VMEPH
Vietnam

Vietnam Manufacturing and Export Processing (Holdings) Limited

越 南 製 造 加 工 出 口 (控 股) 有 限 公 司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 422)

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Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. Chang Kwang Hsiung (張光雄) *(Chairman)*
Mr. Chen Pang Hsiung (陳邦雄)
(Chief Executive Officer)
Mr. Lee Hsi Chun (李錫村)
Mr. Wang Ching Tung (王清桐)

Non-executive Directors

Mr. Huang Kwang Wuu (黃光武)
Mr. Liu Wu Hsiung Harrison (劉武雄)

Independent Non-executive Directors

Mr. Hsu Nai Cheng Simon (徐乃成)
Ms. Lin Ching Ching (林青青)
Mr. Wei Sheng Huang (魏昇煌)

AUTHORIZED REPRESENTATIVES

Mr. Lee Hsi Chun
Mr. Chan Chi Shing

AUDIT COMMITTEE

Ms. Lin Ching Ching *(Chairman)*
Mr. Hsu Nai Cheng Simon
Mr. Wei Sheng Huang

REMUNERATION COMMITTEE

Mr. Wei Sheng Huang *(Chairman)*
Mr. Hsu Nai Cheng Simon
Mr. Huang Kwang Wuu

COMPANY SECRETARY AND QUALIFIED ACCOUNTANT

Mr. Chan Chi Shing

AUDITORS

KPMG

REGISTERED OFFICE

Cricket Square, Hutchins Drive
P.O. Box 2681, Grand Cayman KY1-1111
Cayman Islands

HEAD OFFICE

Section 5, Tam Hiep Ward
Bien Hoa City, Dong Nai
Vietnam

Corporate Information

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Room 2106, 21/F, Technology Plaza
651 King's Road, North Point
Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Butterfield Fund Services (Cayman) Limited
Butterfield House, 68 Fort Street
P.O. Box 705, Grand Cayman KY1-1107
Cayman Islands

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Rooms 1712–16, 17th Floor, Hopewell Centre
183 Queen's Road East, Wan Chai
Hong Kong

LEGAL ADVISERS AS TO HONG KONG LAW

Norton Rose Hong Kong

COMPLIANCE ADVISER

Access Capital Limited

PRINCIPAL BANKERS

Ta Chong Bank Ltd.
The Hongkong and Shanghai
  Banking Corporation Limited
Australia & New Zealand Bank
Vietcom Bank
Asia Commercial Bank
Merrill Lynch (Asia Pacific) Limited

INVESTOR RELATIONS CONSULTANT

Porda International (Finance) PR Group

STOCK CODE

422

WEBSITE

www.vmeph.com

Financial Summary

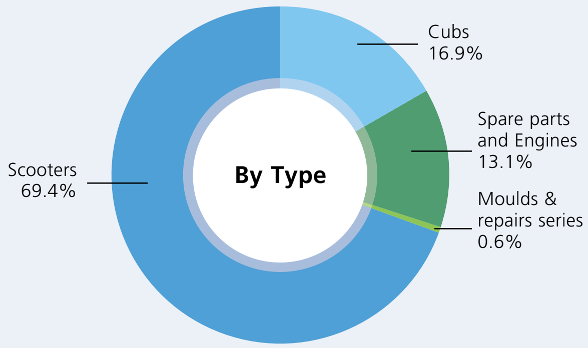
Following is a summary of the consolidated results and of the consolidated assets and liabilities of the Group for the last four financial years

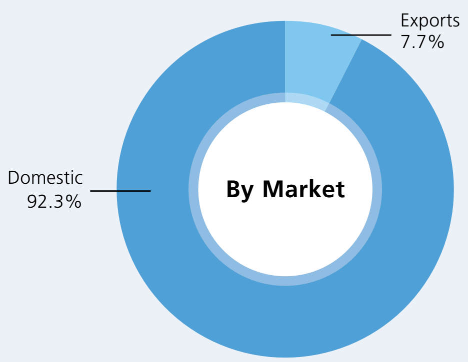
	YOY Change	Year ended 31 December **2007** **US$'M**	2006 *US$'M*	2005 *US$'M*	2004 *US$'M*
RESULTS					
Revenue	+40.9%	**259.7**	184.3	183.8	261.0
Gross profit	+51.9%	**67.2**	44.2	40.6	69.7
Profit from operating activities	+38.1%	**30.6**	22.2	15.6	44.0
Profit before income tax	+34.9%	**34.9**	25.9	18.2	47.9
Current ratio *(times)*	+26.9%	**3.3**	2.6	2.5	2.1
Return on equity *(%)*	+4.2%	**19.8**	19.0	13.5	36.9
Profit attributable to equity holders	+33.0%	**31.0**	23.3	16.5	43.0
Earnings per share – basic *(US$)*	+33.3%	**0.04**	0.03	0.02	0.06
ASSETS AND LIABILITIES					
Total assets	+47.5%	**252.7**	171.3	171.5	179.3
Total liabilities	+30.3%	**62.7**	48.1	49.2	63.0
Net assets	+54.2%	**190.0**	123.2	122.3	116.3
Equity attributable to equity holders	+54.3%	**189.5**	122.8	121.9	115.9

Note:

1. The calculation of earnings per share for the year ended 31 December 2007 is based on the profit attributable to shareholders and the weighted average number of ordinary shares in issue during the year. The calculation of basic earnings per share for the years ended 31 December 2004, 2005 and 2006 are based on the profits attributable to shareholders for the respective years and on the assumption that 732,000,000 shares were deemed to have been issued or issuable throughout the relevant periods, comprising 58,560,000 shares in issue as at the date of prospectus and 673,440,000 shares to be issued to the Capitalisation Issue.

BREAKDOWN OF REVENUE FOR YEAR ENDED 31 DECEMBER 2007

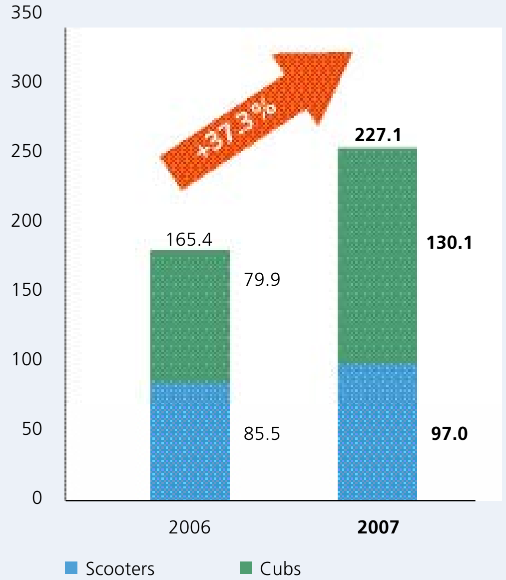




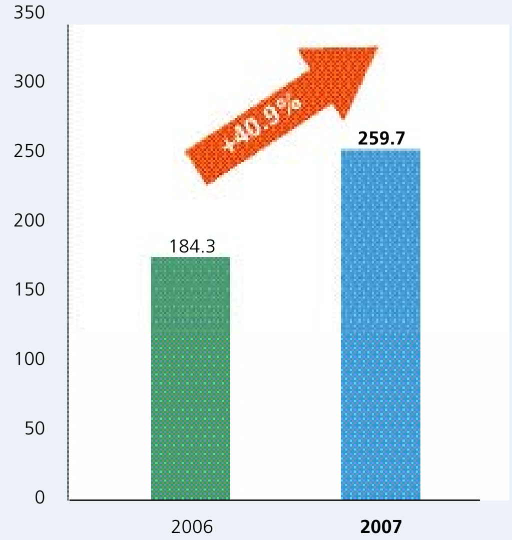
Total Revenue US$259.7 Million

Financial Summary

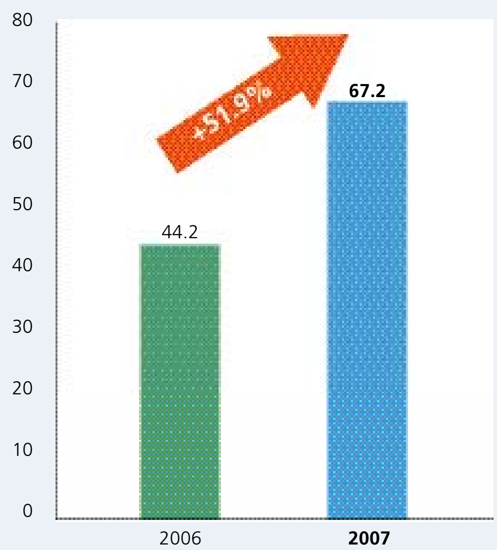
SALES QUANTITY
('000 units)



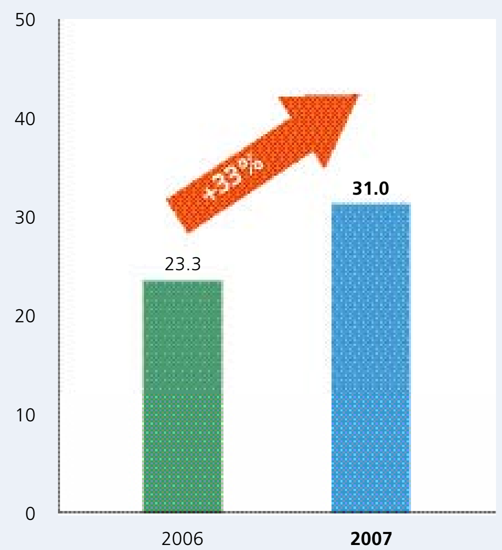
REVENUE
(US$ Million)



GROSS PROFIT
(US$ Million)



NET PROFIT
(US$ Million)



Chairman's Statement

Vietnam Manufacturing and Export Processing (Holdings) Limited ("VMEPH" or the "Company", and with its subsidiaries collectively the "Group") is pleased to present the first set of annual results ended 31 December 2007 to its shareholders following its successful listing on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2007.

The listing of VMEPH represents a milestone for the Group to become a key international player. It has improved the Group's operational transparency, stepped up its corporate governance, and strengthened its branded image as a motorbike manufacturer, enhancing the Group's ability to capture the rapidly growing consumer market in the ASEAN region.

Proceeds from the offering amounted to approximately HKD73.2 million providing us with opportunities to invest in the distribution channel in Vietnam, construct and set up a new research and development centre in Dong Nai Province, Vietnam and other future developments. The Hong Kong stock market provides a platform for the Group to enhance its internal control and management efficiency to meet international standards.

VMEPH is one of the leading manufacturers of scooters and cubs in Vietnam, ranking third amongst other major foreign owned motorbike manufactures. During the period under review, the Group's two main products, including scooters and cubs managed under the brand names of SYM and SANDA, has recorded significant growth in sales which contributed to an increase in the Group's revenue. The Group will further strengthen investment in research and development and continue to develop new motorbike models to match market needs and demands. By expanding its distribution network and enhancing its brand image, VMEPH aims at consolidating its leading position in the motorbike manufacturing industry and strengthening its business growth.

Chairman's Statement

During the year ended 31 December 2007, the Group maintained strong growth momentum, which has been driven by the rapid growth of Vietnam's economy. The Group's competitiveness has been further strengthened after the listing of VMEPH, with support from its shareholders, and joint efforts of its management and employees. For the year ended 31 December 2007, revenue of the Group amounted to US$259.7 million, representing an increase of 40.9% over the year of 2006. Profit attributable to equity holders of the Group for the year amounted to US$31 million, representing an increase of 33% over the year of 2006. Basic earnings per share was US$0.04, representing an increase of 33.3% from US$0.03 over the year of 2006. As at the balance sheet date, cash equivalents and bank balance of the Group were US$148.8 million. The financial condition of VMEPH is very sound and well positioned to consolidate the basis for future development.

Leveraging on its multiple strengths, including strong research and development capabilities, diversified product ranges, an astute dual-branding strategy and an extensive dealership network, VMEPH has established a renowned brand name and reputation in the industry, providing a strong foundation for its future developments.

Looking forward, the Group is optimistic towards the future prospects of scooters and cubs manufacturing. Capitalising on the strengths and comprehensive future plan, the Group will strive to achieve even better results and maximise returns to its shareholders. Meanwhile, by increasing investment in research and development, improving its cost control, expanding the distribution network and enhancing the SYM brand image, the Group will seize the opportunities which arise in the industry and be poised to capture the rapidly growing consumer market in the ASEAN region.

On behalf of the board of directors of the Company, I would like to express our sincere gratitude to our shareholders, customers, dealers, suppliers and business partners for their heartfelt trust and support, as well as to our dedicated staff for their strenuous efforts and sincerity during the past year.

By order of the Board
Chang Kwang Hsiung
Chairman

Hong Kong, 10 March 2008


SYM


SYM


SYM


SYM
THIÊN PHÚC


SYM

Management Discussion and Analysis

The Group is one of the leading manufacturers of scooter and cub motorbikes in Vietnam and currently ranks third amongst the principal foreign-owned motorbike manufacturers in terms of sales. The Group also produces motorbike engines and parts for internal use and for sale to overseas customers, and sells and provides services in respect of moulds for making die-cast and forged metal parts.

The Company completed an initial public offering ("IPO") of its shares and became a company listed on the main board of the Stock Exchange on 20 December 2007.

BUSINESS AND FINANCIAL REVIEW

For the year ended 31 December 2007, the Group has benefited from its double-digit percentage organic growth which was a result of an overall improvement in the Vietnamese motorbike market, the Group's continued effort in the refinement of its products and the enhancement of the image of its brand. Profit attributable to equity holders of the Company increased by 33% to US$31.0 million for the year ended 31 December 2007 as compared with US$23.3 million for the year ended 31 December 2006.

REVENUE

Revenue of the Group for the year ended 31 December 2007 increased by US$75.4 million or 41%, to US$259.7 million from US$184.3 million for the year ended 31 December 2006. All the business segments of the Group demonstrated robust growth trends. In particular, sales quantities of scooters increased by 62% for the year ended 31 December 2007 as compared with the year ended 31 December 2006, while overall sales quantities increased by 37% for such comparative period. The increase in revenue was mainly attributable to the increase in sales volume of scooters and the robust sales of a new model of motorbike, the Attila.

COST OF SALES

The Group's cost of sales increased by 37%, from US$140.0 million for the year ended 31 December 2006 to US$192.6 million for the year ended 31 December 2007. This increase was due primarily to higher sales volumes, the effect of which was augmented by the cost of certain product enhancements, particularly those on the bestselling Attila series. As a percentage of total revenue, the Group's cost of sales decreased from 76% for the year ended 31 December 2006 to 74% in the year ended 31 December 2007.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the factors discussed above, the gross profit of the Group increased by 52%, from US$44.2 million for the year ended 31 December 2006 to US$67.2 million for the year ended 31 December 2007. Between such comparative period, the Group's gross profit margin increased from 24% to 26%, mainly due to the positive contribution from the margin of the newly launched models as well as the Group's strategies in focusing on selling higher margin scooters as compared to cubs.

DISTRIBUTION EXPENSES

The Group's distribution expenses increased by 66%, from US$11.5 million for the year ended 31 December 2006 to US$19.1 million for the year ended 31 December 2007. This increase was largely due to: (i) an increase in advertising and marketing fees for launching a new model, namely the Attila; (ii) higher sales incentives and supporting fees to distributors to organize marketing activities and the renovation of flagship stores; and (iii) higher warranty expenses as a result of greater sales volumes and a higher proportion of sales being attributable to scooters.

Management Discussion and Analysis

TECHNOLOGY TRANSFER FEES

The technology transfer fees increased by 96%, from US$3.1 million for the year ended 31 December 2006 to US$6.0 million for the year ended 31 December 2007. This rise was largely the result of an adjustment in the rate of the fees from 3% to 4% as of 1 January 2007, coupled with an increase in the sales volume of SYM-branded motorbikes and related parts.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by 40%, from US$7.6 million for the year ended 31 December 2006 to US$10.6 million for the year ended 31 December 2007, principally as a consequence of: (i) an increase in salary expenses in connection with a surge in staff costs in the market and an expansion in the scope of business; and (ii) an increase in withholding taxes in connection with the technology transfer fees. For the year ended 31 December 2007, the administrative expense as a percentage of revenue was 4%.

PROFIT FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's profit from operating activities increased by 38%, from US$22.2 million for the year ended 31 December 2006 to US$30.6 million for the year ended 31 December 2007.

NET FINANCIAL INCOME

The Group's net financial income increased by 13%, from US$3.7 million for the year ended 31 December 2006 to US$4.1 million for the year ended 31 December 2007. This increase was mainly attributable to: (i) a decrease in finance expenses as the Group raised no new bank loans and continued repaying a portion of its borrowings, while the Group's finance income remained substantially unchanged; (ii) an exchange gain for the year ended 31 December 2007 compared to exchange losses in 2006 as the exchange rate of the Vietnam Dong against the US dollar has been increasing during the year.

Management Discussion and Analysis

PROFIT FOR THE YEAR AND PROFIT MARGIN

As a result of the factors discussed above, the Group's profit for the year, after income tax, increased by 33%, from US$23.3 million for the year ended 31 December 2006 to US$31.0 million for the year ended 31 December 2007, and the Group's net profit margin decreased from 12.7% to 11.9% over the same period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2007, the Group's net current assets was approximately US$145.5 million (2006: US$77.0 million) which consisted of current assets amounting to approximately US$208.2 million (2006: US$125.1 million) and current liabilities amounting to approximately US$62.6 million (2006: US$48.1 million).

As at 31 December 2007, the interest-bearing borrowings repayable within one year was approximately US$13.4 million (2006: US$17.3 million). As at 31 December 2007, the Group has interest-bearing borrowings repayable beyond one year amounting to US$0.07 million (2006: US$0.04 million).

As at 31 December 2007, the cash and cash equivalents, time deposits maturing after three months, and pledged bank deposits amounted to approximately US$148.8 million (2006: US$73.2 million). During the year ended 31 December 2007, the Group recorded a net cash inflow from the placing and the public offer of the Company's shares on 20 December 2007 (the "Share Offer") of approximately US$73.2 million.

The Board is of the opinion that the Group will be in a strong and healthy financial position and has sufficient resources to satisfy its working capital requirement and foreseeable capital expenditure.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2007, the future capital commitments for which the Group had contracted but not provided for amounted to approximately US$13.2 million (2006: US$15.3 million) which will all be paid off using the proceeds from the Share Offer and cash generated from the Group's operations within 3 years. The Group had no significant contingent liabilities.

Management Discussion and Analysis

PLEDGE OF ASSETS

As at 31 December 2007, pledged bank deposits amounting to approximately US$9.8 million (2006: US$16.3 million) was pledged with banks as security for certain banking facilities.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group offers competitive remuneration packages to its employees in Vietnam, Taiwan and Hong Kong, including quality staff quarters, training and development opportunities, medical benefits, insurance coverage and retirement benefits in order to attract, retain and motivate employees. As at 31 December 2007, the Group had 2,178 employees (2006: 1,904). The total salaries and related cost for the year ended 31 December 2007 amounted to approximately US$9.6 million (2006: US$6.5 million).

PROSPECTS

The strong growth in Vietnam's economy has boosted the spending power and living standards of its citizens. This has led to an increase in demand for the mobility offered by more advanced motorbikes, which is a development that carries huge potential for the motorbike industry.

The Group will aim at consolidating its leading position in the motorbike manufacturing industry and strengthening its business growth. In order to achieve this goal, the Group will continue to increase investment in research and development, improve cost control, expand the distribution network in both Vietnam and elsewhere and consolidate its brand image to enhance the value of its products.

Capitalising on its strengths and comprehensive future plans, the Group is confident that it will achieve even better results and maximise returns to the shareholders (the "Shareholders") of the Company.

APPLICATION OF IPO PROCEEDS

The net proceeds from the Company's IPO was approximately US$73.2 million, after a deduction of related expenses. The net proceeds have not been utilized as at 31 December 2007 and will be applied in line with the description in the prospectus of the Company dated 6 December 2007 and the announcement issued in connection with the IPO.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors (the "Directors") of the Company, having considered, amongst other things, the findings of reviews and/or audits conducted by the independent professional parties, the Company has applied the principles and complied with all the applicable code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") for the financial year ended 31 December 2007.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiry, the Company confirms that the Directors have complied with the required standard set out in the Model Code for the financial year ended 31 December 2007.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2007 have been reviewed by the audit committee of the Company which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

FINAL DIVIDEND

The Board has resolved to recommend the payment of a final dividend of US2.18 cents per share (or equivalent to HK$0.17 per share) for the year ended 31 December 2007 which is expected to be paid on or before 17 June 2008 to its shareholders whose names appear on the register of members at the close of business on 28 May 2008, subject to final approval at the annual general meeting ("Annual General Meeting") of the Company, to be held on 30 May 2008. Subject to any significant change in the business of the Group, the Company will maintain a stable dividend policy.

CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 28 May 2008 to 30 May 2008 (both days inclusive) during which period no transfer of shares will be registered. In order to qualify for the final dividend, all transfers of shares accompanied by the relevant share certificates must be lodged with the Company's share registrar, Computershare Hong Kong Investor Services Limited, Shops 1712–16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 27 May 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2007, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

PUBLICATION OF ANNUAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and on the Company's website at www.vmeph.com. The annual report 2007 of the Company will also be published on the aforesaid websites in due course.

Management Discussion and Analysis

ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting will be held on 30 May 2008. Notice of the Annual General Meeting will be published and issued to the Shareholders in due course.

OUR APPRECIATION

Finally, we would like to express our gratitude to the Shareholders, our suppliers and customers for their unfaltering support. We would also like to thank our dedicated staff for their contributions to the success of the Group.

By order of the Board
Vietnam Manufacturing and Export Processing (Holdings) Limited
Chang Kwang Hsiung
Chairman

Hong Kong, 10 March 2008

Corporate Governance Report

The board of directors (the "Board") of Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") is always committed to maintaining high standards of corporate governance. During the year ended 31 December 2007, the Company has complied with the principles set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors (the "Model Code") as set out in Appendix 10 of the Listing Rules as the code of conduct regarding securities transactions by directors ("Directors") of the Company. Having made specific enquiry, the Company confirms that the Directors complied with the required standard set out in the Model Code for the year ended 31 December 2007.

THE BOARD OF DIRECTORS

The Board has a balance of skill and experience and a balanced composition of executive and non-executive Directors and is responsible for the oversight of the management of the Company's business and affairs. The Board has delegated the day-to-day operational responsibilities to the executive Directors and senior management of the Company. There was one board meeting held during the financial year ended 31 December 2007 at which all of the Directors (as named below) attended.

The Board members for the year ended 31 December 2007 were:

Executive Directors

Mr. Chang Kwang Hsiung *(Chairman)*
Mr. Chen Pang Hsiung
Mr. Lee Hsi Chun
Mr. Wang Ching Tung

Non-executive Directors

Mr. Huang Kwang Wuu
Mr. Liu Wu Hsiung Harrison

Independent non-executive Directors

Mr. Hsu Nai Cheng Simon
Ms. Lin Ching Ching
Mr. Wei Sheng Huang

The biographical details of all Directors are set out in the "Directors and Senior Management Profile" section set out on pages 22 to 27 of this annual report.

Corporate Governance Report

Board and committee minutes are recorded in appropriate detail and are kept by the company secretary of the Company. Draft minutes are circulated to Directors for comment within reasonable time after each meeting and the final version is open for the Directors' inspection. If necessary, the Directors may, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Company's expense. The Board shall resolve to provide the Directors with access to independent professional advice to assist the Directors to discharge their duties. The Company has received annual confirmations of independence from all existing independent non-executive Directors and considers them independent.

THE CHAIRMAN AND THE CHIEF EXECUTIVE OFFICER

Under Code Provision A.2.1 of the Code, the roles of the chairman and the chief executive officer of the Company should be separated and should not be performed by the same individual. The chairman and chief executive officer of the Company are Mr. Chang Kwang Hsiung and Mr. Chen Pang Hsiung, respectively. The roles and responsibilities of the chairman and the chief executive officer of the Company are separated so as to ensure a balance of power and authority. This balance ensures that all matters brought before the Board are fully and objectively discussed, taking into account the interests of shareholders ("Shareholders") of the Company as a whole, including in particular, those of minority Shareholders.

NON-EXECUTIVE DIRECTORS

In line with Code Provision A.4.1 of the Code, the non-executive Directors are appointed for a specific term, subject to re-election at an annual general meeting of the Company in accordance with the articles of association of the Company.

REMUNERATION COMMITTEE

The Company has established a remuneration committee ("Remuneration Committee") which consists of two independent non-executive Directors and one non-executive Director. The members of the Remuneration Committee for the year ended 31 December 2007 were Mr. Wei Sheng Huang (Chairman), Mr. Hsu Nai Cheng Simon and Mr. Huang Kwang Wuu.

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management of the Company. The Remuneration Committee's authorities and duties are set out in written terms of reference. There was no Remuneration Committee meeting held during the financial year ended 31 December 2007.

The terms of reference of the Remuneration Committee are aligned with the relevant provisions under the Code. The primary duties of the Remuneration Committee include:

(a) considering the Company's policy and structure of remuneration of the Directors and senior management of the Company;

(b) determining the specific remuneration packages of the executive Directors and senior management of the Company;

(c) to recommend for the Board's approval of the remuneration of the non-executive Directors of the Company;

(d) reviewing performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;

(e) reviewing the compensation payable to the executive Directors and senior management of the Company in connection with any loss or termination of their office or appointment; and

(f) reviewing compensative arrangements relating to dismissal or removal of Directors for misconduct.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") which consists of three independent non-executive Directors. The members of the Audit Committee for the year ended 31 December 2007 were Ms. Lin Ching Ching (Chairman), Mr. Hsu Nai Cheng Simon and Mr. Wei Sheng Huang. There was no Audit Committee meeting held during the financial year ended 31 December 2007.

The terms of reference of the Audit Committee are aligned with the relevant provisions set out in the Code. The primary duties of the Audit Committee include:

(a) considering the appointment of external auditors and any questions of resignation or dismissal;

(b) discussing with external auditors before the audit commences, the nature and scope of the audit;

(c) reviewing half-year and annual financial statements before submission to the Board;

(d) discussing problems and reservations arising from the audits, and any matters the external auditors may wish to discuss; and

(e) considering and reviewing the Company's system of internal controls.

Corporate Governance Report

NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee as the roles and functions of such a committee are performed by the Board collectively. The chairman of the Company reviews the composition of the Board from time to time with particular regard to ensuring that there is an appropriate number of Directors on the Board who are independent of management.

AUDITOR'S REMUNERATION

The fees in relation to the audit services provided by Messrs. KPMG, the external auditor of the Company, for the year ended December 31, 2007 amounted to US$95,000 (2006: US$84,000).

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring the Company and its subsidiaries (the "Group") keep proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and the Group. The Directors are also responsible for ensuring that the preparation of the financial statements of the Company and the Group for the relevant accounting periods are in compliance with applicable statutory and regulatory requirements and that such financial statements give a true and fair view of the state of affairs, the results of operations and cashflows of the Company and the Group. In preparing the financial statements of the Company and the Group for the year ended 31 December 2007, suitable accounting policies have been adopted and applied consistently. The financial statements of the Company and the Group for the reporting year have been prepared on a going concern basis.

INTERNAL CONTROLS

The Board has overall responsibility for the effectiveness of the internal control systems of the Group and monitors such internal control systems through the internal audit department of the Group. The internal audit department of the Group reviews the material controls of the Group on a continuous basis and aims to cover all major operations of the Group on a cyclical basis. Overall, internal audits are designed to provide the Board with reasonable assurance that the internal control systems of the Group are sound and effective.

SAFEGUARDING THE INTERESTS OF INDEPENDENT SHAREHOLDERS

Mechanisms are in place to safeguard the interests of independent Shareholders in the decision making process in relation to (i) the deed of non-competition ("Deed of Non-competition") dated 26 November 2007 entered into between Sanyang Industry Co., Limited, Mr. Huang Shi Hui, the executive and non-executive Directors (collectively, the "Covenantors") and the Company and (ii) the continuing connected transactions entered into by the Group, as described below.

Deed of Non-competition

The independent non-executive Directors are to review whether or not to pursue or decline any investment or other commercial opportunity referred to the Company by any of the Covenantors under the Deed of Non-competition.

Each of the Covenantors declares that it/he/she has complied with the Deed of Non-Competition. Having made specific enquiries with all of the Covenantors, the independent non-executive Directors confirmed the Covenantors' compliance with the Deed of Non-competition.

Continuing connected transactions

Continuing connected transactions entered into by the Group are based on normal commercial terms, are in the ordinary and usual course of business of the Group and are conducted on a fair and reasonable basis.

The independent non-executive Directors review the terms of the continuing connected transactions entered into by the Group on an annual basis to ensure that the terms of such transactions are in the best interests of the Company and its Shareholders as a whole.

The Company's external auditors, Messrs. KPMG, reviews the continuing connected transactions entered into by the Group on an annual basis and provides a letter to the Board confirming (i) the matters set out in Rule 14A.38 of the Listing Rules and (ii) that the amounts for the relevant continuing connected transactions have not exceeded the relevant proposed annual caps.

Details of the continuing connected transactions entered into by the Group during the year ended 31 December 2007 are set out on pages 32 to 33 of this annual report.

INVESTOR AND SHAREHOLDERS RELATIONS

The Board recognizes the importance of maintaining clear, timely and effective communication with the Shareholders and its investors. The Board also recognizes that effective communication with investors is the key to establishing investor confidence and attracting new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure the investors and the Shareholders are receiving accurate, clear, comprehensive and timely information relating to the Group via the publication of annual reports, interim reports, press announcements, and also via the Company's website at www.vmeph.com.

The Board continues to maintain regular dialogue with institutional investors and analysts to keep them informed of the Group's strategies, operations, management and plans. The Directors and the committee members are available to answer questions through an annual general meeting. External auditors are also available at the annual general meeting to address Shareholders' queries. Separate resolutions are proposed at the annual general meeting on each substantially separate issue.

Shareholders' Right

The poll voting procedures and right of the Shareholders to demand a poll vote are included in all of the Company's circulars relating to the convening of general meetings. The relevant chairman of the general meeting explains the procedures for demanding and conducting a poll before putting a resolution to vote on a show of hands and reveals how many proxies for and against have been filed in respect of each resolution. The results of the voting by poll are declared at the meeting and published on the websites of the Stock Exchange and the Company, respectively.

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's principal place of business in Hong Kong.

Directors and Senior Management Profile

DIRECTORS

Executive Directors

Mr. CHANG Kwang Hsiung (張光雄), age 67, was appointed as an executive Director in August 2007 and as the Chairman of the Company in November 2007. As the Chairman of the Company, he is in charge of corporate strategy, planning and overall development of the Group. Mr. Chang was the general director of Vietnam Manufacturing and Export Processing Co., Ltd. ("VMEP") from February 1993 when he joined VMEP, until November 1995 and was the chairman of VMEP from May 1993 to September 1999. During his six years of service at VMEP, he had established extensive connections in the Vietnam motorbike market. He was also appointed as a director of Chin Zong Trading Co., Ltd. ("Chin Zong") in September 2007 and as a director of VMEP in November 2007. Mr. Chang has over 40 years of experience in the motorbike manufacturing industry in Vietnam and Taiwan. Mr. Chang worked at the product development department of Sanyang Industry Co., Ltd. ("Sanyang") from 1966 to 1990 and at the management department from 1990 to 1994. In 1994, he was promoted as the vice general director of Sanyang till 1997. He was the senior consultant to Sanyang in relation to the motorbike manufacturing industry from 1997 until his resignation in November 2007. Thereafter, he ceased to hold any office in any company within the Sanyang Group. He is also a director of Chinfon Cement Corporation (慶豐水泥公司) which specialises in the sale and production of cement since 1992. In 2000, Mr. Chang was awarded the third level of Labor Model for National Excellent Manufacturing Operation Activities by the Vietnamese government. Mr. Chang graduated from the National Taipei Institute of Technology (臺北工專機械科) with an undergraduate degree in mechanical engineering in 1962.

Mr. CHEN Pang Hsiung (陳邦雄), age 49, was appointed as an executive Director in August 2007 and as the chief executive officer of the Company in November 2007. Mr. Chen has over 24 years of experience in the motorbike industry which he has acquired through his work experience at the Sanyang Group and the Group. Mr. Chen first joined the Group in September 1998. He worked in the procurement department of VMEP in the position of manager from 1998 to 2002 and was appointed as the head of the department from February 2002 to August 2003. He was promoted to be the vice general director of VMEP in September 2003. He returned to Sanyang in February 2005 and was seconded to VMEP again in August 2005. He has been the general director of VMEP and a member of the senior management team since 2005. He had a dominant leadership role in the overall management of the business operations of the Group and, has been a director of Vietnam Casting Forge Precision Ltd., ("VCFP") and C.Q.S. Molds Inc. ("CQS") since January 2007 and a director of Vietnam Three Brothers Machinery Industry Co., Ltd. ("VTBM") since February 2007. He has also been appointed as a director of Chin Zong in September 2007 and as a director of VMEP in November 2007. From 1983 to 1998, Mr. Chen worked in the research and development department and the overseas marketing management department of Sanyang. In September and October 2007, Mr. Chen was awarded the title of Outstanding Merchant in Vietnam by the Ministry of Industry and Trade and the title of Outstanding Merchant in Dong Nai Province by the Dong Nai Province People's Committee respectively. In 2004, Mr. Chen was awarded the title of Special Contributor to the Development of Vietnam's Motorbike Industry by the Ministry of Industry and Trade. Mr. Chen graduated from the National Tsing Hua University (國立清華大學) with an undergraduate degree in mechanical engineering in 1981.

Directors and Senior Management Profile

Mr. LEE Hsi Chun (李錫村), age 53, was appointed as an executive Director in August 2007. Mr. Lee joined the Group in May 1997 and worked in the administration department of VMEP from 1997 to 2000. From 2000 to 2002, he worked in both the administration and financial department of VMEP. He was appointed as the head of the administration and financial department of VMEP and became a member of the senior management team in 2002. He was appointed as a director of VMEP in November 2007. Prior to joining the Group, he joined Sanyang in 1980 and has acquired over 20 years of experience in administration, human resources and sales in the motorbike industry. He has a dominant leadership role in the overall management of the business operations of VMEP, in particular, in the administration and finance field and, together with other members of the senior management team of VMEP, contributed to the strategic and operational decisions of VMEP. Mr. Lee graduated from the Chung Yuan Christian University (私立中原大學, formerly known as 私立中原理工大學院) with an undergraduate degree in business administration in 1977.

Mr. WANG Ching Tung (王清桐), age 43, was appointed as an executive Director in August 2007. Mr. Wang joined VMEP in February 1993 and had worked in the sales department of VMEP since then and was appointed as the manager of the northern sales department of VMEP from 1997 to 1999. From 1999 to 2002, he was appointed as the a manager of the southern sales department of VMEP. In 2002, Mr. Wang was appointed as the head of the sales department of VMEP and became the vice general director of the sales and marketing department of VMEP in 2006. He was appointed as a director of VMEP in November 2007. He has over 15 years experience in motorbike sales and marketing. Prior to joining the Group, he worked in the administration department of Sanyang from 1989 to 1993. He has been a senior management member of VMEP since 2002 and has a dominant leadership role in the overall management of the business operations of VMEP and, together with other members of the senior management team of VMEP, contributed to the strategic and operational decisions of VMEP. Mr. Wang graduated from the National Cheng Kong University (國立成功大學) with an undergraduate degree in industrial design in 1987.

Non-Executive Directors

Mr. HUANG Kwang Wuu (黃光武), age 56, was appointed as a non-executive Director in November 2007. He is only responsible for assisting the executive Directors to formulate the Group's development strategies and does not have any executive function or active participation in the day-to-day management and operation of the Group. Mr. Huang joined VMEP in June 1997, as the general director of VMEP until April 2001. He was a director of VMEP from March 1999 to November 2007. He was also a director of Chin Zong from July 2007 to September 2007 but had not carried out any management role as a director as Chin Zong did not commence its operations during that period. Mr. Huang had no active participation in the daily management of the Group over the Track Record Period. He has over 29 years of experience in the motorbike manufacturing industry in Vietnam and Taiwan. He has been a director of Sanyang since 2002 and is in charge of the execution of corporate strategies and overall management of the Sanyang Group. Mr. Huang was the vice general director of the overseas business relationships department of Sanyang from 2000 to 2002. He is also the director of certain subsidiaries of Sanyang in Taiwan, Indonesia and the PRC which engage in the manufacture of motorbikes. Mr. Huang received his undergraduate degree in mechanical engineering and masters degree in mechanical engineering from the National Cheng Kong University (國立成功大學) in 1973 and 1976, respectively.

Directors and Senior Management Profile

Mr. LIU Wu Hsiung Harrison (劉武雄), age 43, was appointed as a non-executive Director in November 2007. He is only responsible for assisting the executive Directors to formulate the Group's strategies regarding export sales and distribution of the Group's products and does not have any executive function or active participation in the day-to-day management and operation of the Group. Mr. Liu joined the Group in April 1996. From 1996 to 1999, Mr. Liu was mainly engaged in the sales department of VMEP as the assistant manager. He was a director of Chin Zong from July 2007 to September 2007 but had not carried out any management role as a director, as Chin Zong had not yet commenced operations during that period. Mr. Liu had not been involved in the daily management of the Group over the Track Record Period. Mr. Liu has over 12 years of experience in trading and export sales of motorbikes and related parts. Mr. Liu worked in the export department and the sales and marketing department of Sanyang from 1995 to 2001, and became the manager of the overseas business division of Sanyang from 2001 to 2004 and the head of Asian business department from 2005 to 2006 and was responsible mainly for the export strategy and business of the Sanyang Group. In 2006, Mr. Liu was appointed as the vice general director of the overseas business division of Sanyang. He is also a director of a subsidiary of Sanyang which engages in property development, a subsidiary of Sanyang which engages in trading and manufacturing of motorcar and motorbike spare parts and a company in India which is listed on the Bombay Stock Exchange and in which Sanyang has a 10.29% interest. Mr. Liu graduated from Feng Chia University (私立逢甲大學) with an undergraduate degree in international trade in 1986.

Independent Non-Executive Directors

Mr. HSU Nai Cheng Simon (徐乃成), age 47, was appointed as an independent non-executive Director in November 2007. He is a member of the remuneration committee and the audit committee of the Company. Mr. Hsu has over 17 years of executive experience in companies based in Asia-Pacific and the United States with international clientele in basic industries and finance. He is both the founder and chairman of e-commerce Logistics Limited which was incorporated in 1999 and a Greater China focused logistics management company headquartered in Hong Kong. Since 1996, he has been the director of United Pacific Industries Limited ("UPI"), a Hong Kong listed company. UPI had no business activity or shareholding interest in any member of the Group during the Track Record Period and is not otherwise connected to the Group and the Sanyang Group. Since 1996, he has also been a director of Kidde Consumer Durables (Singapore) Ltd., a sourcing and trading company with customers in the United States and Europe. From 2004 to 2006, he was an independent non-executive director of ASJ Holdings Limited, a Singapore listed company which engages in the manufacture and distribution of electronic components in the telecommunications, consumer electronics, computer and automotive industries. Prior to joining UPI, he was the group managing director of Hanson Pacific Ltd. ("Hanson"), the Asian arm of Hanson PLC, an international industrial conglomerate with operating companies in basic industries, including coal, chemicals, building materials, tobacco and forest products. Prior to the Hanson appointment, he was the group managing director of CEF Taiwan Ltd., a Hong Kong based merchant bank jointly owned by Cheung Kong (Holding) Ltd., and Canadian Imperial Bank of Commerce which engages in raising capital for Taiwanese and foreign companies on the international capital market. Mr. Hsu is also the director of various trading and investment holding companies in Hong Kong and Taiwan. Mr. Hsu graduated from the California State University at Northridge in 1983 with an undergraduate degree in business administration, specialising in finance and real estate.

Directors and Senior Management Profile

Ms. LIN Ching Ching (林青青), age 43, was appointed as an independent non-executive Director in November 2007. She is the chairman of the audit committee of the Company. Ms. Lin has approximately 15 years of experience in the financial industry. From December 2003 to April 2007, she led a corporate finance team at Deloitte & Touche, Corporate Finance Co., Ltd., specialising in mergers and acquisitions, fund raising and corporate restructuring. Her roles involved reviewing and analysing audited financial statements of public companies and performing valuation analysis of those companies. She was a director of 陽尚德事業有限公司, a trading and consultancy company, from 2004 until it was voluntarily wound up by its shareholders in November 2006 when the company was solvent. From 1992 to 1999, Ms. Lin was the vice president of Citibank, N.A., Taipei, in which she was involved in a number of corporate finance and merger and acquisition projects. Ms. Lin graduated from Eastern Michigan University with a master's degree in business administration in 1991 and graduated from Fu-Jen Catholic University in Taipei with an undergraduate degree in accounting in 1987. With Ms. Lin's financial management experience and expertise in corporate finance and her educational background in business administration and accounting, the Directors believe that Ms. Lin possesses adequate financial management expertise as required under Rule 3.10(2) of the Listing Rules.

Mr. WEI Sheng Huang (魏昇煌), age 54, was appointed as an independent non-executive Director in November 2007. He is a member of the audit committee of the Company and the chairman of the remuneration committee of the Company. Mr. Wei has over 15 years of experience in the motor car parts manufacturing and related industries. Since 1992, he has been the director of a company which was established in Taiwan in 1991 and specialises in the manufacture and sale of motor car parts, such company is not connected with the Group or the Sanyang Group and it did not have any business transactions with the Group during the Track Record Period. Mr. Wei obtained a masters degree in business administration from the Hofstra University in 1988 and graduated from the University of Cincinnati in 1981 with a master's degree in computer engineering. Mr. Wei graduated from the National Chiao Tung University (國立交通大學) with an undergraduate degree in electro physics in 1974. Mr. Wei has no previous employment with Sanyang.

SENIOR MANAGEMENT

Mr. CHANG Hsi Cheng (張錫正), age 48, is the vice general director of the production department of VMEP. Mr. Chang joined VMEP in July 2006. Mr. Chang was the head of the research and development department of VMEP from July 2006 to September 2006, and he has been the vice general director of the production department of VMEP since October 2006. Prior to joining VMEP, Mr. Chang had over 20 years of experience at the research and motorbike design department of Sanyang from 1984 to 2006 during which his key roles involved the design of engines and development of new motorbike models. From 2003 to 2006, he was the manager of the motorbike product development department of Sanyang in which he led a team of researchers in developing new products and expand Sanyang's product base. Mr. Chang graduated from the Chung Yuan Christian University (私立中原大學, formerly known as 私立中原理工大學院) with an undergraduate degree in mechanical engineering in 1982.

Directors and Senior Management Profile

Mr. TSAI Yu Tsai (蔡有財), age 50, is the head of production department of VMEP. Mr. Tsai joined VMEP in August 1999. He was the manager of Dong Nai Production Factory from 1999 to 2002 and has been the head of the production department of VMEP since 2002. Prior to joining VMEP, Mr. Tsai worked for Sanyang from 1976 until 1999 and accumulated over 30 years of experience in the production of motorbikes. Mr. Tsai joined Sanyang at its gearing department in 1976 as a technician until 1983. He then worked at the motorbike moulding department from 1983 until 1986 where his main role was to assist the design and manufacture of the moulds for use in the production of motorbikes. Thereafter, he worked at the production and processing department of Sanyang as a team leader and was responsible for the overall supervision of the production process from 1986 until 1998. In 1998, he worked at the research and motorbike design department of Sanyang until joining the Group in 1999 during which his key roles involved motorbike engines design and development. Mr. Tsai graduated from the Kai Nan High School of Commerce and Industry (私立開南高級商工職業學校) with a University degree in mechanical engineering in 1973.

Mr. TSENG Kuo Lung (曾國龍), age 43, is the head of the product planning department of VMEP. Mr. Tseng joined VMEP in January 1994 as team manager of marketing planning office of VMEP when he was seconded to VMEP until 1996. In 1998, Mr. Tseng was again seconded to VMEP as the assistant manager of the sales department until 2000 when he was promoted to be the manager of the sales department of VMEP. From 2002 to 2006, he was the head of the marketing and sales department of VMEP. In February 2006, Mr. Tsang was appointed as the head of the product planning department of VMEP. Mr. Tseng has over 14 years of experience in the sales and marketing industry. From 1996 to 1998, Mr. Tseng worked at the sales and marketing department of Chinfon Cement Corporation (慶豐水泥公司) which specialises in the sale and production of cement since 1992. Mr. Tseng graduated from the Senior Rejuvenation of the Private Business and Industrial Vocational School (私立復興美術工藝職業學校) with an undergraduate degree in advanced art technology in 1982.

Mr. CHIANG Ping Hui (江炳輝), age 40, is the head of the marketing and sales department of VMEP. Mr. Chiang joined the procurement department of VMEP in July 1995 when he was seconded to VMEP. In 1997, he was then promoted to assistant manager of the procurement department of VMEP until 1999. In 2000, Mr. Chiang was again seconded to VMEP as an assistant manager of the southern operations centre of VMEP until 2002. In 2002, he was promoted to be the manager of the spare parts department of VMEP and subsequently became the head of the same department in 2005. He was the head of the sales and marketing department of VMEP since August 2006. Mr. Chiang has over 15 years of experience in the motorbike industry. Prior to joining VMEP, Mr. Chiang worked at the sales and purchasing department and the sales department of Chinfon, a Huang family controlled company in Taiwan manufacturing motorbikes, automobiles and trucks, from 1994 to 1995 and 1999 to 2000, respectively. He had also worked at the Preparatory Office for Investment in Vietnam of Chinfon from 1992 to 1994. Mr. Chiang graduated from the Tamshui Institute of Business Administration (私立淡水工商管理專科學校) with an undergraduate degree in international trade in 1990.

Directors and Senior Management Profile

Mr. LIN Chao Shun (林朝順), age 51, is the head of the research and development department of VMEP. Mr. Lin joined the research and development department of VMEP in October 2006. From 1983 to 2003, Mr. Lin was mainly involved in the research and development department of Sanyang. He had worked at Sanyang since 1983 until September 2006 and specialised in the research and development of motorbikes. He was the manager of the product development department of Sanyang from 2003 to March 2006 and the manager of Sanyang's India business unit from March to September 2006. He graduated from National Taiwan University of Science and Technology (國立臺灣科技大學, formerly 國立臺灣工業技術學院) with an undergraduate and a masters degree in mechanical engineering in 1980 and 1988 respectively.

Mr. CHANG Tu Hsuan (張督玄), age 51, is the head of the research and development department of VMEP. Mr. Chang joined VMEP in October 2006 as the head of the research and development department. He worked at Sanyang from 1983 to 2006 and has over 23 years of experience in the research industry and is responsible for the development of new motorbike products. Prior to joining VMEP, Mr. Chang worked at the overseas sales and production department of Sanyang from 1995 to 1999 and at the research department of Sanyang from 1983 to 1995. He was seconded to Xia Shing Xiamen Motorcycle Company Limited, a 76.67% owned subsidiary of Sanyang, from 2002 to 2005 as the manager of the research and development department and subsequently became the manager of the research department of Sanyang in 2005. Mr. Chang graduated from the National Taiwan University of Science and Technology (國立臺灣科技大學, formerly 國立臺灣工業技術學院) with an undergraduate degree in mechanical engineering in 1980.

Mr. CHAN Chi Shing (陳志成), age 47, is the qualified accountant and company secretary of the Company for the purposes of Rule 3.24 of the Listing Rules. Mr. Chan has over 26 years of experience in the audit and accounting field. Mr. Chan was the chief financial officer of Era Digital Media Company Limited (年代數位媒體股份有限公司) from 2001 to 2004. From 1997 to 2000, he was the finance manager of a company which launches direct broadcast satellite or direct-to-home (DTH) TV services in Taiwan. From 1991 to 1997, he was the management accountant of TVBI Company Limited (電視廣播國際有限公司). Mr. Chan gained auditing related experience from 1981 to 1987 as a senior audit clerk. Mr. Chan obtained a Higher Certificate in Accountancy from the Hong Kong Polytechnic University in 1987 and is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.

Directors' Report

The directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2007.

PRINCIPAL ACTIVITIES

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are set out in note 13 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year.

RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2007 and the state of affairs of the Company and the Group at that date are set out in the financial statements on pages 37 to 43. During the year, a final dividend of US2.18 cents per ordinary share was declared and payable on 17 June 2008.

FINANCIAL SUMMARY

A financial summary of the results and the balance sheet of the Group for the last four financial years is set out on page 4.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and the Group during the year are set out in note 9 to the financial statements.

BANK LOANS

Details of bank loans are set out in note 20 to the financial statements.

SHARE CAPITAL

Details of movements in the Group's share capital during the year are set out in note 23 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the memorandum and articles of association of the Company or the Companies Laws of the Cayman Islands which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year.

RESERVES

Details of movements in the reserves of the Company and the Group during the year are set out in note 23 to the financial statements and in the consolidate statement of changes in equity, respectively.

MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers and suppliers contributed less than 30% of total operating revenues and purchases, respectively, of the Group during the year. Accordingly, a corresponding analysis of major customers and suppliers is not presented.

None of the directors of the Company or any of their associates or any shareholders (which, to the best knowledge of the directors, own more than 5% of the Company's issued share capital) had any interest in any of the Group's five largest customers and five largest suppliers.

DIRECTORS

The directors of the Company during the year were:

Executive Directors:

Mr. Chang Kwang Hsiung, appointed on 6 August 2007
Mr. Chen Pang Hsiung, appointed on 6 August 2007
Mr. Lee Hsi Chun, appointed on 6 August 2007
Mr. Wang Ching Tung, appointed on 6 August 2007
Mr. Huang Shi Hui, resigned on 6 August 2007
Mr. Chiang Chin Yung, resigned on 6 August 2007

Non-executive Directors:

Mr. Huang Kwang Wuu, appointed on 24 November 2007
Mr. Liu Wu Hsiung Harrison, appointed on 24 November 2007

Independent non-executive directors:

Madam Lin Ching Ching, appointed on 24 November 2007
Mr. Hsu Nai Cheng Simon, appointed on 24 November 2007
Mr. Wei Sheng Huang, appointed on 24 November 2007

Having received written confirmations from each of the independent non-executive directors of their independence pursuant to rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), the Company considers each independent non-executive director to be independent.

Directors' Report

Pursuant to article 87 of the articles of association of the Company, one third of the directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation at each annual general meeting provided that every director shall be subject to retirement at an annual general meeting at least once every three years.

DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the directors of the Company and the senior management of the Group are set out under the section headed "Directors and Senior Management Profile" of the annual report.

DIRECTORS' SERVICE CONTRACTS

None of the directors of the Company has entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

DIRECTORS' REMUNERATION

The directors' remuneration is determined by the board (the "Board") of directors of the Company with reference to the pay scale applicable to directors of listed companies. Details of directors' remuneration are set out in note 5 to the financial statements.

DIRECTORS' INTERESTS IN CONTRACTS

None of the directors of the Company had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARES

As at 31 December 2007, none of the directors of the Company had registered an interest or short position in the shares of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") that was (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including a requirement of the SFO for directors, chief executive officers or senior management who have interests or short positions); and (ii) required to be registered pursuant to Section 352 of the SFO or otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in the Company granted to any directors or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As far as the directors of the Company are aware, as at 31 December 2007, the following persons (who are not Directors) had interests or short positions in the shares of the Company or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	**Nature of interest**	**Number and calss of securities**	**Approximate percentage of interest in the Company**
SY International Ltd ("SYI") *(Note 1)*	Corporate interest	629,520,000 Shares	69.4%
Sanyang Industry Co., Ltd. ("Sanyang") *(Note 1)* corporation	Interest in a controlled corporation	629,520,000 Shares	69.4%
Indopark Holdings Limited ("Indopark") *(Note 2)*	Corporate interest	51,240,000 Shares	5.7%
Merrill Lynch L.P. Holdings Inc. *(Note 2)*	Interest in a controlled corporation	51,240,000 Shares	5.7%
Merrill Lynch Group, Inc. *(Note 2)*	Interest in a controlled corporation	51,240,000 Shares	5.7%
Merrill Lynch & Co., Inc. *(Note 2)*	Interest in a controlled corporation	51,240,000 Shares	5.7%

Notes:

(1) SYI is a direct wholly-owned subsidiary of Sanyang and therefore, Sanyang is deemed or taken to be interested in the shares of the Company held by SYI for the purposes of the SFO.

(2) Indopark is a direct wholly-owned subsidiary of Merrill Lynch L.P. Holdings Inc., which is a direct wholly-owned subsidiary of Merrill Lynch Group, Inc., which is a direct wholly-owned subsidiary of Merrill Lynch & Co., Inc., and therefore, each of Merrill Lynch L.P. Holdings Inc., Merrill Lynch Group, Inc. and Merrill Lynch & Co., Inc. is deemed or taken to be interested in the Shares held by Indopark for the purposes of the SFO.

Save as disclosed above, as at 31 December 2007, the Company had not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, none of the directors of the Company were considered to have any interests in a business which competed or was likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules.

CONTINUING CONNECTED TRANSACTIONS

The Group entered into the following continuing connected transactions with Sanyang Industry Company Limited ("Sanyang"), an indirect substantial shareholder of the Company, its subsidiaries or associates (as the case may be), including Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM"):

1) Purchase of motorbike parts by the Group from Sanyang (Note 1);

2) Purchase of motorbike parts by the Group from VTBM (Note 2);

3) Sales of motorbike parts by the Group to Sanyang and its associates (Note 3);

4) Licensing of technology, know-how, trade secrets and production information by Sanyang to Vietnam Manufacturing and Export Processing Co., Limited ("VMEP") (Note 4);

5) Licensing of trade marks by Sanyang to the Company (Note 5);

6) Provision of research and development and technical support services by Sanyang and its associates to the Group (Note 6); and

7) The Company being engaged as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates in the member countries of the Association of South East Asian Nations ("Exclusive Territory") (excluding Vietnam, unless the motorbikes are re-sold in Vietnam for exhibition purposes) (Note 7).

Notes:

1. This refers to the purchase of motorbike parts by the Group from Sanyang pursuant to a purchase agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such purchase agreement (including historical transactions amount) for the year ended 31 December 2007 was US$29,296,649.

2. This refers to the purchase of motorbike parts by the Group from VTBM pursuant to a purchase agreement dated 26 November 2007 and entered into between the Company and VTBM. The total consideration in relation to such purchase agreement (including historical transactions amount) for the year ended 31 December 2007 was US$4,370,093.

3. This refers to the sale of motorbike parts by the Group to Sanyang pursuant to a sales agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such sales agreement (including historical transactions amount) for the year ended 31 December 2007 was US$2,473,527.

Directors' Report

4. This refers to the licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP pursuant to a technology licence agreement dated 26 November 2007 and entered into between VMEP and Sanyang. The total consideration in relation to such technology licence agreement (including historical transactions amount) for the year ended 31 December 2007 was US$5,985,566.

5. This refers to the licensing of trade marks by Sanyang to the Company pursuant to a trade marks licence agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such trade marks licence agreement for the year ended 31 December 2007 was US$1.

6. This refers to the provision of research and development and technical support services by Sanyang and its associates to the Group pursuant to a research and development and technical support services agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to such research and development and technical support services agreement for the year ended 31 December 2007 was Nil.

7. This refers to the engagement of the Company as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates in the Exclusive Territory (excluding Vietnam, unless the motorbikes are re-sold in Vietnam for exhibition purposes) pursuant to a distributorship agreement dated 26 November 2007 and entered into between the Company and Sanyang. The total consideration in relation to the purchases of motorbikes and related parts made by the Group pursuant to such distributorship agreement for the year ended 31 December 2007 was US$244,113.

Pursuant to Rule 14A.38 of the Listing Rules, the Board engaged the auditors of the Company to perform certain agreed upon procedures in respect of the transactions of the Group to assist the directors of the Company to evaluate whether:

- the transactions have received the approval from the Board;
- the transactions were in accordance with the pricing policies of the Group where the transactions involved the provision of goods and services by the Group;
- the transactions have been entered into in accordance with the relevant agreements governing the transactions; and
- the value of the transactions carried out pursuant to each of the agreements relating to the continuing connected transactions of the Company during the year have not exceeded the relevant annual cap for such transactions.

The auditors of the Company have performed procedures in respect of the transactions in accordance with Hong Kong Standards on Related Services 4400 "Engagements to perform agreed-upon procedures regarding financial information" and guidances issued by Hong Kong Institute of Certified Public Accountant.

The auditors of the Company have reported their factual findings on these procedures to the Board. The independent non-executive directors of the Company have reviewed the transactions and the findings and confirmed that the transactions are:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms; and
- in accordance with the relevant agreement governing them on terms that are fair and reasonable and in the interests of the shareholders of the Company and the Shareholders as a whole.

Directors' Report

AUDIT COMMITTEE

The Audit Committee has reviewed with management the accounting principles and practices adopted by the Group and discussed internal control and financial reporting matters including the review of the audited financial statements.

SUFFICIENCY OF PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, to the best knowledge of the directors and based on the information publicly available to the Company, there is sufficient public float as required by the Listing Rules.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Group were entered into or existed during the year.

CORPORATE GOVERNANCE PRACTICES

The Company was listed on the Stock Exchange on 20 December 2007. For the remaining period since the listing of the Company's shares on the Stock Exchange covered by the annual report, the Company and its directors confirm that, to the best of their knowledge, the Company has applied the principles and complied with all the applicable code provisions as set out in the Code on Corporate Governance Practices (the "Code") as set out in Appendix 14 to the Listing Rules for the financial year ended 31 December 2007.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by Directors. Having made specific enquiry, the Company confirms that the Directors have complied with the required standard set out in the Model Code for the financial year ended 31 December 2007.

AUDITORS

A resolution to re-appoint Messrs. KPMG as auditors of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Chang Kwang Hsiung
Chairman

Hong Kong, 10 March 2008

Independent Auditors' Report

Independent auditors' report to the shareholders of Vietnam Manufacturing and Export Processing (Holdings) Limited

(Incorporated in the Cayman Islands with limited liability)

We have audited the consolidated financial statements of Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as "the Group") set out on the pages 37 to 94, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these financial statements in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial statements.

Independent Auditors' Report

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2007 and of the Group's profit and cash flows for the year then ended in accordance with International Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

10 March 2008

Consolidated Income Statement

For the year ended 31 December 2007

	Note	2007 US$	2006 US$
Revenue	4	259,737,332	184,308,268
Cost of sales		(192,558,987)	(140,076,287)
Gross profit		67,178,345	44,231,981
Other income		515,842	203,059
Distribution expenses		(19,066,894)	(11,456,332)
Technology transfer fees	24(a)	(5,985,566)	(3,052,690)
Administrative expenses		(10,637,626)	(7,623,331)
Other expenses		(1,405,080)	(140,328)
Results from operating activities		30,599,021	22,162,359
Finance income		4,937,942	5,313,723
Finance expenses		(798,213)	(1,646,860)
Net finance income	5(c)	4,139,729	3,666,863
Share of profits of an equity accounted investee	12(b)	169,553	57,074
Profit before income tax	5	34,908,303	25,886,296
Income tax expense	6(a)	(3,864,834)	(2,565,095)
Profit for the year		31,043,469	23,321,201
Attributable to:			
Equity holders of the Company		30,999,244	23,309,018
Minority interests		44,225	12,183
Profit for the year		31,043,469	23,321,201
Dividends payable to equity holders of the Company	7		
Interim dividend declared during the year		39,000,000	22,000,000
Final dividend proposed after the balance sheet date		19,782,769	–
		58,782,769	22,000,000
Earnings per share	8		
– basic		0.04	0.03

The notes on pages 44 to 94 form part of these financial statements.

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 US$	2006 US$
Assets			
Property, plant and equipment	9	39,470,807	40,888,581
Intangible assets	10	413,889	468,648
Lease prepayments	11	3,536,911	3,725,658
Investment in an equity accounted investee	12	793,939	624,386
Other non-current assets		62,510	379,703
Deferred tax assets	21(b)	303,582	133,946
Total non-current assets		44,581,638	46,220,922
Inventories	14	40,838,363	34,839,431
Trade receivables, other receivables and prepayments	15	18,566,475	16,764,099
Income tax recoverable	21(a)	3,573	383,497
Pledged bank deposits	16	9,822,323	16,347,106
Time deposits maturing after three months	17	13,243,810	9,369,945
Cash and cash equivalents	18	125,696,749	47,434,924
Total current assets		208,171,293	125,139,002
Total assets		252,752,931	171,359,924
Liabilities			
Trade and other payables	19	45,919,905	29,344,565
Interest-bearing borrowings	20(a)	13,425,523	17,250,830
Income tax payables	21(a)	1,355,736	20,291
Provisions	22	1,946,683	1,483,367
Total current liabilities		62,647,847	48,099,053
Net current assets		145,523,446	77,039,949
Total assets less current liabilities		190,105,084	123,260,871
Interest-bearing borrowings	20(b)	70,226	39,835
Total non-current liabilities		70,226	39,835
Total liabilities		62,718,073	48,138,888
Net assets		190,034,858	123,221,036

Consolidated Balance Sheet

At 31 December 2007

	Note	2007 US$	2006 US$
Equity			
Paid-in capital	23	1,162,872	58,560,000
Reserves	23	188,405,996	64,239,271
Total equity attributable to equity holders of the Company		189,568,868	122,799,271
Minority interests		465,990	421,765
Total equity		190,034,858	123,221,036
Total liabilities and equity		252,752,931	171,359,924

Approved and authorised for issue by the Board of Directors on 10 March 2008

CHEN PANG HSIUNG
Director

LEE HSI CHUN
Director

The notes on pages 44 to 94 form part of these financial statements.

Balance Sheet

At 31 December 2007

	Note	2007 US$	2006 US$
Assets			
Investment in subsidiaries	13	63,088,712	58,560,000
Total non-current assets		63,088,712	58,560,000
Trade receivables, other receivables and prepayments	15	3,529,648	1,820,000
Cash and cash equivalents	18	76,141,492	7,172
Total current assets		79,671,140	1,827,172
Total assets		142,759,852	60,387,172
Liabilities			
Trade and other payables	19	363,457	1,842,644
Total current liabilities/Total liabilities		363,457	1,842,644
Net current assets/(liabilities)		79,307,683	(15,472)
Net assets		142,396,395	58,544,528
Equity			
Paid-in capital	23	1,162,872	58,560,000
Reserves	23	141,233,523	(15,472)
Total equity		142,396,395	58,544,528
Total liabilities and equity		142,759,852	60,387,172

Approved and authorised for issue by the Board of Directors on 10 March 2008

CHEN PANG HSIUNG
Director

LEE HSI CHUN
Director

The notes on pages 44 to 94 form part of these financial statements.

Consolidated Statement of Changes in Equity

For the year ended 31 December 2007

	Paid-in capital *US$* *(Note 23)*	Share premium *US$*	Retained profits *US$*	Exchange reserve *US$*	Total *US$*	Minority interest *US$*	Total equity *US$*
At 31 December 2005	58,560,000	–	63,811,166	(490,392)	121,880,774	409,582	122,290,356
Profit for the year	–	–	23,309,018	–	23,309,018	12,183	23,321,201
Dividends	–	–	(22,000,000)	–	(22,000,000)	–	(22,000,000)
Exchange difference	–	–	–	(390,521)	(390,521)	–	(390,521)
At 31 December 2006	58,560,000	–	65,120,184	(880,913)	122,799,271	421,765	123,221,036
Change of par value	(58,484,976)	58,484,976	–	–	–	–	–
Issue of shares through Initial Public Offering	225,072	84,176,952	–	–	84,402,024	–	84,402,024
Issue of shares on capitalisation of share premium account	862,776	(862,776)	–	–	–	–	–
Share issue expenses	–	(9,817,674)	–	–	(9,817,674)	–	(9,817,674)
Profit for the year	–	–	30,999,244	–	30,999,244	44,225	31,043,469
Dividends	–	–	(39,000,000)	–	(39,000,000)	–	(39,000,000)
Exchange difference	–	–	–	186,003	186,003	–	186,003
At 31 December 2007	1,162,872	131,981,478	57,119,428	(694,910)	189,568,868	465,990	190,034,858

The notes on pages 44 to 94 form part of these financial statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 US$	2006 US$
Cash flows from operating activities		
Profit for the year	31,043,469	23,321,201
Adjustments for:		
Share of profits of an equity accounted investee	(169,553)	(57,074)
Depreciation	8,119,619	7,884,040
Net interest income	(4,133,871)	(4,150,036)
Amortisation	538,950	440,251
Allowance for inventory impairments	1,865,167	353,224
Loss on disposal/write off of property, plant and equipment (net)	3,683	126,937
Income tax expense	3,864,834	2,565,095
Other expenses-listing expenses	1,363,810	–
Operating profit before changes in working capital	42,496,108	30,483,638
Changes in working capital		
(Increase)/decrease in inventories	(7,864,099)	4,034,145
(Increase)/decrease in gross trade receivables, other receivables and prepayments	(1,668,627)	2,167,823
Increase in trade and other payables	16,590,645	549,256
Increase in provisions	463,316	63,171
	50,017,343	37,298,033
Corporate income tax paid	(2,319,101)	(2,080,155)
Net cash from operating activities	47,698,242	35,217,878
Cash flows from investing activities		
Acquisition of property, plant and equipment, intangible assets and lease prepayments	(10,843,955)	(7,315,956)
Proceeds from disposals of property, plant and equipment	3,942,345	98,511
Interest received	5,202,169	4,673,798
(Increase)/decrease in time deposits maturing after three months	(3,873,865)	4,180,393
Net cash (used in)/from investing activities	(5,573,306)	1,636,746

Consolidated Cash Flow Statement

For the year ended 31 December 2007

	2007 US$	2006 US$
Cash flows from financing activities		
Proceeds from issue of shares under initial public offering	84,402,024	–
Payment for share issue transaction costs	(11,181,484)	–
Decrease in pledged bank deposits	6,524,783	11,759,354
Proceeds from borrowings	60,998	9,570,665
Repayment of borrowings	(3,855,914)	(11,295,112)
Interest paid	(813,518)	(1,156,434)
Dividends paid	(39,000,000)	(21,970,000)
Net cash from/(used in) financing activities	36,136,889	(13,091,527)
Net increase in cash and cash equivalents	78,261,825	23,763,097
Cash and cash equivalents at beginning of the year	47,434,924	23,671,827
Cash and cash equivalents at the end of the year	125,696,749	47,434,924

The notes on pages 44 to 94 form part of these financial statements.

Notes to the Consolidated Financial Statements

1. REORGANISATION

Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") was incorporated in the Cayman Islands on 20 June 2005 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands.

Pursuant to a reorganisation of the Company and its subsidiaries (collectively, the "Group") (the "Reorganisation") to rationalise the group structure in preparation for the public listing of the Company's shares on the main board of The Stock Exchange of Hong Kong Limited (the "Initial Public Offering"), the Company became the holding company of the subsidiaries now comprising the Group. The shares of the Company were listed on the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2007.

Details of the Reorganisation are set out in the prospectus dated 6 December 2007 issued by the Company.

2. BASIS OF PREPARATION

The following significant accounting policies have been adopted by the Group in the preparation of these financial statements.

(a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IAS") and related interpretations, promulgated by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on the Stock Exchange.

At the date of this report, the IASB has issued the following IFRSs and interpretations which are not yet effective in respect of the year ended 31 December 2007. The Group has not early adopted these IFRSs and interpretations in the preparation of the financial statements.

	Effective for accounting periods beginning on or after
IFRIC 11, *IFRS2 – Group and treasury share transactions*	1 March 2007
IFRIC 12, *Service concession arrangements*	1 January 2008
IFRIC 14, *IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interaction*	1 January 2008
IFRIC 13, *Customer loyalty programmes*	1 July 2008
IFRS 8, *Operating segments*	1 January 2009

2. BASIS OF PREPARATION (Continued)

(a) Statement of compliance (Continued)

	Effective for accounting periods beginning on or after
Revised IAS 1, *Presentation of financial statements*	1 January 2009
Revised IAS 23, *Borrowing costs*	1 January 2009
Amendment to IFRS 2, *Share-based payment – Vesting conditions and cancellations*	1 January 2009
Amendments to IAS 32, *Financial instruments: Presentation of financial satements – Puttable financial instruments and obligations arising on liquidations*	1 January 2009
Revised IFRS 3, *Business combinations*	1 July 2009
Amendments to IAS 27, *Consolidated and separate financial statements*	1 July 2009

The directors have confirmed that the above IFRSs and interpretations do not have a significant impact on how the results of operations and financial position for the year ended 31 December 2007 are prepared and presented. These IFRSs and interpretations may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

(b) Basis of preparation of the consolidated financial statements

These financial statements are prepared on the historical cost basis.

The preparation of consolidated financial statements in conformity with IFRSs 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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised on the financial statements are described in Note 28.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(h)), unless the investment is classified as held for sale.

(ii) Minority interests

Minority interests at the balance sheet date, being the portion of the net assets of a subsidiary attributable to equity interests that are not owned by the Company, whether directly or indirectly through a subsidiary, are presented in the consolidated balance sheet and consolidated statement of changes in equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

(iii) Associates (equity accounted investees)

Associates are those enterprises in which the Group has significant influence but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20 and 50 percent of the voting power of another entity. Associates are accounted for using the equity method (equity accounted investees) and are initially recognised at cost. The Group's investment includes goodwill identified on acquisition, net of any accumulated impairment losses. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Basis of consolidation (Continued)

(iv) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealized income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealized gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealized losses are eliminated in the same way as unrealized gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Functional currency

The Group's functional currency is the Vietnam Dong ("VND").

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

(ii) Presentation currency

The Group has adopted US Dollar ("US$") as its presentation currency as the directors of the Company consider that presentation of the consolidated financial statements in US$ will facilitate analysis of financial information.

For the purpose of presenting the consolidated financial statements, assets and liabilities are translated into US$ at the rates of exchange ruling at the balance sheet date. Revenues, expenses and capital transactions are translated to US$ at rates approximating the rates of exchange ruling at the dates of the transactions. Foreign exchange differences arising on translation, if any, are recognised directly as a separate component of equity.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise trade receivables, other receivables and prepayments, cash and cash equivalents, restricted cash, time deposits, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Financial instruments (Continued)

(i) Non-derivative financial instruments (Continued)

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

(ii) Share capital

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 3(h)). The initial cost of a tangible fixed asset comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in the consolidated income statement on the date of retirement or disposal.

(ii) Subsequent costs

Expenditures incurred after property, plant and equipment have been put into intended use, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated income statement in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment beyond their originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Property, plant and equipment (Continued)

(iii) Depreciation

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

• buildings	10–30 years
• machinery, moulds and equipment	2–12 years
• office equipment, furniture and fittings	5–10 years
• electrical, water and utility systems	5–10 years
• motor vehicles	5–7 years

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

(iv) Construction work in progress

Construction work in progress is stated at cost less impairment losses (see Note 3(h)). Cost comprises direct costs of construction during the period of construction and installation. The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's policy.

(e) Intangible assets

The cost of acquisition of software, which is not an integral part of related hardware, is capitalised and accounted for as an intangible asset. Software is amortised on a straight-line basis over 3 years from the date when it is ready for use.

(f) Lease prepayments

Lease prepayments represent prepaid land lease rentals and related costs. Lease prepayments are carried at cost less amortisation and impairment losses (see Note 3(h)). Amortisation is charged to the consolidated income statement on a straight-line basis over the lease periods of 2 to 50 years.

(g) Inventories

Inventories are measured at the lower of cost and net realisable value.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment

(i) Financial assets

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(ii) Non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories (see Note 3(g)) and deferred tax assets (see Note 3(i)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Impairment (Continued)

(ii) Non-financial assets (Continued)

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(i) Corporate income tax

Corporate income tax (the "CIT") on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(j) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(k) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Revenue

Revenue excludes value added taxes, and is net of any sales discounts and rebates.

(i) Goods sold

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing management involvement with the goods.

(ii) Services rendered

Revenue from mould and repair services is recognised in the consolidated income statement when services are rendered.

(m) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

(n) Finance income and expenses

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method.

(o) Employee benefits

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

(ii) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

(iii) Severance pay allowance

Obligations in respect of severance pay allowance are calculated by estimating the amount of benefits that employees have earned in return for their service in the current and prior periods. A provision is made for the estimated liability for severance pay allowance as a result of services rendered by employees up to the balance sheet date. The impact of discounting is immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Government grants

A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

(q) Research and development expenses

Expenditure on research activities is recognised in profit or loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the assets for their intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses (see Note 3(h)).

(r) Segment reporting

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group determined that business segments be presented as the primary reporting format.

No geographical segment information is separately presented as the Group's business segments are mainly engaged and operated in Vietnam. The major market of the Group's business segments is Vietnam. There is no other geographical segment with segment revenue and assets equal to or greater than 10 percent of the Group's total revenue and assets respectively.

Notes to the Consolidated Financial Statements

4. SEGMENT REPORTING

Business segments

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The principal activities of the Group are those relating to manufacture and sales of motorbikes, related spare parts and engines and provision of motorbike maintenance services. Revenue excludes value added taxes and sales rebates.

	Manufacture and sales of motorbikes *US$*	Manufacture and sales of spare parts and engines *US$*	Moulds and repair services *US$*	Inter-segment elimination *US$*	Group *US$*
For the year ended 31 December 2007					
Revenue from external Customers	234,123,202	25,005,797	608,333	–	259,737,332
Inter-segment revenue	–	95,552,679	887,714	(96,440,393)	–
Total revenue	234,123,202	120,558,476	1,496,047	(96,440,393)	259,737,332
Segment result	30,331,420	14,537,575	146,982	(12,445,054)	32,570,923
Unallocated expense					(1,971,902)
Net finance income					4,139,729
Share of profits of an equity accounted investee					169,553
Profit before income tax					34,908,303
Income tax expense					(3,864,834)
Profit for the year					31,043,469
Segment assets	59,238,873	36,886,354	1,849,175	–	97,974,402
Investment in an equity accounted investee					793,939
Unallocated assets#					153,984,590
Total assets					252,752,931
Segment liabilities	28,849,936	14,748,116	529,105	–	44,127,157
Unallocated liabilities					18,590,916
Total liabilities					62,718,073
Depreciation and amortisation	5,440,162	3,082,921	135,486	–	8,658,569
Non-cash expense other than depreciation	1,702,928	965,997	3,203	–	2,672,128

Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and cash and cash equivalents of US$9,822,323, US$13,243,810 and US$125,696,749, respectively.

4. SEGMENT REPORTING (Continued)

Business segments (Continued)

	Manufacture and sales of motorbikes US$	Manufacture and sales of spare parts and engines US$	Moulds and repair services US$	Inter-segment elimination US$	Group US$
For the year ended 31 December 2006					
Revenue from external customers	161,664,395	22,186,746	457,127	–	184,308,268
Inter-segment revenue	–	69,290,591	777,074	(70,067,665)	–
Total revenue	161,664,395	91,477,337	1,234,201	(70,067,665)	184,308,268
Segment result	22,042,912	11,365,470	43,673	(11,272,981)	22,179,074
Unallocated expense					(16,715)
Net finance income					3,666,863
Share of profits of an equity accounted investee					57,074
Profit before income tax					25,886,296
Income tax expense					(2,565,095)
Profit for the year					23,321,201
Segment assets	56,944,866	37,294,847	1,421,163	–	95,660,876
Investment in an equity accounted investee					624,386
Unallocated assets#					75,074,662
Total assets					171,359,924
Segment liabilities	19,370,516	9,382,902	263,111	–	29,016,529
Unallocated liabilities					19,122,359
Total liabilities					48,138,888
Depreciation and amortisation	5,288,955	2,903,952	131,384	–	8,324,291
Non-cash expense other than depreciation	527,696	392,716	–	–	920,412

[#] *Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and cash and cash equivalents of US$16,347,106, US$9,369,945 and US$47,434,924, respectively.*

5. PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

(a) Staff costs (including management's emoluments)

	2007 US$	2006 US$
Wages and salaries	5,549,598	4,003,888
Staff welfare	3,433,819	2,072,478
Contributions to defined contribution plan	364,832	302,998
Severance pay allowance	289,628	104,236
	9,637,877	6,483,600
Number of employees as at year end	2,178	1,904

Description of the defined contribution plan

The Group participates in a defined contribution plan managed by the Vietnam government whereby the Group is required to make contributions to the plan, representing the employer's portion of social and health insurances. The applicable rates of contribution are 15% and 2% of total contractual salary, respectively. The Group has no obligation for the payment of retirement benefits other than the contributions described above.

Directors' emoluments

Details of the directors' emoluments for the year ended 31 December 2007 are as follows:

	Salaries, allowances and benefits in kind US$	Discretionary bonuses US$	Total US$
Chairman:			
Chang, Kwang-Hsiung	12,900	–	12,900
Executive directors:			
Chen, Pang-Hsiung	43,975	48,156	92,131
Lee, Hsi-Chun	38,824	22,950	61,774
Wang, Ching-Tung	43,390	25,851	69,241
Non-executive directors:			
Huang, Kwang-Wuu	–	–	–
Liu, Wu-Hsiung Harrison	–	–	–
Independent non-executive directors:			
Hsu, Nai Cheng Simon	–	–	–
Wei, Sheng Huang	–	–	–
Lin, Ching-Ching	–	–	–
	139,089	96,957	236,046

5. PROFIT BEFORE INCOME TAX (Continued)

(a) Staff costs (including management's emoluments) (Continued)

The Group did not pay any emoluments to directors of the Group for the year ended 31 December 2006. The directors at 31 December 2006 were Huang, Shi-Hui and Chiang, Chin-Yung.

The Group did not pay any emoluments to directors of the Group for the years ended 31 December 2006 and 2007 as an inducement fee to join or as compensation for loss of office. None of the persons who are board directors of the Group waived or agreed to waive any emoluments or remuneration during the years ended 31 December 2006 and 2007.

Five highest paid employees

Of the five individuals with the highest emoluments, two (2006: nil) of them are directors whose emoluments are disclosed above. The details of the aggregate emoluments of the remaining three (2006: five) highest paid employees of the Group are as follows:

	2007 ***US$***	2006 *US$*
Salary, allowance and benefits	**117,539**	153,106
Bonus	**77,467**	27,676
Total	**195,006**	180,782

During the years ended 31 December 2006 and 2007, no emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

The number of these highest paid employees whose remuneration fell within the following bands is as follows:

	2007	2006
Hong Kong Dollar ("HK$")		
Nil to 1,000,000	**5**	5

Notes to the Consolidated Financial Statements

5. PROFIT BEFORE INCOME TAX (Continued)

(b) Other items

	2007 US$	2006 US$
Cost of inventories recognised as expenses *(i) (Note 14)*	191,780,254	139,437,140
Depreciation of property, plant and equipment	8,119,619	7,884,040
Research and development expenses *(ii)*	10,502,411	3,784,120
Amortisation of lease prepayments/intangible assets	538,950	440,251
Loss on disposal/write off of property, plant and equipment (net)	3,683	126,937
Rental of properties	582,475	632,345
Technical consultancy fee *(Note 24(a))*	237,882	394,533
Auditors' remuneration	95,000	84,000
Government grants	(1,803,269)	(2,221,221)
Warranty expenses *(Note 22)*	4,541,526	3,746,024

(i) Cost of inventories recognised as expenses includes amounts relating to staff costs, depreciation and amortisation expenses and rental expense of properties, which are also included in the respective total amounts disclosed separately above or in Note 5(a) for each of these types of expenses.

(ii) Research and development expenses include amounts relating to staff costs, depreciation and amortisation expenses, rental expense of properties and other miscellaneous expenses, which are also included in the respective total amounts disclosed separately above or in Note 5(a) for each of these types of expenses. No development expenditure was capitalised for the year ended 31 December 2007.

(c) Finance income and expense

	2007 US$	2006 US$
Interest income from banks	4,932,084	5,313,723
Net foreign exchange gains	5,858	–
Finance income	4,937,942	5,313,723
Interest paid and payable to banks	(798,213)	(1,163,687)
Net foreign exchange losses	–	(483,173)
Finance expense	(798,213)	(1,646,860)
Net finance income	4,139,729	3,666,863

6. INCOME TAX EXPENSE

(a) Recognised in the income statement

	2007 US$	2006 US$
Current tax expenses		
– current tax	4,001,090	2,537,737
– under provision in prior year	33,380	52,337
Deferred tax expense		
– origination and reversal of temporary differences	(169,636)	(24,979)
	3,864,834	2,565,095

No provision for Hong Kong Profits Tax has been made, as the Group did not earn any income subject to Hong Kong Profits Tax for the years ended 31 December 2007 and 2006.

Pursuant to the rules and regulations of the Cayman Islands, the Group is not subject to any income tax in the Cayman Islands.

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax ("CIT") for Vietnam Manufacturing and Export Processing Co., Limited ("VMEP") is calculated at 18% of the profits from manufacturing and sales of motorbikes, spare parts and services rendered. Although the applicable tax rate for profits from assembling and sales of engines is 10%, pursuant to the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, such business is entitled to a tax holiday of a tax free period for 8 years from 2001 to 2008.

In 2005, VMEP obtained a license for truck business from local government authorities. As VMEP has not commenced the truck business since obtaining its business license, there were no profits/losses arising from this business during the years ended 31 December 2006 and 2007. Profits from assembly and production of trucks, engines, components and spare parts for trucks are subject to corporate income tax at 15% for 12 years from the commencement of such activities and 28% for subsequent years. In addition, VMEP is entitled to a tax holiday on profits from such activities of a tax-free period for 3 years from the first profit making year and a 50% reduction of the applicable income tax rate for the following 7 years.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, the applicable CIT rate for Vietnam Casting Forge Precision Limited ("VCFP") is 15%. VCFP is entitled to a tax holiday of a tax-free period for 3 years from 2003 to 2005. Thereafter, it is subject to CIT at 50% of the applicable income tax rate for the following 7 years.

Notes to the Consolidated Financial Statements

6. INCOME TAX EXPENSE

(a) Recognised in the income statement (Continued)

In accordance with the Law of Foreign Investment of 1996, as amended in 2000, the Investment Law of 2006, and the Law on Corporate Income Tax of 2003 in Vietnam, the applicable tax rate for C.Q.S Molds Inc. ("C.Q.S.") is 15% for the first 5 years starting from the first year of operation, 20% for the next 6 years (2007 to 2012) and 28% for subsequent years. C.Q.S. is entitled to a tax holiday of a tax-free period for 2 years from 2004 to 2005 and is subject to corporate income tax at 50% of the applicable income tax rate for 2006.

The Law of Foreign Investment of 1987, as amended in 1990 and 1992, and the Law of Foreign Investment of 1996, as amended in 2000, have been repealed, however VMEP, VCFP and C.Q.S. are entitled to retain the tax incentives by virtue of the provisions on protection of foreign investments under the Investment Law of 2006.

In accordance with the Corporate Income Tax Law of Taiwan, the applicable tax rate for Chin Zong is 15% for the amount of net profit below New Taiwan Dollar ("NTD") 100,000 and 25% for the amount of net profit at or above NTD100,000.

(b) Reconciliation between tax expense and accounting profit at applicable tax rates

	2007 ***US$***	2006 *US$*
Profit before income tax	**34,908,303**	25,886,296
Notional income tax using the CIT rate of 18%	**6,283,495**	4,659,533
Effects of non-taxable income	**–**	(22,193)
Effects of differences in tax rates and tax holidays of subsidiaries	**(2,452,041)**	(2,124,582)
Under provision for CIT in prior years	**33,380**	52,337
Actual tax expenses	**3,864,834**	2,565,095
The Group's effective income tax rate	**11.07%**	9.91%

7. DIVIDENDS

(a) Dividends payable to equity holders of the Company attributable to the year

	2007 **US$**	2006 US$
Interim dividend declared and paid of US$0.56 per ordinary share (2006:US$ Nil) before the capitalization of share premium account and Initial Public Offering	**33,000,000**	–
Final dividend proposed after the balance sheet date of US$ 0.02 per ordinary share*	**19,782,769**	–
	52,782,769	–

* *The final dividend proposed after the balance sheet date has not been recognized as a liability at the balance sheet date.*

(b) Dividends payable to equity holders of the Company attributable to the previous financial year, declared and paid during the year

	2007 **US$**	2006 US$
Interim dividend in respect of the previous year, declared and paid during the year of US$0.10 per ordinary share (2006:US$0.38)	**6,000,000**	22,000,000

Notes to the Consolidated Financial Statements

8. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity holders of the Company of US$30,999,244 (2006: US$23,309,018) and the weighted average of 737,294,466 ordinary shares (2006: 732,000,000 shares after adjusting for the capitalisation issue in 2007) in issue during the year, calculated as follows:

(i) Weighted average number of ordinary shares

	2007	2006
Issued ordinary shares at 1 January	58,560,000	58,560,000
Effect of capitalisation issue	673,440,000	673,440,000
Effect of the initial public offering	5,294,466	–
Weighted average number of ordinary shares at 31 December	737,294,466	732,000,000

Diluted earnings per share

There were no dilutive potential shares during the years ended 31 December 2006 and 2007, and therefore, diluted earnings per share are not presented.

Notes to the Consolidated Financial Statements

9. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings US$	Machinery, moulds and equipment US$	Office equipment, furniture and fittings US$	Electrical, water and utility system US$	Motor vehicles US$	Assets under construction US$	Total US$
Cost							
At 1 January 2006	11,884,061	61,286,890	1,431,019	5,979,051	1,273,103	1,132,131	82,986,255
Additions	141,571	5,166,293	241,866	–	82,629	1,614,067	7,246,426
Transfer from assets under construction	76,808	789,421	–	–	–	(866,229)	–
Disposals	(177,118)	(1,104,831)	(126,955)	(32,876)	(43,181)	–	(1,484,961)
Effect of movements in exchange rate	(100,868)	(539,834)	(12,612)	(50,521)	(10,954)	(12,760)	(727,549)
At 31 December 2006	11,824,454	65,597,939	1,533,318	5,895,654	1,301,597	1,867,209	88,020,171
Additions	114,244	3,813,694	273,780	5,789	77,786	6,272,362	10,557,655
Transfer from assets under construction	914,901	–	–	–	–	(914,901)	–
Disposals	–	(2,959,145)	(96,998)	(104,681)	(83,036)	(3,883,988)	(7,127,848)
Effect of movements in exchange rate	27,736	148,417	3,646	13,142	2,920	5,853	201,714
At 31 December 2007	12,881,335	66,600,905	1,713,746	5,809,904	1,299,267	3,346,535	91,651,692
Accumulated depreciation							
At 1 January 2006	2,826,380	32,409,627	741,956	4,252,940	650,614	–	40,881,517
Depreciation charge for the year	412,799	6,863,149	208,741	256,917	142,434	–	7,884,040
Disposals	(123,953)	(966,890)	(124,830)	(23,764)	(20,076)	–	(1,259,513)
Effect of movements in exchange rate	(25,172)	(299,586)	(6,642)	(37,023)	(6,031)	–	(374,454)
At 31 December 2006	3,090,054	38,006,300	819,225	4,449,070	766,941	–	47,131,590
Depreciation charge for the year	444,930	7,098,648	246,621	189,210	140,210	–	8,119,619
Disposals	–	(2,942,508)	(93,527)	(104,681)	(41,104)	–	(3,181,820)
Effect of movements in exchange rate	7,447	90,106	2,014	10,096	1,833	–	111,496
At 31 December 2007	3,542,431	42,252,546	974,333	4,543,695	867,880	–	52,180,885
Carrying amount							
At 31 December 2007	9,338,904	24,348,359	738,789	1,266,209	432,011	3,346,535	39,470,807
At 31 December 2006	8,734,400	27,591,639	714,093	1,446,584	534,656	1,867,209	40,888,581

10. INTANGIBLE ASSETS

Intangible assets represent computer software.

	The Group	
	2007	2006
	US$	*US$*
Cost		
At 1 January	**738,285**	744,594
Additions	**263,755**	–
Effect of movements in exchange rate	**1,956**	(6,309)
At 31 December	**1,003,996**	738,285
Accumulated amortisation		
At 1 January	**269,637**	22,683
Charge for the year	**319,504**	248,198
Effect of movements in exchange rate	**966**	(1,244)
At 31 December	**590,107**	269,637
Carrying amount		
At 31 December	**413,889**	468,648

11. LEASE PREPAYMENTS

Lease prepayments represent prepaid land lease rental and related costs.

	The Group	
	2007	2006
	US$	*US$*
At 1 January	**3,725,658**	3,880,542
Additions	**22,545**	69,530
Less: amortisation	**(219,446)**	(192,053)
Effect of movements in exchange rate	**8,154**	(32,361)
At 31 December	**3,536,911**	3,725,658

12. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

The Group's investment in an equity accounted investee represents its share of the net assets of the associate.

Description of investment in an equity accounted investee

Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM") was originally a wholly foreign-owned enterprise established on 5 September 2002 with a registered capital of US$1,000,000 by Three Brothers Machinery Industry Co., Ltd. (registered in Taiwan), a subsidiary of Sanyang Industry Co., Ltd., the Company's ultimate holding company. On 7 April 2003 the Group acquired 31% of the contributed capital of Vietnam Three Brothers Machinery Industry Co., Limited, which was satisfied in cash.

VTBM's period of operation is 50 years and its principal activities are the manufacture and sale of motorbike-related spare parts.

(a) The Group's investment in VTBM is analysed as follows:

	The Group	
	2007	2006
	US$	*US$*
Unlisted investments, at cost	**465,000**	465,000
Share of post-acquisition profits	**328,939**	159,386
Share of net assets	**793,939**	624,386

(b) Summary financial information on VTBM, not adjusted for the percentage ownership held by the Group:

	The Group	
	2007	2006
	US$	*US$*
Non-current assets	**2,207,278**	2,008,197
Current assets	**1,450,199**	1,114,326
Non-current liabilities	**(438,212)**	(598,426)
Current liabilities	**(658,170)**	(509,948)
Net assets	**2,561,095**	2,014,149

	2007	2006
	US$	*US$*
Revenue	**4,793,449**	3,768,661
Profits	**546,946**	184,110

Notes to the Consolidated Financial Statements

13. INVESTMENT IN SUBSIDIARIES

	The Company	
	2007	2006
	US$	*US$*
Unlisted shares, at cost	**63,088,712**	58,560,000

Details of the subsidiaries as at 31 December 2007 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation, establishment and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company Direct %	Attributable equity interest held by the Company Indirect %	Principal activities
Vietnam Manufacturing and Export Processing Co, Limited	Vietnam 5 March 1992	US$58,560,000/ US$58,560,000	100	–	Manufacturing and sale of motorbikes and related spare parts
Chin Zong Trading Co., Limited	Taiwan 6 July 2007	US$4,528,712/ US$9,057,424	100	–	Sale of motor vehicles and motorbikes and related spare parts
Vietnam Casting Forge Precision Limited	Vietnam 12 April 2002	US$4,500,000/ US$4,500,000	–	100	Manufacturing spare parts for motorbikes and motor vehicles
C.Q.S. Molds Inc.	Vietnam 14 June 2002	US$1,200,000/ US$1,200,000	–	70	Manufacturing and processing moulds and jigs

VMEP obtained the investment license to carry on the business of manufacturing light trucks under 3.5 tonnes and six to nine-seat multipurpose vehicles and related parts and engines in 2005. The Group established Sanyang Motor Vietnam Co., Ltd. ("SMV") (now known as Sanyang Vietnam Automobile Co., Ltd.) in Vietnam on 29 June 2007. On 3 August 2007, the Group disposed of SMV together with the investment license to carry on the light trucks and multipurpose vehicles business at a cash consideration of US$5 million, which was equivalent to the net book value of SMV on 31 July 2007, to SY International Limited, an equity holder of the Company.

Net assets disposed:	*US$*
Net identifiable asset:	
Cash and cash equivalents	5,000,000
Total disposal price consideration satisfied by cash	5,000,000
Net cash change in respect of disposal of SMV	
Cash and cash equivalents disposed	–

14. INVENTORIES

	The Group	
	2007	2006
	US$	*US$*
Raw materials	**26,728,528**	24,850,513
Tools and supplies	**819,169**	668,246
Work in progress	**3,223,197**	3,062,223
Finished goods	**7,812,399**	3,019,201
Merchandise inventories*	**4,550,465**	3,990,388
	43,133,758	35,590,571
Allowance for inventory impairment	**(2,295,395)**	(751,140)
Net realisable value	**40,838,363**	34,839,431

* *Merchandise inventories mainly represent spare parts kept for repair and maintenance.*

The analysis of the amount of inventories recognised as expenses is as follows:

	The Group	
	2007	2006
	US$	*US$*
Carrying amount of inventories sold	**189,914,342**	139,083,916
Write down of inventories	**1,865,912**	353,224
	191,780,254	139,437,140

Movements in allowance for inventory impairment were as follows:

	The Group	
	2007	2006
	US$	*US$*
At beginning of the year	**751,140**	612,368
Additions	**1,865,167**	353,224
Utilisation	**(320,912)**	(214,452)
At the end of the year	**2,295,395**	751,140

Notes to the Consolidated Financial Statements

15. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Trade receivables *(Note 15(i))*	**2,539,534**	1,396,223	**–**	–
Non-trade receivables *(Note 15(ii))*	**7,575,119**	4,078,672	**3,525,666**	–
Prepayments *(Note 15(iii))*	**5,250,947**	7,360,947	**3,982**	1,820,000
Amounts due from related parties *(Note 24(c))*	**3,200,875**	3,928,257	**–**	–
At 31 December 2007	**18,566,475**	16,764,099	**3,529,648**	1,820,000

(i) Trade receivables

All of the trade receivables are expected to be recovered within one year. The Group's credit policy is set out in Note 26(a).

An aging analysis of the trade receivables of the Group is as follows:

	The Group	
	2007	2006
	US$	*US$*
Within three months	**2,474,124**	1,374,091
More than three months but within one year	**48,315**	17,622
More than one year	**17,095**	4,510
	2,539,534	1,396,223

(ii) Non-trade receivables

	The Group		The Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Import tax refundable	**1,194,126**	1,789,080	**–**	–
Listing fee recoverable	**3,511,146**	–	**3,511,146**	–
Interest receivable	**369,840**	639,925		
Discount on spare parts purchased	**562**	171,821	**–**	–
Compensation of material losses-in-transit	**–**	551,550	**–**	–
Deductible VAT	**1,305,111**	402,803	**–**	–
Others	**1,194,334**	523,493	**14,520**	–
At 31 December 2007	**7,575,119**	4,078,672	**3,525,666**	–

The above balances are unsecured, interest-free and have no fixed terms of repayment. They are expected to be recovered or utilised within one year.

15. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

(iii) Prepayments

	The Group		The Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Prepayments	**4,314**	2,030,455	**3,982**	1,820,000
Advances to suppliers	**5,246,633**	5,330,492	**–**	–
At 31 December 2007	**5,250,947**	7,360,947	**3,982**	1,820,000

16. PLEDGED BANK DEPOSITS

	The Group	
	2007	2006
	US$	*US$*
Pledged bank deposits – denominated in VND	**9,822,323**	16,347,106

Bank deposits have been pledged to banks as security for certain banking facilities (Note 20).

Included in pledged bank deposits as at 31 December 2006 and 2007 are time deposits amounting to US$1,173,596 and nil, respectively, placed with Chinfon Commercial Bank which is effectively controlled by the Huang Family, the single largest equity holder of Sanyang Industry Co., Ltd. ("Sanyang").

The effective interest rates relating to pledged bank deposits per annum are as follows:

	The Group	
	2007	2006
Effective interest rates – VND	**3.50% to 6.64%**	6.48% to 8.58%

Notes to the Consolidated Financial Statements

17. TIME DEPOSITS MATURING AFTER THREE MONTHS

	The Group	
	2007	2006
	US$	*US$*
Time deposit maturing after three months – denominated in VND	**13,243,810**	9,369,945

The effective interest rates per annum relating to time deposits maturing after three months are as follows:

	The Group	
	2007	2006
Effective interest rates – VND	**6.60% to 8.76%**	6.10% to 8.82%

18. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Denominated in US$	**81,044,254**	6,135,471	**76,127,100**	7,172
Denominated in NTD	**4,776,205**	–	**–**	–
Denominated in Hong Kong Dollar ("HK$")	**14,392**	–	**14,392**	–
Denominated in VND	**39,861,898**	41,299,453	**–**	–
Total cash and cash equivalents	**125,696,749**	47,434,924	**76,141,492**	7,172

Included in cash and cash equivalents as at 31 December 2006 and 2007 of the Group are deposits of US$10,556,919 and nil, respectively, placed with Chinfon Commercial Bank which is effectively controlled by the Huang Family, the single largest equity holder of Sanyang.

18. CASH AND CASH EQUIVALENTS (Continued)

The effective interest rates relating to cash and cash equivalents denominated in US$, NTD, HK$ and VND per annum for the years ended 31 December 2006 and 2007 are set out as follows:

	The Group		The Company	
	2007	2006	**2007**	2006
Effective interest rates – US$	**1.25% to 6.00%**	4.40% to 5.00%	**1.25% to 6.00%**	–
Effective interest rates – NTD	**0.1% to 2.16%**	–	**–**	–
Effective interest rates – HK$	**1.5%**	–	**1.5%**	–
Effective interest rates – VND	**5.64% to 9.3%**	6.32% to 8.63%	**–**	–

19. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Trade payables *(Note 19(i))*	**18,045,969**	12,104,699	**–**	–
Other payables and accrued operating expenses *(Note 19(ii))*	**14,087,056**	7,684,387	**329,465**	4,508
Advances from customers	**4,313,555**	2,386,719	**–**	–
Amounts due to related parties *(Note 24(d))*	**9,473,325**	7,168,760	**33,992**	1,838,136
	45,919,905	29,344,565	**363,457**	1,842,644

Notes to the Consolidated Financial Statements

19. TRADE AND OTHER PAYABLES (Continued)

(i) Trade payables

An aging analysis of trade payables is as follows:

	The Group	
	2007	2006
	US$	*US$*
Within three months	**16,224,274**	10,213,468
More than three months but within one year	**1,674,437**	1,755,574
More than one year but within five years	**147,258**	135,657
	18,045,969	12,104,699

(ii) Other payables and accrued operating expenses

	The Group		The Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Other tax payables	**3,352,291**	1,304,049	–	–
Commission and bonus payable to dealers	**4,236,773**	2,428,461	–	–
Accrued expenses	**4,085,179**	2,237,820	**329,465**	4,508
Other payables	**2,412,813**	1,714,057	–	–
	14,087,056	7,684,387	**329,465**	4,508

The above balances are expected to be settled within one year.

20. INTEREST-BEARING BORROWINGS

(a) Current

	The Group	
	2007	2006
	US$	*US$*
Bank borrowings – secured	**12,900,000**	14,150,000
Bank borrowings – unsecured	**500,000**	2,300,000
Borrowings from Chinfon Commercial Bank		
– secured *(Note 24(d))*	**–**	800,000
Current portion of long-term borrowings		
– secured	**25,523**	830
	13,425,523	17,250,830

The above secured borrowings were all denominated in US$ and were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	The Group	
	2007	2006
	US$	*US$*
Time deposits and bank balances	**9,073,025**	15,599,489

Interest rates per annum on the above borrowings were:

	The Group	
	2007	2006
Short-term interest-bearing borrowings	**3.41% to 7.35%**	4.47% to 6.63%

Notes to the Consolidated Financial Statements

20. INTEREST-BEARING BORROWINGS (Continued)

(b) Non-current

	The Group	
	2007	2006
	US$	*US$*
Bank borrowings – secured	**95,749**	40,665
Less: Amount due within one year	**(25,523)**	(830)
	70,226	39,835

The above secured borrowings were all denominated in US$ and were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

	The Group	
	2007	2006
	US$	*US$*
Time deposits and bank balances	**749,298**	747,617

Interest rates per annum on the above non-current borrowings were:

	The Group	
	2007	2006
Long-term interest-bearing borrowings	**6.80%**	6.79%

20. INTEREST-BEARING BORROWINGS (Continued)

(c) Maturity of borrowings

The maturity profile of the interest-bearing borrowings of the Group as at each of the balance sheet dates is as follows:

	The Group	
	2007	2006
	US$	*US$*
Within one year	**13,425,523**	17,250,830
More than one year and within three years	**70,226**	39,835
	13,495,749	17,290,665
Less: borrowings classified as current liabilities	**(13,425,523)**	(17,250,830)
Non-current borrowings	**70,226**	39,835

21. INCOME TAX PAYABLES/(RECOVERABLE)

(a) Current taxation in the balance sheet represents:

	The Group	
	2007	2006
	US$	*US$*
At beginning of the year	**(363,206)**	(873,125)
Provision for tax for the year	**4,001,090**	2,537,737
Under provided in prior year	**33,380**	52,337
Income tax paid	**(2,319,101)**	(2,080,155)
At end of the year	**1,352,163**	(363,206)
Represented by:		
Income tax recoverable	**(3,573)**	(383,497)
Income tax payables	**1,355,736**	20,291
	1,352,163	(363,206)

21. INCOME TAX PAYABLES/(RECOVERABLE) (Continued)

(b) Recognised deferred tax assets:

The Group

Deferred tax arising from:	Allowance for inventories *US$*
At 1 January 2006	108,967
Credited to income statements	24,979
At 31 December 2006	133,946
Credited to income statements	169,636
At 31 December 2007	303,582

22. PROVISIONS

The Group

	Warranties *US$*	Severance pay allowances *US$*	Total *US$*
At 1 January 2006	1,022,275	397,921	1,420,196
Additions	3,746,024	104,236	3,850,260
Utilisation during the year	(3,713,314)	(73,775)	(3,787,089)
At 31 December 2006	1,054,985	428,382	1,483,367
Additions	4,541,526	289,628	4,831,154
Utilisation during the year	(4,336,630)	(31,208)	(4,367,838)
At 31 December 2007	1,259,881	686,802	1,946,683

The provision for warranties relates mainly to motorbikes sold. The provision is based on estimates made from historical warranty data associated with similar products and services. Further details in respect of the severance pay allowances are set out in Note 28(e).

23. CAPITAL AND RESERVES

(a) Share capital

The Group/the Company

Authorised:

	Ordinary shares of US$1.00		Ordinary shares of HK$0.01	
	Number of Shares	Amount *US$*	Number of Shares	Amount *US$*
At 1 January 2007	200,000,000	200,000,000	–	–
Creation *(a(i))*	–	–	10,000,000,000	12,811,479
Cancellation *(a(i))*	(200,000,000)	(200,000,000)	–	–
At 31 December 2007	–	–	10,000,000,000	12,811,479

The Group/the Company

Issued and fully paid:

	Ordinary shares of US$1.00		Ordinary shares of HK$0.01	
	Number of Shares	Amount *US$*	Number of Shares	Amount *US$*
At 1 January 2007	58,560,000	58,560,000	–	–
Issue of shares *(a(i))*	–	–	58,560,000	75,024
Cancellation of shares *(a(i))*	(58,560,000)	(58,560,000)	–	–
Capitalisation issue *(a(ii))*	–	–	673,440,000	862,776
Issue of shares for Initial Public Offering *(a(iii))*	–	–	175,680,000	225,072
At 31 December 2007	–	–	907,680,000	1,162,872

Notes to the Consolidated Financial Statements

23. CAPITAL AND RESERVES (Continued)

(a) Share capital (Continued)

The Group/the Company (Continued)

Issued and fully paid: (Continued)

(i) Pursuant to the written resolution of the shareholders passed on 24 November 2007:

- the authorised share capital of the Company was increased by HK$100,000,000 by the creation of 10,000,000,000 shares of HK$0.01 par value each (the "Shares") such that the authorised share capital of the Company would be US$200,000,000 and HK$100,000,000 divided into 200,000,000 shares of US$1.00 each and 10,000,000,000 Shares of HK$0.01 each (the "Increase");

- following the Increase, the Company repurchased all shares of US$1.00 each in issue from SY International Limited as to 52,704,000 Shares and from Indopark Holdings Limited as to 5,856,000 Shares for an amount equivalent to their nominal value; and issued 58,560,000 new Shares for an equivalent amount to the following shareholders:

Shareholders	*No. of new Shares*
SY International Limited	52,704,000
Indopark Holdings Limited	5,856,000

- following the above, the authorised but unissued share capital of the Company was reduced by the cancellation of all unissued shares of US$1.00 each in the Company.

(ii) 673,440,000 shares of HK0.01 each were issued through the capitalisation of share premium on 20 December 2007.

(iii) On 20 December 2007, 175,680,000 additional ordinary shares were issued and offered for subscription at a price of HK$3.75 per share upon the listing of the Company's shares on the main board of the Stock Exchange. Of the proceeds, US$225,072 representing the par value were credited to the Company's share capital. The remaining proceeds of US$84,176,952 were credited to the share premium account.

(iv) All new ordinary shares issued during the year ended 31 December 2007 rank equally with regard to the Company's residual assets.

23. CAPITAL AND RESERVES (Continued)

(b) Nature and purpose of reserves

(i) Exchange reserves

The exchange reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries.

(ii) Share premium

The share premium represents the difference between the par value of the shares of the Company and proceeds received from the issuance of shares of the Company. Under the Companies Law of the Cayman Islands, the share premium account of the Company is distributable to the shareholders of the Company provided that immediately following the date on which a dividend is proposed to be distributed, the Company would be in a position to pay off its debts as they fall due in the ordinary course of business.

(iii) Distributability of reserves

At 31 December 2007, the aggregate amount of reserves available for distribution to equity holders of the Company was US$141,233,523. (2006: Nil)

(c) Statements of changes in equity (the Company)

	Paid-in capital *US$*	Share premium *US$*	Retained profits *US$*	Total equity *US$*
At 31 December 2005	58,560,000	–	–	58,560,000
Profit for the year	–	–	21,984,528	21,984,528
Dividends	–	–	(22,000,000)	(22,000,000)
At 31 December 2006	58,560,000	–	(15,472)	58,544,528
Change of par value	(58,484,976)	58,484,976	–	–
Issue of shares through Initial Public Offering	225,072	84,176,952	–	84,402,024
Issue of shares on capitalisation of share premium account	862,776	(862,776)	–	–
Share issue expenses	–	(9,817,674)	–	(9,817,674)
Profit for the year	–	–	48,267,517	48,267,517
Dividends	–	–	(39,000,000)	(39,000,000)
At 31 December 2007	1,162,872	131,981,478	9,252,045	142,396,395

23. CAPITAL AND RESERVES (Continued)

(d) Capital management

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The gearing ratio for the year ended 31 December 2007 is 7%. (2006: 14%) The gearing ratio is calculated by dividing total interest-bearing borrowings with total equity.

The Group is not subject to externally imposed capital requirements.

24. RELATED PARTY TRANSACTIONS

During the years ended 31 December 2006 and 2007, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Sanyang Industry Co., Ltd. ("Sanyang")	The ultimate holding company
SY Inter national Limited	Equity holder of the Company
Indopark Holdings Limited	Minority equity holder of the Company
Xia Shing Xiamen Motorcycle Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Teamworld Industries Corporation	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
PT Sanyang Industry Indonesia	Effectively controlled by Sanyang, the controlling equity holder of the Group
Plassen International Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Chinlead International Corporation	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
Quingzhou Engineering Industry Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Chinfon Commercial Bank	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
Vietnam Three Brothers Machinery Industry Co., Limited	The associate of the Company and a non-wholly owned subsidiary of Sanyang
Sanyang Vietnam Automobile Co., Ltd. (formerly known as Sanyang Motor Vietnam Co., Limited)	A subsidiary of SY International Limited, the equity holder of the Company

24. RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions

	2007 US$	2006 US$
Sales of finished goods and spare parts: *(i)*		
Sanyang Industry Co., Ltd.	19,190,762	16,322,415
Xia Shing Xiamen Motorcycle Co., Ltd.	54,372	67,516
Teamworld Industries Corporation	84,539	38,835
PT Sanyang Industry Indonesia	27,859	643,946
	19,357,532	17,072,712
Purchases of raw materials: *(ii)*		
Sanyang Industry Co., Ltd.	29,296,649	24,826,803
Teamworld Industries Corporation	2,467,486	3,387,337
Vietnam Three Brothers Machinery Industry Co., Limited	4,370,093	3,665,048
Xia Shing Xiamen Motorcycle Co., Ltd.	347,442	375,200
Chinlead International Corporation	63,948	6,001
Quingzhou Engineering Industry Co., Ltd.	–	607,544
	36,545,618	32,867,933
Technology transfer fees: *(iii)*		
Sanyang Industry Co., Ltd.	5,985,566	3,052,690
Technical consultancy fee: *(iv)*		
Sanyang Industry Co., Ltd.	339,407	394,533

(i) Sales of finished goods and spare parts are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.

(ii) Purchases of raw materials are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.

(iii) Effective from 1 January 2007 technology transfer fees are calculated based on 4% (2006: 3%) of the net sales of certain products, as defined in the Technology Licence Agreement between VMEP and Sanyang Industry Co., Ltd..

(iv) Technical consultancy fees charged by Sanyang Industry Co., Ltd. are staff costs and other related expenses, as defined in the technical consultancy fee agreement between VCFP, C.Q.S. and Sanyang Industry Co., Ltd..

24. RELATED PARTY TRANSACTIONS (Continued)

(b) Non-recurring transactions

	2007 US$	2006 US$
Purchases of property, plant and equipment: *(i)*		
Sanyang Industry Co., Ltd.	252,207	117,941
Teamworld Industries Corporation	–	40,420
Xia Shing Xiamen Motorcycle Co., Ltd.	–	47,820
Vietnam Three Brothers Machinery Industry Co., Limited	–	90,097
	252,207	296,278
Disposals of property, plant and equipment: *(i)*		
Sanyang Vietnam Automobile Co., Ltd.	3,883,988	–
Bank loans: *(ii)*		
Chinfon Commercial Bank	–	1,300,000
Interest income: *(iii)*		
Chinfon Commercial Bank	662,908	681,124
Interest expenses: *(iv)*		
Chinfon Commercial Bank	17,869	117,114

(i) Purchases and disposals of property, plant and equipment were carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.

(ii) Bank loans were obtained on mutually agreed terms with reference to comparable market prices, where applicable, and on normal commercial terms.

(iii) The applicable interest rates on bank deposits with Chinfon Commercial Bank are based on the prevailing market deposit rates.

(iv) The applicable interest rates on bank loans from Chinfon Commercial Bank are based on the prevailing market borrowing rates.

24. RELATED PARTY TRANSACTIONS (Continued)

(c) Amount due from related companies

	2007 US$	2006 US$
Trade		
Sanyang Industry Co., Ltd.	1,211,450	3,092,034
Teamworld Industries Corporation	49,292	85,716
Xia Shing Xiamen Motorcycle Co., Ltd.	1,115,664	15,505
Vietnam Three Brothers Machinery Industry Co., Limited	–	2,320
PT Sanyang Industry Indonesia	24,486	2,105
Sub-total	2,400,892	3,197,680
Non-trade		
Sanyang Industry Co., Ltd.	523,052	720,094
Quingzhou Engineering Industry Co., Ltd.	276,931	10,483
Sub-total	799,983	730,577
Total	3,200,875	3,928,257
Pledged bank deposits *(Note 16)*		
Chinfon Commercial Bank	–	1,173,596
Cash and cash equivalents *(Note 18)*		
Chinfon Commercial Bank	–	10,556,919

Trade balances due from related companies are unsecured, interest-free and are expected to be recovered within 60 days.

Non-trade balances due from related companies are expected to be recovered within one year.

The non-trade receivables from Sanyang relate to prepayments made for purchase of inventories.

The non-trade receivables from Quingzhou Engineering Industry Co., Ltd. represent prepayments made for purchase of machineries.

24. RELATED PARTY TRANSACTIONS (Continued)

(d) Amount due to related parties

	The Group		The Company	
	2007	2006	**2007**	2006
	US$	*US$*	***US$***	*US$*
Trade				
Sanyang Industry Co., Ltd.	**8,246,112**	4,632,048	**–**	–
Teamworld Industries Corporation	**578,120**	270,774	**–**	–
Xia Shing Xiamen Motorcycle Co., Ltd.	**362,514**	87,638	**–**	–
Chinlead International Corporation	**63,948**	–	**–**	–
Vietnam Three Brothers Machinery Industry Co., Ltd.	**222,631**	334,190	**–**	–
	9,473,325	5,324,650	**–**	–
Non-trade				
Vietnam Manufacturing and Export Processing Limited	**–**	–	**33,992**	31,242
SY International Limited	**–**	30,000	**–**	30,000
Sanyang Industry Co., Ltd.	**–**	1,814,110	**–**	1,776,894
Subtotal	**–**	1,844,110	**33,992**	1,838,136
Total	**9,473,325**	7,168,760	**33,992**	1,838,136
Bank borrowings				
– secured				
Chinfon Commercial Bank	**–**	800,000	**–**	–

Trade payables due to related companies are all unsecured, interest-free and expected to be settled within ranges from 30 to 60 days.

Non-trade payables due to related companies of the Group and the Company are expected to be settled within six months.

The non-trade payables to SY International Limited of the Group and the Company relate to dividend payables.

Included in the non-trade payables to Sanyang of the Group and of the Company is government grants of nil (2006 : US$1,776,894) received on behalf of Sanyang.

25. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding at the year end not provided for were as follows:

	The Group	
	2007	2006
	US$	*US$*
Contracted for	**986,196**	1,396,112
Authorised but not contracted for	**12,246,898**	13,900,095
	13,233,094	15,296,207

Capital commitment authorised but not contracted for as at the year ends was in respect of the construction of a new research and development centre.

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases were payable as follows:

	The Group	
	2007	2006
	US$	*US$*
Within 1 year	**179,178**	158,308
After 1 year but within 5 years	**672,983**	677,676
After 5 years	**3,357,813**	3,316,780
	4,209,974	4,152,764

The leases run for an initial period of one to fifty years.

26. FINANCIAL INSTRUMENTS

The Group's business strategies, tolerance of risk and general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions. In the opinion of the directors, the Group has taken appropriate quality control measures to mitigate the effect from any claims caused by products, which may affect adversely its financial results.

The Group's financial assets comprise mainly cash and cash equivalents, pledged bank deposits, trade receivables, deposits, other receivables, prepayments, time deposits maturing after three months and amounts due from related companies. The Group's financial liabilities comprise interest-bearing borrowings, trade and other payables, and amounts due to related companies.

The Group had no derivative instruments that are designated and qualified as hedging instruments for the year ended 31 December 2007. Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

(a) Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counter party to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers.

(i) Trade receivables, other receivables and prepayments

The Group's exposure to credit risk is minimal as the Group generally offers no credit terms to domestic customers, which accounted for approximately 92% of total customers. Overseas customers are generally granted credit terms ranging from 30 days to 60 days. The Group does not have any significant exposure to any individual customer or counter party.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due; 49% (2006: 70%) of the trade receivables as at year end are due from related parties which have a good trading and settlement record with the Group.

The Group does not collect collateral in respect of trade receivables, other receivables and prepayments.

The maximum exposure to credit risk is represented by the carrying amounts of each financial asset in the consolidated balance sheets.

26. FINANCIAL INSTRUMENTS (Continued)

(a) Credit risk (Continued)

(i) Trade receivables, other receivables and prepayments (Continued)

The maximum exposure to credit risk for trade receivables at the balance sheet dates by business type was as follows:

	2007 US$	2006 US$
Manufacture and sales of motorbikes	2,239,186	772,846
Manufacture and sales of spare parts and engines	2,403,701	3,680,728
Moulds and repair services	297,539	140,329
	4,940,426	4,593,903

(ii) Deposits with bank

All the bank deposits are deposited with high quality financial institutions with no significant credit risk. The management does not expect any losses arising from non-performance of these financial institutions.

(b) Interest rate risk

The Group's exposure to interest rate risk relates to interest bearing financial assets and liabilities.

(i) Interest bearing financial assets

Pledged bank deposits and time deposits maturing after three months are not held for speculative purposes but are placed to satisfy conditions for borrowing facilities granted to the Group and for higher yield returns than cash at banks.

The Group manages its interest rate yield by prudently balancing the placement of deposits with varying maturity periods.

26. FINANCIAL INSTRUMENTS (Continued)

(b) Interest rate risk (Continued)

(ii) Interest bearing financial liabilities

Interest-bearing financial liabilities include bank borrowings. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes of interest rates. The interest rates and terms of repayment of the interest-bearing borrowings of the Group are disclosed in Note 20.

At the balance sheet date the interest rate profile of the Group's interest bearing financial instruments was:

	2007 US$	2006 US$
Variable rate instrument		
Financial liabilities	13,495,749	17,290,665

Cash flow sensitivity analysis for variable rate instruments

A change of 100 basis points in interest rates at the reporting date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 2006.

	Profit or loss		Equity	
	100bp Increase	100bp Decrease	100bp Increase	100bp Decrease
2007				
Variable rate instrument				
Cash flow sensitivity	(133,765)	133,765	(133,765)	133,765
2006				
Variable rate instrument				
Cash flow sensitivity	(211,234)	211,234	(211,234)	211,234

26. FINANCIAL INSTRUMENTS (Continued)

(c) Foreign exchange risk

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US$ and NTD.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

	US$	*NTD*	*HK$*
2007			
Trade and other receivables	**8,542,587**	**–**	**–**
Cash and cash equivalents	**81,044,254**	**4,776,205**	**14,392**
Trade and other payables	**(12,936,842)**	**(7,065,520)**	**–**
Interest-bearing borrowings	**(13,495,749)**	**–**	**–**
Balance sheet exposure	**63,154,250**	**(2,289,315)**	**14,392**
2006			
Trade and other receivables	8,623,224	–	–
Cash and cash equivalents	6,135,471	–	–
Trade and other payables	(8,686,563)	(512,196)	–
Interest-bearing borrowings	(17,290,665)	–	–
Balance sheet exposure	(11,218,533)	(512,196)	–

The following significant exchange rates applied during the year:

	2007	2006
	VND	VND
US$ 1	**16,015**	16,051
NTD 1	**503**	495
HK$1	**2,067**	2,067

Notes to the Consolidated Financial Statements

26. FINANCIAL INSTRUMENTS (Continued)

(c) Foreign exchange risk (Continued)

The following exchange rates are the spot rate at reporting date:

	2007 VND	2006 VND
US$ 1	16,119	16,080
NTD 1	496	493
HK$1	2,067	2,067

A 3% weakening of the VND against the following currencies at the end of the year would have increased (decreased) profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 2006.

	Consolidated Income Statement
2007	
US$	1,954,072
NTD	(66,679)
HK$	419
2006	
US$	(326,753)
NTD	(14,918)

A 3% strengthening of the VND against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

26. FINANCIAL INSTRUMENTS (Continued)

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The individual subsidiaries within the Group are responsible for their own cash management, including raising loans to cover the expected cash demands, subject to approval by the Company's board of directors. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term. The contractual maturities of financial liabilities are disclosed in Notes 19 and 20.

	Carrying amount *US$*	Undiscounted contractual cash flow *US$*	6 months or less *US$*	6-12 months *US$*	1-2 years *US$*	> 2 years *US$*
2007						
Trade and other payables excluding advances from customers	41,606,350	41,606,350	31,448,378	10,157,972	–	–
Bank borrowings – Secured	12,995,749	13,111,217	13,018,942	15,379	29,450	47,446
Bank borrowings – Unsecured	500,000	507,400	507,400	–	–	–
	55,102,099	55,224,967	44,974,720	10,173,351	29,450	47,446
2006						
Trade and other payables excluding advances from customers	26,957,846	26,957,846	18,552,882	8,404,964	–	–
Bank borrowings – Secured	14,990,665	15,144,267	15,097,397	4,680	12,179	30,011
Bank borrowings – Unsecured	2,300,000	2,331,321	2,331,321	–	–	–
	44,248,511	44,433,434	35,981,600	3,252,182	12,179	30,011

26. FINANCIAL INSTRUMENTS (Continued)

(e) Business risk

The Group has certain concentration risk of raw material sourcing from related parties. The Group's total purchases of raw materials from the related parties amounted to US$36,545,618 (2006: 32,867,933) which accounted for approximately 28.3% (2006: 26.5%) of the Group's total purchases for the year ended 31 December 2007.

(f) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2007. The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

(i) Cash and cash equivalents, pledged bank deposits, trade receivables, deposits, other receivables, prepayments, trade and other payables, amounts due from/to related companies

The carrying amounts approximate their respective fair values due to the short-term maturity of these instruments.

(ii) Bank loans

The carrying amount of bank loans approximate their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

27. SHARE OPTION SCHEME

A share option scheme was adopted pursuant to a written resolution of the shareholders of the Company passed on 24 November 2007 (the "Share Option Scheme").

The purpose of the Share Option Scheme is to provide an incentive for the qualified participants to work with commitment towards enhancing the value of the Company and the shares for the benefit of the shareholders and to retain and encourage qualified participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The qualified participants include (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the board has contributed or will contribute to the Group.

On 4 February 2008 (the "Grant Date"), the Company granted 20,000,000 share options at a subscription price of HK$2.90 per share to certain qualified participants. From the date being six months, one year, two years and three years from the Grant Date, up to 20%, 45%, 70% and 100%, respectively, of the number of share options granted can be exercised by the qualified participants. All share options granted must be exercised by the qualified participants within five years from the Grant Date or will otherwise lapse.

28. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty are as follows:

(a) Impairment losses on trade receivables, other receivables and prepayments

Impairment losses on trade receivables, other receivables and prepayments are assessed and provided based on the directors' regular review of aging analysis and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated income statements in future years.

(b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives, after taking into account the estimated residual value. The Group reviews annually the useful life of an asset and its residual value, if any. The depreciation expenses for future periods are adjusted if there are significant changes from previous estimates.

(c) Net realisable value of inventories

Net realisable value of inventories is the estimated selling price in the ordinary course of business, less estimated costs of completion and selling expenses. These estimates are based on the current market conditions and the historical experience of distributing and selling products of similar nature. These could change significantly as a result of competitor actions in response to severe industry cycles or other changes in market conditions. Management reassesses the estimations at each balance sheet date.

(d) Income taxes

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

(e) Provisions

(i) Warranties

The provision for warranties relates mainly to motorbikes sold. The provision calculated by management is based on estimates extracted from historical warranty data associated with similar products and services. The calculation requires the use of judgement and estimation.

Notes to the Consolidated Financial Statements

28. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

(e) Provisions (Continued)

(ii) Severance pay allowance

Pursuant to the labour regulation in Vietnam, employers are required to pay severance allowance to local employees (half month of salary for every one completed year of service) when the employee leaves the company. The obligation vests and is payable regardless of the reasons for departing the company. The obligation in respect of severance pay allowance is calculated by estimating the amount of benefits that employees have earned in return for their service in the current and prior periods. The calculation requires the use of judgement and estimation. A provision is made for the estimated liability for severance pay allowance as a result of services rendered by employees up to the balance sheet date.

29. ULTIMATE HOLDING COMPANY

The directors of the Company consider the ultimate holding company of the Company to be Sanyang Industry Co., Ltd., an enterprise established in Taiwan.