the amendments to HKFRS 7, the Group has not provided comparative information for the disclosures required by the amendments.

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

New and revised HKFRS issued but not yet effective

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2009-2011 Cycle[1]
Amendments to HKFRS 7	Disclosures-Offsetting Financial Assets and Financial Liabilities[1]
Amendments to HKFRS 9 and HKFRS 7	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[3]
Amendments to HKFRS 10, HKFRS 11 and HKFRS 12	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities: Transition Guidance[1]
Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities[2]
HKFRS 9	Financial Instruments[3]
HKFRS 10	Consolidated Financial Statements[1]
HKFRS 11	Joint Arrangements[1]
HKFRS 12	Disclosure of Interests in Other Entities[1]
HKFRS 13	Fair Value Measurement[1]
HKAS 19 (as revised in 2011)	Employee Benefits[1]
HKAS 27 (as revised in 2011)	Separate Financial Statements[1]
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures[1]
Amendments to HKAS 1	Presentation of Items of Other Comprehensive Income[4]
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities[2]
HK(IFRIC)-Int 20	Stripping Costs in the Production Phase of a Surface Mine[1]

1 Effective for annual periods beginning on or after 1 January 2013.
2 Effective for annual periods beginning on or after 1 January 2014.
3 Effective for annual periods beginning on or after 1 January 2015.
4 Effective for annual periods beginning on or after 1 July 2012.

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9 are described as follows:

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

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2015, with earlier application permitted.

The directors anticipate that the adoption of HKFRS 9 in the future do not have significant impact on amounts reported in respect of the Group's financial assets and financial liabilities.

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

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

Key requirements of these five standards are described below.

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

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

In July 2012, the amendments to HKFRS 10, HKFRS 11 and HKFRS 12 were issued to clarify certain transitional guidance on the application of these five HKFRSs for the first time.

These five standards, together with the amendments relating to the transitional guidance, are effective for annual periods beginning on or after 1 January 2013 with earlier application permitted provided that all of these standards are applied at the same time.

The directors anticipate that these five standards will be adopted in the Group's consolidated financial statements for the annual period beginning 1 January 2013. However, the directors anticipate that the application of these five standards do not have significant effect on the Group.

Amendments to HKAS 1 Presentation of Items of Other Comprehensive Income

The amendments to HKAS 1 Presentation of Items of Other Comprehensive Income introduce new terminology for the statement of comprehensive income. Under the amendments to HKAS 1, a 'statement of comprehensive income' is renamed as a 'statement of profit or loss and other comprehensive income'. 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 items of other comprehensive income to be 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 option to present items of other comprehensive income either before tax or net of tax.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 July 2012. The presentation of items of other comprehensive income will be modified accordingly when the amendments are applied in future accounting periods.

The directors anticipate that the new or revised HKFRSs, other than those set out above, will have no material impact on the results and the financial position of the Group.

4. SIGNIFICANT ACCOUNTING POLICIES

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

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, that are measured at fair values, as explained in accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Income and expenses of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group.

All intra-group transactions, balances, income and expenses are eliminated in full on consolidation.

Non-controlling interests in subsidiaries are presented separately from the Group's equity then.

Allocation of total comprehensive income to non-controlling interests

Total comprehensive income and expense of a subsidiary is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods sold in the normal course of business, net of discounts and sales related taxes.

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Property, plant and equipment

Property, plant and equipment including buildings held for use in the production or supply of goods or services, or for administrative purposes (other than construction in progress) are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of items of property, plant and equipment (other than construction in progress) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of the reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Costs include professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and building

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Retirement benefit costs

Payments made to state-managed retirement benefit scheme are recognised as an expense when employees have rendered service entitling them to the contributions.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before taxation as reported in the consolidated statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when it relates to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Impairment of non-current assets other than financial assets

At the end of reporting period, the Group reviews the carrying amounts of its non-current assets other than financial assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

Where an impairment loss subsequently reverses, the carrying amount of the asset is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset in prior years. A reversal of an impairment loss is recognised as income immediately.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion.

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation. Provision are measured at the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Financial instruments

Financial assets and liabilities are recognised in the consolidated statement of financial position when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs directly attributable to the acquisition or issue of financial assets and liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of financial assets or financial liabilities, as appropriate, on initial recognition.

Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into held for trading investments, loans and receivables, and available-for-sale financial assets. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period to the net carrying amount on initial recognition.

Interest income is recognised on an effective interest basis for debt instruments.

Financial asset at fair value through profit or loss

Financial assets at FVTPL has two subcategories, including financial assets held for trading and those designated as at FVTPL on initial recognition.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are measured at fair value, with changes in fair value arising from remeasurement recognised directly in profit or loss in the period in which they arise. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item in the consolidated statement of comprehensive income.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, bills receivable, other receivables, pledged bank deposits, and bank balances and cash) are measured at amortised cost using the effective interest method, less any identified impairment losses.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated or not classified as financial assets at fair value through profit and loss, loans and receivables or held-to-maturity investments.

Available-for-sale financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated investments revaluation reserve, until the financial asset is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For an available-for-sale equity investment, a significant or prolonged decline in the fair value of that investment below its cost is considered to be objective evidence of impairment.

For other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as default or delinquency in interest and principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the assets' carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

When an available-for-sale financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period in which the impairment takes place.

Impairment losses on available-for-sale equity investments will not be reversed through profit or loss. Any increase in fair value subsequent to impairment loss is recognised directly in other comprehensive income and accumulated in investment revaluation reserve. For available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by the Group are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest expense is recognised on an effective interest basis.

The Group's financial liabilities, which include trade and other payables, amount due to a director and borrowings are subsequently measured at amortised cost using the effective interest method.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises a financial liability when, and only when, the Group's obligations are discharged, cancelled or expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Share-based payment transactions

Equity-settled share-based payment transactions

Share award scheme

The fair value of services received determined by reference to the fair value of shares awarded at the grant date is expensed on a straight line basis over the vesting period, with a corresponding increase in awarded shares compensation reserve.

When trustee purchases the Company's shares from the open market, the consideration paid, including any directly attributable incremental costs, is presented as shares held under awarded shares compensation scheme and deducted from total equity. No gain or loss is recognized on the transactions of the Company's own shares.

When the trustee transfers the Company's shares to grantees upon vesting, the related costs of the granted shares vested are reversed from shares held for share purchase scheme. Accordingly, the related expense of the granted shares vested is reversed from awarded shares compensation reserve. The difference arising from such transfer is debited/credited to accumulated profits.

When the share awards are forfeited, the amount previously recognised in awarded shares compensation reserve will be transferred to accumulated profits.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, the directors of the Company is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Estimated impairment of property, plant and equipment

Whenever certain events or changes in circumstances indicate that the carrying amount of property, plant and equipment may not be recoverable. The directors conducted an impairment review by comparing its recoverable amount (higher of value in use and fair value less costs to sell) to the carrying amount. When the recoverable amount is determined based on the value in use calculation, the value-in-use calculation is determined based on the expected future cash flows arising from the usage of these assets discounted by a suitable discount rate. Where the future cash flow are less than expected, a material impairment loss may arise. During the current year, the Group recognised an impairment loss amounting to approximately RMB136,000,000 in respect of properties, plant and equipment as disclosed in note 16.

(b) Estimated impairment of trade receivables

When there is objective evidence of impairment loss, the Group takes into consideration the estimation of future cash flows. The amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition), together with the consideration of subsequent settlement and the aging of the trade receivables. Where the actual future cash flows are less than expected, a material impairment loss may arise. As at 31 December 2012, the carrying amount of trade receivables is approximately RMB255,397,000 (net of impairment loss of RMB197,643,000) (2011: RMB483,412,000 net of impairment loss of RMB48,700,000).

(c) Impairment of inventories

The Group records inventories at the lower of cost and net realisable value. Net realisable value is the estimated selling price for inventories, less all the estimated costs of completion and costs necessary to make the sales.

Operational procedures have been in place to monitor the risk as a significant proportion of the Group's of working capital is devoted to inventories. Procedure-wise, the management reviews the inventory aging listing on a regular basis for those aged inventories. This involves comparison of carrying value of the aged inventory items with the respective net realisable value. The purpose is to ascertain whether allowance is required to be made in the financial statements for any obsolete and slow-moving items. Although the Group carried periodic review on the net realisable value of inventory, the actual realisable value of inventory is not known until the sales take place.

(d) Provision for warranty claims

Provision for warranty is made based on the possible claims on the products by customers with reference to the warranty coverage period and the percentage of warranty expenses incurred over total sales amounts during the financial year. In case where the actual claims are greater than expected, a material increase in warranty expenses may arise, which would be recognised in profit or loss for the period in which such a claim takes place. Warranty provision has been included in trade and other payables with carrying amount of approximately RMB1,065,351 at 31 December 2012 (2011: RMB1,088,000) (note 23).

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through optimization of the debt and equity balance. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of net debts which include bank and other borrowings disclosed in note 24, net of cash and cash equivalents and equity attributable to owners of the Company, comprising issued share capital, reserves and retained earnings.

The directors of the Group review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with each class of capital. Based on recommendations of the directors, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt.

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	Financial instrument classification	Carrying amount 2012	2011
		RMB'000	*RMB'000*
Financial assets			
Trade and other receivables	Loans and receivables	268,710	489,733
Bills receivables	Loans and receivables	108,818	218,247
Pledged bank deposits	Loans and receivables	–	2,100
Bank balances and cash	Loans and receivables	61,872	134,450
Available-for-sale investments	Available-for-sale financial assets	–	1,000
Held for trading investments	Held for trading investments	20,000	–
		459,400	845,530
Financial liabilities			
Trade and other payables*	At amortised cost	121,982	216,026
Amount due to a director	At amortised cost	–	1,500
Borrowings	At amortised cost	498,560	495,928
		620,542	713,454

* Excluded advances from customers, warranty accrual, other tax payables and accruals.

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, pledged bank deposits, cash and bank balances, available-for-sale investments, held for trading investments, trade and other payables, amount due to a director and borrowings. Details of the financial instruments are disclosed in the respective notes. The risks associated with these financial instruments included market risk (currency risk, interest rate risk and other price risk), credit risk and liquidity risk. The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

(c) Currency risk

Certain bank balances of the Group are denominated in foreign currencies. The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

The carrying amounts of the Group's foreign currency denominated monetary assets at the end of the reporting period are as follows:

	Assets	
	2012	**2011**
	RMB'000	*RMB'000*
United States dollars ("US$")	3,642	5,126
Hong Kong dollars ("HK$")	1,518	1,651

Sensitivity analysis

The following table details the Group's sensitivity to a 2% (2011: 2%) appreciation and depreciation in RMB, the functional currency of the respective group entities, against the relevant foreign currencies for the year ended 31 December 2012 and 2011. The sensitivity rate represents management's assessment of the reasonably possible change in foreign exchange rates with reference to historical fluctuation of foreign exchange rates during the year. The sensitivity analysis includes only outstanding foreign currency denominated monetary items and adjusts their translation at 31 December 2012 and 2011 for a corresponding change in foreign currencies rates. A negative number below indicates an increase in post-tax loss for the year (2011: a decrease in post-tax profit) where RMB strengthens against the relevant currencies. For a weakening of RMB against the relevant currencies, there would be an equal and opposite impact on the post-tax loss for the year (2011: post-tax profit).

	2012	**2011**
	RMB'000	*RMB'000*
US$	(58)	(98)
HK$	(28)	(32)

The bank balances denominated in foreign currencies fluctuated throughout the year and in management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

(d) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk on the variable rate of interest earned on the bank balances.

The Group's borrowings have fixed interest rates and therefore, are subjected to fair value interest rate risk.

Sensitivity analysis

The following analysis is prepared assuming the bank balances outstanding at the end of the reporting period were outstanding for the whole year and all other variables were held constant. A 25 basis point (2011: 25 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

For those bank balances with an interest rate of 0.001% per annum, the analysis below reflects the sensitivity that the interest rate may drop to 0%. The pre-tax loss for the year would decrease/(increase) (2011: pre-tax profit for the year would increase/(decrease)) as follows:

	2012	**2011**
	RMB'000	*RMB'000*
25 basis points higher	155	341
25 basis points lower	(142)	(324)

The Group monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arise.

(e) Other price risk

The Group is exposed to other price risk through its held for trading investments (as disclosed in note 18a). If the price of the held for trading investments had been 5% higher/lower, the Group's loss would decrease/increase by approximately RMB1,000,000 for the year ended 31 December 2012 as a result of the changes in fair value of held for trading investments.

For the year ended 31 December 2011, if the price of the available-for-sale investments (note 18) had been 5% higher/lower, the Group's investments valuation reserve would increase/decrease by approximately RMB50,000 as a result of the changes in fair value of investment fund.

(f) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial asset fails to meet its contractual obligations.

The Group has concentration of credit risk at 18.6% (2011: 10.5%) and 41.5% (2011: 22.7%) of the total trade receivables was due from the Group's largest customer and the five largest customers respectively. The Group also has concentration of credit risk by geographical location as trade and bills receivable comprise various debtors which are located in the PRC.

The Group manages this risk by reviewing the recoverable amount of each individual trade debt at the end of reporting period to ensure that adequate impairment losses are made for irrecoverable amounts.

The Group set up a committee ("Committee") to focus on the settlement of the trade receivables in September 2011 due to the downturn of economy. The Committee regularly reviewed, on the recoverability of trade receivables (including regularly communicate with individual debtor, held internal meeting to discuss and analysis the status on individual debtor, and seek for lawyer review on the status of debtor with financial or operational problems). Based on the nature of customers, the Committee classified the customers to different portfolios for analysis. The works of Committee included understanding of background, financial strength, sales and repayment of each portfolio.

As at 31 December 2012, the Group had trade receivables amounted to RMB453,040,000 (2011: RMB532,112,000) before impairment loss of RMB197,643,000 (2011: RMB48,700,000). It was noted by the Committee that some of the debtors were of financial problems and the recoverability of these receivables were low, and a report was prepared by the Committee suggesting a provision of RMB197,643,000 based on an analysis of the recoverability by customer portfolio. The analysis was based on the present value of estimated future cash flows discounted at individual debtors original effective interest rate, together with the subsequent settlement and aging of individual debtors.

The board of directors has reviewed the report of the Committee and considered the provision suggested is adequate but not excessive and the remaining trade receivables at 31 December 2012 of RMB255,397,000 (after impairment loss of RMB197,643,000) is collectable.

The board of directors considered the credit risk of the bill receivables and liquid funds is limited because the majority of counterparties are reputable state-owned banks located in the PRC.

Other than the concentration of the credit risk on trade receivables, bills receivable and bank balances and pledged bank deposits, the Group does not have any other significant concentration of credit risk.

(g) Liquidity risk

In the management of the liquidity risk, the Group closely monitors the utilisation of bank and other borrowings, its cash position resulting from its operations and maintains a level of cash and cash equivalents and mitigate the effects of fluctuations in cash flows. The management monitor the utilization of borrowing and ensure sufficient working capital for its present requirements (defined in note 2).

The following table details the Group's remaining contractual maturity for its financial liabilities as at 31 December 2012 and 2011. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The table includes both interest and principal cash flows.

Liquidity and interest risk table

	Weighted average interest rate	Within 3 months	3 months to 1 year	1-2 years	Total undiscounted cash flows	Carrying amount
	%	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
2012						
Trade and other payables	–	86,946	35,036	–	121,982	121,982
Borrowings	6.78%	202,084	289,055	–	491,139	498,560
		289,030	324,091	–	613,121	620,542
2011						
Trade and other payables	–	166,202	49,824	–	216,026	216,026
Amount due to a director	–	1,500	–	–	1,500	1,500
Borrowings	6.62%	168,203	291,458	51,053	510,714	495,928
		335,905	341,282	51,053	728,240	713,454

(h) Fair value

The fair value of other financial assets and financial liabilities (excluding derivative instruments) is determined in accordance with generally accepted pricing models based on discounted cash flow analysis or using prices from observable current market transactions.

For held for trading investments and available-for-sale investments, the fair value is determined with reference to price quoted by the bank.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

Fair value measurements recognised in the consolidated statements of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Reconciliation of Level 3 fair value measurements of available-for-sale investments

	RMB'000
At 1 January 2011	–
Purchases	1,000
At 31 December 2011 and 1 January 2012	1,000
Settlements	(1,000)
At 31 December 2012	–

Recognition of level 3 fair value measurement of held for trading investments

	RMB'000
At 1 January 2012	–
Purchases	20,000
At 31 December 2012	20,000

8. REVENUE AND SEGMENT INFORMATION

(a) Products within each operating segment

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

The Group has two reportable operating segments as follows:

- OEM and related market-manufacturing and selling of axle assemblies and axle components to heavy duty truck and middle duty truck manufacturers and other assembly manufacturers.
- Aftermarket-manufacturing and selling of axle components and axle assemblies to market for providing after-sales services.

(b) Segment revenue and results

	Segment revenue		Segment results	
	2012	**2011**	**2012**	**2011**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
OEM and related market	264,493	382,610	45,134	97,111
Aftermarket	239,348	538,071	43,195	154,982
External revenue/segment result	503,841	920,681	88,329	252,093
Other income and other gains and losses			(54,391)	7,680
Selling and distribution expenses			(28,194)	(26,044)
Research and development expenditure			(70,236)	(13,857)
Administrative expenses			(64,872)	(63,851)
Impairment loss on trade receivables *(note)*			(154,892)	(48,700)
Impairment loss recognised in respect of property, plant and equipment			(136,000)	–
Finance costs			(39,379)	(25,900)
(Loss) profit before tax			(459,635)	81,421
Taxation			(1,103)	(21,775)
(Loss) profit and total comprehensive (expense) income for the year			(460,738)	59,646

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

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 4. Segment results represent the gross profit of each operating segment. This is the measure reported to the directors of the Company for the purposes of resources allocation and performance assessment.

Note: The amount consisted of an impairment loss on trade receivables for the OEM and related market of RMB34,820,000 (2011: RMB12,098,000) and trade receivables for aftermarket of RMB120,072,000 (2011: RMB36,602,000).

(c) Segment assets

	Assets 2012	Assets 2011
	RMB'000	*RMB'000*
OEM and related market	71,992	130,758
Aftermarket	183,405	352,654
Total of all segments	255,397	483,412
Unallocated	1,509,474	1,822,179
Consolidated assets	1,764,871	2,305,591

Segment assets represent trade receivables.

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

(d) Geographical information

The Group principally operates in the PRC (country of domicile of the operating subsidiaries). All non-current assets of the Group are located in the PRC.

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

(e) Information about major customers

None of individual customer of the Group contributed over 10% or more of the Group's revenue during each of the years ended 31 December 2012 and 2011.

9. OTHER INCOME (EXPENSE) AND OTHER GAINS AND LOSSES

	2012	2011
	RMB'000	*RMB'000*
Government grant (note)	6,176	5,556
Income from suppliers on defects claim	1,590	3,095
Bank interest income	749	1,744
Loss from disposal of property, plant and equipment	(12,794)	(2,488)
Net foreign exchange loss	(51)	(339)
Sale of scrap materials	(55,167)	–
Others	5,106	112
	(54,391)	7,680

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

9a. RESEARCH AND DEVELOPMENT EXPENDITURE

The balance includes an amount of approximate RMB60,000,000 in relation to the trial production and quality test on the production of train bolster, train side frame and related train components for Russia railway project. Sales is expected to be commenced in 2013.

10. FINANCE COSTS

	2012	2011
	RMB'000	*RMB'000*
Interest on:		
Bank borrowings wholly repayable within five years	38,365	24,805
Other borrowings wholly repayable within five years	1,014	1,095
	39,379	25,900

11. (LOSS) PROFIT BEFORE TAX

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

	2012	2011
	RMB'000	*RMB'000*
Employee benefits expenses (including directors):		
– salaries and other benefits	62,599	65,109
– retirement benefit scheme contributions	7,478	8,406
Total staff costs (included RMB41,962,000 (2011: RMB45,351,000) in cost of sales, RMB3,906,000 (2011: RMB3,778,000) in selling and distribution expenses, RMB1,140,000 (2011: RMB1,798,000) in research and development expenditure, and RMB23,069,000 (2011: RMB22,588,000) in administrative expenses)	70,077	73,515
Depreciation of property, plant and equipment	36,604	31,821
Release of prepaid lease payments	6,236	6,144
Auditors' remuneration	1,582	1,476
Cost of inventories recognised as expenses		
– included in cost of sales	413,128	645,367
– included in research and development expenditure	68,761	11,859

12. TAXATION

	2012	2011
	RMB'000	*RMB'000*
Tax expense comprises:		
Current tax expense	137	22,937
Underprovision in prior year	–	706
Deferred taxation (note 19)	966	(1,868)
	1,103	21,775

The income tax expense for the year represents the PRC Enterprise Income Tax which is calculated at the prevailing tax rate of 25% on the taxable income of the group entities in the PRC for the years ended 31 December 2012 and 2011.

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

Fujian Changfeng Axle Manufacturing Co., Ltd. ("Fujian Changfeng"), a wholly owned subsidiary of the Company, was established in the PRC.

In accordance with Foreign Enterprise Income Tax ("FEIT") Laws of the PRC, Fujian Changfeng was approved to be exempted from FEIT for two years starting from its first profit making year since its establishment and followed by a 50% tax relief for the next three years. The fully exempted financial years of Fujian Changfeng were the year ended 31 December 2007 and 2008, respectively. Fujian Changfeng continues to enjoy the preferential tax treatment of 12.5% tax rate for each of the years from 2009 to 2011. Thereafter, the tax rate resumed to 25% in 2012.

Longyan Shengfeng Machinery Manufacturing Co., Ltd. ("Longyan Shengfeng") and Kaifeng Changfeng Axle Co., Ltd. ("Kaifeng Changfeng") obtained the certificate of High and New Technology Enterprise in 2010 and the applicable tax rate is 15% for both of the year ended 31 December 2011 and 2012.

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

	2012	2011
	RMB'000	*RMB'000*
(Loss) profit before tax	(459,635)	81,421
Tax at the domestic income tax rate of 25%	(114,909)	20,355
Tax effect of expenses not deductible for tax purpose	36,838	5,796
Tax effect of deductible temporary difference not recognised	38,723	12,175
Tax effect of tax losses not recognised	40,451	4,051
Utilisation of tax losses previously not recognised	–	(117)
Underprovision in prior year	–	706
Effect of tax concessions granted to PRC subsidiaries	–	(21,191)
	1,103	21,775

Under the New Tax Law, withholding tax is imposed on dividends declared in respect of profits earned by the PRC subsidiaries from 1 January 2008 onwards. Deferred taxation has not been provided for in the consolidated financial statements in respect of temporary differences attributable to accumulated distributable profits of the PRC subsidiaries amounting to approximately RMB300,414,000 and RMB532,631,000 for the year ended at 31 December 2012 and 2011 respectively, as the Company is able to control the timing of the reversal of temporary differences and it is probable the temporary differences will not reverse in the foreseeable future.

As at 31 December 2012, the Group had deductible temporary difference of RMB197,643,000 (2011: RMB48,700,000) attributable to the impairment loss on trade receivables. No deferred tax asset has been recognised in relation to such deductible temporary difference as, in the opinion of directors, the utilisation of such temporary difference is remote.

13. DIRECTORS' AND EMPLOYEES' EMOLUMENTS

(a) Directors' and chief executive's emoluments

The emoluments of the directors and the chief executive on a name basis are as follows:

For the year ended 31 December 2012

		Other emoluments		
	Fees	Salaries and other benefits	Retirement benefits scheme contributions	Total emoluments
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wong Kwai Mo*	–	1,261	22	1,283
Wu Ching*	–	1,261	22	1,283
Lai Feng Cai*	–	126	5	131
Dong Ying, Dorothy	–	–	–	–
Zhu Wei Zhou	–	78	–	78
Li Xiu Qing	–	78	–	78
Chong Ching Hei	–	78	–	78
	–	2,882	49	2,931

For the year ended 31 December 2011

		Other emoluments		
	Fees	**Salaries and other benefits**	**Retirement benefits scheme contributions**	**Total emoluments**
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*
Wong Kwai Mo*	–	1,194	10	1,204
Wu Ching*	–	1,194	10	1,204
Lai Feng Cai*	–	327	3	330
Dong Ying, Dorothy	–	–	–	–
Zhu Wei Zhou	–	85	–	85
Li Xiu Qing	–	85	–	85
Chong Ching Hei	–	85	–	85
	–	2,970	23	2,993

* Executive directors

Lai Feng Cai is also the Chief Executive of the Company and his emoluments disclosed above include those for services rendered by him as the Chief Executive.

None of the directors waived any emoluments during the years ended 31 December 2012 and 2011.

(b) Employees' emoluments

During the year ended 31 December 2012, of the five individuals with the highest emoluments in the Group, three (2011: three) were directors of the Company whose emoluments are included in the disclosures in note (a) above. The emoluments of the five individuals are as follows:

	2012	**2011**
	RMB'000	*RMB'000*
Salaries and other benefits	3,829	3,386
Discretionary bonus	–	341
Contributions to retirement benefits scheme	64	37
	3,893	3,764

Their emoluments were within the following bands:

	No. of individuals 2012	2011
Nil to HK$1,000,000 (equivalents to approximately Nil to RMB813,500)	2	3
HK$1,000,001 to HK$1,500,000 (equivalents to approximately RMB813,501 to RMB1,220,250)	1	2
HK$1,500,001 to HK$2,000,000 (equivalents to RMB1,220,251 to RMB1,627,000)	2	–

During both years, no emoluments were paid by the Group to the five highest paid individuals (including directors and employees) as an inducement to join or upon joining the Group or as compensation for loss of office.

14. (LOSS) EARNINGS PER SHARE

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

	2012 *RMB'000*	2011 *RMB'000*
(Loss) earnings for the purposes of basic (loss) earnings per share		
(Loss) profit for the year attributable to owners of the Company	(459,351)	59,767

	2012	2011
Number of shares		
Number of ordinary shares for the purposes of basic (loss) earnings per share	800,000,000	800,000,000

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

15. DIVIDENDS

No dividend was paid or declared by the Company during the years ended 31 December 2012 and 2011.

16. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Motor vehicles	Furniture, fixture and equipment	Machinery	Construction in progress	Total
	RMB'000	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*	*RMB'000*
COST						
At 31 December 2010 and 1 January 2011	171,726	5,575	4,083	205,328	64,185	450,897
Additions	2,943	584	1,480	119,661	127,782	252,450
Transfer	47,690	–	–	6,427	(54,117)	–
Disposal	–	–	–	(6,019)	–	(6,019)
At 31 December 2011 and 1 January 2012	222,359	6,159	5,563	325,397	137,850	697,328
Additions	39,973	183	924	37,996	72,130	151,206
Transfer	85,463	–	50	41,429	(126,942)	–
Disposal	–	–	–	(14,155)	–	(14,155)
At 31 December 2012	347,795	6,342	6,537	390,667	83,038	834,379
ACCUMULATED DEPRECIATION AND IMPAIRMENT						
At 31 December 2010 and 1 January 2011	15,663	503	1,140	37,266	–	54,572
Provided for the year	7,140	873	1,004	22,804	–	31,821
Disposal	–	–	–	(1,540)	–	(1,540)
At 31 December 2011 and 1 January 2012	22,803	1,376	2,144	58,530	–	84,853
Provided for the year	7,974	962	869	26,799	–	36,604
Impairment loss recognised in profit or loss	53,027	106	499	82,368	–	136,000
Disposal	–	–	–	(1,254)	–	(1,254)
At 31 December 2012	83,804	2,444	3,512	166,443	–	256,203
CARRYING VALUES						
At 31 December 2012	263,991	3,898	3,025	224,224	83,038	578,176
At 31 December 2011	199,556	4,783	3,419	266,867	137,850	612,475

The above items of property, plant and equipment, other than construction in progress, are depreciated on straight-line basis at the following rates after taking into account residual values:

Buildings	Over the shorter of the term of lease, or 4.5%
Motor vehicles	18%
Furniture, fixture and equipment	18%
Machinery	9%

The Group has pledged certain buildings to secure general banking facilities grant to the Group at the end of each reporting period as detailed in note 24.

For the year ended 31 December 2012, as the Group incurred loss before tax of RMB168,743,000 before the impairment of RMB136,000,000 recognised in respect of property, plant and equipment and impairment loss on trade and other receivables of RMB154,892,000, the directors of the Company considered this was an impairment indicator. Thus, the directors of the Company conducted an impairment assessment on the Group's property, plant and equipment 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 13.25%. 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 by RMB136,000,000 and hence an impairment loss of RMB136,000,000 has been recognised for the year ended 31 December 2012. 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. The entire amount of the impairment loss has been allocated to the Group's property, plant and equipment. Also, the management of the Group has considered the fair value less cost to sell of property, plant and equipment, which are lower than the value in use.

17. PREPAID LEASE PAYMENTS

	RMB'000
At 1 January 2011	297,177
Additions	9,906
Released to profit or loss	(6,144)
At 31 December 2011 and 1 January 2012	300,939
Additions	9,263
Released to profit or loss	(6,236)
At 31 December 2012	303,966

	2012	**2011**
	RMB'000	*RMB'000*
Analysed for reporting purpose:		
Current assets	6,236	6,203
Non-current assets	297,730	294,736
	303,966	300,939

At 31 December 2012, the Group's prepaid lease payments comprise medium-term lease leasehold land located in PRC.

Prepaid lease payments are released to profit or loss over the lease terms ranging from 45 to 50 years.

The Group is in process of obtaining the land use right certificate of a parcel of land included in prepaid lease payments with carrying amount of approximately RMB4,009,000 at 31 December 2012 (2011: RMB4,091,000).

18. AVAILABLE-FOR-SALE INVESTMENTS

	2012	**2011**
	RMB'000	*RMB'000*
Equity investment fund	–	1,000

The fair value of the above investment is determined based on the price quoted by a bank, the fund issuer.

18a. HELD FOR TRADING INVESTMENTS

	2012	**2011**
	RMB'000	*RMB'000*
Wealth management products	20,000	–

The amount represents units subscribed in the wealth management products managed by a financial institution in the PRC.

The return of the investment fund is based on the yield as quoted by the financial institution.

The fair value is measured at the subscription price provided by the financial institution at the end of the reporting period.

The investment was subsequently redeemed for cash in January 2013 at RMB20 million.

19. DEFERRED TAX

The following are the major deferred tax liabilities (assets) recognised and movement thereon during the years ended 31 December 2012 and 2011:

	Revaluation of identifiable assets and liabilities	**Unrealised profit for inventories**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
At 1 January 2011	865	–	865
Credit to profit or loss	(17)	(1,851)	(1,868)
At 31 December 2011 and 1 January 2012	848	(1,851)	(1,003)
(Credit) charge to profit or loss	(33)	999	966
At 31 December 2012	815	(852)	(37)

The revaluation of the prepaid lease payments, buildings, machinery, motor vehicles, furniture, fixtures and equipment and inventories was arisen from the acquisition of a subsidiary, Longyan Shengfeng in prior years.

The tax losses are principally attributable to subsidiaries in the PRC with no deferred tax asset has been recognised in respect of the tax losses, due to the unpredictability of future profits streams. The tax losses of the PRC subsidiaries can be carried forward for five years.

As at 31 December 2012, the Group had deductible temporary difference of RMB197,643,000 (2011: RMB48,700,000) attributable to the impairment loss on trade receivables. No deferred tax asset has been recognised in relation to such deductible temporary difference as, in the opinion of directors, the utilisation of such temporary difference is remote. No deferred tax asset has been recognised.

The Group has no other significant unprovided deferred tax for the years ended 31 December 2012 and 2011.

The Group had unrecognised tax losses as follows:

	RMB'000	**Expiry date**
At 1 January 2011	4,637	2014-2015
Addition-PRC subsidiaries	14,633	
Addition-Hong Kong subsidiary	1,570	
Utilised	(467)	
At 31 December 2011 and 1 January 2012	20,373	2015-2016
Addition-PRC subsidiaries	160,270	
Addition-Hong Kong subsidiary	1,534	
At 31 December 2012	182,177	2016-2017

20. INVENTORIES

	2012	**2011**
	RMB'000	*RMB'000*
Raw materials	119,150	111,027
Work-in-progress	86,796	80,423
Finished goods	72,787	132,292
	278,733	323,742

21. TRADE, BILLS AND OTHER RECEIVABLES

Trade and other receivables comprise the following:

	2012	2011
	RMB'000	*RMB'000*
Trade receivables	453,040	532,112
Less: impairment loss on trade receivables	(197,643)	(48,700)
	255,397	483,412
Bills receivable	108,818	218,247
Other receivables	13,313	6,321
Advances to suppliers	88,783	100,795
Prepaid expenses	1,978	3,057
VAT-in recoverable	32,460	25,548
Total trade and other receivables	500,749	837,380

At the end of the reporting period, trade receivables with outstanding amount of RMB58,369,000 (2011: RMB73,739,000) have been factored to certain banks. The Group continues to present the factored trade receivables as trade receivables until maturity.

At the end of the reporting period, bills receivable with outstanding amount of RMB55,266,000 (2011: RMB101,504,000) have been endorsed to certain creditors. The Group continues to present the endorsed bills as bills receivable until maturity and continues to present the cash received on the transfer as trade payables.

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

The aging of trade receivables (net of impairment loss on trade receivables) is presented based on the invoice date, which approximated the respective revenue recognition date as follows:

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	100,367	115,713
91 to 120 days	11,242	42,149
121 to 180 days	40,937	119,234
181 to 365 days	72,889	199,292
Over 365 days	29,962	7,024
	255,397	483,412

The aging of bills receivable is as follows:

	2012	2011
	RMB'000	*RMB'000*
0 to 90 days	91,670	173,021
91 to 120 days	8,698	31,093
121 to 180 days	8,450	14,133
	108,818	218,247

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

In determining the recoverability of a trade receivable, a committee of the Group (the "Committee"), that is responsible for understanding background, financial strength, sales and repayment ability of each debtor, regularly reviewed recoverability of trade receivables (including regularly communicating with individual debtor, holding internal meeting to discuss and analyse the status of each individual debtor, and seeking for lawyer review on the status of debtor with financial or operational problems). Based on the nature of customers, the Committee classified the customers to different portfolios for analysis.

It was noted by the Committee that some of the debtors had financial problems and the recoverability of these receivables were low, and a report was prepared by the Committee suggesting a provision of RMB197,643,000 based on an analysis of the recoverability by customer portfolio. The analysis was based on the present value of estimated future cash flows discounted at individual debtors original effective interest rate, together with the subsequent settlement and aging of individual debtors. The board of directors has reviewed the report of the Committee and considered the provision suggested is adequate but not excessive.

Included in the Group's trade receivables balances are debtors with aggregate carrying amount of approximately RMB155,030,000 and RMB367,699,000 at 31 December 2012 and 2011, respectively, which are past due for which the Group has not provided for impairment loss as continuous business relationship and subsequent settlement of RMB57,300,000 is noted from those debtors and the remaining amounts are still considered recoverable based on historical experience.

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

	2012	2011
	RMB'000	*RMB'000*
91 to 120 days	11,242	42,149
121 to 180 days	40,937	119,234
181 to 365 days	72,889	199,292
Over 365 days	29,962	7,024
	155,030	367,699

Movement in the impairment loss on trade receivables

	2012	**2011**
	RMB'000	*RMB'000*
1 January	48,700	–
Impairment loss recognised on receivables	154,892	48,700
Amounts recovered during the year	(5,949)	–
31 December	197,643	48,700

Included in the impairment loss on trade receivables are individually impaired trade receivables with an aggregate balance of RMB197,643,000 (2011:RMB48,700,000) which have delayed payments or ceased business relationship.

21a. TRANSFER OF FINANCIAL ASSETS

The following were the Group's financial assets as at 31 December 2012 that were transferred to banks or suppliers by factoring or discounting those receivables on a full recourse basis. As the Group has not transferred the significant risks and rewards relating to these receivables, it continues to recognise the full carrying amount of the receivables and has recognised the cash received on the transfer as a secured borrowing (see note 24) or trade payables, respectively. These financial assets are carried at amortised cost in the Group's consolidated statement of financial position.

As at 31 December 2012

	Trade receivables factored to banks with full recourse	**Bills receivables endorsed to suppliers with full recourse**	**Total**
	RMB'000	*RMB'000*	*RMB'000*
Carrying amount of transferred assets	58,369	55,266	113,635
Carrying amount of associated liabilities	(51,560)	(55,266)	(106,826)
Net position	6,809	–	6,809

22. PLEDGED BANK DEPOSITS/BANK BALANCES AND CASH

Bank and cash of the Group comprise bank balance and cash. The deposits carry interest rate ranging from 0.01% to 4.75% (2011: 0.01% to 5.5%).

Pledged bank deposits represent amounts deposited with banks as security for the banks accepted bills issued to its suppliers for the purchase of raw materials. Pledged bank deposits carry interest rates ranging from 2.85% to 3.3% per annum for the year ended 31 December 2011. The pledge has been released during the year.

23. TRADE, BILLS AND OTHER PAYABLES

Trade and other payables comprise the following:

	2012	2011
	RMB'000	*RMB'000*
Trade payables	100,193	167,765
Bills payable	–	20,100
	100,193	187,865
Advances from customers	12,997	5,321
Payables for property, plant and equipment	7,155	19,142
Payroll and welfare payables	7,761	4,415
Warranty accrual *(note)*	1,065	1,088
Other accruals	20,586	13,704
Other tax payable	8,935	5,659
Other payables	6,873	4,604
	165,565	241,798

Note: Movement of warranty provision is as follows:

	Warranty provision
	RMB'000
At 1 January 2011	1,039
Additional provision in the year	8,682
Utilisation of provision	(8,633)
At 31 December 2011 and 1 January 2012	1,088
Additional provision in the year	8,194
Utilisation of provision	(8,217)
At 31 December 2012	1,065

At 31 December 2012 and 2011, the warranty provision represents management's best estimate of the Group's liability under 6-month warranty granted on products, based on prior experience and industry practice for defective products.

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

	2012	**2011**
	RMB'000	*RMB'000*
Within 30 days	16,790	70,153
31 to 60 days	3,491	35,916
61 to 90 days	3,057	31,972
91 to 180 days	11,250	11,790
181 to 365 days	10,339	17,934
	44,927	167,765

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

	2012	**2011**
	RMB'000	*RMB'000*
Within 30 days	10,810	–
31 to 60 days	13,760	–
61 to 90 days	17,249	–
91 to 180 days	13,447	20,100
	55,266	20,100

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

24. BORROWINGS

	2012	2011
	RMB'000	*RMB'000*
Bank borrowings	472,600	480,928
Other borrowings	13,000	15,000
	498,560	495,928
Unsecured	78,000	105,000
Secured	420,560	390,928
	498,560	495,928
Carrying amount repayable:		
Within one year	498,560	447,968
More than one year, but no exceeding two years	–	47,960
	498,560	495,928
Less: Amount due within one year shown under current liabilities	(498,560)	(447,968)
Amount shown under non-current liabilities	–	47,960

All borrowings are denominated in RMB, carry fixed interest rates and shown under current liabilities.

The ranges of effective interest rates (which are also equal to contractual interest rates) on the Group's borrowings are as follows:

	2012	2011
Fixed-rate borrowings	5.88%-7.872% per annum	4.05%-7.225% per annum

The borrowings are secured by the following:

	2012	2011
	RMB'000	*RMB'000*
Type A	420,560	377,844
Type B	–	13,084
	420,560	390,928

Type A: Borrowings were secured by certain assets of the Group (note 1).

Type B: Borrowings were secured by bills receivable.

Note 1: The Group has pledged certain assets to secure banking facilities granted to the Group. The carrying values of the assets pledged are as follows:

	2012	2011
	RMB'000	*RMB'000*
Buildings	96,773	62,409
Machinery	44,829	47,423
Land use rights	84,225	86,038
Trade receivables	58,369	73,739
	284,196	269,609

25. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of the United States dollars ("US$") US$0.01 each		
Authorised:		
At 31 December 2011, 1 January 2012 and 31 December 2012	5,000,000,000	50,000
Issued & fully paid:		
At 31 December 2011, 1 January 2012 and 31 December 2012	800,000,000	8,000

	2012 & 2011
	RMB'000
Shown on the consolidated statement of financial position	53,560

26. SHARE-AWARD SCHEME

The Company's share award scheme (the "Scheme"), was approved and adopted pursuant to a resolution passed on 30 August 2012. The Company resolved that a sum of HK$10,000,000 be provided to the Share Award Scheme for the purchase of shares of US$0.01 each in the capital of the Company. Such Shares will be awarded to the selected employees to be selected by the board, or the Executive Committee acting on behalf of the board, for the purpose of recognising contributions of and giving incentive to the selected employees in order to retain them for the continual operation and development of the Company.

At the date of adoption of the Scheme, the maximum number of shares that can be purchased approximately to 19,230,000 shares, represents approximately 2.4% of the issued share capital of the Company. During the year, 2,832,000 shares have been purchased by the trustee through the Stock Exchange of Hong Kong Limited under the Scheme:

Month of purchase	No. of ordinary shares of US$0.01 each	Average price per share	Aggregate consideration paid
		HK$	*RMB'000*
November 2012	2,832,000	0.71	1,627

No shares have been granted to selected employees during the year ended 31 December 2012.

27. OPERATING LEASE

Minimum lease payments paid under operating leases in respect of office premises amounted to RMB189,000 and RMB642,000 for the year ended 31 December 2012 and 2011 respectively.

At the end of each reporting period, the Group had commitments for future lease payments under non-cancellable operating leases which fall due as follows:

	2012	**2011**
	RMB'000	*RMB'000*
Within one year	128	332
In the second to fifth year inclusive	10	–

Operating lease payments represent rental payable by the Group for certain office premises and warehouse properties. Leases are negotiated for a term of 1 to 2 years with fixed rate.

28. OTHER COMMITMENTS

	2012	**2011**
	RMB'000	*RMB'000*
Capital expenditure in respect of acquisition of plant and machinery – contracted for but not provided in the consolidated financial statements *(note)*	28,635	13,833
Capital expenditure in respect of capital contribution to a subsidiary – contracted for but not provided in the consolidated financial statements	60,000	60,000

Note: The capital expenditure is related to the construction of production facilities for expansion of the Group's operation.

29. RETIREMENT BENEFIT PLAN

The Group operates a Mandatory Provident Fund Scheme for all qualifying employees in Hong Kong. The assets of the scheme are held separately from those of the Group, in funds under the control of trustees. The Group contributes 5% of relevant payroll costs to the Scheme, which contribution is matched by employees.

The employees of the Group are members of a state-managed retirement benefit scheme operated by the PRC government. The Company's subsidiaries are required to contribute a certain percentage of payroll costs to the retirement benefit scheme to fund the benefits. The only obligation of the Group with respect to the retirement benefit scheme is to make the required contributions under the scheme.

30. RELATED PARTY DISCLOSURES

The Group had the following transactions with related parties:

(a) The amount due to a director as at 31 December 2011 was interest free, unsecured and repayable on demand. Amount was fully repaid during the year.

(b) During the years ended 31 December 2012 and 2011, the Group entered into the following significant transaction with a director:

	2012	**2011**
	RMB'000	*RMB'000*
Purchase of motor vehicle		
Mr. Wong Kwai Mo	–	1,500

(c) Compensation of key management personnel

The remuneration of directors and other members of key management during the years ended 31 December 2012 and 2011 was as follows:

	2012	**2011**
	RMB'000	*RMB'000*
Short-term benefits	3,943	3,779
Post-employment benefits	68	38
	4,011	3,817

31. PARTICULARS OF SUBSIDIARIES

The Company has the following indirectly held, unless otherwise stated, subsidiaries:

Name of subsidiary	Place and date of incorporation/ establishment	Issued and fully paid share/ registered capital	Effective equity interest attributable to the Group as at 31 December				Principal activities
			Directly		Indirectly		
			2012	2011	2012	2011	
Changfeng Holding (Hong Kong) Limited	Hong Kong 14 February 2008	HK$10,000	100%	100%	–	–	Investment holding
Fujian Changfeng Axle Manufacturing Co., Ltd.	PRC 5 March 2001	RMB813,000,000	–	–	100%	100%	Manufacture and sale of axle and related components
Longyan Shengfeng Machinery Manufacturing Co., Ltd.	PRC 29 March 2006	RMB356,000,000	–	–	100%	100%	Manufacture and sale of roughcast
Kaifeng Changfeng Axle Co., Ltd.	PRC 19 April 2006	RMB375,000,000	–	–	100%	100%	Manufacture and sale of axle
Kaifeng Changfeng Machinery Manufacturing Co., Ltd.	PRC 9 August 2012*	RMB50,000,000	–	–	100%	–	Manufacture and sale of train bolster, train side frame and related train components
Beijing Changfeng Axle Research Institution Co., Ltd.	PRC 6 July 2010	RMB1,000,000	–	–	100%	100%	Research and development of axle and related components
Sichuan Changfeng Axle Co., Ltd.	PRC 16 July 2009	RMB160,000,000	–	–	100%	100%	Manufacture and sale of axle
Changfeng Gear Manufacturing Co., Ltd.	PRC 21 July 2011	RMB100,000,000	–	–	60%	60%	Manufacture and sale of axle

* Incorporated in 2012.

32. FINANCIAL SUMMARY OF THE COMPANY

RESULTS

	2012	2011
	RMB'000	*RMB'000*
Administrative expenses	(6,274)	(15,252)
Interest income	–	–
Loss for the year	(6,274)	(15,252)

ASSETS AND LIABILITIES

	2012	2011
	RMB'000	*RMB'000*
NON-CURRENT ASSET		
Investment in a subsidiary	863,894	863,894
CURRENT ASSET		
Bank balance	667	1,975
CURRENT LIABILITIES		
Other payables	8,849	10,041
Amount due to a subsidiary	20,281	12,496
	29,130	22,537
Net current liabilities	(28,463)	(20,562)
Total assets less current liabilities	835,431	843,332
OWNERS' EQUITY		
Share capital	53,560	53,560
Reserves	781,871	789,772
	835,431	843,332

33. RESERVES

	Share premium *RMB'000*	Capital reserve *RMB'000* *(Note)*	Shares held under awarded shares compensation *RMB'000*	Accumulated deficits *RMB'000*	Total *RMB'000*
At 1 January 2011	599,296	226,982	–	(21,720)	804,558
Loss and total comprehensive expense for the year	–	–	–	(14,786)	(14,786)
At 31 December 2011 and 1 January 2012	599,296	226,982	–	(36,506)	789,772
Loss and total comprehensive expense for the year	–	–	–	(6,274)	(6,274)
Purchase of shares for the purpose of awarded shares compensation scheme *(note 26)*	–	–	(1,627)	–	(1,627)
At 31 December 2012	599,296	226,982	(1,627)	(42,780)	781,871

Note: The balance represents deemed distribution, transfer and deemed contribution arising group reorganisation for listing purposes which took place in 2008 and 2009.

C. UNAUDITED INTERIM FINANCIAL STATEMENTS

The following is an extract of unaudited consolidated financial statements of the Group for the six months ended 30 June 2014 together with the notes thereto from the Company's interim report for the six months ended 30 June 2014:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

		Six months ended	
		30.6.2014	**30.6.2013**
	NOTES	*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)	–
Finance costs		(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	*18*	2,719	(1,412)
		(48,820)	(69,095)
Basic loss per share (RMB)	*7*	(0.06)	(0.08)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	NOTES	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (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	13	74,091	80,591
		699,000	792,551
Current liabilities			
Trade and bills payables	14	61,353	123,995
Other payables	15	127,864	119,721
Borrowings – due within one year	16	433,481	464,167
Income tax payable		3,989	1,343
		626,687	709,226
NET CURRENT ASSETS		72,313	83,325

	NOTES	30.6.2014 RMB'000 (unaudited)	31.12.2013 RMB'000 (audited)
TOTAL ASSETS LESS CURRENT LIABILITIES		793,340	872,355
NON-CURRENT LIABILITY			
Deferred tax liabilities		–	195
		793,340	872,160
OWNERS' EQUITY			
Share capital	*17*	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 CHANGES IN EQUITY

	Attributable to owners of the Company									
	Share capital *RMB'000*	Share premium *RMB'000*	Capital reserves *RMB'000*	Surplus reserves *RMB'000*	Special reserves *RMB'000* *(note)*	Shares held under awarded share compensation scheme *RMB'000*	Retained earnings *RMB'000*	Total *RMB'000*	Non-controlling interests *RMB'000*	Total *RMB'000*
At 1 January 2013 (audited)	53,560	599,296	226,982	149,020	822	(1,627)	33,596	1,061,649	38,566	1,100,215
Loss and total comprehensive expense for the period	–	–	–	–	–	–	(67,683)	(67,683)	(1,412)	(69,095)
At 30 June 2013 (unaudited)	53,560	599,296	226,982	149,020	822	(1,627)	(34,087)	993,966	37,154	1,031,120
Loss and total comprehensive expense for the period	–	–	–	–	–	–	(140,562)	(140,562)	(18,398)	(158,960)
At 31 December 2013 (audited)	53,560	599,296	226,982	149,020	822	(1,627)	(174,649)	853,404	18,756	872,160
(Loss) profit and total comprehensive (expense) income for the period	–	–	–	–	–	–	(51,539)	(51,539)	2,719	(48,820)
Acquisition of additional interest in a subsidiary *(note 18)*	–	–	–	–	(8,525)	–	–	(8,525)	(21,475)	(30,000)
At 30 June 2014 (unaudited)	53,560	599,296	226,982	149,020	(7,703)	(1,627)	(226,188)	793,340	–	793,340

Note: Amount of RMB822,000 represents the difference between the amount paid for acquisition of additional interest in a subsidiary during year 2007 and the non-controlling interest bearing acquired of.

Amount of RMB8,525,000 during the period represents the difference between the amount paid for acquisition of additional interest in a subsidiary without the overall gain or loss of control in that subsidiary and the carrying amount of non-controlling interest being acquired of.

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

	Six months ended 30.6.2014 RMB'000 (unaudited)	Six months ended 30.6.2013 RMB'000 (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

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 Six months ended		Segment results 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	Six months ended 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	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(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	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(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. ASSETS CLASSIFIED AS HELD FOR SALE

On 16 December 2013, the Group entered into a conditional agreement with an independent third party in respect of disposal of its entire equity interest in Fujian Changfeng in an aggregate cash consideration of RMB56,000,000. Fujian Changfeng is established in the PRC and is engaged in manufacture and sale of axle and related business, and remained inactive as of the date of the agreement. Deposit of RMB28,000,000 had been received as of 30 June 2014 and the remaining balance to be settled by September 2014.

On 27 June 2014, the Group entered into a conditional agreement with an independent third party in respect of disposal of its entire equity interest in Changfeng Gear in an aggregate cash consideration of RMB35,000,000. Changfeng Gear is established in the PRC and is engaged in manufacture and sale of gear, and remained inactive as of the date of the agreement. Deposit of RMB22,100,000 had been received as of 30 June 2014 and the remaining balance to be settled by November 2014.

The assets attributable to Fujian Changfeng and Changfeng Gear, which are expected to be sold within twelve months from the end of the reporting period, have been classified as "assets classified as held for sale" and are presented separately in the consolidated statement of financial position.

The net proceeds of the disposal of Fujian Changfeng exceed the net carrying amount of the relevant assets and liabilities and accordingly, no impairment loss has been recognised.

As the carrying amount of the relevant assets of the disposal of Changfeng Gear is higher than the net proceeds of disposal, therefore RMB3,951,000 impairment loss has been recognised in profit and loss.

The major classes of assets classified as held for sale are as follows:

	30.6.2014	**31.12.2013**
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Property, plant and equipment	59,277	74,808
Prepaid lease payments	14,814	5,783
Assets classified as held for sale	74,091	80,591

14. TRADE AND BILLS PAYABLES

Trade and bills payables comprise the following:

	30.6.2014	**31.12.2013**
	RMB'000	*RMB'000*
	(unaudited)	(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

15. 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

16. 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 borrowings 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.

The Group had pledged certain assets to secure banking facilities granted to the Group. The carrying value of the assets pledged are as follows:

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Property, plant and equipment	89,891	129,138
Land use rights	247,592	52,010
Trade receivables	65,159	29,409
	402,642	210,557

17. SHARE CAPITAL

	Number of shares	Amount
		US$'000
Ordinary shares of the United States dollars ("US$") 0.01 each		
Issued & fully paid:		
At 1 January 2013, 30 June 2013, 1 January 2014 and 30 June 2014	800,000,000	8,000

	30.6.2014 & 31.12.2013
	RMB'000
Shown on the condensed consolidated statement of financial position	53,560

18. ACQUISITION OF ADDITIONAL INTEREST IN A SUBSIDIARY

On 27 December 2013, the Group had entered into an equity transfer agreement with Lonking (Jiangxi) Machinery Co., Ltd. ("Lonking Machinery") to acquire an additional 40% interest in the Changfeng Gear Manufacturing Co. Ltd ("Changfeng Gear") at a cash consideration of RMB30,000,000.

A loss of RMB8,525,000 had been recognised in reserve, which represents the difference between the consideration paid of RMB30,000,000 and the carrying amount of the 40% non-controlling interest being acquired of.

The transaction has completed during the period and Changfeng Gear become a wholly owned subsidiary of the Group thereafter.

19. CAPITAL COMMITMENTS

	30.6.2014	31.12.2013
	RMB'000	*RMB'000*
	(unaudited)	(audited)
Capital expenditure in respect of acquisition of plant and machinery – contracted for but not provided for in the condensed consolidated financial statements	1,838	2,010

20. RELATED PARTY DISCLOSURES

During the period, the Group entered into the following transactions with related parties:

Compensation of key management personnel

The remuneration of directors and other members of key management during the six months ended 30 June 2014 and 2013 was as follows:

	Six months ended	
	30.6.2014	30.6.2013
	RMB'000	*RMB'000*
	(unaudited)	(unaudited)
Short-term benefits	2,017	2,137
Post-employment benefits	44	53
	2,061	2,190

21. EVENT AFTER REPORTING PERIOD

On 30 July 2014, the Group entered into a conditional agreement with an independent third party in respect of disposal of land in Sichuan Changfeng Axle Co., Ltd. ("Sichuan Changfeng") in an aggregate cash consideration of RMB71,084,000.

The reason of disposal is to reallocate the resources currently occupied by Sichuan Changfeng, and to improve the Group's cash flow position and financial strength.

It was estimated that there would be a gain in the amount of approximately RMB1,892,000 on the disposal which is calculated by reference to the net proceeds from the disposal less the net book value of the land and the factory building erected on the land as at 30 June 2014.

D. INDEBTEDNESS STATEMENT

At the close of business on 30 November 2014, being the latest practicable date for the purpose of the statement of indebtedness, the Group had outstanding bank and other borrowings of approximately RMB324.7 million (of which RMB111.6 million was unsecured, RMB213.1 million was secured by the Group's assets, including buildings with carrying value of RMB86.5 million, land use rights with carrying value of RMB233.8 million and trade receivables with carrying amount of RMB37.5 million and discounted bills with full recourse with carrying amouint of RMB3 million).

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 30 November 2014, the Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

E. MATERIAL CHANGE

As at the Latest Practicable Date and save as disclosed in the interim results announcement of the Company dated 28 August 2014 and in the profit warning announcement of the Company dated 27 October 2014, the Directors were not aware of any material change in the financial or trading position or outlook of the Group since 31 December 2013, the date to which the latest published audited consolidated financial statements of the Group were made up.

As disclosed in the interim results announcement, the Group recorded an unaudited loss of RMB48.82 million for the six months ending 30 June 2014 (RMB69.10 million loss for the corresponding period in 2013) in light of, among others, (i) continued weakness in demand for the products in the medium and heavy duty truck market; (ii) decrease in revenue derived from train and railway products, and having faced with the continuing uncertainty in the global economic situation and fierce competition in the China truck market, the Company expected business to continue to be challenging in the second half of year 2014, particularly in relation to its traditional medium duty truck and heavy duty truck OEM market.

As announced on 27 October 2014, the Group's unaudited operating losses for the nine months ended 30 September 2014 were approximately RMB77.8 million. This was compared to unaudited operating losses of approximately RMB56.7 million for the corresponding period in 2013. The increase in operating losses was mainly attributable to lower sales of RMB278.7 million compared to RMB326.1 million for the corresponding period in 2013.

The Group commenced the export of train side frames and train bolsters ("Train and Railway Business") to the Commonwealth of Independent States (CIS) in the second quarter of 2013. For the year ended 31 December 2014, revenue generated from this business amounted to only approximately RMB1,175,000 (2013: RMB34.2 million). The significant decline in revenue was mainly due to suspension of business arising from a continued unstable political and market environment in Russia and other member states of the CIS, as well as the need to apply for certification under new standards imposed by Russia, Belarus and Kazakhstar (members of CIS) for the Group's railway components as the Group had previously relied on certification issued by Ukraine testing authorities which had become invalid for the Russian market following diplomatic fallout between Russia and Ukraine. Formal submission of the Group's railway components to the official testing facilities was made in August 2014.

It is currently expected the above mentioned certification process will be completed by the end of first quarter of 2015; following which, the Group shall seek to restart sales relating to the Train and Railway Business. However, in the event the Company was unable to secure such certification or there was no improvement in operating condition of the Train and Railway Business after securing the above mentioned certification, the Directors would need to review the value of the Group's investments in the Train and Railway Business and provisions for impairment of the Group's investments in property, plant, machinery and inventory might need to be made. However, it is currently premature to estimate the amount of impairments to be made, if any.

F. LOSS ESTIMATE

As mentioned above, the Board announced on 27 October 2014 that the Group's unaudited operating losses for the nine months ended 30 September 2014 were approximately RMB77.8 million ("Loss Estimate"). Such Loss Estimate is regarded as a "profit forecast" under Rule 10 of the Takeovers Code and requires to be reported on by the Company's reporting accountant and financial adviser. The texts of the letters from the reporting accountants of the Company, Deloitte Touche Tohmatsu and from the financial adviser, Alliance Capital Partners Limited, about the loss estimate are set out in Appendix II to this circular.

A. ACCOUNTANTS' REPORT OF THE TARGET GROUP

The following is the text of a report, prepared for the purpose of incorporation in this circular, received from the Target Company's reporting accountants, KPMG, Certified Public Accountants, Hong Kong.

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

17 February 2015

The Directors
Changfeng Axle (China) Company Limited

Dear Sirs,

INTRODUCTION

We set out below our report on the financial information relating to Century Network Holding Limited (the "Target Company") and its subsidiaries (hereinafter collectively referred to as the "Target Group") comprising the consolidated statements of financial position of the Target Group as at 31 December 2013 and 31 August 2014, and the consolidated statements of profit or loss, the consolidated statements of profit or loss and other comprehensive income, the consolidated statements of changes in equity and the consolidated cash flow statements of the Target Group, for the period from 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 and the eight months ended 31 August 2014 (the "Relevant Periods"), together with the explanatory notes thereto (the "Financial Information"), for inclusion in the shareholders' circular of Changfeng Axle (China) Company Limited (the "Company") dated 17 February 2015 (the "Circular").

The Target Company was incorporated in the British Virgin Islands on 8 March 2013 as a limited liability company under the British Virgin Islands Business Company Act, 2004. Upon completion of a business combination on 14 August 2014 (see Section B Note 17), the Target Company became the holding company of the companies comprising the Target Group, details of which are set out in Section B Note 1(b) below. The Target Company has not carried on any business since the date of its incorporation save for the aforementioned business combination.

As at the date of this report, no audited financial statements have been prepared for Fortunet Holding Limited and Beijing Century Fortunet Network Technology Co., Ltd., as they were recently incorporated/established and are not subject to statutory audit requirements under the relevant rules and regulations in the jurisdiction of incorporation/establishment.

All companies comprising the Target Group have adopted 31 December as their financial year end date. Details of the company comprising the Target Group that is subject to audit during the Relevant Periods and the name of the auditor is set out in Section B

Note 23. The statutory financial statements of this company were prepared in accordance with Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China (the "PRC").

The directors of the Target Company have prepared the consolidated financial statements of the Target Group for the Relevant Periods (the "Underlying Financial Statements") in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of the Certified Public Accountants (the "HKICPA"). The Underlying Financial Statements for the period from 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 and the eight months ended 31 August 2014 were audited by us under separate terms of engagement with the Target Company in accordance with Hong Kong Standards on Auditing issued by HKICPA.

The Financial Information has been prepared by the directors of the Target Company for inclusion in the Circular in connection with the Company's acquisition of the Target Group based on the Underlying Financial Statements, with no adjustments made thereon and in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL INFORMATION

The directors of the Target Company are responsible for the preparation of Financial Information that gives a true and fair view in accordance with HKFRSs issued by the HKICPA and the applicable disclosure provisions of the Listing Rules, and for such internal control as the directors of the Target Company determine is necessary to enable the preparation of the Financial Information that are free from material misstatement, whether due to fraud or error.

REPORTING ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to form an opinion on the Financial Information based on our procedures performed in accordance with Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA. We have not audited any financial statements of the Target Company, its subsidiaries or the Target Group in respect of any period subsequent to 31 August 2014.

OPINION

In our opinion, the Financial Information gives, for the purpose of this report, a true and fair view of the state of affairs of the Target Group as at 31 December 2013 and 31 August 2014 and the Target Group's consolidated results and cash flows for the Relevant Periods then ended.

A CONSOLIDATED FINANCIAL INFORMATION OF THE TARGET GROUP

1 Consolidated statements of profit or loss for the period from 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 and the eight months ended 31 August 2014

(Expressed in Renminbi ("RMB"))

	Section B Note	**From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013** *RMB*	**Eight months ended 31 August 2014** *RMB*
Revenue	*3*	–	–
Interest income		–	372
Administrative expenses		–	(2,897,104)
Loss from operations		–	(2,896,732)
Gain on bargain purchase of a subsidiary	*17*	–	6,795,638
Profit before taxation	*4*	–	3,898,906
Income tax	*5*	–	–
Profit for the period		–	3,898,906
Attributable to:			
Equity shareholders of the Target Company		–	4,066,561
Non-controlling interests		–	(167,655)
Profit for the period		–	3,898,906

The accompanying notes form part of the Financial Information.

2 Consolidated statements of profit or loss and other comprehensive income for the period from 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 and the eight months ended 31 August 2014

(Expressed in RMB)

	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013	**Eight months ended 31 August 2014**
	RMB	*RMB*
Profit for the period	–	3,898,906
Other comprehensive income for the period (before and after tax):		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements into presentation currency	–	26,698
Total comprehensive income for the period	–	3,925,604
Attributable to:		
Equity shareholders of the Target Company	–	4,093,259
Non-controlling interests	–	(167,655)
Total comprehensive income for the period	–	3,925,604

The accompanying notes form part of the Financial Information.

3 Consolidated statements of financial position at 31 December 2013 and 31 August 2014

(Expressed in RMB)

	Section B Note	**At 31 December 2013** *RMB*	**At 31 August 2014** *RMB*
Non-current assets			
Fixed assets	*9*	–	1,788,398
Intangible assets	*10*	–	21,237,300
Deferred tax assets	*14(a)*	–	5,309,325
		–	28,335,023
Current assets			
Other receivables		6	1,278,697
Cash and cash equivalents	*11*	–	49,152,232
		6	50,430,929
Current liabilities			
Other payables	*12*	–	4,197,766
Other loans	*13*	–	6,347,230
		–	10,544,996
Net current assets		6	39,885,933
Total assets less current liabilities		6	68,220,956
Non-current liabilities			
Deferred tax liabilities	*14(a)*	–	5,309,325
NET ASSETS		6	62,911,631
CAPITAL AND RESERVES	*15*		
Share capital		6	6
Reserves		–	59,495,338
Total equity attributable to equity shareholders of the Target Company		6	59,495,344
Non-controlling interests		–	3,416,287
TOTAL EQUITY		6	62,911,631

The accompanying notes form part of the Financial Information.

4 Consolidated statements of changes in equity for the period from 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 and the eight months ended 31 August 2014

(Expressed in RMB)

	Attributable to equity shareholders of the Target Company						
	Share capital	**Capital reserve**	**Exchange reserve**	**Retained profits**	**Total**	**Non-controlling interests**	**Total equity**
	RMB	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*	*RMB*
	(Section B Note 15(c))	*(Section B Note 15(d)(i))*	*(Section B Note 15(d)(ii))*				
Balance at 8 March 2013 (date of incorporation of the Target Company)	–	–	–	–	–	–	–
Changes in equity from 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013							
Issuance of share	6	–	–	–	6	–	6
Balance at 31 December 2013 and 1 January 2014	6	–	–	–	6	–	6
Changes in equity for the eight months ended 31 August 2014							
Profit and total comprehensive income for the period	–	–	26,698	4,066,561	4,093,259	(167,655)	3,925,604
Contributions from non-controlling interests *(Section B Note 15(d)(i))*	–	49,859,024	–	–	49,859,024	3,140,976	53,000,000
Contributions from the ultimate holding company of the Target Company *(Section B Note 15(d)(i))*	–	5,543,055	–	–	5,543,055	442,966	5,986,021
Balance at 31 August 2014	6	55,402,079	26,698	4,066,561	59,495,344	3,416,287	62,911,631

The accompanying notes form part of the Financial Information.

5 Consolidated cash flow statements for the period from 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 and the eight months ended 31 August 2014

(Expressed in RMB)

	Section B Note	**From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013** *RMB*	**Eight months ended 31 August 2014** *RMB*
Operating activities			
Profit before taxation		–	3,898,906
Adjustments for:			
Depreciation	*4*	–	37,079
Gain on bargain purchase of a subsidiary	*17*	–	(6,795,638)
Changes in working capital:			
Increase in other receivables		–	(1,068,884)
Decrease in other payables		–	(2,650,431)
Cash used in operations		–	(6,578,968)
Income tax paid		–	–
Net cash used in operating activities		–	(6,578,968)
Investing activities			
Payments for the purchase of fixed assets		–	(845,697)
Net cash inflow from the acquisition of a subsidiary	*17*	–	48,430,632
Net cash generated from investing activities		–	47,584,935

	Section B Note	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 *RMB*	Eight months ended 31 August 2014 *RMB*
Financing activities			
Proceeds from issuance of share in 2013		–	6
Proceeds from other loans		–	3,147,230
Contributions from non-controlling interests		–	5,000,000
Net cash generated from financing activities		–	8,147,236
Net increase in cash and cash equivalents		–	49,153,203
Cash and cash equivalents at the beginning of the period	*11*	–	–
Effect of foreign exchange rate changes		–	(971)
Cash and cash equivalents at the end of the period	*11*	–	49,152,232

Major non-cash transaction:

In August 2014, the ultimate holding company of the Target Company contributed RMB5,986,021 to the Target Group by way of waive of its receivable from the Target Group. Further details are set out in Section B Note 15(d)(i).

The accompanying notes form part of the Financial Information.

B NOTES TO THE CONSOLIDATED FINANCIAL INFORMATION

(Expressed in RMB unless otherwise indicated)

1 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

The Financial Information set out in this report has been prepared in accordance with HKFRSs, which collective term includes Hong Kong Accounting Standards ("HKASs") and Interpretations issued by HKICPA. Further details of the significant accounting policies adopted are set out in the remainder of this Section B.

The HKICPA has issued certain new and revised HKFRSs. For the purpose of preparing this Financial Information, the Target Group has adopted all applicable new and revised HKFRSs to the Relevant Periods, except for any new and revised standards or interpretations that are not yet effective for the accounting period beginning 1 January 2014. The new and revised accounting standards and interpretations issued but not yet effective for the accounting period beginning 1 January 2014 are set out in Section B Note 22.

The Financial Information also complies with the applicable disclosure provisions of the Listing Rules.

The accounting policies set out below have been applied consistently to all periods presented in the Financial Information.

(b) Basis of preparation

The Financial Information comprises the Target Company and its subsidiaries (together referred to as the "Target Group"). The particulars of the subsidiaries of the Target Company are set out below:

Name of subsidiay	Place and date of establishment/ incorporation	Paticulars of registered/ issued and paid-up capital	Equity interests attributable to the Target Company		Principal activities
			Direct	Indirect	
Beijing Century Fortunet Technology Co., Ltd. ("OPCo") 北京世紀鑫網科技有限公司	The PRC 24 October 2008	RMB27,000,000	–	92.6%	Provision of value added services through electronic distribution platform
Beijing Century Fortunet Network Technology Co., Ltd. 北京世紀新幹綫網絡技術有限公司	The PRC 13 December 2013	RMB3,000,000	–	100%	Sales of products through the electronic distribution platform
Fortunet Holding Limited	Hong Kong 31 March 2014	1 share	100%	–	Investment holding

(c) Basis of measurement

The Financial Information is presented in RMB. It is prepared on the historical cost basis.

(d) Use of estimates and judgements

The preparation of the Financial Information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the Financial Information and major sources of estimation uncertainty are discussed in Section B Note 2.

(e) Subsidiaries and non-controlling interests

Subsidiaries are entities controlled by the Target Group. The Target Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Target Group has power, only substantive rights (held by the Target Group and other parties) are considered.

An investment in a subsidiary is consolidated into the Financial Information from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Non-controlling interests represent the equity in a subsidiary not attributable directly or indirectly to the Target Group, and in respect of which the Target Group has not agreed any additional terms with the holders of those interests which would result in the Target Group as a whole having a contractual obligation in respect of those interests that meets the definition of a financial liability. For each business combination, the Target Group can elect to measure any non-controlling interests either at fair value or at the non-controlling interests' proportionate share of the subsidiary's net identifiable assets.

Non-controlling interests are presented in the consolidated statement of financial position within equity, separately from equity attributable to the equity shareholders of the Target Company. Non-controlling interests in the results of the Target Group are presented on the face of the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income as an allocation of the total profit or loss and total comprehensive income for the period between non-controlling interests and the equity shareholders of the Target Company.

Changes in the Target Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

(f) Goodwill

All business combinations are accounted for by applying the acquisition method.

Goodwill represents the excess of

(i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the Target Group's previously held equity interest in the acquiree; and

(ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

Goodwill is stated at cost less accumulated impairment losses (Section B Note 1(j)). Goodwill arising on a business combination is allocated to each cash-generating unit ("CGU"), or groups of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment.

(g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and impairment losses (Section B Note 1(j)).

Gains or losses arising from the retirement or disposal of an item of fixed assets are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost of items of fixed assets, less their estimated residual values, if any, using the straight line method over their estimated useful lives of 5 years.

Both the useful life of an asset and its residual value, if any, are reviewed annually.

(h) Intangible assets (other than goodwill)

Intangible assets that are acquired by the Target Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (Section B Note 1(j)).

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. The following intangible assets with finite useful lives are amortised from the date they are available for use and their estimated useful lives are as follows:

Brand name	5 years

Both the period and method of amortisation are reviewed annually.

(i) Operating lease charges

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Target Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease. Leases which do not transfer substantially all the risks and rewards of ownership to the Target Group are classified as operating leases.

Where the Target Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

(j) Impairment of assets

(i) Impairment of receivables

Receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Target Group about one or more of the following loss events:

– significant financial difficulty of the debtor;

– a breach of contract, such as a default or delinquency in payments;

– it becoming probable that the debtor will enter bankruptcy or other financial reorganisation; and

– significant changes in the market, economic or legal environment that have an adverse effect on the debtor.

If any such evidence exist, the impairment loss is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows, discounted at the receivable's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these receivables), where the effect of discounting is material. This assessment is made collectively where these receivables share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for receivables which are assessed for impairment collectively are based on historical loss experience for receivables with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the receivable's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior periods.

Impairment losses are written off against the corresponding receivables directly, except for receivables whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Target Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against receivables directly and any amounts held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.

(ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognised no longer exists or may have decreased:

– fixed assets;

– intangible assets; and

– goodwill.

If any such indication exists, the asset's recoverable amount is estimated. In addition, for goodwill, the recoverable amount is estimated annually whether or not there is any indication of impairment.

– *Calculations of recoverable amount*

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash flows independently (i.e. a cash-generating unit).

– *Recognition of impairment losses*

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

– *Reversals of impairment losses*

In respect of assets other than goodwill, an impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. An impairment loss in respect of goodwill is not reversed.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior periods. Reversals of impairment losses are credited to profit or loss in the period in which the reversals are recognised.

(k) Receivables

Receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (Section B Note 1(j)).

(l) Payables

Payables are initially recognised at fair value and are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value.

(n) Employee benefits

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the period in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(o) Income tax

Income tax for the period comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to business combinations, or items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous periods.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from goodwill not deductible for tax purpose, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Target Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Target Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Target Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or

- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:

  - the same taxable entity; or

  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(p) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Target Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(q) Interest income

Interest income is recognised as it accrues using the effective interest method.

(r) Translation of foreign currencies

Foreign currency transactions during the period are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates.

The results of foreign operations are translated into RMB at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items are translated into RMB at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

(s) Related parties

(a) A person, or a close member of that person's family, is related to the Target Group if that person:

(i) has control or joint control over the Target Group;

(ii) has significant influence over the Target Group; or

(iii) is a member of the key management personnel of the Target Group or the Target Group's parent.

(b) An entity is related to the Target Group if any of the following conditions applies:

(i) The entity and the Target Group are members of the same group.

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Target Group or an entity related to the Target Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the Financial Information, are indentified from the financial information provided regularly to the Target Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Target Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

The Target Group has not commenced the operation of its business-to-business electronic distribution platform during the Relevant Periods, and accordingly, no segment analysis is provided in this Financial Information.

2 ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Target Group's accounting policies, the management considers the key sources of estimation uncertainty are as follows:

(a) Impairment of receivables

The management maintains an allowance for doubtful accounts for estimated losses resulting from the inability of the debtors to make the required payments. The management bases the estimates on the ageing of the individual debtor balance, debtor credit-worthiness and historical write-off experience. If the financial condition of the debtors were to deteriorate, actual write-offs would be higher than estimated.

(b) Impairment of long-lived assets

If circumstances indicate that the carrying amount of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with accounting policy for impairment of long-lived assets as described in Section B Note 1(j)(ii). The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs of disposal and value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value, which requires significant judgement relating to the level of revenue and amount of operating costs. The Target Group uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of the level of revenue and amount of operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in impairment charge in future periods.

(c) Depreciation and amortisation

Fixed assets and intangible assets are depreciated or amortised on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The management reviews the estimated useful lives and the residual values, if any, of the assets regularly in order to determine the amount of depreciation and amortisation expenses to be recorded during any reporting period. The determination of the useful lives and the residual values, if any, are based on historical experience with similar assets. The depreciation and amortisation expenses for future periods are adjusted if there are significant changes from previous estimates.

(d) Business combination

The recognition of business combinations requires the purchase price to be allocated to the assets and liabilities of the acquired entity. The Target Group makes judgements and estimates in relation to the fair value allocation of the purchase price. When the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date is greater than the purchase price, then this excess is recognised immediately in profit or loss as a gain on a bargain purchase.

The determination of the fair value of the assets and liabilities is based, to a considerable extent, on management's judgement. The Target Group also makes use of various valuation methodologies in determining these fair values, including the use of reputable independent valuers. Valuations are inherently subjective, and require the use of judgement. Changes in these judgements could have a significant impact on the fair value of the assets and liabilities and could affect profit or loss in future periods.

(e) Deferred tax

Deferred tax assets are recognised for unused tax losses and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which the deferred tax assets can be utilised. In determining the amount of deferred tax assets to be recognised, significant judgement is required relating to the timing and level of future taxable profits, after taking into account future tax planning strategies. The amount of deferred tax assets recognised at future dates are adjusted if there are significant changes from these estimates.

3 TURNOVER

The principal activities of the Target Group are the operation of a cross-border business-to-business electronic distribution platform, where the Target Group sources, imports and channels goods from suppliers out of PRC, and then distributes and resells the goods to domestic retailers in the PRC. For the Relevant Periods, the Target Group has not commenced the operation of such platform, and accordingly, no revenue has been generated in this respect.

4 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Staff costs

	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 *RMB*	Eight months ended 31 August 2014 *RMB*
Salaries, wages and other benefits	–	1,295,805
Contributions to defined contribution retirement plan *(Note (i))*	–	88,167
	–	1,383,972

Note:

(i) The employees of the subsidiaries of the Target Group established in the PRC participate in defined contribution retirement benefit scheme managed by the local government authority, whereby these subsidiaries are required to contribute to the scheme at 20% of the employees' basic salaries. Employees of these subsidiaries are entitled to retirement benefits, calculated based on a percentage of the average salaries level in the PRC, from the above mentioned retirement scheme at their normal retirement age.

The Target Group has no further obligation for payment of other retirement benefits beyond the above contributions.

(b) Other items

	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 *RMB*	Eight months ended 31 August 2014 *RMB*
Net foreign exchange gain	–	(17,024)
Depreciation *(Section B Note 9)*	–	37,079
Operating lease charges in respect of office premises	–	446,774

5 INCOME TAX IN THE CONSOLIDATED STATEMENTS OF PROFIT OR LOSS

A reconciliation between income tax expense and accounting profit at applicable tax rates is:

	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013 *RMB*	Eight months ended 31 August 2014 *RMB*
Profit before taxation	–	3,898,906
Expected tax on profit before taxation, calculated at the rates applicable to profits in the jurisdictions concerned *(Note (i))*	–	976,205
Tax effect of contributions from the ultimate holding company of the Target Company	–	1,496,505
Tax effect of non-taxable income	–	(1,698,909)
Tax effect of non-deductible expenses	–	33,618
Tax effect of recognition of prior periods' unused tax losses previously not recognised	–	(807,419)
Actual tax expense	–	–

Note:

(i) The subsidiaries of the Target Group established in the PRC are subject to PRC Corporation Income Tax rate of 25% during the Relevant Periods.

(ii) Pursuant to the rules and regulations of the British Virgin Islands, the Target Company is not subject to any income tax during the Relevant Periods.

(iii) Fortunet Holding Limited, a subsidiary of the Target Group incorporated in Hong Kong in 2013, is subject to Hong Kong profits tax which is calculated at 16.5% of its estimated assessable profit for the year. The subsidiary had no assessable profits during the Relevant Periods.

6 DIRECTORS' REMUNERATION

During the Relevant Periods, no emolument was paid to the directors of the Target Company.

7 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments for the Relevant Periods, none of them is a director. The aggregation of the emoluments in respect of these five individuals are as follows:

	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013	**Eight months ended 31 August 2014**
	RMB	*RMB*
Salaries and other emoluments	–	261,750
Retirement scheme contributions	–	14,876
	–	276,626

The emoluments of the five highest paid individuals were individually less than Hong Kong Dollar ("HK$") 1,000,000.

8 EARNINGS PER SHARE

Earnings per share information is not presented as its inclusion, for the purpose of the Financial Information, is not considered meaningful due to the Target Group has not commenced the operation of its business-to-business electronic distribution platform during the Relevant Periods.

9 FIXED ASSETS

	RMB
Cost:	
At 8 March 2013 (date of incorporation of the Target Company) and 31 December 2013	–
Additions	845,697
Additions through business combination *(Section B Note 17)*	2,145,581
At 31 August 2014	2,991,278
Accumulated depreciation:	
At 8 March 2013 (date of incorporation of the Target Company) and 31 December 2013	–
Charge for the period	37,079
Additions through business combination *(Section B Note 17)*	1,165,801
At 31 August 2014	1,202,880
Net book value:	
At 31 December 2013	–
At 31 August 2014	1,788,398

10 INTANGIBLE ASSETS

	Brand name *RMB*
Cost:	
At 8 March 2013 (date of incorporation of the Target Company) and 31 December 2013	–
Additions through business combination *(Section B Note 17)*	21,237,300
At 31 August 2014	21,237,300
Accumulated depreciation:	
At 8 March 2013 (date of incorporation of the Target Company) and 31 December 2013 and 31 August 2014	–
Net book value:	
At 31 December 2013	–
At 31 August 2014	21,237,300

11 CASH AND CASH EQUIVALENTS

	At 31 December 2013 *RMB*	**At 31 August 2014** *RMB*
Cash on hand	–	32,339
Cash at bank	–	49,119,893
	–	49,152,232

RMB is not a freely convertible currency and the remittance of funds out of the PRC is subject to the relevant rules and regulations of foreign exchange control promulgated by the PRC government.

12 OTHER PAYABLES

	At 31 December 2013 *RMB*	**At 31 August 2014** *RMB*
Consideration payable for the acquisition of a subsidiary *(Section B Note 17)*	–	3,760,000
Others	–	437,766
	–	4,197,766

13 OTHER LOANS

	At 31 December 2013 *RMB*	**At 31 August 2014** *RMB*
Loans from an affiliate of the ultimate holding company of the Target Company:		
– Unguaranteed and unsecured *(Note (i))*	–	3,147,230
Loans from a former equity holder of a subsidiary:		
– Unguaranteed and unsecured *(Note (ii))*	–	3,200,000
	–	6,347,230

Notes:

(i) The loans are non-interest bearing and repayable within one year.

(ii) The loans were non-interest bearing and have been repaid in September 2014.

14 DEFERRED TAX ASSETS AND LIABILITIES

(a) The components of deferred tax assets/(liabilities) recognised in the consolidated statements of financial position and the movements during the Relevant Periods are as follows:

Deferred tax arising from:	Assets Unused tax losses *RMB*	Liabilities Fair value adjustment on intangible assets and subsequent amortisation *RMB*	Net *RMB*
At 8 March 2013 (date of incorporation of the Target Company) and 31 December 2013	–	–	–
Additions through business combination *(Section B Note 17)*	5,309,325	(5,309,325)	–
At 31 August 2014	5,309,325	(5,309,325)	–

(b) In accordance with the accounting policy set out in Section B Note 1(o), at 31 August 2014, the Target Group has not recognised deferred tax assets in respect of unused tax losses of RMB627,164 as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant entity.

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Components of the Target Group's equity

The opening and closing balances of each component of the Target Group's equity and a reconciliation between these amounts are set out in the consolidated statements of changes in equity.

(b) Dividends

The Target Group did not declare any dividends during the Relevant Periods.

(c) Share capital

	At 31 December 2013		At 31 August 2014	
	No. of shares	Amount *US$*	No. of shares	Amount *US$*
Authorised:				
Ordinary shares of United States Dollar ("US$") 1 each	50,000	50,000	50,000	50,000

	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013		Eight months ended 31 August 2014	
	No. of shares	Amount *RMB*	No. of shares	Amount *RMB*
Ordinary shares, issued and fully paid:				
At the beginning of the period	–	–	1	6
Share issued	1	6	–	–
At the end of the period	1	6	1	6

(d) Nature and purpose of reserves

(i) Capital reserve

Capital reserve at 31 August 2014 comprised the following:

– In August 2014, a subsidiary of the Target Group received capital contributions of RMB53,000,000 from a non-controlling equity holder. RMB49,859,024, being the difference between the contribution and the net assets of the subsidiary attributable to the non-controlling interests was recognised in capital reserve.

– In August 2014, the ultimate holding company of the Target Company contributed RMB5,986,021 to a subsidiary of the Target Group by way of waive of its receivable from this subsidiary with the same amount.

(ii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of subsidiaries which have a functional currency other than RMB into RMB. The reserve is dealt with in accordance with the accounting policies set out in Section B Note 1(r).

(e) Distributable reserves

The Target Company was incorporated on 8 March 2013 and has not generated any revenue or profits during the Relevant Periods. Accordingly there is no reserve available for distribution to the equity shareholder of the Target Company as at 31 August 2014.

Upon completion of the acquisition of the Target Company by the Company, the payment of any future dividends will be determined by the directors of the Company. These dividends, if any, will depend upon the future earnings, capital requirements, financial conditions and general business conditions of the Company and its existing subsidiaries and the Target Group as a whole.

(f) Capital management

The Target Group's primary objectives when managing capital are to safeguard the Target Group's ability to continue as a going concern, so that it can continue to provide returns for equity shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Target Group has not commenced the operation of its business-to-business electronic distribution platform during the Relevant Periods, and accordingly, strategy on the management of the Target Group's capital structure has yet to be established.

16 OPERATING LEASE COMMITMENTS

At 31 December 2013 and 31 August 2014, non-cancellable rentals payable by the Target Group are as follows:

	At 31 December 2013 *RMB*	At 31 August 2014 *RMB*
Within 1 year	–	2,181,368
After 1 year but within 5 years	–	1,272,465
	–	3,453,833

17 BUSINESS COMBINATION

In August 2014, the Target Company, via Beijing Century Fortunet Network Technology Co., Ltd. acquired the 100% equity interests in OPCo for a cash consideration of RMB3,760,000. The primary reason of the acquisition is to leverage OPCo's electronic distribution platform in carrying out the Target Group's cross-border trading business. The fair values of the assets and liabilities of OPCo as at the acquisition date are as follows:

	Pre-acquisition carrying amounts *RMB*	Fair value adjustments *RMB*	Recognised values on acquisition *RMB*
Fixed assets *(Section B Note 9)*	1,107,067	(127,287)	979,780
Intangible assets *(Section B Note 10)*	–	21,237,300	21,237,300
Deferred tax assets *(Section B Note 14(a))*	–	5,309,325	5,309,325
Other receivables	209,813	–	209,813
Cash and cash equivalents	48,430,632	–	48,430,632
Other payables	(57,101,887)	–	(57,101,887)
Other loans	(3,200,000)	–	(3,200,000)
Deferred tax liabilities *(Section B Note 14(a))*	–	(5,309,325)	(5,309,325)
Total identifiable net (liabilities)/assets	(10,554,375)	21,110,013	10,555,638
Gain on bargain purchase			(6,795,638)
Consideration to be settled in cash			3,760,000
Analysis of the net cash inflow in respect of the acquisition:			
Cash consideration paid as at 31 August 2014			–
Less: cash and cash equivalents acquired			48,430,632
Net cash inflow in respect of the acquisition			48,430,632

Pre-acquisition carrying amounts of OPCo's assets and liabilities were determined based on applicable HKFRSs immediately before acquisition. The values of assets and liabilities recognised on acquisition are their estimated fair values. In determining the fair values of fixed assets and intangible assets, the directors of the Target Company have referenced the fair value adjustments to valuation report issued by an independent valuer. The valuation methods adopted were replacement cost approach and income approach, where applicable.

From the date of the above acquisition to 31 August 2014, OPCo contributed revenue and net loss of RMBNil and RMB2,265,603, respectively, to the Target Group's results for the eight months ended 31 August 2014. Had the above acquisition been completed on 1 January 2014, the consolidated revenue and consolidated net loss for the eight months ended 31 August 2014 would have been RMBNil and RMB7,429,102, respectively.

18 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit and liquidity risks arises in the normal course of the Target Group's business. The Target Group is not exposed to significant interest rate and currency risks.

The Target Group's exposure to these risks and the financial risk management policies and practices used by the Target Group to manage these risks are described below.

(a) Credit risk

The Target Group's credit risk is primarily attributable to other receivables, which the management assesses on an individual debtor basis. As at 31 December 2013 and 31 August 2014, the balances of other receivables are mainly operational related deposits paid which the management considered the credit risk to be insignificant.

(b) Liquidity risk

The Target Group's policy is to regularly monitor its liquidity requirements to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from other group companies to meet its liquidity requirements in the short and longer term.

The following table shows the remaining maturities at 31 August 2014 of the Target Group's non-derivative financial liabilities, which are based on contractual undiscounted cash flows and the earliest dates the Target Group can be required to pay:

	Contractual undiscounted cash outflow within 1 year or on demand	**Carrying amount at 31 August 2014**
	RMB	*RMB*
Other payables	4,197,766	4,197,766
Other loans	6,347,230	6,347,230
	10,544,996	10,544,996

(c) Fair value measurement

All financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 31 August 2014.

19 MATERIAL RELATED PARTY TRANSACTIONS

(a) Transactions with the ultimate holding company of the Target Company and its affiliate

In addition to the balances disclosed elsewhere in this Financial Information, the Target Group entered into the following material related party transactions during the Relevant Periods.

	From 8 March 2013 (date of incorporation of the Target Company) to 31 December 2013	Eight months ended 31 August 2014
	RMB	*RMB*
Net increase in other loans received from an affiliate of the ultimate holding company of the Target Company	–	3,147,230

Details of the contributions received from the ultimate holding company of the Target Company are set out in Section B Note 15(d)(i).

(b) Key management personnel remuneration

During the Relevant Periods, no remuneration was paid to key management personnel of the Target Group.

20 IMMEDIATE AND ULTIMATE HOLDING COMPANY

At 31 August 2014, the directors of the Target Company consider the immediate and ultimate holding company of the Target Company to be Century East Network Limited ("Century East") and Century Investment (Holding) Limited, respectively, both of which are incorporated in the British Virgin Islands. Neither of these companies produces financial statements available for public use.

21 NON-ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 26 September 2014, Century East, the immediate holding company of the Target Company, entered into an agreement with the Company. Pursuant to the agreement, Century East conditionally agrees to sell 51% of the issued share capital of the Target Company to the Company at a consideration of US$5,200,000 (equivalent to approximately HK$40,300,000). The consideration will be settled by the allotment and issue of 122,121,212 new shares in the Company to the shareholders of Century East at HK$0.33 per share.

Upon completion of the above acquisition, which is subject to various conditions as stipulated in the agreement, the Company will become the holding company of the Target Group.

22 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE PERIOD BEGINNING 1 JANUARY 2014

Up to the date of issue of this Financial Information, the HKICPA has issued a few amendments and new standards which are not yet effective for the period beginning 1 January 2014 and which have not been adopted in this Financial Information. These include the following which may be relevant to the Target Group.

	Effective for accounting periods beginning on or after
Annual improvements to HKFRSs 2010-2012 cycle	1 July 2014
Annual improvements to HKFRSs 2011-2013 cycle	1 July 2014
Annual improvements to HKFRSs 2012-2014 cycle	1 January 2016
HKFRS 15, *Revenue from contracts with customers*	1 January 2017
HKFRS 9, *Financial instruments*	1 January 2018

The Target Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Financial Information.

23 STATUTORY AUDIT

The financial statements of the company comprising the Target Group which are subject to audit during the Relevant Periods were audited by the following auditor:

Name of company	**Financial year**	**Statutory auditor** *(Note (i))*
OPCo	Year ended 31 December 2013	Beijing Zhongtongxing Certified Public Accountants (General Partnership) 北京中同興會計師事務所(普通合夥)

Note:

(i) The English translation of the name is for reference only. The official name of this entity is in Chinese.

C BALANCE SHEET OF THE TARGET COMPANY

The Target Company was incorporated in the British Virgin Islands on 8 March 2013 with an authorised share capital of US$50,000 divided into 50,000 shares of US$1 each. The Target Company issued 1 share to the Century East on 8 March 2013, and the share has been fully paid up. Save for the business combination mentioned in Section B Note 17, the Target Company has not carried out any business since the date of its incorporation.

D SUBSEQUENT FINANCIAL STATEMENTS AND DIVIDENDS

No audited financial statements have been prepared by the Target Company and its subsidiaries comprising the Target Group in respect of any period subsequent to 31 August 2014. No dividend or distribution has been declared or made by any companies comprising the Target Group in respect of any period subsequent to 31 August 2014.

Yours faithfully

KPMG
Certified Public Accountants
Hong Kong

B. INDEBTEDNESS STATEMENT

As at the close of business on 30 November 2014, being the latest practicable date for the purpose of this statement of indebtedness prior to the printing of this circular, the Target Group had aggregate outstanding other unsecured borrowings due to an affiliate of the ultimate holding company of the Target Company of approximately RMB3,165,040.

Save as aforesaid or as otherwise disclosed herein, and apart from intra-group liabilities, at the close of business on 30 November 2014, the Target Group did not have any loan capital issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptances or acceptance credits, debentures, mortgages, charges, hire purchases commitments, guarantees or other material contingent liabilities.

The estimated consolidated operating loss of the Company for the nine months ended 30 September 2014 is set out in the section headed "Loss Estimate" in this circular.

(A) BASES

The Directors have prepared the estimated consolidated loss attributable to equity holders of the Company for the nine months ended 30 September 2014 based on the unaudited consolidated management accounts for the nine months ended 30 September 2014 (the "Loss Estimate").

The Loss Estimate has been prepared on the basis of the accounting policies consistent in all material respects with those currently adopted by the Group as summarized in the audited financial statements of the Group for the year ended 31 December 2013 and unaudited interim financial statements for the period ended 30 June 2014, the text of which is set forth in Appendix I to this circular.

For the nine months ended 30 September 2014, the directors of the Company conducted an impairment assessment on the Group's property, plant and equipment and prepaid lease payments by assessing the recoverable amount based on the higher of value in use and fair value less cost of disposal. For the cash generating unit engaged in manufacturing and selling of axle components and axle assemblies to heavy duty and medium duty truck (the "Truck CGU"), and the cash generating unit engaged in manufacturing and selling of train and railway component ("Railway CGU"), the recoverable amounts of the Truck CGU and the Railway CGU have been determined on the basis of their respective value in use. The calculations use cash flow projections based on financial forecasts approved by management of the Group covering five years with the cash flows beyond such period extrapolated using a steady growth rate till the end of useful lives of the relevant assets allocated to the respective cash generating units. Specifically, the cash flow projection of the Railway CGU assumes continued sales to a major customer in Russia. Sales to this customer represents 8% of the revenue of the Group for the year ended 31 December 2013 while no sales was made to this customer for the year ended 31 December 2012. As the recoverable amounts determined by the value in use calculations of the Truck CGU and the Railway CGU exceed their respective carrying amounts as at 30 September 2014, no impairment loss was recognised for the nine months ended 30 September 2014 for the purpose of preparing the Loss Estimate.

In 2014, the Railway CGU business was mostly suspended due to the continued unstable political and market environment between Russia and certain member states of the Commonwealth of Independent States (CIS) as well as the need to apply for certification under new standards imposed by Russia, Belarus and Kazakhstan (members of CIS) for the Group's railway components in 2014 as the Group had previously relied on certification issued by Ukraine testing authorities which had become invalid for the Russian market following diplomatic fallout between Russia and Ukraina. Formal submission of the Group's railway components to the official testing facilities was made in August 2014.

The Directors currently expect the above mentioned certification process will be completed by the end of first quarter of 2015; following which, the Group shall seek to restart sales relating to the Railway CGU business.

(B) COMFORT LETTERS

Set out below are the texts of the letters received by the Directors from Deloitte Touche Tohmatsu, Certified Public Accountants, Hong Kong and from Alliance Capital Partners Limited in connection with the unaudited consolidated operating loss of the Company for the nine months ended 30 September 2014 and prepared for the purpose of inclusion in this circular.

Deloitte.
德勤

17 February 2015

The Directors
Changfeng Axle (China) Company Limited
Room 708, 7/F, Delta House
3 On Yiu Street, Shatin
New Territories, Hong Kong

Dear Sirs,

Loss Estimate for the nine months Ended 30 September 2014

We refer to the estimate of the consolidated loss attributable to equity holders of the Company for the nine months ended 30 September 2014 ("the Loss Estimate") set forth in the section headed Loss Estimate in the circular of the Company dated 17 February 2015 ("the Circular").

Responsibilities

The Loss Estimate has been prepared by the directors of the Company based on the unaudited consolidated results of the Company and its subsidiaries (collectively referred to as "the Group") for the nine months ended 30 September 2014 based on the management accounts of the Group for the nine months ended 30 September 2014.

The Company's directors are solely responsible for the Loss Estimate. It is our responsibility to form an opinion on the accounting policies and calculations of the Loss Estimate based on our procedures.

Basis of opinion

We carried out our work in accordance with Hong Kong Standard on Investment Circular Reporting Engagements 500 "Reporting on Profit Forecasts, Statements of Sufficiency of Working Capital and Statements of Indebtedness" and with reference to Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" issued by the Hong Kong Institute of Certified Public Accountants ("the HKICPA"). Those standards require that we plan and perform our work to obtain reasonable assurance as to whether, so far as the accounting policies and calculations are concerned, the Company's directors have properly compiled the Loss Estimate in accordance with the basis set out in Appendix III of the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group. Our work is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing issued by the HKICPA. Accordingly, we do not express an audit opinion.

Basis for qualified opinion

As disclosed in the bases of Loss Estimate set out in Appendix III of the Circular, the directors of the Company determined that the recoverable amount of the train and railway business (the "Railway CGU"), which is based on the value in use calculation, exceeds the carrying amount and therefore no impairment loss has been recognised on the property, plant and equipment related to the Railway CGU in preparing the Loss Estimate. We were unable to obtain sufficient information we consider necessary for our review of the value in use calculation of the Railway CGU to assess whether the value in use calculation of the Railway CGU exceeds its carrying amount and whether any impairment loss should be recognised in respect of the Railway CGU. Any adjustments found to be necessary would affect the Group's Loss Estimate.

Qualified opinion

In our opinion, except for the matter described in the Basis for qualified opinion paragraph, so far as the accounting policies and calculations are concerned, the Loss Estimate has been properly compiled in accordance with the bases adopted by the directors as set out in Appendix III of the Circular and is presented on a basis consistent in all material respects with the accounting policies normally adopted by the Group, the text of which is set out in Appendix III of the Circular.

Yours faithfully,
Deloitte Touche Tohmatsu
Certified Public Accountants
Hong Kong

Alliance Capital Partners Limited
同人融資有限公司

17 February 2015

The Board of Directors
Changfeng Axle (China) Co. Ltd.
Room 708, 7th Floor
Delta House
3 On Yiu Street
Shatin, New Territories
Hong Kong

Dear Sirs,

We refer to the unaudited consolidated operating loss of Changfeng Axle (China) Company Limited ("**Company**") and its subsidiaries (hereinafter collectively referred to as the "**Group**") for the nine months ended 30 September 2014 ("**Loss Estimate**") prepared by the Company and reviewed by Deloitte Touche Tohmatsu as published in the section headed "Loss Estimate" to the circular of the Company dated 17 February 2015 ("**Circular**") of which this letter forms part. We note that the Loss Estimate is regarded as a profit forecast under Rule 10 of the Takeovers Code. Terms used in this letter shall have the same meanings as defined in the Circular unless the context requires otherwise.

We have discussed with the Directors the bases upon which the Loss Estimate was prepared. We have also considered the letter from Deloitte Touche Tohmatsu dated 17 February 2015 entitled "Loss Estimate for the nine months ended 30 September 2014", the text of which is set out in Appendix III of the Circular. We note Deloitte Touche Tohmatsu had a qualified opinion on the Loss Estimate as they were unable to obtain sufficient information to determine whether the value in use calculation for the Train and Railway Business exceeds its carrying amount and as such whether any impairment loss should be recognized in respect of such business as at 30 September 2014.

The Group started the Train and Railway Business to the Commonwealth of Independent States (CIS) in the second quarter of 2013. We understand from the Company that this business was suspended in 2014 due to continued unstable political and market environment in Russia and other member states of the CIS, as well as the need to apply for certification under new standards imposed by Russia, Belarus and Kazakhstan (member states of CIS) for the Group's railway components as the Group had previously relied on certification issued by Ukraine testing authorities which had become invalid for the Russian market following diplomatic fallout between Russia and Ukraine. Formal submission of the Group's railway components to the official testing facilities was made in August 2014.

As a result of the above developments, no revenue was generated from the train and railway market in the CIS for the nine months ended 30 September 2014 (nine months ended 30 September 2013: RMB34.2 million). As at 30 September 2014, the Group's total investments in property, plant and equipment ("**PP&E**") and inventory relating to this project amounted to RMB215.5 million and RMB47.0 million respectively. As the Group's Train and Railway Business was suspended in 2014 and the Group has yet to complete the testing of the Group's railway components under new standards imposed by Russia and other CIS member states, Deloitte Touche Tohmatsu issued a qualified opinion on the Loss Estimate given that in the event the Group was unable to comply with the new standard or that the Company was unable to restart such business, impairment adjustments might have to be made to the Loss Estimate.

We have been informed by the Company that it currently expects the above mentioned certification process to be completed by the end of first quarter of 2015; following which the Group will be able to restart the Train and Railway Business. In this regard, we understand that the testing process is currently on schedule and is expected to finish by end March 2015 according to procedures and timing required for the testing of engineering specifications and for durability of railway components. However, the testing authorities have the right to extend the testing time of such components if necessary.

New certification will only be issued if all the Group's railway components pass the new standard as laid out by the authorities at the end of the testing process. In this regard, we understand from the testing authorities that the testing process is currently on schedule and is expected to finish by end March 2015 according to procedures and timing required for the testing of engineering specifications and for durability of railway components. However, the testing authorities have the right to extend the testing time of such components if necessary. To date, the Company has not received notification from the testing authorities that it requires time extension to complete such testing. Nor are we currently aware of any matters which would indicate the new certification will not be forthcoming. However, we wish to emphasize that new certification will only be issued if all the Group's railway components pass the new standard as laid out by the authorities at the end of the testing process. In the event the Group's railway components did not meet any of the new standards or that there was no improvement in operating condition of such business after securing the above mentioned certification, the Directors would need to review the values of those investments and consequently provisions of impairment for the Group's investments in PP&E and inventory might need to be made.

Based on information and evidences supplied by the Directors, we are of the opinion that the Loss Estimate, for which the directors of the Company are solely responsible, has been prepared after due care and consideration.

Yours faithfully,
For and on behalf of
Alliance Capital Partners Limited

David Tsang
Managing Director

Set out below is the text of the letter, summary of valuation and valuation certificates received from Roma Appraisals Limited, an independent property valuer, in connection with their valuation as at 30 November 2014 of the properties interest held by the Group for the purpose of inclusion in this circular.

ROMA

Unit 3806, 38/F, China Resources Building,
26 Harbour Road, Wan Chai, Hong Kong
Tel (852) 2529 6878 Fax (852) 2529 6806
E-mail info@romagroup.com
http://www.romagroup.com

17 February 2015

Changfeng Axle (China) Company Limited
Longyan Economic Zone of Fujian Province
Longyan City
Fujian Province
The People's Republic of China

Dear Sir/Madam,

Re: Various Properties in the People's Republic of China

In accordance with your instruction for us to value the properties held by Changfeng Axle (China) Company Limited (the "Company") and/or its subsidiaries (together with the Company referred to as the "Group") in the People's Republic of China (the "PRC"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market values of the properties as at 30 November 2014 (the "Date of Valuation") for the purpose of incorporation in the circular of the Company dated 17 February 2015.

1. BASIS OF VALUATION

Our valuations of the properties are our opinion of the market values of the concerned properties which we would define as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion".

Market value is understood as the value of an asset or liability estimated without regard to costs of sale or purchase (or transaction) and without offset for any associated taxes or potential taxes.

2. VALUATION METHODOLOGY

Due to the specific purpose for which most of the buildings and structures of the properties have been constructed, there are no readily identifiable market comparables. Thus the buildings and structures have been valued on the basis of their depreciated replacement costs instead of direct comparison method. The depreciated replacement cost approach ("DRC") is based on an estimate of the Market Value for the existing use of the land, plus the current cost of replacement of the existing structures less deductions for physical deterioration and all relevant forms of obsolescence and optimization. In practice, DRC approach may be used as a substitute for the Market Value of specialized property, due to the lack of market comparables available. Our valuation does not necessarily represent the amount that might be realized from the disposition of the properties and the DRC is subject to adequate profitability of the concerned business.

3. TITLE INVESTIGATION

For the properties in the PRC, We have been provided with copies of extracts of title documents relating to the properties in the PRC. However, we have not searched the original documents to ascertain the existence of any amendments which do not appear on the copies handed to us. We have relied to a very considerable extent on information given by the Group and the Group's PRC legal advisor, Jianda Law Firm（景達律師事務所）regarding the titles of the properties in the PRC. All documents have been used for reference only.

We have relied on the advice given by the Group and its its PRC legal advisor that the Group has valid and enforceable titles to the properties which are freely transferable, and has free and uninterrupted right to use the same, for the whole of the unexpired term granted subject to the payment of annual government rent/land use fees and all requisite land premium/purchase consideration payable have been fully settled.

4. VALUATION ASSUMPTIONS

Our valuations have been made on the assumption that the owner sell the properties in the market in their existing states without the benefit of deferred term contracts, leasebacks, joint ventures, management agreements or any similar arrangements which would serve to affect the value of such properties.

In addition, no account has been taken of any option or right of pre-emption concerning or affecting the sale of the properties and no allowance has been made for the properties to be sold in one lot or to a single purchaser.

5. SOURCE OF INFORMATION

In the course of our valuations, we have relied to a very considerable extent on the information provided by the Group and have accepted advice given to us on such matters as planning approvals or statutory notices, easements, tenure, identification of properties, particulars of occupation, site/floor areas, ages of buildings and all other relevant matters which can affect the values of the properties. All documents have been used for reference only.

We have no reason to doubt the truth and accuracy of the information provided to us. We have also been advised that no material facts have been omitted from the information supplied. We consider that we have been provided with sufficient information to reach an informed view, and have no reason to suspect that any material information has been withheld.

6. VALUATION CONSIDERATION

We have inspected the exterior and, where possible, the interior of certain properties. No structural survey has been made in respect of the properties. However, in the course of our inspections, we did not note any serious defects. We are not, however, able to report that the properties are free from rot, infestation or any other structural defects. No tests were carried out on any of the building services.

We have not carried out on-site measurement to verify the site/floor areas of the properties under consideration but we have assumed that the site/floor areas shown on the documents handed to us are correct. Except as otherwise stated, all dimensions, measurements and areas included in the valuations certificate are based on information contained in the documents provided to us by the Group and are therefore approximations.

No allowance has been made in our valuations for any charges, mortgages or amounts owing on the properties nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the properties are free from encumbrances, restrictions and outgoings of an onerous nature which could affect their values.

Our valuations are prepared in compliance with the requirements set out in Chapter 5 and Practice Note 12 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, and in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors; the RICS Valuation-Professional Standards published by the Royal Institution of Chartered Surveyors; and the International Valuation Standards published by the International Valuation Standards Council.

According to the Company, the potential tax liabilities which would arise on the disposal of the property interests held by the Group in the PRC, for the amount of market value minus the cost of purchase, comprise Chinese business tax (5% of net revenue), Chinese land appreciation tax (ranging from 30% to 60% of the appreciated amount), Chinese corporate income tax and Chinese stamp duty (0.05% of the consideration stated in sales contract). The exact amount of the tax payable upon realization of the relevant properties will be subject to the formal tax advice issued by the relevant tax authorities at the time of disposal by presenting the relevant transaction documents. Further, as advised by the Group, property No. 1 has been a subject of sale under an agreement dated 30 July 2014 and as disclosed in the circular of the Company dated 30 September 2014, it is estimated that potential tax liabilities arising from the disposal of the subject properties is approximately RMB3,950,000. For property Nos. 2 and 3, the likelihood of the potential tax liability being crystallized is remote as the Company has no intention to dispose of them.

REMARKS

Unless otherwise stated, all monetary amounts stated in our valuations are in Renminbi ("RMB").

Our Summary of Values and Valuation Certificates are attached.

Yours faithfully,
For and on behalf of
Roma Appraisals Limited

Dr. Alan W K Lee	**Frank F Wong**
BCom(Property) MFin PhD(BA)	BA (Business Admin) MSc (Real Estate)
MHKIS RPS(GP) AAPI CPV CPV(Business)	MRICS Registered Valuer
Associate Director	*Associate Director*

Note: Dr. Alan W K Lee is a Registered Professional Surveyor (General Practice), a member of Hong Kong Institute of Surveyors and an Associate of Australian Property Institute. He has over 11 years' valuation experience in Hong Kong, Macau, the PRC, the Asia Pacific Region, European countries and American countries.

Mr. Frank F Wong is a Chartered Surveyor and Registered Valuer who has 16 years' valuation, transaction advisory and project consultancy of properties experience in Hong Kong and 8 years' experience in valuation of properties in the PRC as well as relevant experience in the Asia-Pacific region, Australia and Oceania-Papua New Guinea, France, Germany, Poland, United Kingdom, United States, Abu Dhabi (UAE) and Jordan.

SUMMARY OF VALUES

Property held by the Group for owner-occupation in the PRC

No.	**Property**	**Market Value in Existing State as at 30 November 2014**
1.	An industrial complex situated in No.51 Tang Dian Yan Road, Jialing District, Nanchong City, Sichuan Province, The PRC 中國四川省南充市嘉陵區塘殿堰路51號之一個工業區	RMB70,000,000
2.	An industrial complex situated in Lianhua Industrial Park, Yongding County, Longyan City, Fujian Province, The PRC 中國福建省龍岩市永定鎮蓮花工業園之一個工業區	RMB61,400,000
3.	An industrial complex situated at southern side of Zhoutian Road, South of Songcheng Road and eastern side of Erhao Road, Bianxixin District, Kaifeng City, Henan Province, The PRC 中國河南省開封市汴西新區周天路南段、宋城路南側及二號路東段之一個工業區	RMB235,700,000
	Total:	**RMB367,100,000**

VALUATION CERTIFICATE

Property held by the Group for owner-occupation in the PRC

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 30 November 2014
1.	An industrial complex situated in No.51 Tang Dian Yan Road, Jialing District, Nanchong City, Sichuan Province, The PRC 中國四川省南充市嘉陵區塘殿堰路51號之一個工業區	The property comprises a parcel of land with a site area of about 139,700.27 sq.m. which various buildings, completed in about 2011, were erected thereon. The property also comprises a parcel of land with a site area of about 73,736.68 sq.m. without relevant title document. The total gross floor area of the property with 3 buildings is approximately 36,276.48 sq.m. with relevant building certificate. The staff quarter building has gross floor area of 6,750 sq.m. without relevant building certificate. The land use rights of the property have been granted for a term expiring on 25 January 2050 for industrial use.	The property is vacant.	RMB70,000,000

Notes:

1. As advised by the Group, Sichuan Changfeng Axle Co., Ltd.（四川暢豐車橋有限公司）(“Sichuan Changfeng”) is an indirect wholly-owned subsidiary of the Company.

2. Pursuant to a State-owned Land Grant Contract, numbered as 5113002010B00031, entered into between Nanchong City Land Resources Bureau（南充市國土資源局）and Sichuan Changfeng on 18 January 2010, the land use rights of the property with a site area of 139,700.27 sq.m. was agreed to be transferred to the latter. The salient development conditions of the property stated in the contract are summarized as follows:

a.	Site area:	139,700.27 sq.m.
b.	Consideration:	RMB52,750,000
c.	Plot ratio:	Not less than 1
d.	Green space ratio:	Not lower than 20%
e.	Land use terms:	50 years for industrial use

3. Pursuant to a State-owned Land Use Rights Certificate, Nan Chong Guo Yong (2010) Di No.000308（南充國用(2010)第000308號）issued by Nan Chong City People’s Government（南充市人民政府）in December 2010, the land use rights of the property with a site area of 103,423.79 sq.m. have been granted to Sichuan Changfeng for a term expiring on 25 January 2050 for industrial use.

4. Pursuant to 3 Building Ownership Certificates, Nan Fang Quan Zheng Jia Zi Di Nos.00443086 to 00443088 issued by Nanchong City Real Estate Management Bureau（南充市房地產管理局）various buildings of the property with a total gross floor area of approximately 36,276.48 sq.m. are legally held by Sichuan Changfeng for workshop use.

5. Our inspection was performed by Mr. Kelvin K F Lan, B.Sc. (Hons) Surveying, in September 2014.

6. In the valuation of this property, we have attributed no commercial value to the land and staff quarters building 6,750 sq.m. which have not obtained any title certificate.

7. Pursuant to a Mortgage Contract of Maximum Amount – Nan Chong Guo Yong (2010) Di No. 000308（南充市國用(2010)第000308號）dated 24 October 2013, 3 buildings with total gross floor area 36,276.48 sq.m. are subject to a mortgage in favour of Lonyyan Branch-Bank of China Limited（中國銀行股份有限公司龍岩分行）, as security to guarantee the principal obligation under a contracts for a maximum amount of RMB135,652,700 with the security term from 14 September 2014 to 13 September 2016.

8. As advised by the Group, the Group entered into a conditional agreement on 30 July 2014 with an independent third party in respect of disposal of the property in an aggregate cash consideration of RMB71,084,000.

9. The status of the title and grant of major approvals and licenses in accordance with the information provided to us are as follows:

State-owned Land Use Rights Grant Contract	Yes
Stated-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

10. Nanchong City is a prefecture-level city in the northeast of Sichuan province, the PRC, with an area of 12,479 sq.km.. The population was 6,278,622 in 2010. It is the second most populated city of Sichuan Province, only after Chengdu City. The administrative center is Shunqing District.

    As per our latest market research, the industrial land in the subject locality has a unit rate ranging from RMB120 per sq.m. to RMB144 per sq.m..

11. We have been provided with a legal opinion on the title to the property issued by the Group's legal advisers, which contains, inter alia, the following information:

    a. Sichuan Changfeng is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;

    b. All land premium and other costs of ancillary utility services has been settled in full;

    c. For the land and building without proper title certificate, there is a risk the owner will be fined, demolished or confiscated;

    d. Expect for the aforesaid mortgage, the property is not subject to mortgage or any other material encumbrances; and

    e. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant authorities.

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 31 October 2014
2.	An industrial complex situated in Lianhua Industrial Park, Yongding County, Longyan City, Fujian Province, The PRC 中國福建省龍岩市永定鎮蓮花工業園之一個工業區	The property comprises 3 parcels of land with a total site area of about 122,241.7 sq.m. which various buildings, completed between 2007 and 2009, were erected thereon. The total gross floor area of the property is approximately 58,290.35 sq.m.. The land use rights of the property have been granted for various terms expiring between 6 July 2056 and 30 June 2057 for industrial use.	The property occupied by the Group for industrial purpose.	RMB61,400,000

Notes:

1. As advised by the Group, Longyan Shengfeng Machinery Manufacturing Co., Ltd. (龍岩盛豐機械製造有限公司)("Longyan Shengfeng") is a wholly-owned subsidiary of the Company.

2. Pursuant to 3 State-owned Land Certificates, Yong Guo Yong (2006) No. 10352, Yong Guo Yong (2008) No. 10439 and Yong Guo Yong (2009) No. T278, the land use rights of the property with a total site area of approximately 122,241.7 sq.m. have been granted to Longyan Shengfeng for various terms expiring between 6 July 2056 and 30 June 2057 for industrial use.

3. Pursuant to 11 Building Ownership Certificates, various buildings of the property with a total gross floor area of approximately 58,290.35 sq.m. are legally held by Longyan Shengfeng. The details of which are as follows:

Building Ownership Certificate	Use	Gross Floor Area *(sq.m.)*
Yong Fang Quan Zheng 2010 Zi No. 00327	Washroom	23.39
Yong Fang Quan Zheng 2010 Zi No. 00326	Staff Quarters	825.05
Yong Fang Quan Zheng 2010 Zi No. 00325	Office	597.52
Yong Fang Quan Zheng 2010 Zi No. 00324	Warehouse	209.71
Yong Fang Quan Zheng 2010 Zi No. 00323	Warehouse	107.78
Yong Fang Quan Zheng 2010 Zi No. 00322	Office	347.80
Yong Fang Quan Zheng 2010 Zi No. 00321	Warehouse	2,946.73
Yong Fang Quan Zheng 2010 Zi No. 00320	Factory	9,784.34
Yong Fang Quan Zheng 2010 Zi No. 00319	Factory	9,778.72
Yong Fang Quan Zheng Gao Zi No. 13840	Factory, Composite building, and other ancillary buildings	12,687.22
Yong Fang Quan Zheng Gao Zi No. 16865	Factory, Composite building, and other ancillary buildings	20,982.09
	Total:	**58,290.35**

4. The status of the title and grant of major approvals and licenses in accordance with the information provided to us are as follows:

Stated-owned Land Use Rights Certificate	Yes
Building Ownership Certificate	Yes

5. Pursuant to a Mortgage Contracts of Maximum Amount, 3 parcels of land with a total gross floor area of approximately 122,241.7 sq.m. under the State-owned Land Use Rights Certificates– Young Gio Yong (2006) No. 10352, Yong Guo Yong (2008) No. 10439, Yong Guo Yong (2009) No. T278 and buildings with a gross floor area of approximately 58,290.35 under the Building Ownership Certificates – Yong Fang Quan Zheng Gao Nos. 13840 and 16865, Yong Fang Quan Zheng 2010 Nos. 00319, 00320, 00321, 00322, 00323, 00324, 00325, 00326 and 00327 are subject to a mortgage in favour of Longyan Branch of Bank of China Limited, as security to guarantee the principal obligation under a contracts for a maximum amount of RMB100,875,400 with the security term from 22 September 2014 to 31 December 2017.

6. Our inspection was performed by Mr. Kelvin K F Lan, B.Sc. (Hons) Surveying, in November 2014.

7. We have been provided with a legal opinion on the title to the property issued by the Group's legal advisers, which contains, inter alia, the following information:

   a. Longyan Shengfeng is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services has been settled in full;

   c. For the land and building without proper title certificate, there is a risk the owner will be fined, demolished or confiscated;

   d. Expect for the aforesaid mortgage, the property is not subject to mortgage or any other material encumbrances; and

   e. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant authorities.

No.	Property	Description and Tenure	Particulars of Occupancy	Market Value in Existing State as at 30 November 2014
3.	An industrial complex situated at southern side of Zhoutian Road, South of Songcheng Road and eastern side of Erhao Road, Bianxixin District, Kaifeng City, Henan Province, The PRC 中國河南省開封市汴西新區周天路南段、宋城路南側及二號路東段之一個工業區	The property comprises 4 parcels of land with a total site area of about 415,236.43 sq.m. which various buildings, completed between 2009 and 2011, were erected thereon. The property also comprises a parcel of land with a site area is approximately 153,333.33 sq.m. without relevant title document. The total gross floor area of the property is approximately 64,366.13 sq.m. with relevant building certificates. The total gross floor area of the property with 2 buildings is approximately 33,793 sq.m. without relevant building certificate. The land use rights of the property have been granted for various terms expiring between 18 September 2058 and 3 November 2063 for industrial use.	The property occupied by the Group for industrial and ancillary purpose.	RMB235,700,000

Notes:

1. As advised by the Group, Kaifeng Changfeng Axle Co., Ltd.（開封暢豐車橋有限公司）(“Kaifeng Changfeng”) is a wholly-owned subsidiary of the Company.

2. Pursuant to 4 Real Estate Title Certificates, the land use rights of 4 parcels of land with a total site area of approximately 415,236.43 sq.m. have been granted to Kaifeng Changfeng for various terms with expiry between 18 September 2058 and 3 November 2063 for industrial use. The details of which are as follows:

Real Estate Title Certificate	Expiry Date	Site Area *(sq.m.)*
Bian Fang Di Chan Quan Zheng No. 236368	27 April 2060	314,787.67
Bian Fang Di Quan Zheng No. 240485	18 September 2058	42,924.00
Bian Fang Di Quan Zheng No. 240546	22 October 2059	30,141.16
Bian Fang Di Quan Zheng No. 259910	3 November 2063	27,383.60
	Total:	**415,236.43**

3. Pursuant to 20 Real Estate Title Certificates, the buildings with a total gross floor area of of approximately 64,366.13 sq.m. have been granted to Kaifeng Changfeng for industrial use. The details of which are as follows:

Real Estate Title Certificate	**Usage**	**Gross Floor Area** *(sq.m.)*
Bian Fang Di Chan Quan Zheng No. 236354	Factory	1,248.71
Bian Fang Di Chan Quan Zheng No. 236355	Warehouse	3,707.48
Bian Fang Di Chan Quan Zheng No. 236356	Generator Room	211.68
Bian Fang Di Chan Quan Zheng No. 236357	Office	2,579.33
Bian Fang Di Chan Quan Zheng No. 236358	Staff Quarters	3,971.30
Bian Fang Di Chan Quan Zheng No. 236359	Canteen	538.99
Bian Fang Di Chan Quan Zheng No. 236360	Generator Room	266.71
Bian Fang Di Chan Quan Zheng No. 236361	Pump Room	64.58
Bian Fang Di Chan Quan Zheng No. 236362	Factory	12,067.90
Bian Fang Di Chan Quan Zheng No. 236363	Office	535.03
Bian Fang Di Chan Quan Zheng No. 236364	Function Room	1,346.54
Bian Fang Di Chan Quan Zheng No. 236365	Factory	1,344.32
Bian Fang Di Chan Quan Zheng No. 236366	Factory	1,188.76
Bian Fang Di Chan Quan Zheng No. 236367	Factory	7,695.18
Bian Fang Di Chan Quan Zheng No. 236369	Pump Room	66.75
Bian Fang Di Quan Zheng No. 240485	Factory	3,223.03
Bian Fang Di Quan Zheng No. 240598	Factory	3,196.64
Bian Fang Di Quan Zheng No. 240598	Factory	8,352.48
Bian Fang Di Quan Zheng No. 240485	Composite Building	8,532.48
Bian Fang Di Quan Zheng No. 240485	Office	4,266.24
	Total:	**64,366.13**

4. In the course of our valuation, we have attributed no commercial value to a parcel of land and 2 buildings of the property with a site area and total gross floor area of approximately 153,333.33 sq.m. and 33,793 sq.m. respectively which have not obtained any title certificate. However for reference purpose, we are of the opinion that the market value of the property as at the date of valuation would be RMB159,600,000 assuming all relevant title certificates have been obtained and it could be freely transferred.

5. The status of the title and grant of major approvals and licenses in accordance with the information provided to us are as follows:

Real Estate Title Certificate	Partial

6. Pursuant to a Mortgage Contract of Maximum Amount, the property with a total gross floor area of approximately 36,833.26 sq.m. under Real Estate Title Certificates – Bian Fang Di Chan Quan Zheng Nos. 236354, 236355, 236356, 236357, 236358, 236359, 236360, 236361, 236362, 236363, 236364, 236365, 236366, 236367 and 236369 are subject to a mortgage in favour of Kaifeng Branch of Bank of China Limited, as security to guarantee the principal obligation under a contracts for a maximum amount of RMB130,000,000 with the security term from 10 March 2014 to 10 March 2017.

7. Pursuant to a Mortgage Contracts of Maximum Amount, 2 parcels of land with a total gross floor area of approximately 73,065.16 sq.m. and buildings with a gross floor area of approximately 27,570.86 under Real Estate Title Certificates – Bian Fang Di Chan Zheng Nos. 240485, 240546 and 240598 are subject to a mortgage in favour of Longyan Branch of Bank of China Limited, as security to guarantee the principal obligation under a contracts for a maximum amount of RMB69,607,800 with the security term from 22 September 2014 to 31 December 2017.

8. Our inspection was performed by Mr. Kelvin K F Lan, B. Sc. (Hons) in Surveying, in November 2014.

9. We have been provided with a legal opinion on the title to the property issued by the Group's legal advisers, which contains, inter alia, the following information:

   a. Kaifeng Changfeng is in possession of a proper legal title to the property and is entitled to transfer the property with its residual term of land use rights at no extra land premium or other onerous payment payable to the government;

   b. All land premium and other costs of ancillary utility services has been settled in full;

   c. Expect for the aforesaid mortgage, the property is not subject to mortgage or any other material encumbrances;

   d. For the land and building without proper title certificates, Changfeng Kaifeng made the purchase from the State-owned Assets Supervision and Administration Commission of Kaifeng Municipal People's Government (開封市人民政府國有資產監督管理委員), therefore, Changfeng Kaifeng has lawful ownership. Once the title certificates have been obtained, the property can be freely transferred. There is no legal obstacles to obtain title documents; and

   e. The existing use of the property is in compliance with the local planning regulations and have been approved by the relevant authorities.

PROPERTY, PROPERTY VALUATION AND RECONCILIATION OF APPRAISED PROPERTY VALUES WITH NET BOOK VALUES (RULE 5.07)

Roma Appraisals Limited, an independent valuer, has valued the leasehold lands and buildings and structures erected on the properties held by the Group at 30 November 2014 and is of the opinion that the market value of the leasehold lands and buildings and structures erected on the properties in aggregate amounted* to RMB 526.7 million as at 30 November 2014.

Set forth below is the reconciliation of the valuation figure of the Group's properties with the figures included in the consolidated financial statement of the Group:

	With proper title certificates	**Without proper title certificates**	**Total**
			RMB'000
Net book value leasehold land and buildings as at 30 June 2014 (unaudited) *(note)*	349,483	162,682	512,165
Valuation Surplus (Deficit) (unaudited)	17,617	(3,082)	14,535
Valuation of leasehold lands and buildings and Structure as at 30 November 2014 as set out in the Valuation report in Appendix IV*	367,100	159,600	526,700

* The aggregate amount, valued by Roma Appraisals Limited, equals to the market values of the properties with proper title certificates (RMB367.1 million) plus the reference value of the properties without proper title certificates (RMB159.6 million), assuming all the relevant title certificates have been obtained and could be freely transferred.

(Note)

Net Book value as at 30 June 2014 (unaudited)

	RMB'000	
Leasehold land		
– non-current	251,235	
– current	6,200	
Total leasehold land	257,435	(1)
Property, plant and equipment		
– Buildings	254,730	(1)
– other (including machinery, motor vehicles, furniture, fixture and equipment and construction in progress)	212,017	
Total property, plant and equipment	466,747	
Total net book value of leasehold land and building (sum of (1))	512,165	

1. Responsibility statement

This circular includes particulars given in compliance with the Listing Rules and the Takeovers Code for the purpose of giving information, among others, on the Group, the Subscription, Acquisition, the Loan, the Specific Mandate and the Whitewash Waiver.

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

The Directors jointly and severally accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable inquires, that to the best of their knowledge, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts not contained in this circular, the omission of which would make any statement in this circular misleading.

2. Market Prices

(a) The table below sets out the closing prices of the Shares quoted on the Stock Exchange on (i) the last Business Day of each of the calendar months during the period between April 2014 to January 2015, being the six months preceding the date of the Announcement and ending on the Latest Practicable Date; (ii) the Last Trading Day; (iii) the last Business Day of each of the calendar months during the period between the Last Trading Day and the Latest Practicable Date; and (iv) the Latest Practicable Date, respectively:

Month	**Closing price per Share** *(HK$)*
30 April 2014	0.385
30 May 2014	0.37
30 June 2014	0.355
31 July 2014	0.43
29 August 2014	0.41
17 September 2014 (being the Last Trading Day)	0.465
31 October 2014	0.47
28 November 2014	0.72
31 December 2014	0.70
30 January 2015	0.58
Latest Practicable Date	0.63

Note: Trading in the Shares on the last Business Day of September 2014 was suspended pending the release of the Announcement and no closing price of the Shares quoted on the Stock Exchange is therefore available.

(b) The highest and lowest closing prices of the Shares as quoted on the Stock Exchange during the period commencing six months preceding the date of the Announcement, and ending on the Latest Practicable Date were HK$0.81 on 17 November 2014 and HK$0.355 on 9 May, 21 May and 30 June 2014, respectively.

3. Share Capital of the Company

As at the Latest Practicable Date, the authorised and issued share capital of the Company were as follows:

Authorised share capital

Shares	***US$***
Ordinary shares of US$0.01 each	
5,000,000,000	50,000,000.00

Issued and fully paid up (or to be issued and fully paid up) share capital

Shares		***US$***
Ordinary shares of US$0.01 each		
800,000,000	(as at the Latest Practicable Date)	8,000,000.00
122,121,212	(number of the Consideration Shares to be issued)	1,221,212.12
610,606,060	(number of the Subscription Shares to be issued)	6,106,060.60
1,532,727,272	Total	15,327,272.72

All the Shares in issue, the Consideration Shares and the Subscription Shares to be issued will (when allotted and fully paid or credited as fully paid) rank pari passu in all respects with each other as regards dividends, voting rights and return of capital. The holders of the Consideration Shares and the Subscription Shares will be entitled to receive all future dividends and distributions which are declared, made or paid after the date of allotment and issue of the Consideration Shares and the Subscription Shares.

Since 31 December 2014 (being the end of the last financial year of the Company) and up to the Latest Practicable Date, no new Shares have been issued by the Company and as at the Latest Practicable Date, the Company does not have any outstanding options, warrants or convertible securities affecting the Shares.

4. Directors' and chief executive's interests and short positions in Shares, underlying Shares and debentures

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executives of the Company or their respective associates in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of

Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange were as follows:

(i) Interest in the Company:

Name of Director	Nature of interest	Number of Shares held	Approximate percentage of shareholding
Wu Ching *(Note)*	Interest of a controlled corporation	406,128,560	50.80%
Wong Kwai Mo *(Note)*	Interest of a controlled corporation	406,128,560	50.80%

Note: Each of Wu Ching and Wong Kwai Mo holds 50% of the issued share capital of Changfeng Axle Holdings Ltd. ("Changfeng BVI").

(ii) Interest in associated corporation

Name of Director	Nature of associated corporation	Number of shares held	Percentage of shareholding
Wu Ching *(Note)*	Changfeng BVI	25,000	50%
Wong Kwai Mo *(Note)*	Changfeng BVI	25,000	50%

Save as disclosed above, as at the Latest Practicable Date, none of the Directors or chief executives of the Company or their respective associates had any interests or short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers, to be notified to the Company and the Stock Exchange.

5. Interests and short positions of substantial Shareholders

Save as disclosed below, as at the Latest Practicable Date, so far as was known to the Directors or chief executive of the Company, no other person or companies (other than the Directors or the chief executive of the Company) had an interest or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group:

Name of Shareholders	Nature of interest	Interest in Shares (long position (L)/ short position (S))	Approximate percentage of shareholding	Notes
Changfeng BVI	Beneficial owner	406,128,560(L)	50.80%	1
Wu Ching	Interest of a controlled corporation	406,128,560(L)	50.80%	1
Wong Kwai Mo	Interest of a controlled corporation	406,128,560(L)	50.80%	1
Starr International Foundation	Interest of a controlled corporation	224,710,691(L)	14.66%	2
Starr International AG	Interest of a controlled corporation	224,710,691(L)	14.66%	2
Starr International Company Inc. ("**Starr International**")	Interest of a controlled corporation	224,710,691(L)	14.66%	2
Starr International Investments Ltd	Interest of a controlled corporation	224,710,691(L)	14.66%	2
Starr Insurance and Reinsurance Ltd	Interest of a controlled corporation	114,801,600(L)	14.35%	2
Starr International Cayman, Inc.	Interest of a controlled corporation	114,801,600(L)	14.35%	2
Starr Investments Cayman II, Inc. ("**Starr Investments**")	Beneficial owner	114,801,600(L)	14.35%	2
Starr Investments Cayman V, Inc.	Beneficial owner	109,909,091(L)	7.17%	2
Century East	Interests of a party to an agreement to acquire interests in the Company	732,727,272(L)	91.59%	3
		732,727,272(S)	91.59%	
CIH	Interest of a controlled corporation	732,727,272(L)	91.59%	3
		732,727,272(S)	91.59%	
Pun Tang	Interest of a controlled corporation	732,727,272(L)	91.59%	3
		732,727,272(S)	91.59%	

Name of Shareholders	Nature of interest	Interest in Shares (long position (L)/ short position (S))	Approximate percentage of shareholding	Notes
Jindi Wu	Interest of a controlled corporation	84,263,636(L)	5.50%	4
Jinyu Developments	Beneficial owner	84,263,636(L)	5.50%	4

Notes:

1. Changfeng BVI is owned as to 50% by Wu Ching and as to 50% by Wong Kwai Mo. Both Wu Ching and Wong Kwai Mo are deemed to be interested in the Shares held by Changfeng BVI for the purpose of the SFO.

2. Starr Investments is wholly-owned by Starr International Cayman, Inc., which is in turn wholly-owned by Starr Insurance and Reinsurance Ltd.. Starr Insurance and Reinsurance Ltd. and Starr Investments Cayman V, Inc. are wholly-owned subsidiaries of Starr International Investments Ltd., which is in turn wholly-owned by Starr International. Starr International is wholly-owned by Starr International AG, which is wholly-owned by Starr International Foundation, a charitable foundation established in Switzerland.

   Each of Starr International Foundation, Starr International AG, Starr International, Starr International Investments Ltd., Starr Insurance and Reinsurance Ltd. and Starr International Cayman, Inc. is deemed to be interested in the Shares held by Starr Investments for the purpose of the SFO.

   Each of Starr International Foundation, Starr International AG, Starr International and Starr International Investments Ltd. is deemed to be interested in the Shares held by Starr Investments Cayman V, Inc. for the purpose of the SFO.

   The approximate percentage of shareholding in which each of Starr International Foundation, Starr International AG, Starr International, Starr International Investments Ltd. is interested is calculated with reference to the percentage of shareholding of both Starr Investments and Starr Investments Cayman V, Inc. upon the Subscription Completion and the Acquisition Completion.

3. Century East, being a party to the Subscription Agreement and the Acquisition Agreement under which an aggregate of 732,727,272 Shares will be allotted and issued to its shareholders, is therefore deemed to be interested in the 732,727,272 Shares, for the purpose of SFO. In addition, as at the Latest Practicable Date, Century East is owned by CIH as to 69% and CIH, together with Ms. Pun Tang as its sole shareholder, is therefore deemed to be interested in the interests of Century East, for the purpose of SFO. Upon the Subscription Completion and the Acquisition Completion, CIH will be interested in 505,581,818 Shares, representing approximately 32.99% of the entire issued share capital of the Company.

4. Upon the Subscription Completion and the Acquisition Completion, Jinyu Developments and Ms. Jindi Wu will be interested in 84,263,636 Shares, representing approximately 5.50% of the entire issued share capital of the Company.

5. Save as Wu Ching and Wong Kwai Mo being the directors of the Changfeng BVI and Dong Ying Dorothy being a director of Starr Investments Cayman II, Inc. and Century East, none of the Directors is a director or employee of the companies or trust foundation disclosed in this paragraph.

6. Directors' interests in contracts and assets

As at the Latest Practicable Date, save for the Renewed Purchase Agreement (as defined below) and the Renewed Supply Agreement (as defined below) as disclosed below, there is no contract or arrangement subsisting in which a Director is materially interested and significant in relation to the business of the Group.

(a) On 29 May 2010, the Company entered into a sale and purchase agreement (the "**Purchase Agreement**") with Yongding Changfeng Machinery Manufacturing Factory ("**Yongding Changfeng**"), pursuant to which the Company agreed to purchase or procure its subsidiaries to purchase roughcast axle housing from Yongding Changfeng for the production of the products for a term of three years commencing from 1 January 2010 to 31 December 2012. Subsequently on 24 December 2012, the parties entered into a renewal agreement to renew the terms of the Purchase Agreement for a fixed term of another three years expiring on 31 December 2015 ("**Renewed Purchase Agreement**"). For the year ended 31 December 2013, the actual aggregate amount of transactions under the Purchase Agreement was approximately RMB14,700,000 and the annual cap amount granted by the Stock Exchange was RMB20,000,000.

(b) On 29 May 2010, the Company entered into a supply agreement (the "**Supply Agreement**") with Yongding Changfeng, pursuant to which the Company has agreed to supply or procure members of the Group to supply scrap steel which is steel waste created during the production of steel and expected to be disposed of or not required by the Group to Yongding Changfeng for a term of three years commencing from 1 January 2010 to 31 December 2012. Subsequently on 24 December 2012, the parties entered into a renewal agreement to renew the terms of the Supply Agreement for a fixed term of another three years expiring on 31 December 2015 (the "**Renewed Supply Agreement**"). For the year ended 31 December 2013, the actual aggregate amount of transactions under the Supply Agreement was approximately RMB1,200,000 and the annual cap amount granted by the Stock Exchange was RMB20,000,000.

Mr. Lu is a cousin of Mr. Wong Kwai Mo, an executive Director and one of the Controlling Shareholders (as defined in the Listing Rules). As Yongding Changfeng may be substantially influenced or controlled by Mr. Lu, who is the legal representative and the factory manager of Yongding Changfeng, and Mr. Wong Kwai Mo, who had held a prior position and role at Yongding Changfeng, Yongding Changfeng is therefore a deemed connected person of the Company pursuant to Rule 14A.21 of the Listing Rules. As such, transactions under the Renewed Purchase Agreement and the Renewed Supply Agreement constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

7. Competing interest

As at the Latest Practicable Date, none of the Directors and their respective associates was interested in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the Group's businesses.

8. Litigation

As at the Latest Practicable Date, the Group was not engaged in any litigation, claim or arbitration of material importance and no litigation or claim of material importance was known to the Directors to be pending or threatened against any member of the Group.

As at the Latest Practicable Date, no member of the Target Group was a party to any litigation, claim or arbitration of material importance so far as the Directors, having made all reasonable enquiries, were aware of.

9. Services contracts

Mr. Wong Kwai Mo entered into the service contract with the Company on 24 September 2013 for a period of three years commencing from 24 September 2013 and expiring on 23 September 2016 with a fixed remuneration of HK$1,560,000 per annum.

Ms. Wu Ching entered into the service contract with the Company on 24 September 2013 for a period of three years commencing from 24 September 2013 and expiring on 23 September 2016 with a fixed remuneration of HK$1,560,000 per annum.

Mr. Lai Fengcai entered into the service contract with the Company on 24 September 2013 for a period of three years commencing from 24 September 2013 and expiring on 23 September 2016 with a fixed remuneration of HK$650,000 per annum.

Ms. Dong Ying, Dorothy entered into the service contract with the Company on 24 September 2013 for a period of three years commencing from 24 September 2013 and expiring on 23 September 2016 without remuneration.

Mr. Zhu Weizhou entered into the letter of appointment with the Company on 24 September 2013 for a period of three years commencing from 24 September 2013 and expiring on 23 September 2016 with a fixed remuneration of HK$102,000 per annum.

Dr. Li Xiuqing entered into the letter of appointment with the Company on 24 September 2013 for a period of three years commencing from 24 September 2013 and expiring on 23 September 2016 with a fixed remuneration of HK$102,000 per annum.

Mr. Chong Ching Hei entered into the letter of appointment with the Company on 24 September 2013 for a period of three years commencing from 24 September 2013 and expiring on 23 September 2016 with a fixed remuneration of HK$102,000 per annum.

As at the Latest Practicable Date, save as disclosed above, (i) none of the Directors had any existing or proposed service contracts with the Company or any member of the Group which would not expire or was not determinable within one year without payment of compensation, other than statutory compensation; (ii) there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which (including both continuous and fixed term contracts) had been entered into or amended within six months before the date of the Announcement; (iii) there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are continuous contracts with a notice period of 12 months or more; or (iv) there were no service contracts between any of the Directors and the Company or any of its subsidiaries or associated companies which are fixed term contracts with more than 12 months to run irrespective of the notice period.

10. Expert's qualification and consent

The following are the qualifications of the experts or professional advisers who have given their opinions and advice in this circular:

Name	Qualification
Alliance Capital Partners Limited	a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Deloitte Touche Tohmatsu	Certified public accountants
KPMG	Certified public accountants
Somerley Capital Limited	a licensed corporation under the SFO to carry out type 1 (dealing in securities) and type 6 (advising on corporate finance) regulated activities
Jianda Law Firm	PRC legal advisers
Roma Appraisals Limited	Property valuer

Each of Alliance Capital Partners Limited, Deloitte Touche Tohmatsu, KPMG, Somerley Capital Limited, Jianda Law Firm and Roma Appraisals Limited has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and report both dated 17 February 2015 and/or references to its name in the form and context in which they respectively appear.

As at the Latest Practicable Date, Alliance Capital Partners Limited, Deloitte Touche Tohmatsu, KPMG, Somerley Capital Limited, Jianda Law Firm and Roma Appraisals Limited did not have any direct or indirect interest in any assets which had been acquired, disposed of by, or leased to any member of the Group, or was proposed to be acquired, or disposed of by, or leased to any member of the Group, since 31 December 2013, the date to which the latest published audited financial statements of the Group were made up; and was not beneficially interested in the share capital of any member of the Group and did not have any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

11. Material contracts

The following contracts (being contracts not entered into in the ordinary course of business carried on or intended to be carried on by the Group) have been entered into by the members of the Group after the date two years immediately preceding the date of the Announcement, and up to the Latest Practicable Date, and are or may be material:

(a) the third supplemental agreement dated 31 December 2012 entered into between Fujian Changfeng Axle Manufacturing Co., Ltd. ("**Fujian Changfeng Axle**") and Lonking (Jiangxi) Machinery Co., Ltd. ("**Lonking Machinery**") to further amend the capital contribution schedule to the Changfeng Gear Manufacturing Co., Ltd. ("**JV Company**"): (i) in the sum of RMB60,000,000 to be paid by Fujian Changfeng Axle before 31 December 2013 (previously 31 December 2012), and (ii) in the form of assets to be transferred by Lonking Machinery to the JV Company before 31 December 2013 (previously 31 December 2012);

(b) the fourth supplemental agreement dated 27 May 2013 entered into between Fujian Changfeng Axle and Lonking Machinery to further amend the capital contribution method to the JV Company: part of the remaining payment of the capital injection to the JV Company to be made by way of assets instead of cash injection at an equivalent amount of approximately RMB12 million and comprising certain equipments and machinery which meet the site requirements of the JV Company and to be transferred by Fujian Changfeng Axle to the JV Company before 31 December 2013;

(c) the assets acquisition agreement dated 27 December 2013 entered into between the JV Company, Shandong Haina Gear Axle Box Co., Ltd. and Shandong Fengrun Machinery Manufacturing Co., Ltd. in relation to the sale of certain tools, equipments and machinery for the production of gear at a consideration of RMB38,000,000 (equivalent to HK$48,260,000) and that Shandong Fengrun Machinery Manufacturing Co., Ltd. has agreed to take up the payment obligation of Shandong Haina Gear Axle Box Co., Ltd.;

(d) the equity transfer agreement dated 27 December 2013 entered into between Longyan Shengfeng Machinery Manufacturing Co., Ltd., an indirect wholly-owned subsidiary of the Company, and Lonking Machinery in relation to the acquisition of 40% interest in the JV Company at a consideration of RMB30,000,000 (equivalent to HK$38,100,000);

(e) the debt waiver agreement dated 27 December 2013 entered into between the JV Company, Lonking Machinery and Fujian Changfeng Machinery Manufacturing Co., Ltd. ("**Fujian Changfeng**") pursuant to which the JV Company conditionally agreed to pay to Lonking Machinery and Lonking Machinery conditionally agreed to accept a sum of RMB27,000,000 (equivalent to HK$34,290,000) in extinguishment of the account payable in the sum of RMB33,908,400 (equivalent to HK$43,064,000) due to Lonking Machinery in respect of certain equipments and machinery for the production of gears, which were injected into the JV Company by Lonking Machinery with an original cost of approximately

RMB28,982,000 (equivalent to HK$36,807,140), and Lonking Machinery conditionally agreed to acquire and the JV Company conditionally agreed to sell two sets of inverted vertical turning centers (Model No. VLC500) for the production of gears at a consideration of RMB12,000,000 (equivalent to HK$15,240,000);

(f) the fifth supplemental agreement dated 28 December 2013 entered into between Fujian Changfeng and Lonking Machinery to further amend the capital contribution method to be JV Company: the remaining payment of the capital injection (i) in the sum of RMB60,000,000 (equivalent to HK$76,200,000) to be paid by Fujian Changfeng before 31 December 2014 (previously 31 December 2013), and (ii) in the form of assets to be transferred by Lonking Machinery to the JV Company before 31 December 2014 (previously 31 December 2013);

(g) the equity transfer agreement dated 27 June 2014 entered into between Longyan Changfeng Special Vehicle Co., Ltd. ("**Longyan Special Vehicle**"), Fujian Changfeng and Longyan Shengfeng Machinery Manufacturing Co., Ltd. ("**Longyan Shengfeng**"), pursuant to which Longyan Special Vehicle agreed to acquire the entire equity interest in 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;

(h) the agreement dated 30 July 2014 entered into between Sichuan Changfeng Axle Co., Ltd. ("**Sichuan Changfeng**"), and Jialing District People's Government of Nanchong City, in relation to the surrendering of two parcels of land located at Southern Side of Chun Jiang Dong Lu, Jialing District, Nanchong City, Sichuan Province, the PRC by Sichuan Changfeng;

(i) the Subscription Agreement;

(j) the Acquisition Agreement; and

(k) the agreement dated 4 January 2015 and entered into between Kaifeng Changfeng Axle Co., Ltd., ("**Kaifeng Changfeng**") and Kaifeng Land Resumption Center and Kaifeng Urban District Management Committee, in relation to the surrendering of a parcel of land located at the southern side of Song Cheng Road, Kaifeng City, Henan Province, the PRC by Kaifeng Changfeng;

12. ADDITIONAL DISCLOSURE UNDER THE TAKEOVERS CODE

(a) As at the Latest Practicable Date, neither the Company nor the Directors are interested in any shares, convertible securities, warrants, options or derivatives of the shares of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.), nor had the Company or the Directors dealt for value in any shares, convertible securities, warrants, options or derivatives of the shares of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.) during the Relevant Period.

(b) As at the Latest Practicable Date, none of the directors of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.) was interested in any Shares, convertible securities, warrants, options or derivatives of the Shares; nor had any such directors dealt for value in any shares, convertible securities, warrants, options or derivatives of the Shares during the Relevant Period.

(c) As at the Latest Practicable Date, save as disclosed under paragraph 4 of this appendix, none of the Directors was interested in any Shares, convertible securities, warrants, options or derivatives of the Shares. None of them have dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Shares during the Relevant Period.

(d) Save for the Subscription Shares and the Consideration Shares which Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.) will acquire under the Subscription Agreement and the Acquisition Agreement respectively as disclosed in the paragraph headed "Changes to the shareholding in the Company as a result of the issue of the Subscription Shares and the Consideration Shares" in the "Letter from the Board" in this circular and paragraph 5 of this appendix, as at the Latest Practicable Date, none of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.) owned or controlled any Shares, convertible securities, warrants, options or derivatives of the Shares; nor had any any of them dealt for value in any Shares, convertible securities, warrants, options or derivatives of the Shares during the Relevant Period.

(e) As at the Latest Practicable Date, no person had irrevocably committed himself/herself to vote for or against the resolutions on the Subscription, the Acquisition and/or the Whitewash Waiver. The Directors, namely, Mr. Wong Kwai Mo and Ms. Wu Ching, who are eligible through Changfeng BVI to vote at the EGM in respect of the ordinary resolutions to approve the Subscription, the Acquisition and the Whitewash Waiver, intend, in respect of their own beneficial shareholdings, to vote in favour thereof at the EGM.

(f) As at the Latest Practicable Date, no person had any arrangement of the kind referred to in Note 8 to Rule 22 of the Takeovers Code with (i) Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, or parties acting in concert with them (including Starr Investments Cayman II, Inc.); or (ii) the Company or any person who was an associate of the Company by virtue of class (1), (2), (3) or (4) of the definition of associate in the Takeovers Code.

(g) As at the Latest Practicable Date, neither any pension fund of the Group nor a subsidiary of the Company nor any adviser of the Company as specified in class (2) of the definition of associate in the Takeovers Code, owned or controlled any Shares, convertible securities, warrants, options, or derivatives of the Shares.

(h) As at the Latest Practicable Date, no Shares, convertible securities, warrants, options, or derivatives of the Shares were managed on a discretionary basis by any fund managers connected with the Company.

(i) As at the Latest Practicable Date, no Shares, convertible securities, warrants, options or derivatives of the Shares had been borrowed or lent by the Company or the Directors.

(j) As at the Latest Practicable Date, there was no material contract entered into by Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.) in which any Director had a material personal interest.

(k) As at the Latest Practicable Date, there was no agreement or arrangement between any of the Directors and any other person which was conditional or dependent on the outcome of the Subscription, the Acquisition and/or the Whitewash Waiver or otherwise connected with the Subscription, the Acquisition and/or the Whitewash Waiver.

(l) As at the Latest Practicable Date, no agreement, arrangement or understanding (including any compensation arrangement) existed between Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.) and any Directors, recent Directors, Shareholders or recent Shareholders having any connection with or dependence upon the Subscription, the Acquisition and/or the Whitewash Waiver.

(m) As at the Latest Practicable Date, none of Century East, CIH, Starr Investments Cayman V, Inc., Jinyu Developments and SDF II Holdings, and parties acting in concert with them (including Starr Investments Cayman II, Inc.) had entered into any arrangement to transfer, charge or pledge any Shares to be acquired pursuant to the Subscription and the Acquisition save as pursuant to the Subscription Agreement and the Acquisition Agreement.

(n) As at the Latest Practicable Date, no benefit had been given or will be given to any Directors as compensation for loss of office or otherwise in connection with the Subscription, the Acquisition and/or the Whitewash Waiver.

13. General

(a) None of the Directors had any direct or indirect interest in any assets which had been acquired or disposed of by or leased to any member of the Group or proposed to be so acquired, disposed of by or leased to any member of the Group since 31 December 2013, being the date to which the latest published audited accounts of the Company were made up, and up to the Latest Practicable Date.

(b) Save as disclosed in this circular, as at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.

(c) The company secretary of the Company is Mr. Chan Yuk Man, Calvin. Mr. Chan is a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountants, and a member of the Institute of Internal Auditors. He holds a Bachelor of Arts honours degree in History from the Chinese University of Hong Kong, a Master's degree in Finance from the Chinese University of Hong Kong and a Master's degree in Corporate Governance from the Open University of Hong Kong.

(d) The registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman, KY1-1111, Cayman Islands.

(e) The principal place of business of the Company in Hong Kong is Room 708, 7/F., Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong.

(f) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited.

(g) The principal share registrars of the Company is Royal Bank of Canada Trust Company (Cayman) Limited.

(h) The registered office address of Century East is OMC Chambers, Wickhams Cay 1, Road Town, Tortola, British Virgin Islands. Its directors are Mr. Ge Lingyue, Ms. Dong Ying, Dorothy, Mr. Yuan Weitao and Mr. Zheng Zhi.

(i) The registered office address of CIH is Sea Meadow House, Blackburne Highway, (P.O. Box 116) Road Town, Tortola, British Virgin Islands. Its directors are Mr. Ge Lingyue, Mr. Yuan Weitao and Ms. Pun Tang.

(j) The registered office address and correspondence address in Hong Kong of Starr Investments Cayman V, Inc. are 1st Floor, Landmark Square, 64 Earth Close, P.O. Box 715, George Town, Grand Cayman KY1-1107, Cayman Islands and Unit 1901, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong respectively. Its director is Stuart Osborne.

(k) The registered office address and correspondence address in Hong Kong of Starr Investments Cayman II, Inc. are 1st Floor, Landmark Square, 64 Earth Close, P.O. Box 715, George Town, Grand Cayman KY1-1107, Cayman Islands and Unit 1901, Central Plaza, 18 Harbour Road, Wan Chai, Hong Kong respectively. Its directors are Stuart Osborne, Joseph Charles Henry Johnson, Bertil Lundqvist and Dong Ying Dorothy.

(l) The registered office address and correspondence address in Hong Kong of Jinyu Developments are P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands and 77D Royal Sky, The Cullinan I, 1 Austin Road West, Kowloon, Hong Kong respectively. Its sole director is Ms. Jindi Wu.

(m) The registered office address of SDF II Holdings is P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola, British Virgin Islands. Its sole director is Mr. Hui Ching Lau.

(n) The English texts of this circular and the accompanying form of proxy shall prevail over their respective Chinese texts in the case of inconsistency.

14. Documents available for inspection

Copies of the following documents are available for inspection (i) at the principal place of business of the Company at Room 708, 7/F., Delta House, 3 On Yiu Street, Shatin, New Territories, Hong Kong during normal business hours on any weekday other than public holidays; (ii) on the website of the Company (http://www.changfengaxle.com.hk); and (iii) on the website of the SFC (www.sfc.hk) from the date of this circular up to and including the date of EGM:

(a) the memorandum and articles of association of the Company;

(b) the memorandum and articles of association of Century East;

(c) the annual reports of the Company for the financial years ended 31 December 2012 and 2013;

(d) the letter from the Board;

(e) the letter from the Independent Board Committee for the Independent Shareholders, the text of which is set out on pages 40 to 41 of this circular;

(f) the letter of advice from Somerley Capital Limited to the Independent Board Committee and the Independent Shareholders, the text of which is set out on pages 42 to 72 of this circular;

(g) the accountant's report on the Target Group, the text of which is set out in Appendix II to this circular;

(h) the valuation report on properties interests from Roma Appraisals Limited, the text of which is set out in Appendix IV to this circular;

(i) the letters from Deloitte Touche Tohmatsu and Alliance Capital Partners Limited in relation to the loss estimate, the texts of which are set out in Appendix III of this circular;

(j) the written consents referred to in the paragraph headed "Expert's qualification and consent" to this Appendix;

(k) the written consent of CCB International Capital Limited in relation to the publication of its name and logo in this circular;

(l) the service contracts referred to in the paragraph headed "Service contracts" to this Appendix;

(m) the material contracts referred to in the paragraph headed "Material contracts" to this Appendix; and

(n) this circular.

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)

NOTICE IS HEREBY GIVEN that the extraordinary general meeting (the "**EGM**") of Changfeng Axle (China) Company Limited (the "**Company**") will be held at Suites 903-905, 9th Floor, Shui On Centre, 6-8 Harbour Road, Wanchai, Hong Kong on Tuesday, 10 March 2015 at 2 p.m. for the purpose of considering and, if thought fit, passing the following resolutions:

ORDINARY RESOLUTIONS

Words and expressions that are not expressly defined in this notice shall bear the same meaning as those defined in the circular dated 17 February 2015 published by the Company (the "**Circular**").

1. "**THAT**

(a) the Subscription Agreement entered into between the Company and Century East, a copy of which has been produced to the EGM and marked "A" and initialed by the chairman of the EGM for the purpose of identification, pursuant to which the Company has conditionally agreed to allot and issue, and Century East has conditionally agreed to subscribe for, the Subscription Shares at the Subscription Price of HK$0.33 per Share and all transactions contemplated thereunder, including but not limited to the grant of the Loan to the Target Company on the terms set out in the Subscription Agreement, be and are hereby approved, confirmed and ratified;

(b) the grant of the Specific Mandate to the Directors to exercise the powers of the Company to allot and issue the Subscription Shares at the Subscription Price be and is hereby approved, and any one Director be and is authorized to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effect to any matter relating to or incidental to the Specific Mandate; and

(c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Subscription Agreement and the transactions contemplated thereunder, including but not limited to approving and entering into an agreement in respect of the Loan."

2. "**THAT**

   (a) the Acquisition Agreement entered into between the Company and Century East, a copy of which has been produced to the EGM and marked "B" and initialed by the chairman of the EGM for the purpose of identification, pursuant to which Century East conditionally agreed to sell and the Company conditionally agreed to purchase the Sale Shares at the consideration of US$5,200,000 and all transactions contemplated thereunder be and are hereby approved, confirmed and ratified;

   (b) the grant of the Specific Mandate to the Directors to exercise the powers of the Company to allot and issue the Consideration Shares at the Issue Price of HK$0.33 per Share be and is hereby approved, and any one Director be and is authorized to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effect to any matter relating to or incidental to the Specific Mandate; and

   (c) any one director of the Company be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effect to the Acquisition Agreement and the transactions contemplated thereunder."

3. "**THAT** subject to and conditional upon the passing of resolutions numbered 1 and 2 above, the Whitewash Waiver granted or to be granted by the Executive be and is hereby approved and any one Director be and is hereby authorised to do all such further acts and things and to sign and execute all such documents and to take all such steps which in his opinion may be necessary, appropriate, desirable or expedient to implement and/or give effects to any matters relating to or incidental to the Whitewash Waiver."

4. "**THAT**, subject to and conditional upon the passing of resolutions numbered 1, 2 and 3 above, the appointment of Mr. Cheng Jerome as an executive Director with effect from the Subscription Completion be and is hereby approved."

5. "**THAT**, subject to and conditional upon the passing of resolutions numbered 1, 2 and 3 above, the appointment of Mr. Yuan Weitao as an executive Director with effect from the Subscription Completion be and is hereby approved."

6. "**THAT**, subject to and conditional upon the passing of resolutions numbered 1, 2 and 3 above, the appointment of Mrs. Guo Yan as a non-executive Director with effect from the Subscription Completion be and is hereby approved."

7. "**THAT**, subject to and conditional upon the passing of resolutions numbered 1, 2 and 3 above, the appointment of Mr. Feng Xiaohui as a non-executive Director with effect from the Subscription Completion be and is hereby approved."

By Order of the Board
Changfeng Axle (China) Company Limited
Mr. Wong Kwai Mo
Chairman

Hong Kong, 17 February 2015

Notes:

(1) Any member of the Company entitled to attend and vote at the above meeting by the above notice is entitled to appoint one or more proxies to attend and, on a poll, vote instead of him/her. A proxy need not be a member of the Company.

(2) Where there are joint holders of any Share, any one of such joint holder may vote, either in person or by proxy, in respect of such Share as if he were solely entitled thereto, but if more than one of such joint holders be present at the EGM, the vote of the senior who tenders a vote, whether in person or by proxy, shall be accepted to the exclusion of the votes of the other joint holders, and for this purpose seniority shall be determined by the order in which the names stand in the register of members of the Company in respect of the joint holding.

(3) In order to be valid, a form of proxy together with the power of attorney (if any) or other authority (if any) under which it is signed or a certified copy thereof shall be deposited at the Company's Hong Kong branch share registrar, Computershare Hong Kong Investor Services Limited, at 17M Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for the holding of the meeting or any adjournment thereof. The proxy form will be published on the website of the Stock Exchange.

As at the date of this notice, 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.

Website: http://www.changfengaxle.com.hk