



**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)



The Hanoi Opera House, Vietnam

## Annual Report 2010

**Shark 170  
Scooter to launch on May 2011**



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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Chang Kwang Hsiung (*Chairman*)  
 Mr. Lou Hen Wen (*Chief Executive Officer*)  
 Mr. Lee Hsi Chun  
 Mr. Wang Ching Tung

#### Non-executive Directors

Mr. Chiang Shih Huang (appointed from 1 January 2011)  
 Mr. Huang Kwang Wu (resigned from 31 December 2010)  
 Mr. Liu Wu Hsiung Harrison

#### Independent Non-executive Directors

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

### AUTHORISED 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 Wu (resigned from 31 December 2010)  
 Mr. Lee Hsi Chun (appointed from 1 January 2011)

### 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

### 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

### PRINCIPAL BANKERS

Australia & New Zealand Bank  
 Vietcom Bank  
 The Hongkong and Shanghai Banking Corporation Limited  
 Merrill Lynch (Asia Pacific) Limited

### STOCK CODE

422

### WEBSITE AND CONTACT

www.vmeph.com  
 Tel: (852)25621692  
 Fax: (852)25621691

## Financial Summary

The following is a summary of the consolidated results and consolidated assets and liabilities of the Group for the last five financial years.

	2010 <i>US\$'M</i>	Years ended 31 December			
		2009 <i>US\$'M</i>	2008 <i>US\$'M</i>	2007 <i>US\$'M</i>	2006 <i>US\$'M</i>
RESULTS					
Revenue	<b>246.9</b>	217.7	216.8	259.7	184.3
Gross profit	<b>58.7</b>	54.1	48.1	67.2	44.2
Profit from operating activities	<b>25.3</b>	23.0	4.7	30.6	22.2
Profit before income tax	<b>31.4</b>	25.4	12.1	34.9	25.9
Profit attributable to equity holders	<b>25.1</b>	21.3	8.0	31.0	23.3
Earnings per share ( <i>US\$</i> ) <sup>(1)</sup>	<b>0.028</b>	0.023	0.009	0.04	0.03
ASSETS AND LIABILITIES					
Total assets	<b>209.7</b>	220.6	235.9	252.7	171.3
Total liabilities	<b>42.0</b>	53.3	63.9	62.7	48.1
Net assets	<b>167.7</b>	167.3	172.0	190.0	123.2
Equity attributable to equity holders	<b>167.7</b>	167.3	172.0	189.5	122.8
Return on equity (%)	<b>15.0</b>	12.6	4.4	19.8	19.0
Current ratio ( <i>times</i> ) <sup>(2)</sup>	<b>4.0</b>	3.3	3.0	3.3	2.6
Gearing ratio (%) <sup>(3)</sup>	<b>0.7</b>	4.8	23.2	7.1	14.0

Note:

1. The calculation of earnings per share for the year ended 31 December 2008, 2009 and 2010 is based on the profit attributable to shareholders and the weighted average number of ordinary shares in issue (i.e. 907,680,000 shares) during the year. The calculation of basic earnings per share for the years ended 31 December 2006 and 2007 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 the prospectus of the Company and 673,440,000 shares to be issued pursuant to the capitalisation issue.
2. Current ratio is calculated by dividing current assets by current liabilities.
3. Gearing ratio is equal to total interest-bearing borrowings divided by total equity times 100%.

## Chairman's Statement

On behalf of the board of directors (the "Board") of Vietnam Manufacturing and Export Processing (Holdings) Limited ("VMEPH" or the "Company", and with its subsidiaries collectively the "Group"), I wish to sincerely extend my appreciation to each shareholder for its support to the Company. I hereby present with pleasure the annual report of the Company and its subsidiaries for the year ended 31 December 2010.

Vietnam has an unstable economy for a few years. Though its economy has seen steady growth, the instability of its economic conditions has increased because its economic structure is gravely imbalanced. 2010 has been a difficult and challenging year, but the Group has strengthened its cost controls to enhance operational efficiency, enhanced its effort in marketing activities and proactively introduced various innovative and quality models to its customers, and further strengthened after sales services in order to raise customer satisfaction and loyalty. As a result, the Group maintained both the domestic and overseas sales growth in 2010.

The Group recorded a sustainable profit for the year 2010. Revenue and profit attributable to equity holders of the Company were approximately US\$246.9 million and US\$25.1 million respectively in 2010, representing an increase of 13% and 18% respectively as compared with those in 2009. Basic earnings per share for the year 2010 came to US\$0.028 as compared with US\$0.023 for the year 2009. As at the balance sheet date, the Group had cash equivalents and bank balances amounted to US\$129.8 million. The financial condition of the Group is sound and we have the capabilities to develop our business further in the future.

### OUTLOOK

Looking ahead, the Vietnam macro economic conditions will still remain uncertain. As the Vietnamese government has introduced a series of fiscal stimulus measures, we are optimistic that the Vietnam's economy will continue to grow at a steady and rapid pace, whereas the motorbike industry is also expected to have a faster growth. Most countries in the ASEAN region continue to achieve economic improvements and their motorbike industries will also grow at faster pace in the forthcoming future.

The Group maintains a positive attitude towards market growth in the coming years, and will seize all available development opportunity and try its best to enhance profitability. The Group remains focused on maintaining stringent cost controls and improving operational efficiency, and we strive to consolidate overall marketing strategies and strengthen its product mix. The Group is also actively exploring the development of new models with a strategy of marketing and promoting the broader application and environmental friendly attributes of its scooters and cubs. The Group intends to introduce more high value-added products to widen its profit margins and increase long-term profitability and returns going forward.

The Group's management believes that leveraging on its solid fundamentals and competitive strengths will put the Group in a stronger position to capture future opportunities for growth. The Group would also actively plan to develop new business opportunity. It has established an overseas subsidiary for evaluating land development projects in Vietnam recently.

In today's increasingly competitive market environment, our dedicated staff serve as our most valuable asset. On behalf of the Board, I would like to express my sincere gratitude to all our employees for their dedication, hard work and loyal service, and to our shareholders, customers, dealers, suppliers and business partners for their continued support and trust throughout the year.

By order of the Board  
**Chang Kwang Hsiung**  
*Chairman*

Hong Kong, 25 March, 2011

## Management Discussion & Analysis

The Group is one of the leading manufacturers of scooters and cub motorbikes in Vietnam. Its manufacturing and assembly operations are located in Dong Nai Province and Ha Tay Province of Vietnam. The Group offers a wide range of models, and its motorbikes are sold under the SYM and SANDA brand names. It also produces motorbike engines and parts for internal use and export as well as selling and providing services associated with moulds to make die-cast and forged metal parts.

### OPERATION ENVIRONMENT

The Vietnam economic conditions remained uncertain but its domestic motorbike industry continued to grow at a steady pace. According to the statistics from the Vietnam General Statistics Office, gross domestic product ("GDP") of 2010 recorded a growth rate of 6.8% over the previous year and the consumer price index ("CPI") for the year grew by 11.8%, whereas number of motorbikes sold in 2010 amounted to 3.3 million units, representing a growth of 14% over the same period of last year. On 10 February 2010, just before Tet (Vietnam Spring Festival), the central bank devalued the currency by 3.4%, following a devaluation of 5.4% in November 2010. The foreign exchange against US\$ has been depreciated from US\$1:VND18,479 as at 31 December 2009 to VND19,500 at 31 December 2010. As at 21 February 2011, the exchange rate has been further depreciated to US\$1:VND20,880 or 7%.

Vietnam has an unstable economy and high inflation rate for a few years. Measures to address the situation have so far focused mainly on adjusting monetary policy and implementing consumer-oriented programmes. Vietnam's economy has seen steady growth, but instability has increased because the economic structure is gravely imbalanced. Nevertheless, the Vietnam government has decided to pay greater attention to economic restructuring and re-examine public spending policy in order to stabilise the economy and control inflation.

### BUSINESS REVIEW

During the financial year of 2010, the Group has achieved successful execution of its business strategy of providing high performance products and high value added services to its high quality demand customers. For the year ended 31 December 2010, an aggregate of approximately 193,500 units (of which approximately 126,000 units and 67,500 units are scooters and cubs respectively) were sold by the Company in Vietnam and approximately 36,900 units were exported to ASEAN countries (mainly the Philippines, Malaysia, Thailand, Indonesia, Singapore, Brunei and Myanmar), representing an increase of 8% and 20% respectively over the previous year.

During 2010, the Group strengthened its distribution network with the opening of 32 flagship outlets in Vietnam. As of 31 December 2010, the Group's extensive distribution network comprised over 330 SYM-authorized stores owned by dealers, covering every province in Vietnam.

### FINANCIAL REVIEW

Revenue increased from US\$217.7 million for the year ended 31 December 2009 to US\$246.9 million for the year ended 31 December 2010, and the Group's net profit after tax was US\$25.1 million for the year ended 31 December 2010 as compared with US\$21.3 million for the year ended 31 December 2009, representing an increase of 13% and 18% respectively. Vietnam's economy experienced recovery from 3rd quarter 2009 onwards, the Group has managed to increase sales quantities and the average selling price of motorbikes has also been improved. Notwithstanding such improvement, the Group has consistently focused on maintaining stringent controls over its operating costs and capital expenditures.

### REVENUE

Revenue of the Group for the year ended 31 December 2010 increased to US\$246.9 million from US\$217.7 million for the year ended 31 December 2009, representing an increase of US\$29.2 million or 13%. Such increment was due to stable domestic demand in Vietnam during the year of 2010. The Group's domestic sales quantities of scooters increased by 15% for the year ended 31 December 2010 as compared with the year ended 31 December 2009, while overall sales quantities also increased from approximately 210,000 units for the year ended 31 December 2009 to 230,000 units for the year ended 31 December 2010, representing an increase of 9% over the comparative periods. Sales of scooters continued to be the Group's major profit driver which accounting for 67% of total sales, and the principal models were ATTLA-VICTORIA, ELIZABETH, SHARK and JOYRIDE.

In terms of geographical contribution, approximately 89% of total sales were generated from the domestic market in Vietnam for the year ended 31 December 2010. Domestic sales in Vietnam increased 11% from US\$197.8 million for the year ended 31 December 2009 to US\$220.0 million for the year ended 31 December 2010. Sales in original currency Vietnamese Dong increased by 20% actually, but amount converted to US\$ resulted at 11% only as Vietnamese Dong against US\$ has been deeply devalued during the year. Due to the increase in the overseas markets demands, export sales increased by US\$7.0 million during the year of 2010. The quantity of engines exported increased by approximately 14,000 units from approximately 11,000 units for the year ended 31 December 2009 to approximately 25,000 units for the year ended 31 December 2010.

## Management Discussion & Analysis

### COST OF SALES

The cost of sales mainly composed of materials and components costs, direct labour and manufacturing overheads, etc. The Group's cost of sales increased by 15%, from US\$163.6 million for the year ended 31 December 2009 to US\$188.2 million for the year ended 31 December 2010. Such increment was primarily due to the increase in materials, components and labour costs in Vietnam. The Group has increased the usage of components sourced locally and parts imported from China, and reduced cost of new models through re-design, etc. To mitigate the adverse impact on its operations, the Group focused on maintaining stringent controls over its operating costs. As a percentage of total revenue, the Group's cost of sales slightly increased from 75% for the year ended 31 December 2009 to 76% for the year ended 31 December 2010.

### GROSS PROFIT AND GROSS PROFIT MARGIN

Despite the increases of materials, components and labor costs and devaluation of Vietnamese Dong as discussed above, the gross profit of the Group increased by 9%, from US\$54.1 million for the year ended 31 December 2009 to US\$58.7 million for the year ended 31 December 2010. In between such comparative periods, however, the Group's gross profit margin has slightly decreased from 25% to 24%.

### DISTRIBUTION EXPENSES

The distribution expenses mainly included warranty, advertising, dealers sales incentives and other sales related expenses. The Group's distribution expenses increased by 12%, from US\$13.6 million for the year ended 31 December 2009 to US\$15.2 million for the year ended 31 December 2010. Such increment was mainly due to the increases in advertising expenses, warranty, sales incentives and supporting fees to distributors, as these were the marketing strategies adopted by the Group to increase its market share in a competitive market.

### TECHNOLOGY TRANSFER FEES

The technology transfer fees increased by 9%, from US\$5.9 million for the year ended 31 December 2009 to US\$6.5 million for the year ended 31 December 2010. Such increment was largely due to an increase in the sales volume of SYM-branded motorbikes particularly scooters.

### ADMINISTRATIVE EXPENSES

The Group's administrative expenses slightly increased by 3%, from US\$12.7 million for the year ended 31 December 2009 to US\$13.0 million for the year ended 31 December 2010, which accounting for 5% of the Group's total revenue for the year ended 31 December 2010. Such increment was mainly attributable to the increase of staff salaries and related costs. However, the Group consistently focused on maintaining stringent controls over its operating costs.

### OTHER INCOME/LOSSES ARISING FROM A FIRE

In the year of 2008, a fire broke out in a factory in Vietnam owned by VMEP, a wholly-owned subsidiary of the Company. The fire resulted in losses to the Group's inventories and property, plant and equipment amounted to US\$3.0 million. The Group submitted an insurance claim of approximately US\$3.0 million in September 2008, and received US\$1.0 million insurance proceeds in September 2009. During the year of 2010, the Group received the final insurance proceeds totalling US\$1.6 million, which are recognized as other income.

### RESULTS FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's profit from operating activities increased by 10%, from US\$23.0 million for the year ended 31 December 2009 to US\$25.3 million for the year ended 31 December 2010.

### NET FINANCIAL INCOME

The Group's net financial income increased by 164%, from US\$2.2 million for the year ended 31 December 2009 to US\$5.8 million for the year ended 31 December 2010. Such increment was mainly attributable to a significant increase in the Group's interest income from deposits placed with banks in Vietnam with higher rates (i.e. interest rates at 11% to 14%) amounted to US\$2.6 million. Exchange losses regarding the deterioration of exchange rate of the Vietnamese Dong against the US\$ decreased from US\$2.5 million for the year ended 31 December 2009 to US\$1.5 million for the year ended 31 December 2010.

### 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 18%, from US\$21.3 million for the year ended 31 December 2009 to US\$25.1 million for the year ended 31 December 2010, and the Group's net profit margin remained at 10% which is the same as the year of 2009.

## Management Discussion & Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2010, the Group's net current assets amounted to US\$125.1 million (31 December 2009: US\$122.3 million) which consisted of current assets amounting to US\$167.1 million (31 December 2009: US\$175.6 million) and current liabilities amounting to US\$42.0 million (31 December 2009: US\$53.3 million).

As at 31 December 2010, the interest-bearing borrowings repayable within one year was US\$1.1 million which was denominated in US\$ (31 December 2009: US\$8.0 million, of which US\$2.0 million was denominated in US\$ and US\$6.0 million was originally denominated in HK\$). As at 31 December 2010, the Group had no interest-bearing borrowings repayable beyond one year (31 December 2009: US\$0.02 million which was denominated in US\$). As at 31 December 2010, the gearing ratio was 1% (31 December 2009: 5%) calculated by dividing total interest-bearing borrowings by total equity.

As at 31 December 2010, the cash and bank balances (including pledged bank deposits), amounted to US\$129.8 million, mainly including US\$80.1 million which was originally denominated in Vietnamese Dong, US\$47.1 million which was denominated in US\$ and US\$2.6 million which was originally denominated in HK\$, NTD and IDR (31 December 2009: US\$116.5 million, mainly including US\$84.8 million which was originally denominated in Vietnamese Dong and US\$ 31.3 million which was denominated in US\$).

As at 31 December 2010, the Group had no available-for-sale financial assets (31 December 2009: US\$8.4 million).

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

### PLEDGE OF ASSETS

As at 31 December 2010, the Group had no pledged bank deposits and available-for-sale financial assets (2009: US\$1.6 million and US\$8.4 million respectively) were pledged with banks as security for certain banking facilities.

### EXPOSURE TO FOREIGN EXCHANGE RISK

There have been no significant changes in the Group's policy in terms of exchange rate exposure. Transactions of the Group are mainly denominated in Vietnamese Dong or US\$. The Group did not enter into any financial derivative instruments to hedge against the foreign exchange currency exposures. The Vietnamese Dong has been depreciating since 2008, and the Vietnam government has taken measures to address the situation focused mainly on adjusting monetary policy and implementing consumer-oriented programmes. Vietnam's economy has seen steady growth, but instability has increased because the economic structure is gravely imbalanced. However, Vietnam government has decided to pay greater attention to economic restructuring and re-examine public spending policy in order to stabilise the economy and control inflation.

### CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 31 December 2010, the capital commitments of the Group amounted to US\$0.6 million which will all be paid off using the proceeds from the initial public offering ("IPO") of the shares of the Company in connection with its listing on the main board of the Stock Exchange and cash generated from the Group's operations. The Group had no significant contingent liabilities as at 31 December 2010.

### HUMAN RESOURCES AND REMUNERATION POLICIES

The Group currently offers competitive remuneration packages to its staff in Vietnam, Taiwan, Indonesia and Hong Kong, and regularly reviews its remuneration packages in light of the overall development of the Group. The Group's remuneration packages include basic salaries, bonuses, share options, quality staff living quarters, training and development opportunities, medical benefits, an insurance plan and retirement benefits. As at 31 December 2010, the Group had 2,210 employees (2009: 2,066). The total amount of salaries and related costs for the year ended 31 December 2010 amounted to US\$13.3 million (2009: US\$11.3 million).



## Management Discussion & Analysis

### PROSPECTS

Looking ahead, the Vietnam macro economic conditions will remain uncertain. As the Vietnam government has introduced a series of fiscal stimulus measures, we are optimistic that the Vietnam's economy will continue to grow at a steady and rapid pace, whereas the motorbike industry is also expected to have a faster growth. Most countries in the ASEAN region, particularly Malaysia and the Philippines, continue to achieve economic improvements and their motorbike industries will also grow at faster pace in the forthcoming future.

The Group will continue to explore new models, to promote innovation, to minimize costs and to enhance product quality so as to maintain steady growth. In particular, the Group's new research and development centre has commenced operations last year, this will greatly improve the Group competitive strength. We plan to introduce five to six new or modified motorbike models in 2011, the major marketing strategies will be focused on higher sale margin scooter market mainly, strengthening ATTILA series models in leading female segment, deploy larger engine capacity models such as SHARK 170cc, promote SHARK and JOYRIDE models to further develop male segment, and introduce "Electric Fuel Injection" models which are both highly fuel efficient and environmental friendly. The Group will also expand its distribution network in Vietnam and further strengthen its marketing efforts to enhance their overall brand image. To drive further growth for the Group's overseas business, we will continue to devote efforts to expand the ASEAN markets, particularly Malaysia, the Philippines and Thailand.

The Vietnam government has planned an ambitious plan for Hanoi's development as it would merge with some neighbouring provinces included Ha Tay province for sustainable development for Hanoi. The Group has a manufacturing and assembly plant situated in Ha Tay province which is also included in the scope of urban development plan of Hanoi capital. The Group has been informed by the Vietnam government authority that the Vietnam government intends to redevelop the Ha Tay province and its plant has to be relocated to a new location in Hanoi. The plant relocation is currently under planning and the group expected it would be completed before the end of 2012. The Group hopes to coordinate with the Vietnam Government to redevelop the original plant site in Ha Tay province, this plan is under preliminary internal evaluation only and specific schedule has yet to be assessed.

The management is optimistic that the Group is able to sustain a continuous growth of the Group's business in 2011 and beyond. This coupled with our first-class research and development capabilities and healthy financial position, will enable the Group to achieve robust performance in the coming years. The Group is confident that it will achieve good results and maximise returns to the shareholders of the Company.

### APPLICATION OF IPO PROCEEDS

The proceeds from the issuance of new shares by the Company in December 2007, net of listing expenses, were approximately US\$76.7 million. As at 31 December 2010, the net proceeds were utilized in the following manner:

	<b>Per Prospectus</b> <i>US\$' million</i>	<b>Amount Utilized</b> <i>US\$' million</i>	<b>Balances as at 31 December 2010</b> <i>US\$' million</i>
Construction of research and development centre in Vietnam	15.0	11.7	3.3
Expanding distribution channels in Vietnam, of which:			
– Upgrading of existing facilities	4.0	4.0	–
– Establishing of new facilities	46.0	1.0	45.0
Mergers and acquisitions	9.0	1.7	7.3
General working capital	2.7	2.7	–
	<hr/>	<hr/>	<hr/>
Total	76.7	21.1	55.6
	<hr/>	<hr/>	<hr/>

The unutilized balance was placed as deposits with several reputable financial institutions. For further details, please see the paragraph above headed "Liquidity and Financial Resources".

### CORPORATE GOVERNANCE PRACTICES

In the opinion of the Board, having considered, amongst other things, the findings of reviews and/or audits conducted by 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 as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") for the financial year ended 31 December 2010.

## Management Discussion & Analysis

### 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 2010.

### REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2010 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

Since the economic conditions in Vietnam will remain uncertain and the Company will relocate one of the Group's factories from the Ha Tay province in Hanoi to a new location, which require cash for capital expenditures and working capital, the Board recommends reserving the cash resources. The Board therefore does not recommend the payment of a final dividend for the year ended 31 December 2010 (2009: US\$0.022 per share equivalent to HK\$0.17 per share).

### CLOSURE OF REGISTER OF MEMBERS

The register of members of the Company will be closed from 18 May 2011 to 23 May 2011 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the attendance of the annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 17 May 2011.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2010, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

### PUBLICATION OF FINAL 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](http://www.hkex.com.hk) and on the Company's website at [www.vmeph.com](http://www.vmeph.com). The annual report 2010 of the Company will also be published on the aforesaid websites in due course.

### ANNUAL GENERAL MEETING

It is proposed that the Annual General Meeting will be held on 23 May 2011. 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 and the suppliers and customers of the Group for their unwavering 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, 25 March 2011

## 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 2010, the Company has complied with the code provisions set out in the Code on Corporate Governance Practices (the "Code") in Appendix 14 to The Rules (the "Listing Rules") Governing the Listing of Securities 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 of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by directors ("Directors") of the Company. Having made specific enquiry of all Directors, the Company confirmed that all the Directors have complied with the required standard set out in the Model Code for the year ended 31 December 2010.

### 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 Group's business and affairs. The Board has delegated the day-to-day operational responsibilities to the executive Directors and senior management of the Company.

The Board members for the year ended 31 December 2010 were:

#### Executive Directors

Mr. Chang Kwang Hsiung (*Chairman*)  
 Mr. Lou Hen Wen  
 Mr. Lee Hsi Chun  
 Mr. Wang Ching Tung

#### Non-executive Directors

Mr. Huang Kwang Wu (resigned with effect from 1 January 2010 and was replaced by Mr. Chiang Shih Huang)  
 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 14 to 15 of this annual report.

A Board meeting is held at least quarterly, and more frequently as and when business or operational needs arise. Board meetings are also held whenever necessary to discuss various corporate matters including corporate exercises, new major investments and significant changes in regulatory requirements that affect the Group. Board meetings are also held to discuss and review the interim and annual results of the Group for announcement to the Stock Exchange, and to discuss and approve the Group's annual budget and business plans.

There were seven (7) Board meetings held during the year ended 31 December 2010 and the number of meetings attended by each Director was as follows:

Name of Directors	Number of Meetings Attended	Percentage of Attendance
Mr. Chang Kwang Hsiung	7/7	100%
Mr. Lou Hen Wen	7/7	100%
Mr. Lee Hsi Chun	7/7	100%
Mr. Wang Ching Tung	6/7	86%
Mr. Huang Kwang Wu	6/7	86%
Mr. Liu Wu Hsiung Harrison	6/7	86%
Mr. Hsu Nai Cheng Simon	7/7	100%
Ms. Lin Ching Ching	7/7	100%
Mr. Wei Sheng Huang	7/7	100%

## 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 a reasonable period of 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 written confirmations from each of the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules and considers them to be independent.

### THE CHAIRMAN AND 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. Lou Hen Wen, 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 2010 were Mr. Wei Sheng Huang (Chairman), Mr. Hsu Nai Cheng Simon and Mr. Huang Kwang Wu.

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. During the year ended 31 December 2010, the Remuneration Committee met on three (3) occasions where all members attended, except for Mr. Huang Kwang Wu, who attended two out of the three meetings held. The agenda for each meeting was prepared to deliberate on, review and recommend to the Board the remuneration packages of the executive Directors and senior management of the Company. Each Director abstained from discussing his/her own remuneration.

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 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.

## Corporate Governance Report

### 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 2010 were Ms. Lin Ching Ching (Chairman), Mr. Hsu Nai Cheng Simon and Mr. Wei Sheng Huang.

During the year ended 31 December 2010, the Audit Committee met on three (3) occasions where all members attended. The agenda for each meeting was prepared to ensure that each of the Audit Committee's responsibilities was discharged. In addition, the Audit Committee received comprehensive reports from the management team and the internal and external auditors for the meetings held.

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.

### NOMINATION OF DIRECTORS

The Company does not have a Nomination Committee as the roles and functions of such a committee as recommended in the Code 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 auditors of the Company, for the year ended 31 December 2010 amounted to US\$454,531 (2009: US\$341,761).

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring that 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 2010, suitable accounting policies have been adopted and applied consistently. The Board is not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Company's ability to continue in business. 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.

## Corporate Governance Report

### **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 and 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**

The 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 2010 are set out on pages 19 to 21 of this annual report.

### **INVESTOR AND SHAREHOLDERS RELATIONS**

The Board recognises the importance of maintaining clear, timely and effective communication with the Shareholders and the Company's investors. The Board also recognises that effective communication with the Company's 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 that the Company's 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](http://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 of the Company. External auditors are also available at such annual general meeting to address Shareholders' queries. Separate resolutions are proposed at such annual general meeting on each substantially separate issue.

### **SHAREHOLDERS' RIGHT**

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), aged 70, was appointed as an executive Director in August 2007 and as the Chairman of the Company in November 2007. He is also the director of three subsidiaries of the Group, namely, Vietnam Manufacturing and Export Processing Co., Limited ("VMEP"), Chin Zong Trading Co., Ltd. ("Chin Zong") and PT Sanyang Industri Indonesia (PT Sanyang). Mr. Chang joined VMEP in February 1993 as general director and was the chairman of VMEP from May 1993 to September 1999. Mr. Chang has over 40 years of experience in the motorbike manufacturing industry in Vietnam and Taiwan. Mr. Chang was awarded the third level of Labor Model for National Excellent Manufacturing Operation Activities by the Vietnam government in 2000. Mr. Chang graduated from the National Taipei University of Technology with an undergraduate degree in mechanical engineering in 1962.

**Mr. LOU Hen Wen** (羅恒文), aged 56, was appointed as an executive Director and the chief executive officer of the Company with effect from 1 January 2010. Mr. Lou was also appointed as the general manager and director of VMEP, chairman of Vietnam Casting Forge Precision Limited ("VCFP"), director of Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM"), chairman of Duc Phat Molds Inc. ("Duc Phat"), and director of Chin Zong. Mr. Lou joined Sanyang Industry Co., Ltd. ("Sanyang") in 1982 and has over 27 years of experience in the related fields of motorcycle engineering. Mr. Lou graduated from National Tsing Hua University of the Republic of China with a Bachelor's degree in Engineering (1976) and a Master's degree in Engineering from the National Taiwan University of Science and Technology (1982).

**Mr. LEE Hsi Chun** (李錫村), aged 56, was appointed as an executive Director in August 2007. Mr. Lee joined the Group in May 1997 and has worked in the administration and financial departments of VMEP. He was appointed as the head of such departments in 2002 and as a director of VMEP in November 2007. Prior to joining the Group, he joined Sanyang in 1980 and has acquired about 30 years of experience in the fields of administration, human resources and sales in the motorbike industry. Mr. Lee graduated from the Chung Yuan Christian University with an undergraduate degree in business administration in 1977.

**Mr. WANG Ching Tung** (王清桐), aged 46, was appointed as an executive Director in August 2007. Mr. Wang joined VMEP in February 1993 and since then, he has worked in the 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 also appointed as a director of VMEP in November 2007. He has over 20 years of experience in motorbike sales and marketing. Prior to joining the Group, he worked in the administration department of Sanyang. Mr. Wang graduated from the National Cheng Kong University with an undergraduate degree in industrial design in 1987.

#### Non-Executive Directors

**Mr. HUANG Kwang Wu** (黃光武), aged 59, was appointed as a non-executive Director in November 2007. He was a member of the remuneration committee of the Company throughout the year of 2010. Mr. Huang resigned from the above-mentioned positions with effect from 1 January 2011 due to retirement. Mr. Huang joined VMEP in June 1997 and was a director of VMEP from March 1999 to November 2007. Mr. Huang is also a director of Sanyang and a director of certain subsidiaries of Sanyang in Taiwan, Indonesia and the PRC which engage in the manufacture of motorbikes. Mr. Huang has over 30 years of experience in the motorbike manufacturing industry in Vietnam and Taiwan. Mr. Huang received his undergraduate degree and masters degree in mechanical engineering from National Cheng Kong University in 1973 and 1976, respectively.

**Mr. LIU Wu Hsiung Harrison** (劉武雄), aged 46, was appointed as a non-executive Director in November 2007. Mr. Liu joined the Group in 1996 and worked in the sales department of VMEP. He has about 15 years of experience in trading and export sales of motorbikes and related parts. Mr. Liu is also the vice general director of the overseas business division of Sanyang and is responsible mainly for the export strategy and business of the Sanyang Group. He is also a director of various subsidiaries of Sanyang 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 with an undergraduate degree in international trade in 1986.

**Mr. Chiang Shih-Huang** (江世煌), aged 63, was appointed as a non-executive Director with effect from 1 January 2011. Mr. Chiang is also a director and the general manager of Sanyang. He also sits on the boards of various subsidiaries of Sanyang in the PRC and Vietnam, which engage in the manufacturing of motorbikes (namely, Sanyang Global Co., Ltd., Xia Shing Motorcycle Co., Ltd., Xia Shing Xiamen Motorcycle Co., Ltd., Xiamen King Long United Automotive Industry Co., Ltd., Zhangjiagang Jiyang Engineering Industry Co., Ltd. and Sanyang Vietnam Automobile Co., Ltd.). He has over 28 years of experience in the motor vehicle industry and the majority of which was acquired through his working experience in Sanyang and its affiliated companies. Mr. Chiang graduated from Chung Yuan Christian University with a bachelor's degree in Industrial Engineering/ Business Administration in 1979.

## Directors and Senior Management Profile

### Independent Non-Executive Directors

**Mr. HSU Nai Cheng Simon** (徐乃成), aged 50, 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 is the chairman and chief executive officer of e-commerce Logistics Group and the chief executive officer of Sino Resources Mining Corporation Limited. He is also an executive vice chairman of United Pacific Industries Limited, a company listed on the main board of the Stock Exchange of Hong Kong Limited (stock code: 176). Mr. Hsu is a director of TransGlobe Life Insurance Inc. and the chairman of its parent company, Chung Wei Yi Company Limited, in Taiwan. Mr. Hsu has over 20 years of executive experience in companies based in the Asia-Pacific region and the United States of America with international clientele in basic industries and finance. Mr. Hsu graduated from the California State University at Northridge with an undergraduate degree in business administration in 1983.

**Ms. LIN Ching Ching** (林青青), aged 46, 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 about 20 years of experience in the finance industry and has held senior financial management positions in various companies, including Deloitte & Touche, Corporate Finance Co., Ltd. and Citibank, N.A., Taipei. 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.

**Mr. WEI Sheng Huang** (魏昇煌), aged 58, 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 about 20 years of experience in the manufacture of motor car parts and related industries. Mr. Wei is the president of Minth Technique Corporation, a company which was established in Taiwan in 1991 and which specialises in the manufacture and sale of motor car parts. Mr. Wei obtained a masters degree in business administration from 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 National Chiao Tung University with an undergraduate degree in electro physics in 1974.

### SENIOR MANAGEMENT

**Mr. Yu Wen Lung** (游文龍), aged 50, is appointed as the chief financial officer of the Company effective from April 2011. Mr. Yu is the head of the finance department of VMEP, VCFP and Duc Phat since he joined the Group in 2005. He has over 20 years of experience in the field of financial management. Mr. Yu graduated from Soochow University with an undergraduate degree in accounting in 1989.

**Mr. TSAI Yu Tsai** (蔡有財), aged 53, is the head of the production department of VMEP and general director of Duc Phat. Mr. Tsai joined the Group in 1999. He has over 30 years of experience in the production of motorbikes. Mr. Tsai graduated from the Kai Nan High School of Commerce and Industry with a degree in mechanical engineering in 1973.

**Mr. CHIANG Ping Hui** (江炳輝), aged 43, is the head of the marketing and sales department of VMEP. Mr. Chiang joined the Group in 1995. He has over 15 years of experience in the motorbike industry. Mr. Chiang graduated from the Tamshui Institute of Business Administration with an undergraduate degree in international trade in 1990.

**Mr. CHANG Tu Hsuan** (張督玄), aged 54, is the head of the research and development department of VMEP. Mr. Chang joined the Group in 2006. He has over 25 years of experience in the research and development of new motorbike products. Mr. Chang graduated from the National Taiwan University of Science and Technology with an undergraduate degree in mechanical engineering in 1980.

**Mr. LEE Tao Huang** (李道煌), aged 46, is the head of the overseas marketing department of VMEP and general director of Chin Zong. Mr. Lee joined the Group in 2007. Mr. Lee has over 20 years of experience in the marketing and sale of motorbikes. Mr. Lee graduated from Soochow University with an undergraduate degree in mathematics in 1986.

**Mr. LU Tien Fu** (呂天福), aged 45, is the head of the research and development department of VMEP. Mr. Lu joined the Group in February 2009. He has over 15 years of experience in the motorbike industry. Mr. Lu graduated from National Taiwan University of Science and Technology with an undergraduate degree in mechanical engineering in 1988.

**Miss KAO Chien Mei** (高千媚), aged 46, is the head of the marketing department of VMEP. Miss Kao joined the Group in February 2009. She has over 10 years of experience in the motorbike industry. Miss Kao graduated from Soochow University with a Master's degree in Sociology in 1990.

**Mr. CHEN Chien Hsiang** (陳建祥), aged 49, is the general director of VCFP. Mr. Chen joined the Group in 2007. Mr. Chen has over 20 years of experience in the production of motorbikes. Mr. Chen graduated from the National Taipei University of Technology with an undergraduate degree in mining and metallurgy in 1981.

**Mr. WU Hsin Yu** (巫信裕), aged 49, is the general director of PT Sanyang. Mr. Wu joined PT Sanyang in 2003. Mr. Wu has over 20 years of experience in the production of motorbikes. Mr. Wu graduated from the National Taipei University of Technology with an undergraduate degree in mechanical engineering in 1984.

**Mr. CHAN Chi Shing** (陳志成), aged 50, is the qualified accountant and company secretary of the Company. Mr. Chan has over 20 years of experience in the fields of audit and accounting. Mr. Chan obtained a Higher Certificate in Accountancy from the Hong Kong Polytechnic University in 1987 and is a member of the Hong Kong Institute of Certified Public Accountants.



## Directors' Report

The directors ("Directors") of the Company present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2010.

### 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 18 to the financial statements. There were no significant changes in the nature of the Group's principal activities during the year ended 31 December 2010.

### RESULTS AND DIVIDENDS

The Group's profit for the year ended 31 December 2010 and the state of affairs of the Company and the Group as at that date are set out in the financial statements on pages 23 to 76 of this annual report. Since the economic conditions in Vietnam will remain uncertain and the Company will relocate one of the Group's factories from the Ha Tay province in Hanoi to a new location, which require cash for capital expenditures and working capital, the Board recommends reserving the cash resources. The Board therefore does not recommend the payment of a final dividend for the year ended 31 December 2010.

### FINANCIAL SUMMARY

A financial summary of the results and the balance sheet of the Group for the last five financial years is set out on page 3.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 13 to the financial statements.

### BANK LOANS

Details of bank loans are set out in note 26 to the financial statements.

### SHARE CAPITAL

Details of movements in the Group's share capital during the year are set out in note 29 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 ("Shareholders") of the Company.

### 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 29 to the financial statements and in the consolidated statement of changes in equity, respectively.

## Directors' Report

### MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers and suppliers of the Group contributed to less than 30% of the 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 or any of their associates or any Shareholder (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) has any interest in any of the Group's five largest customers and five largest suppliers.

### DIRECTORS

The Directors during the year were:

#### Executive Directors:

Mr. Chang Kwang Hsiung  
Mr. Lou Hen Wen  
Mr. Lee Hsi Chun  
Mr. Wang Ching Tung

#### Non-executive Directors:

Mr. Huang Kwang Wuu\*  
Mr. Liu Wu Hsiung Harrison

#### Independent non-executive Directors:

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

\* *Mr. Huang Kwang Wuu resigned from 31 December 2010 and Mr. Chiang Shih Huang was appointed from 1 January 2011.*

Having received annual 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 (the "Listing Rules"), the Company considers each independent non-executive Director to be independent.

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 and senior management of the Company are set out in the section headed "Directors and Senior Management Profile" in this annual report.

### DIRECTORS' SERVICE CONTRACTS

None of the Directors have 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 with reference to the pay scale applicable to directors of listed companies. Details of the Directors' remuneration are set out in note 7 to the financial statements.

### DIRECTORS' INTERESTS IN CONTRACTS

None of the Directors 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 the subsidiaries of the Company, or any of the Company's holding companies, or any of the subsidiaries of such holding companies, was a party during the year.

## Directors' Report

### SHARE OPTION SCHEME

Pursuant to the written resolutions of the Shareholders passed on 24 November 2007, the Board, at its discretion, may grant options to any Directors, executives, employees and any other persons who have contributed or will contribute to the Group.

During the year ended 31 December 2010, share options were granted to eligible full-time employees and qualified participants pursuant to the terms of the share option scheme of the Company adopted on 24 November 2007.

Details of such grant of share options are as follows:

	Outstanding at 1 January 2010	Number of share options			Outstanding at 31 December 2010
		Granted during the year	Exercised during the year	Lapsed during the year	
Directors:					
Mr. Chang Kwang Hsiung	498,000	–	–	–	498,000
Mr. Chen Pang Hsiung (resigned on 1 January 2010)	498,000	–	–	(498,000)	–
Mr. Lee Hsi Chun	398,000	–	–	–	398,000
Mr. Wang Ching Tung	398,000	–	–	–	398,000
Mr. Huang Kwang Wu (resigned on 31 December 2010)	498,000	–	–	(498,000)	–
Mr. Liu Wu Hsiung Harrison	413,000	–	–	–	413,000
	2,703,000	–	–	(996,000)	1,707,000
Employees	6,370,000	–	–	(1,223,000)	5,147,000
Sub-total	9,073,000	–	–	(2,219,000)	6,854,000
Other qualified participants	6,947,000	–	–	(289,000)	6,658,000
Total	16,020,000	–	–	(2,508,000)	13,512,000

The share options to subscribe for 20,000,000 ordinary shares of the Company in aggregate were granted on 4 February 2008. The fair value of options granted is approximately at an average of HK\$0.88 per share on the basis of the binomial model. The significant inputs into the model were the closing price of the shares of the Company at the date of grant of HK\$2.9 per share, the annual risk-free interest rate of approximately 2.6%, an expected option life of approximately five years, expected volatility of 55% and an annual dividend yield of 7%. The amortised fair value of the share options for the year ended 31 December 2010 amounting to approximately US\$207,479 (2009: US\$463,008) was charged to the income statement.

The options are exercisable from 4 August 2008 to 3 August 2013 (both days inclusive) up to 100% of the options at an exercise price of HK\$2.9 per share. The closing price of the shares of the Company immediately before the date of grant was HK\$2.9 per share.

### DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND IN UNDERLYING SHARES

As at 31 December 2010, the interests or short positions of the Company's Directors, chief executives and their associates in the shares and underlying shares of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code were as follows:

#### Long position in ordinary shares and underlying shares of the Company

Name of Director	Capacity	Nature of interest	Number of ordinary shares of the Company held	Interests in underlying shares of the Company pursuant to share options	Approximate percentage of the Company's total issued share capital
Mr. Chang Kwang Hsiung	Beneficial owner	Personal	50,000	498,000	0.06%
Mr. Wang Ching Tung	Beneficial owner	Personal	–	398,000	0.04%
Mr. Lee Hsi Chun	Beneficial owner	Personal	–	398,000	0.04%
Mr. Liu Wu Hsiung Harrison	Beneficial owner	Personal	–	413,000	0.05%

## Directors' Report

Save as disclosed above, as at 31 December 2010, none of the Company's Directors, chief executive and their associates (including their spouse and children under 18 years of age) had any interests or short positions in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the year were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, 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 the subsidiaries of the Company, or any of the Company's holding companies, or any of the subsidiaries of such holding companies a party to any arrangement to enable the Directors to acquire such benefits through such means.

### SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As far as the Directors are aware, as at 31 December 2010, 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 class of securities	Approximate percentage of interest in the Company's
SY International Ltd ("SYI") (Note 1)	Corporate interest	608,318,000 Shares	67.02%
Sanyang Industry Co., Ltd. ("Sanyang") (Note 1)	Interest in a controlled corporation	608,318,000 Shares	67.02%

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.

Save as disclosed above, as at 31 December 2010, 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 Section 336 of the SFO.

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, none of the Directors 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.

### CONTINUING CONNECTED TRANSACTIONS

Certain related party transactions as disclosed in note 31 to the consolidated financial statements of the Group also constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules. During the year, the Group entered into the following continuing connected transactions with Sanyang (an indirect substantial shareholder of the Company), its subsidiaries or associates (as the case may be) (other than the Group), including Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM") and Sanyang Global Co., Ltd. ("Sanyang Global"):

- Purchase of motorbike parts by the Group from Sanyang pursuant to a purchase agreement dated 9 November 2009 and entered into between the Company and Sanyang. The total consideration in relation to such purchase agreement for the year ended 31 December 2010 was US\$8,882,518 (2009: US\$12,899,580).
- Purchase of motorbike parts by the Group from VTBM pursuant to a purchase agreement dated 9 November 2009 and entered into between the Company and VTBM. The total consideration in relation to such purchase agreement for the year ended 31 December 2010 was US\$4,296,635 (2009: US\$4,386,546).
- Sale of motorbike parts by the Group to Sanyang and its associates (excluding the Group) pursuant to a sales agreement dated 9 November 2009 and entered into between the Company and Sanyang. The total consideration in relation to such sales agreement for the year ended 31 December 2010 was US\$893,317 (2009: US\$1,531,385).

## Directors' Report

4. Licensing of technology, know-how, trade secrets and production information by Sanyang to Vietnam Manufacturing and Export Processing Co., Limited ("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 for the year ended 31 December 2010 was US\$6,455,056 (2009: US\$5,940,366).
5. 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 2010 was US\$1 (2009: US\$1).
6. Provision of research and development and technical support services by Sanyang and its associates (excluding the Group) to the Group pursuant to a research and development and technical support services agreement dated 9 November 2009 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 2010 was US\$717,133 (2009: US\$404,384).
7. The engagement of the Company as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates (excluding the Group) in the Exclusive Territory (excluding Vietnam, unless the motorbikes are resold in Vietnam for exhibition purposes) pursuant to a distributorship agreement (the "Distributorship Agreement") dated 9 November 2009 and entered into between the Company and Sanyang. The total consideration in relation to the purchases of motorbikes and related parts by the Group from Sanyang and/or its associates (excluding the Group) pursuant to such distributorship agreement for the year ended 31 December 2010 was US\$9,538,244 (2009: US\$5,071,671).
8. Purchase of motorbike parts by the Group from Sanyang Global pursuant to a purchase agreement dated 9 November 2009 and entered into between the Company and Sanyang Global. The total consideration in relation to such purchase agreement for the year ended 31 December 2010 was US\$7,105,699 (2009: US\$6,350,282).
9. Purchase of production machinery, moulds and equipment by the Group from Sanyang, its subsidiaries and/or associates (as the case may be) (excluding the Group) pursuant to a purchase agreement dated 9 November 2009 and entered into between the Company and Sanyang. The total consideration in relation to such purchase agreement for the year ended 31 December 2010 was US\$852,285 (2009: US\$967,146).

For the financial year ended 31 December 2010, the total actual transaction amount for each of the abovementioned continuing connected transactions as compared with the relevant annual caps for the year ended 31 December 2010 is set out in the table below.

Continuing connected transaction	For the financial year ended 31 December 2010	
	Actual transaction amount US\$	Annual cap US\$
Purchase of motorbike parts by the Group from Sanyang	8,882,518	8,900,000
Purchase of motorbike parts by the Group from VTBM	4,296,635	4,300,000
Purchase of motorbike parts by the Group from Sanyang Global	7,105,699	8,100,000
Sales of motorbike parts by the Group to Sanyang and its associates (excluding the Group)	893,317	3,130,000
Licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP	6,455,056	9,500,000
Licensing of trade marks by Sanyang to the Company	1	N/A
Provision of research and development and technical support services by Sanyang and its associates (excluding the Group) to the Group	717,133	1,000,000
Purchase of motorbikes and related parts by the Group from Sanyang and/or its associates (excluding the Group) pursuant to the Distributorship Agreement	9,538,244	10,000,000
Purchase of production machinery, moulds and equipment by the Group from Sanyang, its subsidiaries and/or associates (excluding the Group)	852,285	3,900,000

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 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.

## Directors' Report

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

The auditors of the Company have reported their factual findings on these procedures to the Board. The independent non-executive Directors 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 agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company confirms that it has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules.

### AUDIT COMMITTEE

The Audit Committee of the Company 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 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 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 as set out in Appendix 14 to the Listing Rules for the financial year ended 31 December 2010.

### COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted 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 2010.

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

The Group made no material acquisitions or disposals of subsidiaries and associated companies during the year ended 31 December 2010.

### 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, 25 March, 2011

# Independent Auditor's Report



## **INDEPENDENT AUDITOR'S 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 23 to 76, which comprise the consolidated balance sheet of the Group and the balance sheet of the Company as at 31 December 2010, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement of the Group 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 of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### **AUDITOR'S RESPONSIBILITY**

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view 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 consolidated financial statements.

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 2010 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

25 March 2011

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

	Note	2010 US\$	2009 US\$
Revenue	5	246,886,124	217,700,791
Cost of sales		(188,150,201)	(163,623,809)
<b>Gross profit</b>		<b>58,735,923</b>	54,076,982
Other income	6	1,879,016	1,451,660
Distribution expenses		(15,186,776)	(13,647,218)
Technology transfer fees	31(a)	(6,455,056)	(5,940,366)
Administrative expenses		(13,012,847)	(12,666,106)
Other expenses		(638,459)	(254,467)
<b>Results from operating activities</b>		<b>25,321,801</b>	23,020,485
Finance income		7,412,393	5,011,028
Finance expenses		(1,586,604)	(2,800,981)
<b>Net finance income</b>	7(c)	<b>5,825,789</b>	2,210,047
Share of profits of an equity accounted investee		213,196	158,041
<b>Profit before income tax</b>	7	<b>31,360,786</b>	25,388,573
<b>Income tax expenses</b>	8	<b>(6,250,621)</b>	(4,100,891)
<b>Profit for the year</b>		<b>25,110,165</b>	21,287,682
<b>Attributable to:</b>			
Equity holders of the Company		25,110,165	21,287,682
Non-controlling interests		–	–
<b>Profit for the year</b>		<b>25,110,165</b>	21,287,682
<b>Other comprehensive income for the year (after tax):</b>	11		
Exchange differences on translation of financial statements of overseas subsidiaries		(5,097,557)	(4,183,427)
<b>Total comprehensive income for the year attributable to equity holders of the Company</b>		<b>20,012,608</b>	17,104,255
<b>Earnings per share</b>			
– basic	12	0.028	0.023
– diluted	12	0.028	0.023

The notes on pages 28 to 76 form part of these financial statements. Details of dividends payable to equity holders of the Company attributable to the profit for the year are set out in Note 10.



# Consolidated Balance Sheet

At 31 December 2010

	Note	2010 US\$	2009 US\$
<b>Assets</b>			
Property, plant and equipment	13	40,814,779	39,334,108
Intangible assets	14	164,283	78,893
Lease prepayments	15	679,702	766,158
Goodwill		-	8,751
Investment in an equity accounted investee	16	771,005	771,816
Time deposit	17	-	3,000,000
Deferred tax assets	27(b)	178,489	1,052,266
<b>Total non-current assets</b>		<b>42,608,258</b>	45,011,992
Inventories	19	26,742,020	33,720,430
Trade receivables, other receivables and prepayments	20	10,572,687	19,931,444
Income tax recoverable	27(a)	15,548	37,168
Available-for-sale financial assets	21	-	8,361,213
Pledged bank deposits	22	-	1,564,695
Time deposits maturing after three months	23	13,606,410	22,651,658
Cash and cash equivalents	24	116,147,982	89,301,938
<b>Total current assets</b>		<b>167,084,647</b>	175,568,546
<b>Total assets</b>		<b>209,692,905</b>	220,580,538
<b>Liabilities</b>			
Trade and other payables	25	37,237,014	42,449,485
Interest-bearing borrowings	26	1,125,966	7,973,680
Income tax payables	27(a)	1,698,142	1,453,062
Provisions	28	1,967,625	1,422,463
<b>Total current liabilities</b>		<b>42,028,747</b>	53,298,690
Interest-bearing borrowings	26(b)	-	19,180
<b>Total non-current liabilities</b>		-	19,180
<b>Total liabilities</b>		<b>42,028,747</b>	53,317,870
<b>Net current assets</b>		<b>125,055,900</b>	122,269,856
<b>Total assets less current liabilities</b>		<b>167,664,158</b>	167,281,848
<b>Net assets</b>		<b>167,664,158</b>	167,262,668
<b>Equity</b>			
Paid-in capital	29(a)	1,162,872	1,162,872
Reserves	29(b)	166,501,286	166,099,796
<b>Total equity attributable to equity holders of the Company</b>		<b>167,664,158</b>	167,262,668
<b>Total liabilities and equity</b>		<b>209,692,905</b>	220,580,538

Approved and authorised for issue by the Board of Directors on 25 March 2011.

**LOU HEN WEN**  
Director

**LEE HSI CHUN**  
Director

The notes on pages 28 to 76 form part of these financial statements.

## Balance Sheet of the Company

At 31 December 2010

	Note	2010 US\$	2009 US\$
<b>Assets</b>			
Investment in subsidiaries	18	<b>65,909,383</b>	65,888,752
Time deposit	17	–	3,000,000
<b>Total non-current assets</b>		<b>65,909,383</b>	68,888,752
Trade receivables, other receivables and prepayments	20	<b>66,529</b>	37,039,697
Available-for-sale financial assets	21	–	8,361,213
Time deposits maturing after three months	23	<b>13,000,000</b>	20,000,000
Cash and cash equivalents	24	<b>28,806,813</b>	1,534,191
<b>Total current assets</b>		<b>41,873,342</b>	66,935,101
<b>Total assets</b>		<b>107,782,725</b>	135,823,853
<b>Liabilities</b>			
Other payables	25	<b>798,218</b>	474,818
Interest-bearing borrowings	26	–	6,000,000
Provisions	28	<b>295,450</b>	–
<b>Total current liabilities/Total liabilities</b>		<b>1,093,668</b>	6,474,818
<b>Net current assets</b>		<b>40,779,674</b>	60,460,283
<b>Net assets</b>		<b>106,689,057</b>	129,349,035
<b>Equity</b>			
Paid-in capital	29(a)	<b>1,162,872</b>	1,162,872
Reserves	29(b)	<b>105,526,185</b>	128,186,163
<b>Total equity</b>		<b>106,689,057</b>	129,349,035
<b>Total liabilities and equity</b>		<b>107,782,725</b>	135,823,853

Approved and authorised for issue by the Board of Directors on 25 March 2011.

**LOU HEN WEN**  
Director

**LEE HSI CHUN**  
Director

## Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

	Attributable to equity holders of the Company						Total	Non-controlling interests	Total equity
	Paid-in capital	Share premium	Capital reserve	Exchange reserve	Statutory reserves	Retained profits			
	US\$ Note 29(a)	US\$ Note 29(b)(i)	US\$ Note 29(b)(ii)	US\$ Note 29(b)(iii)	US\$ Note 29(b)(iv)	US\$			
<b>At 1 January 2009</b>	1,162,872	112,198,709	1,274,141	(7,748,116)	505	65,116,744	172,004,855	-	172,004,855
Profit for the year	-	-	-	-	-	21,287,682	21,287,682	-	21,287,682
Other comprehensive Income (Note 11(a))	-	-	-	(4,183,427)	-	-	(4,183,427)	-	(4,183,427)
Total comprehensive income for the year	-	-	-	(4,183,427)	-	21,287,682	17,104,255	-	17,104,255
Dividends (Note 10)	-	-	-	-	-	(22,309,450)	(22,309,450)	-	(22,309,450)
Equity-settled share-based payment (Note 30)	-	-	463,008	-	-	-	463,008	-	463,008
Appropriation of statutory reserves (Note 29(b)(iv))	-	-	-	-	676	(676)	-	-	-
<b>At 31 December 2009/ 1 January 2010</b>	<b>1,162,872</b>	<b>112,198,709</b>	<b>1,737,149</b>	<b>(11,931,543)</b>	<b>1,181</b>	<b>64,094,300</b>	<b>167,262,668</b>	<b>-</b>	<b>167,262,668</b>
Profit for the year	-	-	-	-	-	25,110,165	25,110,165	-	25,110,165
Other comprehensive Income (Note 11(a))	-	-	-	(5,097,557)	-	-	(5,097,557)	-	(5,097,557)
Total comprehensive income for the year	-	-	-	(5,097,557)	-	25,110,165	20,012,608	-	20,012,608
Dividends (Note 10)	-	-	-	-	-	(19,818,597)	(19,818,597)	-	(19,818,597)
Equity-settled share-based payment (Note 30)	-	-	207,479	-	-	-	207,479	-	207,479
Appropriation of statutory reserves (Note 29(b)(iv))	-	-	-	-	-	-	-	-	-
<b>At 31 December 2010</b>	<b>1,162,872</b>	<b>112,198,709</b>	<b>1,944,628</b>	<b>(17,029,100)</b>	<b>1,181</b>	<b>69,385,868</b>	<b>167,664,158</b>	<b>-</b>	<b>167,664,158</b>

The notes on pages 28 to 76 form part of these financial statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2010

	2010 US\$	2009 US\$
<b>Cash flows from operating activities</b>		
Profit for the year	25,110,165	21,287,682
<b>Adjustments for:</b>		
Share of profits of an equity accounted investee	(213,196)	(158,041)
Depreciation	8,178,713	7,310,325
Net interest and dividend income	(7,349,970)	(4,699,685)
Amortisation	131,305	221,102
Allowance for inventory impairment	417,321	635,250
Allowance for impairment of property, plant and equipment	478,921	-
Impairment of goodwill	8,751	-
Equity-settled share-based payment expenses	207,479	463,008
Gain on disposal/write off of property, plant and equipment (net)	(9,853)	(38,474)
Income tax expense	6,250,621	4,100,891
	<hr/>	<hr/>
<b>Operating profit before changes in working capital</b>	<b>33,210,257</b>	29,122,058
<b>Changes in working capital</b>		
Decrease/(increase) in inventories	4,922,612	(2,487,781)
Decrease/(increase) in gross trade receivables, other receivables and prepayments	8,772,834	(326,904)
(Decrease)/increase in trade and other payables	(2,525,602)	24,381,355
Increase/(decrease) in provisions	545,162	(276,463)
	<hr/>	<hr/>
	<b>44,925,263</b>	50,412,265
Corporate income tax paid	(5,093,533)	(1,856,462)
	<hr/>	<hr/>
<b>Net cash generated from operating activities</b>	<b>39,831,730</b>	48,555,803
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Cash flows from investing activities</b>		
Acquisition of property, plant and equipment, intangible assets and lease prepayments	(12,451,579)	(8,721,219)
Acquisition of available-for-sale financial assets	-	(20,459,320)
Proceeds from disposals of property, plant and equipment	65,730	1,784,350
Interest and dividend received	7,334,843	4,862,059
Decrease/(increase) in time deposits maturing after three months	8,941,253	(17,947,340)
Decrease/(increase) in non-current time deposit	3,000,000	(3,000,000)
Proceeds from disposals of available-for-sale financial assets	8,361,213	87,656,458
Dividend received from an equity accounted investee	196,054	93,000
	<hr/>	<hr/>
<b>Net cash generated from investing activities</b>	<b>15,447,514</b>	44,267,988
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Cash flows from financing activities</b>		
Decrease in pledged bank deposits	1,509,869	6,120,730
Proceeds from borrowings	8,336,470	14,110,074
Repayment of borrowings	(14,902,723)	(45,351,005)
Interest paid	(64,469)	(239,181)
Dividends paid	(19,818,597)	(22,309,450)
	<hr/>	<hr/>
<b>Net cash used in financing activities</b>	<b>(24,939,450)</b>	(47,668,832)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Net increase in cash and cash equivalents</b>	<b>30,339,794</b>	45,154,959
Cash and cash equivalents at the beginning of the year	89,301,938	47,439,732
Effect of foreign exchange rate changes	(3,493,750)	(3,292,753)
	<hr/>	<hr/>
<b>Cash and cash equivalents at the end of the year</b>	<b>116,147,982</b>	89,301,938

The notes on pages 28 to 76 form part of these financial statements.

## Notes to the Consolidated Financial Statements

### 1. REPORTING ENTITY AND CORPORATE INFORMATION

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.

The Company and its subsidiaries (collectively, the "Group") are principally engaged in manufacture and sales of motorbikes, related spare parts and engines and provision of motorbike maintenance services.

The Company's shares were listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2007.

### 2. BASIS OF PREPARATION

#### (a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued 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. A summary of the significant accounting policies adopted by the Group is set out in Note 3.

Up to the date of issue of these financial statements, the IASB has issued a number of IFRSs amendments, new standards and Interpretations which are not yet effective for the year ended 31 December 2010 and which have not yet been adopted in these financial statements. These include the following which may be relevant to the Group:

	<b>Effective for accounting periods beginning on or after</b>
Improvements to IFRSs 2010	1 July 2010 or 1 January 2011
Revised IAS 24, <i>Related party disclosures</i>	1 January 2011
Amendments to IAS 12, <i>Income taxes</i>	1 January 2012
IFRS 9, <i>Financial instruments</i>	1 January 2013

The Group is in the process of making an assessment of what the impact of these amendments is expected to be in the period of initial application. So far it has concluded that the adoption of them is unlikely to have a significant impact on the Group's results of operations and financial position.

#### (b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2010 comprise the Company and its subsidiaries and the Group's interest in associates.

The measurement basis used in the preparation of the financial statements is the historical cost basis, except that the available-for-sale financial assets are measured at fair value (*see Note 3(c)(i)*).

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.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 34.

## Notes to the Consolidated Financial Statements

### 2. BASIS OF PREPARATION (Continued)

#### (c) Functional and presentation currency

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates.

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 the Group's financial information.

### 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 the Group entities, except as explained in Note 4, which addresses changes in accounting policies.

#### (a) Basis of consolidation

##### (i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

In the Company's balance sheet, an investment in a subsidiary is stated at cost less impairment losses (see Note 3(k)(ii)).

##### (ii) Investment in associates (equity accounted investees)

Associates are those entities 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.

Investments in associates are accounted for using the equity method (equity accounted investees) and are recognised initially at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes the transaction costs. The consolidated financial statements include the Group's share of the income and expenses and equity movements of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence or joint control 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 zero, 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.

##### (iii) Transactions eliminated on consolidation

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

#### (b) Foreign Currency

##### (i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at 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 amortised cost in the functional currency at the beginning of the year, adjusted for effective interest and payments during the year, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting year. 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. Non-monetary items in a foreign currency that are measured in terms of historical cost are translated using the exchange rate at the date of the transaction. Foreign currency differences arising on retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income.

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Foreign currency (Continued)

##### (ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to US\$ at exchange rates at the reporting date. The income and expenses of foreign operations are translated to US\$ at exchange rates at the dates of the transactions.

Foreign currency differences are recognised in other comprehensive income. Such differences have been recognised in the exchange reserve. When a foreign operation is disposed of, in part or in full, the relevant amount in the exchange reserve is transferred to profit or loss as part of the profit or loss on disposal.

When the settlement of a monetary item receivable from or payable to a foreign operation is neither planned nor likely in the foreseeable future, foreign exchange gains and losses arising from such a monetary item are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the exchange reserve.

#### (c) Financial instruments

##### (i) Non-derivative financial assets

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: loans and receivables and available-for-sale financial assets.

- *Loans and receivables*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses.

Loans and receivables comprise cash and cash equivalents, and trade and other receivables.

- *Cash and cash equivalents*

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less.

- *Available-for-sale financial assets*

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of financial assets at fair value through profit or loss, held-to-maturity financial assets or loans and receivables. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses (see Note 3(k)(i)) are recognised in other comprehensive income and presented within equity in the fair value reserve. When an investment is derecognised, the gain or loss accumulated in equity is reclassified to profit or loss.

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Financial instruments (Continued)

##### (ii) **Non-derivative financial liabilities**

All financial liabilities are recognised initially on the trade date, which is the date that the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: trade and other payables and interest-bearing borrowings.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

##### (iii) **Share capital**

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

#### (d) Dividends

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

#### (e) Property, plant and equipment

##### (i) **Recognition and measurement**

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses (see Note 3(k)(ii)).

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the assets to a working condition for their intended use, the cost of dismantling and removing the items and restoring the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within other income in profit or loss.

##### (ii) **Subsequent costs**

The cost of replacing a part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group, and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.



## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Property, plant and equipment (Continued)

##### (iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. Significant components of individual assets are assessed and if a component has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

• buildings	8 – 30 years
• machinery, moulds and equipment	2 – 16 years
• office equipment, furniture and fittings	4 – 10 years
• electrical, water and utility systems	5 – 10 years
• motor vehicles	5 – 7 years

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

##### (iv) Construction work in progress

Construction work in progress is stated at cost less impairment losses (see Note 3(k)(ii)). 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.

#### (f) Goodwill

Goodwill represents the excess of

- (i) the aggregate of the fair value of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the group's previously held equity interest in the acquiree; over
- (ii) the net fair value of the acquiree's identifiable assets and liabilities measured as at the acquisition date.

When (ii) is greater than (i), then the excess is recognised immediately in profit or loss as gain on bargain purchase.

Goodwill is stated at cost less accumulated impairment losses. Goodwill arising on a business combination is allocated to each cash-generating unit, or group of cash generating units, that is expected to benefit from the synergies of the combination and is tested annually for impairment (see Note 3(k)(iii)).

On disposal of a cash generating unit during the year, any attributable amount of purchased goodwill is included in the calculation of the profit or loss on disposal.

#### (g) Research and development expenses

Expenditure on research activities is recognised in profit or loss as incurred.

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, overhead costs that are directly attributable to preparing the asset for its intended use, and capitalised borrowing costs (see Note 3(u)). Other development expenditure is recognised in profit or loss as incurred.

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

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (h) 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 has a finite useful life and is amortised on a straight-line basis over 3 years from the date when it is ready for use.

#### (i) 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.

Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

#### (j) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the weighted average cost formula, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in 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.

#### (k) Impairment

##### (i) *Financial assets (including receivables)*

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, or indications that a debtor will enter bankruptcy.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management's judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

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 asset's original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by transferring the cumulative loss that has been recognised in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognised in profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment provisions attributable to time value are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised in profit or loss, then the impairment loss is reversed, with the amount of the reversal recognised in profit or loss.

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Impairment (Continued)

##### (ii) **Non-financial assets**

The carrying amounts of the Group's non-financial assets, other than inventories (*see Note (3)(j)*) and deferred tax assets (*see Note (3)(s)*), 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, the recoverable amount is estimated each year at the same time.

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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit, or CGU"). Subject to an operating segment ceiling test, for the purposes of goodwill impairment testing, CGUs to which goodwill has been allocated are aggregated so that the level at which impairment is tested reflects the lowest level at which goodwill is monitored for internal reporting purposes.

The Group's corporate assets do not generate separate cash inflows. If there is an indication that a corporate asset may be impaired, then the recoverable amount is determined for the CGU to which the corporate asset belongs.

An impairment loss is recognised if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to the units, and then to reduce the carrying amounts of the other assets in the unit (group of units) on a pro rata basis.

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.

#### (l) **Employee benefits**

##### (i) **Defined contribution plans**

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognised as an employee benefit expense in profit or loss in the periods during which services are rendered by employees.

##### (ii) **Short term employee benefits**

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus plan if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

##### (iii) **Severance pay allowance**

The Group's net obligation in respect of severance pay is calculated by estimating the amount of benefits that employees have earned in return for their services in the current and prior periods. A provision is made for the estimated liability for severance pay calculated on this basis at each balance sheet date. The impact of discounting is immaterial.

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (m) Share-based payment transactions

The fair value of share options granted to qualified participants is recognised as an administrative expense with a corresponding increase in the capital reserve within equity. The fair value is measured at grant date using the binomial option pricing models, taking into account the terms and conditions upon which the options were granted. Where the qualified participants have to meet vesting conditions before becoming unconditionally entitled to the options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

#### (n) Provisions and contingent liabilities

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. The unwinding of the discount is recognised as finance cost.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

#### (o) Revenue

##### (i) Goods sold

Revenue from the sale of goods in the course of ordinary activities is measured at the fair value of the consideration received or receivable, net of returns, trade discounts and volume rebates. Revenue is recognised when persuasive evidence exists, usually in the form of an executed sales agreement, that the significant risks and rewards of ownership have been transferred to the buyer, recovery of the consideration is probable, the associated costs and possible return of goods can be estimated reliably, there is no continuing management involvement with the goods, and the amount of revenue can be measured reliably. If it is probable that discounts will be granted and the amount can be measured reliably, then the discount is recognised as a reduction of revenue as the sales are recognised.

##### (ii) Services rendered

Revenue from mould and repair services is recognised in the profit or loss when services are rendered.

##### (iii) Dividend income

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

#### (p) Government grants

Government grants are recognised in the balance sheet initially when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Government grants that compensate the Group for expenses incurred are recognised as revenue in the profit or loss on a systematic basis in the same periods in which the expenses are incurred.

#### (q) 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(k)(ii)). Amortisation is charged to the profit or loss on a straight-line basis over the lease periods of 10-50 years.

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (r) Finance income and expenses

Finance income comprises interest income on funds invested (including available-for-sale financial assets (see Note 3(c)(i)). Interest income is recognised as it accrues in profit or loss, using the effective interest method.

Finance expenses comprise interest expense on borrowings. Borrowing costs (see Note 3(u)) that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

#### (s) Corporate income tax

Corporate income tax comprises current and deferred tax. Current tax and deferred tax are recognised in the profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using the 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 in respect of 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 assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill. 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 balance sheet date. Deferred tax assets and liabilities are offset if there is legally enforceable rights to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, 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 balance sheet date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (t) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to equity holder of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to equity holder and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to qualified participants.

#### (u) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditures for the asset are being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

#### (v) Related parties

For the purposes of these financial statements, a party is considered to be related to the Group if:

- (i) the party has the ability, directly or indirectly through one or more intermediaries, to control the Group or exercise significant influence over the group in making financial and operating policy decisions, or has joint control over the Group;
- (ii) the Group and the party are subject to common control;
- (iii) the party is an associate of the Group or a joint venture in which the Group is a venturer;

## Notes to the Consolidated Financial Statements

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (v) Related parties (Continued)

- (iv) the party is a member of key management personnel of the Group or the Group's parent, or a close family member of such an individual, or is an entity under the control, joint control or significant influence of such individuals;
- (v) the party is a close family member of a party referred to in (i) or is an entity under the control, joint control or significant influence of such individuals; or
- (vi) the party is a post-employment benefit plan which is for the benefit of employees of the Group or of any entity that is a related party of the Group.

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that individual in their dealings with the entity.

#### (w) Segment reporting

Operating segments, and the amounts of each segment item reported in the financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

### 4. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a number of revised IFRSs, amendments to IFRSs and new Interpretations that are first effective for the current accounting period of the Group and the Company. Of these, the following developments are relevant to the Group's financial statements:

- IFRS 3 (revised 2008), *Business combinations*
- Amendments to IAS 27, *Consolidated and separate financial statements*
- Amendments to IFRS 5, *Non-current assets held for sale and discontinued operations – plan to sell the controlling interest in a subsidiary*
- Amendment to IAS 39, *Financial instruments: Recognition and measurement – eligible hedged items*
- Improvements to IFRSs (2009)
- IFRIC 17, *Distributions of non-cash assets to owners*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period (*see Note 2(a)*).

The amendment to IAS 39 has had no material impact on the Group's financial statements as the amendment was consistent with policies already adopted by the Group. The other developments resulted in changes in accounting policy but none of these changes in policy have a material impact on the current or comparative periods, for the following reasons:

- The impact of the majority of the revisions to IFRS 3, IAS 27, IFRS 5 and IFRIC 17 have not yet had a material effect on the Group's financial statements as these changes will first be effective as and when the Group enters into a relevant transaction (for example, a business combination, a disposal of a subsidiary or a non-cash distribution) and there is no requirement to restate the amounts recorded in respect of previous such transactions.
- The impact of the amendments to IFRS 3 (in respect of recognition of acquiree's deferred tax assets) and IAS 27 (in respect of allocation of losses to non-controlling interests (previously known as minority interests) in excess of their equity interest) have had no material impact as there is no requirement to restate amounts recorded in previous periods and no such deferred tax assets or losses arose in the current period.

## Notes to the Consolidated Financial Statements

### 4. CHANGES IN ACCOUNTING POLICIES (Continued)

Further details of these changes in accounting policy are as follows:

- As a result of the adoption of IFRS 3 (revised 2008), any business combination acquired on or after 1 January 2010 will be recognised in accordance with the new requirements and detailed guidance contained in IFRS 3 (revised 2008). These include the following changes in accounting policies:
  - Transaction costs that the Group incurs in connection with a business combination, such as finder's fees, legal fees, due diligence fees, and other professional and consulting fees, will be expensed as incurred, whereas previously they were accounted for as part of the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - If the Group holds interests in the acquiree immediately prior to obtaining control, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - Contingent consideration will be measured at fair value at the acquisition date. Subsequent changes in the measurement of that contingent consideration unrelated to facts and circumstances that existed at the acquisition date will be recognised in profit or loss, whereas previously these changes were recognised as an adjustment to the cost of the business combination and therefore impacted the amount of goodwill recognised.
  - If the acquiree has accumulated tax losses or other temporary deductible differences and these fail to meet the recognition criteria for deferred tax assets at the date of acquisition, then any subsequent recognition of these assets will be recognised in profit or loss, rather than as an adjustment to goodwill as was previously the policy.
  - In addition to the Group's existing policy of measuring the non-controlling interests (previously known as the "minority interests") in the acquiree at the non-controlling interest's proportionate share of the acquiree's net identifiable assets, in future the Group may elect, on a transaction by transaction basis, to measure the non-controlling interest at fair value.

In accordance with the transitional provisions in IFRS 3 (revised 2008), these new accounting policies will be applied prospectively to any business combinations in the current or future periods. The new policy in respect of recognition in the movement of deferred tax assets will also be applied prospectively to accumulated tax losses and other temporary deductible differences acquired in previous business combinations. No adjustments have been made to the carrying values of assets and liabilities that arose from business combinations whose acquisition dates preceded the application of this revised standard.

- As a result of the adoption of IAS 27 (amended 2008), the following changes in policies will be applied as from 1 January 2010:
  - If the Group acquires an additional interest in a non-wholly owned subsidiary, the transaction will be accounted for as a transaction with equity shareholders (the non-controlling interests) in their capacity as owners and therefore no goodwill will be recognised as a result of such transactions. Similarly, if the Group disposes of part of its interest in a subsidiary but still retains control, this transaction will also be accounted for as a transaction with equity shareholders in their capacity as owners and therefore no profit or loss will be recognised as a result of such transactions. Previously the Group treated such transactions as step-up transactions and partial disposals, respectively.
  - If the Group loses control of a subsidiary, the transaction will be accounted for as a disposal of the entire interest in that subsidiary, with any remaining interest retained by the Group being recognised at fair value as if reacquired. In addition, as a result of the adoption of the amendment to IFRS 5, if at the reporting date the Group has the intention to dispose of a controlling interest in a subsidiary, the entire interest in that subsidiary will be classified as held for sale (assuming that the held for sale criteria in IFRS 5 are met) irrespective of the extent to which the Group will retain an interest. Previously such transactions were treated as partial disposals.

In accordance with the transitional provisions in IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

## Notes to the Consolidated Financial Statements

### 4. CHANGES IN ACCOUNTING POLICIES (Continued)

- In order to be consistent with the above amendments to IFRS 3 and IAS 27, and as a result of amendments to IAS 28, Investments in associates, the following policies will be applied as from 1 January 2010:
  - If the Group holds interests in the acquiree immediately prior to obtaining significant influence, these interests will be treated as if disposed of and re-acquired at fair value on the date of obtaining significant influence or joint control. Previously, the step-up approach would have been applied, whereby goodwill was computed as if accumulated at each stage of the acquisition.
  - If the Group loses significant influence, the transaction will be accounted for as a disposal of the entire interest in that investee, with any remaining interest being recognised at fair value as if reacquired. Previously such transactions were treated as partial disposals.

Consistent with the transitional provisions in IFRS 3 and IAS 27, these new accounting policies will be applied prospectively to transactions in current or future periods and therefore previous periods have not been restated.

Other changes in accounting policies which are relevant to the Group's financial statements are as follows:

- As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests.

Previously, if the allocation of losses to the non-controlling interests would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively and therefore previous periods have not been restated.

### 5. REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments.

- Manufacture and sales of motorbikes: the Group's principal products are motorbikes manufactured primarily for the Vietnamese market. The Group also exports motorbikes to other countries including Malaysia, the Philippines, Brunei and Singapore.
- Manufacture and sales of spare parts and engines: the Group manufactures engines for use in the Group's motorbikes, but the Group also exports engines to third parties. The Group manufactures parts for use in repair servicing and product assembly.
- Moulds and repair services: the Group manufactures and maintains moulds used for making metal parts, for example, by die casting and pressing. The majority of the Group's moulds are specially made for internal use, producing parts for the Group's products. However, the Group also manufactures a small number of moulds for external sale to its domestic suppliers and to domestic manufacturers unrelated to the production of parts for the Group's products.

#### (a) Segment results, assets and liabilities

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of investment in an equity accounted investee, available-for-sale financial assets, pledged bank deposits, time deposits maturing after three months, cash and cash equivalents, and other corporate assets. Segment liabilities include provisions, trade and other payables attributable to the manufacturing and sales activities of the individual segments with the exception of interest-bearing borrowings, income tax payables and other corporate liabilities.



## Notes to the Consolidated Financial Statements

### 5. REVENUE AND SEGMENT REPORTING (Continued)

#### (a) Segment results, assets and liabilities (Continued)

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "adjusted EBIT" i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as net finance income/expenses. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of profits less losses of associates and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales), interest income and expense from cash balances and borrowings, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the period is set out below.

	Year ended 31 December 2010			Total US\$
	Manufacture and sales of motorbikes US\$	Manufacture and sales of spare parts and engines US\$	Moulds and repair services US\$	
Revenue from external customers	219,296,620	27,441,235	148,269	246,886,124
Inter-segment revenue	–	89,291,138	1,585,820	90,876,958
<b>Reportable segment revenue</b>	<b>219,296,620</b>	<b>116,732,373</b>	<b>1,734,089</b>	<b>337,763,082</b>
<b>Reportable segment profits (Adjusted EBIT)</b>	<b>17,180,831</b>	<b>11,161,091</b>	<b>373,721</b>	<b>28,715,643</b>
Interest income	3,930,009	2,972,542	113,217	7,015,768
Interest expense	(101,385)	(84,850)	(866)	(187,101)
Depreciation and amortisation for the year	(4,523,419)	(3,674,967)	(111,632)	(8,310,018)
<b>Reportable segment assets</b>	<b>47,436,652</b>	<b>32,382,132</b>	<b>1,152,673</b>	<b>80,971,457</b>
<b>Reportable segment liabilities</b>	<b>25,697,255</b>	<b>14,318,124</b>	<b>137,877</b>	<b>40,153,256</b>

## Notes to the Consolidated Financial Statements

## 5. REVENUE AND SEGMENT REPORTING (Continued)

## (a) Segment results, assets and liabilities (Continued)

	Year ended 31 December 2009			
	Manufacture and sales of motorbikes US\$	Manufacture and sales of spare parts and engines US\$	Moulds and repair services US\$	Total US\$
Revenue from external customers	194,267,308	23,213,573	219,910	217,700,791
Inter-segment revenue	–	81,339,357	2,311,730	83,651,087
<b>Reportable segment revenue</b>	<b>194,267,308</b>	<b>104,552,930</b>	<b>2,531,640</b>	<b>301,351,878</b>
<b>Reportable segment profits (Adjusted EBIT)</b>	<b>14,991,113</b>	<b>9,911,178</b>	<b>553,906</b>	<b>25,456,197</b>
Interest income	2,673,010	1,995,276	47,173	4,715,459
Interest expense	(157,938)	(125,199)	(3,653)	(286,790)
Depreciation and amortisation for the year	(4,132,509)	(3,285,574)	(113,344)	(7,531,427)
<b>Reportable segment assets</b>	<b>57,418,675</b>	<b>34,794,121</b>	<b>1,384,181</b>	<b>93,596,977</b>
<b>Reportable segment liabilities</b>	<b>20,410,768</b>	<b>24,162,814</b>	<b>267,042</b>	<b>44,840,624</b>

## (b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities

	2010 US\$	2009 US\$
<b>Revenue</b>		
Reportable segment revenue	<b>337,763,082</b>	301,351,878
Elimination of inter-segment revenue	<b>(90,876,958)</b>	(83,651,087)
Consolidated revenue	<b>246,886,124</b>	217,700,791
<b>Profit</b>		
Reportable segment profit	<b>28,715,643</b>	25,456,197
Elimination of inter-segment profits	–	–
Reportable segment profit derived from Group's external customers	<b>28,715,643</b>	25,456,197
Net finance income	<b>5,825,789</b>	2,210,047
Share of profits of an equity accounted investee	<b>213,196</b>	158,041
Unallocated corporate expenses	<b>(3,393,842)</b>	(2,435,712)
Consolidated profit before income tax	<b>31,360,786</b>	25,388,573

## Notes to the Consolidated Financial Statements

## 5. REVENUE AND SEGMENT REPORTING (Continued)

## (b) Reconciliation of reportable segment revenues, profit or loss, assets and liabilities (Continued)

	At 31 December 2010 US\$	At 31 December 2009 US\$
<b>Assets</b>		
Reportable segment assets	<b>80,971,457</b>	93,596,977
Elimination of inter-segment receivables	<b>(1,886,026)</b>	(2,032,705)
	<b>79,085,431</b>	91,564,272
Investment in an equity accounted investee	<b>771,005</b>	771,816
Available-for-sale financial assets	-	8,361,213
Pledged bank deposits	-	1,564,695
Time deposits maturing after three months		
– non-current	-	3,000,000
– current	<b>13,606,410</b>	22,651,658
Income tax recoverable	<b>15,548</b>	-
Cash and cash equivalents	<b>116,147,982</b>	89,301,938
Unallocated corporate assets	<b>66,529</b>	3,364,946
Consolidated total assets	<b>209,692,905</b>	220,580,538
<b>Liabilities</b>		
Reportable segment liabilities	<b>40,153,256</b>	44,840,624
Elimination of inter-segment payables	<b>(1,945,198)</b>	(1,443,153)
	<b>38,208,058</b>	43,397,471
Interest-bearing borrowings	<b>1,125,966</b>	7,992,860
Income tax payables	<b>1,698,142</b>	1,453,062
Unallocated corporate liabilities	<b>996,581</b>	474,477
Consolidated total liabilities	<b>42,028,747</b>	53,317,870

## Notes to the Consolidated Financial Statements

### 5. REVENUE AND SEGMENT REPORTING (Continued)

#### (c) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets, goodwill and investment in an equity accounted investee ("specified non-current assets"). The geographical location of customers is based on the location where the goods were delivered to or where the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset, in the case of property, plant and equipment, the location of the operation to which they are allocated, in the case of intangible assets and goodwill, and the location of operations, in the case of investment in an equity accounted investee.

	Revenues from external customers		Specified non-current assets	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Vietnam (place of domicile)	219,951,085	197,777,002	41,657,406	39,651,363
Other countries*	26,935,039	19,923,789	1,358	542,205
	<b>246,886,124</b>	<b>217,700,791</b>	<b>41,658,764</b>	<b>40,193,568</b>

\* Other countries mainly consist of Malaysia, the Philippines, Brunei and Singapore.

### 6. OTHER INCOME/LOSSES ARISING FROM A FIRE

In the previous year, a fire broke out in a factory owned by Vietnam Manufacturing and Export Processing Co., Limited ("VMPE"), a wholly-owned subsidiary of the Company. The fire resulted in losses to the Group's inventories of US\$2,730,177 and losses to the Group's property, plant and equipment of US\$238,754. The Group submitted an insurance claim of approximately US\$3 million in September 2008, and received US\$1 million in September 2009. During 2010, the Group received final insurance settlements totalling US\$1,554,227, which are recognized in other income.

### 7. PROFIT BEFORE INCOME TAX

Profit before income tax is arrived at after charging/(crediting):

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

	2010 US\$	2009 US\$
Salaries, wages and other benefits	12,122,971	10,344,852
Equity-settled share-based payment expenses	105,245	264,077
Contributions to defined contribution plans	645,706	533,867
Severance pay allowance (Note 28)	464,282	177,132
	<b>13,338,204</b>	<b>11,319,928</b>

## Notes to the Consolidated Financial Statements

## 7. PROFIT BEFORE INCOME TAX (Continued)

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

**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 insurance contributions. The applicable rates of contribution are 15% and 2% of total contractual salaries, respectively. The Group has no obligation for the payment of retirement benefits other than the contributions described above. The Group's contributions vest fully with the employees when contributed into the plan.

**Directors' emoluments**

Details of the directors' emoluments are as follows:

	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Directors' fee</b>	<b>Share-based payments (Note 30)</b>	<b>Total</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>For the year ended 31 December 2010</b>					
<i>Chairman:</i>					
Chang, Kwang-Hsiung	77,400	–	–	6,399	83,799
<i>Executive directors:</i>					
Lou, Hen-Wen	87,954	31,693	–	–	119,647
Lee, Hsi-Chun	83,096	32,278	–	5,114	120,488
Wang, Ching-Tung	83,750	33,595	–	5,114	122,459
<i>Non-executive directors:</i>					
Huang, Kwang-Wuu (resigned on 31 December 2010)	–	–	25,000	706	25,706
Liu, Wu-Hsiung Harrison	–	–	25,000	5,307	30,307
Chiang Shin Huang (appointed on 31 December 2010)	–	–	–	–	–
<i>Independent non-executive directors:</i>					
Hsu, Nai-Cheng Simon	–	–	25,000	–	25,000
Wei, Sheng-Huang	–	–	25,000	–	25,000
Lin, Ching-Ching	–	–	25,000	–	25,000
	<u>332,200</u>	<u>97,566</u>	<u>125,000</u>	<u>22,640</u>	<u>577,406</u>

## Notes to the Consolidated Financial Statements

## 7. PROFIT BEFORE INCOME TAX (Continued)

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

**Directors' emoluments** (Continued)

	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Directors' fee</b>	<b>Share-based payments (Note 30)</b>	<b>Total</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<b>For the year ended 31 December 2009</b>					
<i>Chairman:</i>					
Chang, Kwang-Hsiung	77,400	–	–	14,226	91,626
<i>Executive directors:</i>					
Chen, Pang-Hsiung (resigned on 1 January 2010)	83,858	43,237	–	14,226	141,321
Lou, Hen-Wen (appointed on 1 January 2010)	–	–	–	–	–
Lee, Hsi-Chun	52,292	12,500	–	11,369	76,161
Wang, Ching-Tung	82,519	26,301	–	11,369	120,189
<i>Non-executive directors:</i>					
Huang, Kwang-Wuu	–	–	25,000	14,226	39,226
Liu, Wu-Hsiung Harrison	–	–	25,000	11,798	36,798
<i>Independent non-executive directors:</i>					
Hsu, Nai-Cheng Simon	–	–	25,000	–	25,000
Wei, Sheng-Huang	–	–	25,000	–	25,000
Lin, Ching-Ching	–	–	25,000	–	25,000
	<u>296,069</u>	<u>82,038</u>	<u>125,000</u>	<u>77,214</u>	<u>580,321</u>

Note: These represent the estimated fair value of share options granted to the directors under the Company's share option scheme. The value of these share options is measured according to the Group's accounting policies for share-based payment transactions as set out in Note 3(m). The details of these benefits in kind, including the principal terms and number of options granted, are disclosed under the paragraph "Share-based payments" in the directors' report and Note 30.

The Group did not pay any emoluments to directors of the Company for the year ended 31 December 2010 as an inducement fee to join or as compensation for loss of office. None of the persons who are board of directors of the Company waived or agreed to waive any emoluments or remuneration during the year ended 31 December 2010.

**Five highest paid employees**

Of the five individuals with the highest emoluments, three (2009: three) are directors whose emoluments are disclosed above. The aggregate of the emoluments in respect of the other two (2009: two) individual(s) are as follows:

	<b>2010 US\$</b>	2009 US\$
Salaries, wages and other benefits	<b>134,013</b>	124,174
Equity-settled share-based payment expenses	<b>7,041</b>	15,654
Discretionary bonuses	<b>49,491</b>	38,826
Total	<u><b>190,545</b></u>	<u>178,654</u>

During the year ended 31 December 2010, 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.

## Notes to the Consolidated Financial Statements

**7. PROFIT BEFORE INCOME TAX** (Continued)**(a) Staff costs (including management's emoluments)** (Continued)**Five highest paid employees** (Continued)

The emoluments of the two (2009: two) individual(s) with the highest emoluments are within the following bands:

	<b>2010</b>	2009
	<b>Number of</b>	Number of
	<b>individuals</b>	individuals
<i>Hong Kong Dollar ("HK\$")</i>		
Nil to 1,000,000	<b>2</b>	2

**(b) Other items**

	<b>2010</b>	2009
	<b>US\$</b>	US\$
Amortisation of lease prepayments/intangible assets	<b>131,305</b>	221,102
Auditors' remuneration	<b>454,531</b>	341,761
Cost of inventories recognised as expenses (i) (Note 19)	<b>175,182,556</b>	162,364,508
Depreciation of property, plant and equipment	<b>8,178,713</b>	7,310,325
Equity-settled share-based payment expenses		
– employees of the Group	<b>105,245</b>	264,077
– employees of the ultimate holding company	<b>102,234</b>	198,931
Government grants	–	(804,164)
Gain on disposal/write off of property, plant and equipment (net)	<b>(9,853)</b>	(38,368)
Operating lease of properties	<b>608,550</b>	507,040
Research and development expenses (ii)	<b>7,517,623</b>	7,142,949
Technical consultancy fee (Note 31(a))	<b>717,133</b>	404,384
Warranty expenses (Note 28)	<b>2,596,557</b>	2,966,424
Allowance for inventory impairment (Note 19)	<b>417,321</b>	635,250
Allowance for impairment of property, plant and Equipment (Note 13)	<b>478,921</b>	–
Allowance for impairment of goodwill	<b>8,751</b>	–

(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 7(a) for each of these types of expenses.

(ii) Research and development expenses include amounts relating to technology transfer fee, 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 7(a) for each of these types of expenses. No development expenditure was capitalised for the year ended 31 December 2010 (2009: US\$ nil).

## Notes to the Consolidated Financial Statements

**7. PROFIT BEFORE INCOME TAX** (Continued)  
**(c) Finance income and expenses**

	<b>2010</b> <b>US\$</b>	2009 US\$
Interest income from banks	<b>7,409,647</b>	4,808,552
Dividend income from mutual funds	<b>2,746</b>	202,476
	<hr/>	<hr/>
Finance income	<b>7,412,393</b>	5,011,028
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Interest paid and payable to banks	<b>(62,423)</b>	(311,343)
Net foreign exchange losses	<b>(1,524,181)</b>	(2,489,638)
	<hr/>	<hr/>
Finance expenses	<b>(1,586,604)</b>	(2,800,981)
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
Net finance income	<b>5,825,789</b>	2,210,047
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

**8. INCOME TAX EXPENSES**  
**(a) Recognised in the consolidated income statement**

	<b>2010</b> <b>US\$</b>	2009 US\$
<b>Current tax expenses</b>		
– current tax	<b>5,328,309</b>	4,154,939
– under/(over) provision in respect of prior years	<b>77,237</b>	(57,827)
<b>Deferred tax expense</b>		
– origination and reversal of temporary differences	<b>845,075</b>	3,779
	<hr/>	<hr/>
	<b>6,250,621</b>	4,100,891
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

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 year ended 31 December 2010.

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 VMEP is calculated at 18% of the taxable profits on motorbike assembling and manufacturing activities and at the rate of 10% of taxable profits on engine assembling and manufacturing activities. The applicable tax rate for profits from other operating activities is 25%.



## Notes to the Consolidated Financial Statements

### 8. INCOME TAX EXPENSES (Continued)

#### (a) Recognised in the consolidated income statement (Continued)

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 from 2006 to 2012.

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 Duc Phat Molds Inc. is 15% for the first 5 years starting from the first year of operation, 20% for the next 6 years (2007 to 2012) and 25% for subsequent years.

In accordance with the Corporate Income Tax Law of Taiwan, as amended in 2010, the applicable tax rate for Chin Zong Trading Co., Ltd. ("Chin Zong") is 17% of the taxable profit if total taxable profit is above New Taiwan Dollar ("NT\$") 120,000. Income tax is exempted if the taxable profit is below NT\$120,000.

In accordance with the Income Tax Law of Indonesia, the applicable tax rate for PT Sanyang Industri Indonesia is 25%.

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

	2010 US\$	2009 US\$
Profit before tax	<b>31,360,786</b>	25,388,573
Notional tax on profit before tax using the CIT rate of 18%	<b>5,644,941</b>	4,569,943
Tax effect of non-deductible expenses	<b>648,808</b>	473,642
Tax effect of non-taxable income	<b>(134,105)</b>	(352,605)
Tax effect of differences in tax rates and tax holidays of subsidiaries	<b>(201,788)</b>	(532,262)
Under/(over) provision for CIT in respect of prior years	<b>77,237</b>	(57,827)
Derecognition of previously recognised deferred tax assets in respect of losses	<b>215,528</b>	–
Actual tax expense	<b>6,250,621</b>	4,100,891

### 9. PROFIT ATTRIBUTABLE TO EQUITY HOLDERS OF THE COMPANY

The consolidated profit attributable to equity holders of the Company includes a deficit of US\$3,048,860 (2009: US\$2,254,659) which has been dealt with in the financial statements of the Company (Note 29(c)).

## Notes to the Consolidated Financial Statements

### 10. DIVIDENDS

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

	2010 US\$	2009 US\$
Special dividend declared and paid of US\$nil per ordinary share (2009: US\$0.0219)	-	19,910,400
Final dividend proposed after the balance sheet date of US\$nil (2009:US\$0.0219) per ordinary share*	-	19,818,597
	<u>-</u>	<u>39,728,997</u>

\* The final dividend proposed after the balance sheet date has not been recognised 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

Final dividend in respect of the previous year, declared and paid during the year of US\$0.0219 per ordinary share (2009: US\$0.0026)	<u>19,818,597</u>	<u>2,399,050</u>
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### 11. OTHER COMPREHENSIVE INCOME

#### (a) Tax effects relating to each component of other comprehensive income

	2010			2009		
	Before-tax amount US\$	Tax benefit US\$	Net-of-tax amount US\$	Before-tax amount US\$	Tax benefit US\$	Net-of-tax amount US\$
Exchange differences on translation of financial statements of overseas subsidiaries	<u>(5,097,557)</u>	<u>-</u>	<u>(5,097,557)</u>	<u>(4,183,427)</u>	<u>-</u>	<u>(4,183,427)</u>

#### (b) Reclassification adjustments relating components of other comprehensive income

During the year there were no reclassification adjustments relating components of other comprehensive income.

### 12. 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\$25,110,165 (2009: US\$21,287,682) and the weighted average of 907,680,000 ordinary shares (2009: 907,680,000 ordinary shares) in issue during the year.

#### Diluted earnings per share

The amount of diluted earnings per share is the same as the basic earnings per share for the year ended 31 December 2010 as there was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

## Notes to the Consolidated Financial Statements

## 13. PROPERTY, PLANT AND EQUIPMENT

## The Group

	Buildings <i>US\$</i>	Machinery, moulds and equipment <i>US\$</i>	Office equipment, furniture and fittings <i>US\$</i>	Electrical, water and utility systems <i>US\$</i>	Motor vehicles <i>US\$</i>	Assets under construction <i>US\$</i>	Total <i>US\$</i>
<b>Cost</b>							
At 1 January 2009	13,492,334	69,238,320	1,693,771	5,515,065	1,231,836	4,307,415	95,478,741
Additions	10,864	5,013,509	138,832	173,592	108,176	3,249,123	8,694,096
Transfer from assets under construction	–	880,444	–	24,592	–	(905,036)	–
Disposals	(1,624,350)	(2,890,775)	(42,335)	(88,561)	(92,726)	–	(4,738,747)
Effect of movements in exchange rates	(714,884)	(3,665,026)	(85,467)	(291,150)	(47,872)	(242,838)	(5,047,237)
At 31 December 2009	11,163,964	68,576,472	1,704,801	5,333,538	1,199,414	6,408,664	94,386,853
Additions	269,303	8,897,015	424,405	121,783	300,033	2,263,766	12,276,305
Transfer from assets under construction	7,211	483,680	20,371	3,238	32,532	(547,032)	–
Disposals	(5,219)	(1,448,618)	(30,583)	(1,219)	(91,323)	–	(1,576,962)
Effect of movements in exchange rates	(588,373)	(3,664,016)	(95,876)	(281,482)	(62,510)	(366,364)	(5,058,621)
At 31 December 2010	10,846,886	72,844,533	2,023,118	5,175,858	1,378,146	7,759,034	100,027,575
<b>Accumulated depreciation and impairment loss</b>							
At 1 January 2009	3,713,854	44,164,008	1,091,222	4,346,470	835,458	–	54,151,012
Depreciation charge for the year	424,083	6,336,916	234,261	185,370	129,695	–	7,310,325
Disposals	(92,405)	(2,777,312)	(41,385)	(20,077)	(61,192)	–	(2,992,371)
Effect of movements in exchange rates	(239,310)	(2,808,584)	(72,538)	(246,123)	(49,666)	–	(3,416,221)
At 31 December 2009	3,806,222	44,915,028	1,211,560	4,265,640	854,295	–	55,052,745
Depreciation charge for the year	373,873	7,293,883	212,970	181,649	116,338	–	8,178,713
Impairment loss	5,694	442,723	160	–	30,344	–	478,921
Disposals	(986)	(1,428,167)	(30,387)	(1,067)	(60,478)	–	(1,521,085)
Effect of movements in exchange rates	(205,551)	(2,433,904)	(66,215)	(226,586)	(44,242)	–	(2,976,498)
At 31 December 2010	3,979,252	48,789,563	1,328,088	4,219,636	896,257	–	59,212,796
<b>Carrying amount</b>							
At 31 December 2010	6,867,634	24,054,970	695,030	956,222	481,889	7,759,034	40,814,779
At 31 December 2009	7,357,742	23,661,444	493,241	1,067,898	345,119	6,408,664	39,334,108

## Notes to the Consolidated Financial Statements

**14. INTANGIBLE ASSETS**

Intangible assets represent computer software.

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
<b>Cost</b>		
At 1 January	<b>987,116</b>	1,042,602
Additions	<b>172,467</b>	2,761
Effect of movements in exchange rates	<b>(54,780)</b>	(58,247)
	<hr/>	<hr/>
At 31 December	<b>1,104,803</b>	987,116
	<hr/>	<hr/>
<b>Accumulated amortisation</b>		
At 1 January	<b>908,223</b>	856,823
Charge for the year	<b>81,310</b>	117,922
Effect of movements in exchange rates	<b>(49,013)</b>	(66,522)
	<hr/>	<hr/>
At 31 December	<b>940,520</b>	908,223
	<hr/>	<hr/>
<b>Carrying amount</b>		
At 31 December	<b>164,283</b>	78,893
	<hr/>	<hr/>

The amortisation charge for the year is included in "administrative expenses" in the consolidated income statement.

**15. LEASE PREPAYMENTS**

Lease prepayments represent prepaid land lease rental and related costs.

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
At 1 January	<b>766,158</b>	3,135,565
Additions	<b>2,807</b>	24,362
Less: amortisation	<b>(49,995)</b>	(103,180)
Disposals	<b>-</b>	(2,206,007)
Effect of movements in exchange rates	<b>(39,268)</b>	(84,582)
	<hr/>	<hr/>
At 31 December	<b>679,702</b>	766,158
	<hr/>	<hr/>

## Notes to the Consolidated Financial Statements

### 16. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

The Group's investment in an equity accounted investee of US\$ 771,005 (2009:US\$771,816) represents its share of the net assets of the Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM").

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 licensed period of operation is 50 years and its principal activities are manufacture and sale of motorbike-related spare parts.

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

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
Non-current assets	<b>1,475,634</b>	1,650,470
Current assets	<b>1,976,759</b>	1,816,701
Current liabilities	<b>(965,281)</b>	(977,443)
	<hr/>	<hr/>
Net assets	<b>2,487,112</b>	2,489,728
	<hr/>	<hr/>
Revenue	<b>6,188,576</b>	5,177,972
Net profits	<b>687,728</b>	509,810
Dividend declared	<b>(601,021)</b>	(302,126)
	<hr/>	<hr/>

### 17. TIME DEPOSIT

The time deposit was denominated in US\$ with an original maturity of two years when acquired. The carrying amount of the time deposit approximated to its fair value.

### 18. INVESTMENT IN SUBSIDIARIES

	<b>The Company</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
<i>Unlisted shares</i>		
Investment at cost	<b>65,712,212</b>	65,712,212
Share-based payments	<b>197,171</b>	176,540
	<hr/>	<hr/>
	<b>65,909,383</b>	65,888,752
	<hr/>	<hr/>

## Notes to the Consolidated Financial Statements

### 18. INVESTMENT IN SUBSIDIARIES (Continued)

Details of the subsidiaries of the Company as at 31 December 2010 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of subsidiaries	Place and date of incorporation, establishment and operation	Issued and fully paid share capital/registered capital	Attributable equity interest held by the Company		Principal activities
			Direct	Indirect	
			%	%	
Vietnam Manufacturing and Export Processing Co., Limited	Vietnam 5 March 1992	US\$58,560,000/ US\$58,560,000	100	–	Manufacture and sales of motorbikes and related spare parts
Chin Zong Trading Co., Limited	Taiwan 6 July 2007	US\$4,528,712/ US\$9,057,424	100	–	Sales 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	Manufacture spare parts for motorbikes and motor vehicles
Duc Phat Molds Inc.	Vietnam 14 June 2002	US\$1,200,000/ US\$1,200,000	–	100	Manufacture and process of moulds and jigs
PT Sanyang Industri Indonesia	Indonesia 20 February 2006	US\$6,650,000/ US\$7,000,000	99	1	Manufacture and sales of motorbikes and related spare parts

### 19. INVENTORIES

	The Group	
	2010 US\$	2009 US\$
Raw materials	18,781,292	25,297,180
Tools and supplies	590,597	575,235
Work in progress	445,727	568,774
Finished goods	4,680,214	5,686,782
Merchandise inventories*	3,391,183	4,096,922
	<b>27,889,013</b>	36,224,893
Allowance for inventory impairment	<b>(1,146,993)</b>	(2,504,463)
Net realisable value	<b>26,742,020</b>	33,720,430

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

## Notes to the Consolidated Financial Statements

### 19. INVENTORIES (Continued)

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

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
Carrying amount of inventories sold	<b>174,765,235</b>	161,729,258
Allowance for inventory impairment	<b>417,321</b>	635,250
	<b>175,182,556</b>	162,364,508

Movements in allowance for inventory impairment were as follows:

At 1 January	<b>2,504,463</b>	2,357,815
Additions	<b>417,321</b>	635,250
Utilisation	<b>(1,672,233)</b>	(360,859)
Effect of movements in exchange rates	<b>(102,558)</b>	(127,743)
At 31 December	<b>1,146,993</b>	2,504,463

### 20. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
Trade receivables (Note 20(i) and Note 20(ii))	<b>2,931,202</b>	3,174,018	-	-
Non-trade receivables (Note 20(iii))	<b>2,609,072</b>	2,846,144	<b>31,489</b>	7,302
Prepayments (Note 20(iv))	<b>4,878,633</b>	10,437,562	<b>35,040</b>	25,000
Amounts due from related parties (Note 31(b))				
– trade	<b>153,624</b>	966,325	-	-
– non-trade	<b>156</b>	2,507,395	-	2,507,395
Amount due from a subsidiary	-	-	-	34,500,000
	<b>10,572,687</b>	19,931,444	<b>66,529</b>	37,039,697

#### (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 33(a).

An aging analysis of the trade receivables of the Group, including trade receivables due from related parties set out in Note 31(b), is as follows:

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
Within three months	<b>3,084,826</b>	4,115,149
More than three months but within one year	-	25,194
	<b>3,084,826</b>	4,140,343

## Notes to the Consolidated Financial Statements

**20. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS** (Continued)**(ii) Trade receivables that are not impaired**

The aging analysis of trade receivables of the Group that are neither individually nor collectively considered to be impaired are as follows:

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	<b>US\$</b>
Neither past due nor impaired	<b>2,968,251</b>	4,029,179
Less than 1 month past due	<b>13,200</b>	85,970
1 to 3 months past due	<b>103,375</b>	25,194
	<b>116,575</b>	111,164
	<b>3,084,826</b>	4,140,343

Receivables that were neither past due nor impaired relate to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired relate to a number of independent customers that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable. The Group does not hold any collateral over these balances.

**(iii) Non-trade receivables**

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>	<b>US\$</b>
Deductible value-added tax	<b>656,933</b>	842,227	-	-
Import tax refundable	<b>761,755</b>	712,395	-	-
Interest receivable	<b>463,730</b>	407,468	-	-
Others	<b>726,654</b>	884,054	<b>31,489</b>	7,302
	<b>2,609,072</b>	2,846,144	<b>31,489</b>	7,302

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.

**(iv) Prepayments**

Prepayments	<b>795,830</b>	954,067	<b>35,040</b>	25,000
Advances to suppliers	<b>4,082,803</b>	9,483,495	-	-
	<b>4,878,633</b>	10,437,562	<b>35,040</b>	25,000



## Notes to the Consolidated Financial Statements

### 21. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The available-for-sale financial assets are in respect of the following:

	<b>The Group/The Company</b>	
	<b>2010</b>	2009
	<b>US\$</b>	<b>US\$</b>
Mutual funds ( <i>Note 21(i)</i> )	–	8,361,213

#### (i) Mutual funds

The credit ratings of the mutual funds from ratings agency Standard and Poors were AAAm. The portfolio of the mutual funds' assets comprised commercial paper, certificates of deposit, agency notes and bonds, time deposits and repurchase orders, and floating rate notes.

The fund issuer was an open-ended investment company listed on the Irish Stock Exchange. Details of the funds held by the Group and the Company as at 31 December are as follows:

Fund issuer		
Institutional Cash Series Plc.		
– Institutional US Dollar Liquidity Fund denominated in US\$	–	8,361,213
At fair value	–	8,361,213

As set out in Note 26, the mutual funds as at 31 December 2009 were pledged to a bank as collateral of interest bearing borrowings.

The Group follows the guidance of IAS 39, *Financial Instruments: Recognition and Measurement*, when determining whether an investment in available-for-sale financial assets is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its carrying amount, and the expected time span the Group will hold on to this investment.

### 22. PLEDGED BANK DEPOSITS

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	<b>US\$</b>
Denominated in VN\$	–	1,564,695

Bank deposits as at 31 December 2009 had been pledged to banks as security for certain banking facilities (*Note 26*).

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

Effective interest rates-VN\$	–	7.22% to 7.68%
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## Notes to the Consolidated Financial Statements

## 23. TIME DEPOSITS MATURING AFTER THREE MONTHS

	The Group		The Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Denominated in VN\$	<b>256,410</b>	2,651,658	–	–
Denominated in US\$	<b>13,350,000</b>	20,000,000	<b>13,000,000</b>	20,000,000
	<b>13,606,410</b>	22,651,658	<b>13,000,000</b>	20,000,000

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

Effective interest rates – VN\$	<b>11.5%</b>	6.10% to 14.00%	–	–
Effective interest rates – US\$	<b>1.59% to 3.00%</b>	1.74%	<b>1.59% to 2.40%</b>	1.74%

## 24. CASH AND CASH EQUIVALENTS

	The Group		The Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Denominated in VN\$	<b>79,830,170</b>	80,617,878	–	–
Denominated in US\$	<b>33,785,912</b>	8,332,065	<b>28,597,579</b>	1,375,479
Denominated in NT\$	<b>2,260,251</b>	46,473	–	–
Denominated in HK\$	<b>144,179</b>	89,302	<b>144,179</b>	89,302
Denominated in EUR	<b>65,055</b>	69,410	<b>65,055</b>	69,410
Denominated in IDR	<b>62,415</b>	146,810	–	–
	<b>116,147,982</b>	89,301,938	<b>28,806,813</b>	1,534,191

The effective interest rates relating to cash and cash equivalents denominated in US\$ and VN\$ per annum are set out as follows:

Effective interest rates – VN\$	<b>6.00% to 14.50%</b>	4.50% to 10.80%	–	–
Effective interest rates – US\$	<b>0.01% to 3.20%</b>	0.01% to 2.50%	<b>0.01% to 0.60%</b>	0.01% to 0.60%

## Notes to the Consolidated Financial Statements

## 25. TRADE AND OTHER PAYABLES

	The Group		The Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Trade payables (Note 25(i))	17,537,125	13,717,865	-	-
Other payables and accrued operating expenses (Note 25(iii))	10,855,113	10,428,679	699,793	474,477
Advances from customers	2,821,641	4,342,080	-	-
Amounts due to related parties (Note 31(c))				
- trade	6,021,797	13,955,614	-	-
- non-trade	1,338	5,247	1,338	-
Amount due to a subsidiary	-	-	97,087	341
	<b>37,237,014</b>	<b>42,449,485</b>	<b>798,218</b>	<b>474,818</b>

## (i) Trade payables

An aging analysis of trade payables of the Group, including trade payables due to related parties as set out in Note 31(c), is as follows:

	The Group	
	2010 US\$	2009 US\$
Within three months	19,604,630	27,330,302
More than three months but within one year	3,952,072	274,538
More than one year but within five years	2,220	68,639
	<b>23,558,922</b>	<b>27,673,479</b>

## (ii) Other payables and accrued operating expenses

	The Group		The Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Other tax payables	1,578,151	1,669,326	-	-
Commission and bonuses payable to dealers	2,538,571	2,428,141	-	-
Accrued expenses	3,287,263	2,633,075	699,793	474,477
Other payables	3,451,128	3,698,137	-	-
	<b>10,855,113</b>	<b>10,428,679</b>	<b>699,793</b>	<b>474,477</b>

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

## Notes to the Consolidated Financial Statements

## 26. INTEREST-BEARING BORROWINGS

## (a) Current

	The Group		The Company	
	2010 US\$	2009 US\$	2010 US\$	2009 US\$
Bank borrowings				
– secured	–	7,948,157	–	6,000,000
– unsecured	<b>1,125,966</b>	–	–	–
Current portion of long-term borrowings				
– secured (Note 26(b))	–	25,523	–	–
	<b>1,125,966</b>	<b>7,973,680</b>	<b>–</b>	<b>6,000,000</b>

The above secured borrowings of the Group and the Company were secured by certain assets of the Group and the Company. An analysis of the carrying value of these assets is as follows:

Pledged bank deposits (Note 22)	–	1,515,234	–	–
Available-for-sale financial assets (Note 21)				
– Mutual funds	–	8,361,213	–	8,361,213

Interest rates per annum of the above borrowings are as follows:

Short-term interest				
– bearing borrowings	<b>3.35% to 4.12%</b>	1.08% to 6.40%	–	1.10%

## (b) Non-current

	The Group	
	2010 US\$	2009 US\$
Bank borrowings – secured	–	44,703
Less: Amount due within one year (Note 26(a))	–	(25,523)
	<b>–</b>	<b>19,180</b>

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:

Pledged bank deposits (Note 22)	–	49,461
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Interest rates per annum of the above non-current borrowings are as follows:

	The Group	
	2010	2009
Long-term interest-bearing borrowings	–	6.00% to 6.60%

## Notes to the Consolidated Financial Statements

**26. INTEREST-BEARING BORROWINGS** (Continued)**(c) Maturity of borrowings**

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

	<b>The Group</b>		<b>The Company</b>	
	<b>2010</b>	2009	<b>2010</b>	2009
	<b>US\$</b>	US\$	<b>US\$</b>	US\$
Within one year	<b>1,125,966</b>	7,973,680	-	6,000,000
More than one year and within three years	-	19,180	-	-
	<b>1,125,966</b>	7,992,860	-	6,000,000
Less: Borrowings classified as current liabilities	-	(7,973,680)	-	(6,000,000)
Non-current borrowings	-	19,180	-	-

**27. INCOME TAX (RECOVERABLE)/PAYABLE****(a) Current taxation in the balance sheet represents:**

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
At 1 January	<b>1,415,894</b>	(833,206)
Provision for tax for the year	<b>5,328,309</b>	4,154,939
Under/(over)-provision in prior years	<b>77,237</b>	(57,827)
Income tax paid	<b>(5,093,533)</b>	(1,856,462)
Effect of movements in exchange rates	<b>(45,313)</b>	8,450
At 31 December	<b>1,682,594</b>	1,415,894
<b>Represented by:</b>		
Income tax recoverable	<b>(15,548)</b>	(37,168)
Income tax payable	<b>1,698,142</b>	1,453,062
	<b>1,682,594</b>	1,415,894

## Notes to the Consolidated Financial Statements

**27. INCOME TAX (RECOVERABLE)/PAYABLE**(Continued)**(b) Recognised deferred tax assets:****The Group**

Deferred tax arising from:

	<b>Allowance for inventories</b>	<b>Losses as a result of fire</b>	<b>Tax losses</b>	<b>Others</b>	<b>Total</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
At 1 January 2009	379,100	534,407	215,528	–	1,129,035
Credited/(debited) to the income statement	40,910	(68,919)	–	24,230	(3,779)
Effect of movements in exchange rates	(34,621)	(38,369)	–	–	(72,990)
At 31 December 2009	385,389	427,119	215,528	24,230	1,052,266
Debited to the income statement	(214,622)	(412,154)	(215,528)	(2,771)	(845,075)
Effect of movements in exchange rates	(16,420)	(14,965)	–	2,683	(28,702)
At 31 December 2010	154,347	–	–	24,142	178,489

**(c) Deferred tax assets not recognised:**

The Group has not recognized deferred tax assets in respect of accumulated tax losses of US\$1,258,023 (2009: US\$854,194) of a subsidiary as at 31 December 2010, as the Group does not consider the utilisation of the accumulated tax losses of that subsidiary to be probable before their expiry.

## Notes to the Consolidated Financial Statements

**28. PROVISIONS**

<b>The Group</b>	<b>Warranties</b> <i>US\$</i>	<b>Severance pay</b> <i>US\$</i>	<b>Total</b> <i>US\$</i>
At 1 January 2009	848,312	937,812	1,786,124
Additions	2,966,424	177,132	3,143,556
Utilisation during the year	(3,308,269)	(111,749)	(3,420,018)
Effect of movements in exchange rates	(34,727)	(52,472)	(87,199)
	<hr/>	<hr/>	<hr/>
At 31 December 2009	471,740	950,723	1,422,463
Additions	2,596,557	464,282	3,060,839
Utilisation during the year	(2,356,079)	(79,194)	(2,435,273)
Effect of movements in exchange rates	(29,016)	(51,388)	(80,404)
	<hr/>	<hr/>	<hr/>
At 31 December 2010	<b>683,202</b>	<b>1,284,423</b>	<b>1,967,625</b>
<b>The Company</b>		<b>Severance pay</b> <i>US\$</i>	<b>Total</b> <i>US\$</i>
At 31 December 2009		–	–
Additions		295,450	295,450
		<hr/>	<hr/>
At 31 December 2010		<b>295,450</b>	<b>295,450</b>
		<hr/>	<hr/>

**(a) Provision for warranties**

Further details in respect of the provision for warranties are set out in Note 34(e).

**(b) Provision for severance pay obligation**

Pursuant to the labour regulations in Vietnam, employers are required to pay a severance allowance to each local employee, who joined the company before 1 January 2009, (calculated as half a month's salary for every completed year of service) when the employee leaves the company. In addition, pursuant to the policy of the Company, a severance allowance will be paid to each Taiwanese employee (calculated as one month's salary for every completed year of service) when the employee leaves the Company.

The obligation vests and is payable regardless of the reasons for the employee departing the company. The provision in respect of this severance pay obligation is 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 as a result of services rendered by employees up to the balance sheet date.

## Notes to the Consolidated Financial Statements

## 29. CAPITAL AND RESERVES

## (a) Share capital

## The Group/the Company

	2010		2009	
	Number of Shares	Amount US\$	Number of Shares	Amount US\$
Authorised:				
Ordinary shares of HK\$0.01	<b>10,000,000,000</b>	<b>12,811,479</b>	10,000,000,000	12,811,479
Issued and fully paid:				
At 31 December	<b>907,680,000</b>	<b>1,162,872</b>	907,680,000	1,162,872

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meetings of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## (b) Nature and purpose of reserves

## (i) Share premium

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.

## (ii) Capital reserve

Capital reserve represents the fair value of the actual or estimated number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for share-based payments (*Note 3(m)*).

## (iii) Exchange reserve

The exchange reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries in accordance with the accounting policy adopted for foreign currencies (*see Note 3(b)(iii)*).

## (iv) Statutory reserves

Statutory reserves at 31 December 2010 represented the statutory reserve of Chin Zong.

In accordance with Chin Zong's Articles of Association, after Chin Zong has paid all taxes due at the end of the fiscal year, Chin Zong shall offset its accumulated losses and set aside 10% of the net profit as a statutory reserve before distribution of profit.

## (v) Distributability of reserves

At 31 December 2010, the aggregate amount of reserves available for distribution to equity holders of the Company was US\$103,581,557 (2009: US\$126,449,014).



## Notes to the Consolidated Financial Statements

### 29. CAPITAL AND RESERVES (Continued)

#### (c) Statement of changes in equity The Company

	Paid-in capital US\$	Share premium US\$	Capital reserve US\$	Retained profits/ (deficit) US\$ (Note 9)	Total equity US\$
At 1 January 2009	1,162,872	112,198,709	1,274,141	38,814,414	153,450,136
Total comprehensive income for the year	-	-	-	(2,254,659)	(2,254,659)
Equity-settled share-based payments	-	-	463,008	-	463,008
Dividends	-	-	-	(22,309,450)	(22,309,450)
At 31 December 2009	1,162,872	112,198,709	1,737,149	14,250,305	129,349,035
Total comprehensive income for the year	-	-	-	(3,048,860)	(3,048,860)
Equity-settled share-based payments	-	-	207,479	-	207,479
Dividends	-	-	-	(19,818,597)	(19,818,597)
At 31 December 2010	1,162,872	112,198,709	1,944,628	(8,617,152)	106,689,057

#### (d) Capital management

The Group's primary objectives when managing capital are to maintain investor, creditor and market confidence and to sustain future development of the business.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholders 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 2010 is 1% (2009: 5%). The gearing ratio is calculated by dividing total interest-bearing borrowings with total equity.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

### 30. SHARE-BASED PAYMENTS

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 to retain and encourage the qualified participants to work with commitment towards enhancing the value of the Company for the benefit of the shareholders.

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.

## Notes to the Consolidated Financial Statements

**30. SHARE-BASED PAYMENTS** (Continued)

(a) **The terms and conditions of the grants that existed during the year are as follows, whereby all options are settled by physical delivery of shares:**

	Number of options	Vesting condition and exercisable percentage condition	Up to %	Contractual life of options
Options granted to the directors of the Group – on 4 February 2008	2,703,000	Six months from the Grant Date One year from the Grant Date Two years from the Grant Date Three years from the Grant Date	20 45 70 100	5 years
Options granted to the employees of the Group – on 4 February 2008	9,280,000	Six months from the Grant Date One year from the Two years from the Grant Date Three years from the Grant Date	20 45 70 100	5 years
Options granted to the employees of the ultimate holding company, Sanyang Industry Co., Ltd. – on 4 February 2008	8,017,000	Six months from the Grant Date One year from the Grant Date Two years from the Grant Date Three years from the Grant Date	20 45 70 100	5 years
	<hr style="width: 100px; margin-left: auto; margin-right: 0;"/> 20,000,000 <hr style="width: 100px; margin-left: auto; margin-right: 0;"/>			

(b) **The number and weighted average exercise prices of share options are as follows:**

	Weighted average exercise price <i>HK\$</i>	Number of options
Outstanding at 1 January 2010	2.90	16,020,000
Lapsed during the year	2.90	(2,508,000)
		<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>
Outstanding at 31 December 2010		13,512,000
		<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>
Exercisable at 31 December 2010		9,458,400
		<hr style="width: 100px; margin-left: auto; margin-right: 0;"/>

No share option has been exercised during the year ended 31 December 2010.

The options outstanding at 31 December 2010 had an exercise price of HK\$2.90 and a contractual life of 2.08 years.

## Notes to the Consolidated Financial Statements

### 30. SHARE-BASED PAYMENTS (Continued)

#### (c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured with reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

**At 4 February 2008  
(Grant Date)**

Fair value at measurement date	HK\$0.88
Share price	HK\$2.90
Exercise price	HK\$2.90
Expected volatility	55.15%
Option life	5 years
Expected dividends	7%
Risk free interest rate	2.06%

The expected volatility was determined with reference to the volatilities of the comparable companies. The expected annual dividend yield was based on the projected dividend yield of shares of the Company as provided by the management of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

### 31. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2010, transactions with the following parties are considered as related party transactions:

<b>Name of party</b>	<b>Relationship</b>
Sanyang Industry Co., Ltd. ("Sanyang")	The ultimate holding 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
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.	A subsidiary of SY International Limited, the equity holder of the Company
Sanyang Global Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Youth Taisun Company Limited	A subsidiary of Sanyang, the controlling equity holder of the Group

## Notes to the Consolidated Financial Statements

**31. MATERIAL RELATED PARTY TRANSACTIONS** (Continued)**(a) Recurring transactions**

	2010 US\$	2009 US\$
<b>Sales of finished goods and spare parts: (i)</b>		
Sanyang Industry Co., Ltd.	<b>694,420</b>	990,190
Sanyang Vietnam Automobile Co., Ltd.	<b>124,385</b>	41,981
Sanyang Global Co., Ltd.	-	404,440
Teamworld Industries Corporation	<b>37,612</b>	74,274
Xia Shing Xiamen Motorcycle Co., Ltd.	<b>36,900</b>	20,500
	<b>893,317</b>	1,531,385
<b>Purchases of raw materials and finished goods: (ii)</b>		
Sanyang Industry Co., Ltd.	<b>16,001,245</b>	16,976,055
Sanyang Global Co., Ltd.	<b>9,524,460</b>	7,341,811
Vietnam Three Brothers Machinery Industry Co., Limited	<b>4,296,635</b>	4,386,546
Xia Shing Xiamen Motorcycle Co., Ltd.	-	1,834
Youth Taisun Company Limited	-	1,833
	<b>29,822,340</b>	28,708,079
<b>Purchases of property, plant and equipment: (iii)</b>		
Sanyang Industry Co., Ltd.	<b>524,558</b>	967,146
Vietnam Three Brothers Machinery Industry Co., Limited	<b>327,727</b>	-
	<b>852,285</b>	967,146
<b>Technology transfer fees: (iv)</b>		
Sanyang Industry Co., Ltd.	<b>6,455,056</b>	5,940,366
<b>Technical consultancy fees: (v)</b>		
Sanyang Industry Co., Ltd.	<b>717,133</b>	404,384
(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 and finished goods are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.	
(iii)	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.	
(iv)	Pursuant to certain technology transfer agreements entered into between Sanyang, the Company and VMEP ("Technology License Agreements"), Sanyang has granted an exclusive license to VMEP to use the technology, know-how, trade secrets and production information owned by Sanyang in connection with the Group's manufacture and sale of "SYM" brand motorbikes and related parts in the all of the member countries of the Association of South East Asians Nations, including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The license fee as provided for in the Technology License Agreement is 4% of the annual net selling price of products manufactured using such technology.	
(v)	Technical consultancy fees charged by Sanyang are staff costs and other related expenses, as defined in the technical consultancy agreement entered into between the Company and Sanyang.	

## Notes to the Consolidated Financial Statements

**31. MATERIAL RELATED PARTY TRANSACTIONS** (Continued)**(b) Amount due from related parties**

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
<b>Trade</b>		
Sanyang Global Co., Ltd.	<b>45,732</b>	391,593
Sanyang Industry Co., Ltd.	<b>107,892</b>	286,410
Sanyang Vietnam Automobile Co., Ltd.	-	13,381
Teamworld Industries Corporation	-	312
Vietnam Three Brothers Machinery Industry Co., Ltd.	-	272,870
Xia Shing Xiamen Motorcycle Co., Ltd.	-	1,759
	<hr/>	<hr/>
<b>Subtotal</b>	<b>153,624</b>	966,325
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Non-trade</b>		
Sanyang Industry Co., Ltd.	<b>156</b>	2,507,395
	<hr/>	<hr/>
<b>Subtotal</b>	<b>156</b>	2,507,395
	<hr/>	<hr/>
<b>Total</b>	<b>153,780</b>	3,473,720
	<hr/>	<hr/>
	<b>The Company</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
<b>Non-trade</b>		
Sanyang Industry Co., Ltd.	-	2,507,395
	<hr/>	<hr/>

Trade balances due from related parties are unsecured, interest-free and are expected to be recovered within 60 days. The non-trade balance due from related parties is expected to be recovered within one year.

## Notes to the Consolidated Financial Statements

**31. MATERIAL RELATED PARTY TRANSACTIONS** (Continued)**(c) Amount due to related parties**

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
<b>Trade</b>		
Sanyang Global Co., Ltd.	<b>1,835,363</b>	2,088,998
Sanyang Industry Co., Ltd.	<b>3,983,459</b>	10,987,557
Teamworld Industries Corporation	–	21,300
Vietnam Three Brothers Machinery Industry Co., Limited	<b>202,975</b>	837,263
Xia Shing Xiamen Motorcycle Co., Ltd.	–	20,496
	<hr/>	<hr/>
<b>Subtotal</b>	<b>6,021,797</b>	13,955,614
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Non-trade</b>		
Sanyang Industry Co., Ltd.	<b>1,338</b>	5,247
	<hr/>	<hr/>
<b>Subtotal</b>	<b>1,338</b>	5,247
	<hr style="border-top: 1px dashed black;"/>	<hr style="border-top: 1px dashed black;"/>
<b>Total</b>	<b>6,023,135</b>	13,960,861
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>
	<b>The Company</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
<b>Non-trade</b>		
Sanyang Industry Co., Ltd.	<b>1,338</b>	–
	<hr/>	<hr/>
<b>Total</b>	<b>1,338</b>	–
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

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

The non-trade balance due from related party is expected to be recovered within one year.

**(d) Key management personnel remuneration**

	<b>2010</b>	2009
	<b>US\$</b>	US\$
Short-term employee benefits	<b>1,172,754</b>	1,049,040
Equity-settled share-based payment expenses	<b>34,730</b>	92,354
	<hr/>	<hr/>
	<b>1,207,484</b>	1,141,394
	<hr style="border-top: 3px double black;"/>	<hr style="border-top: 3px double black;"/>

Total remuneration is included in "staff costs" as set out in Note 7(a).

## Notes to the Consolidated Financial Statements

### 32. COMMITMENTS

#### (a) Capital commitments

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

	<b>The Group</b>	
	<b>2010</b>	2009
	<b>US\$</b>	US\$
Contracted for	<b>629,688</b>	2,528,262
Authorised but not contracted for	-	5,780,910
	<b>629,688</b>	8,309,172

#### (b) Operating lease commitments

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

Within 1 year	<b>597,437</b>	368,965
After 1 year but within 5 years	<b>1,434,848</b>	809,834
After 5 years	<b>2,263,918</b>	2,905,943
	<b>4,296,203</b>	4,084,742

The leases run for an initial period of one to four years, except for a lease of land and factories which runs for fifty years.

### 33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE

The Group's business strategies, tolerance of risk and general risk management philosophy are determined by the management in accordance with prevailing economic and operating conditions.

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, available-for-sale financial assets and amounts due from related parties. The Group's financial liabilities comprise interest-bearing borrowings, trade and other payables, and amounts due to related parties.

The Group had no derivative instruments that are designated and qualified as hedging instruments for the year ended 31 December 2010. Exposure to credit, interest rate, currency risk and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (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 low as the Group generally offers no credit terms to domestic customers, which accounted for approximately 88% (2009: 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; 5% (2009: 23%) of the trade receivables as at year end are due from related parties which have a good trading and settlement record with the Group.

## Notes to the Consolidated Financial Statements

### 33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

#### (a) Credit risk (Continued)

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

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 sheet.

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

	2010 US\$	2009 US\$
Manufacture and sales of motorbikes	915,107	2,035,452
Manufacture and sales of spare parts and engines	2,164,405	2,073,551
Moulds and repair services	5,314	31,340
	<u>3,084,826</u>	<u>4,140,343</u>

Further quantitative disclosures in respect of the Group's exposure to credit risk arising from other receivables and prepayments are set out in Note 20.

##### (ii) Deposits with banks

It is expected that there is no significant credit risk associated with the cash and cash equivalents, and pledged time deposits as they are placed with major banks, which the management believes are of high credit quality.

#### (b) Interest rate risk

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

##### (i) Interest-bearing financial assets

Interest-bearing financial assets include pledged bank deposits, time deposits maturing after three months, cash and cash equivalents and available-for-sale 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 balancing the placement of deposits with varying maturity periods.

##### (ii) Interest-bearing financial liabilities

Interest-bearing financial liabilities include bank borrowings. The Group's and the Company'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 and the Company are disclosed in Note 26.

At the balance sheet date, the interest rate profile of the Group's and the Company's interest-bearing borrowings was as follows:

The Group	2010		2009	
	Effective interest rate %	US\$	Effective interest rate %	US\$
<b>Fixed rate instrument</b>				
Interest-bearing borrowings	4.12%	1,125,966	-	-
<b>Variable rate instrument</b>				
Interest-bearing borrowings	-	-	2.42%	7,992,860



## Notes to the Consolidated Financial Statements

**33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE** (Continued)**(b) Interest rate risk** (Continued)**(ii) Interest-bearing financial liabilities** (Continued)

The Company	2010		2009	
	Effective interest rate %	US\$	Effective interest rate %	US\$
<b>Fixed rate instrument</b>				
Interest-bearing borrowings	-	-	-	-
<b>Variable rate instrument</b>				
Interest-bearing borrowings	-	-	1.10%	6,000,000

**(iii) Sensitivity analysis**

As at 31 December 2010, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would increase/decrease the Group's net profit after tax and retained profits by US\$ nil (2009: US\$106,872) in response to the general increase/decrease in interest rates.

The sensitivity analysis above indicates the instantaneous change in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise assuming that the change in interest rates had occurred at the balance sheet date and had been applied to re-measure those financial instruments held by the Group which expose the Group to fair value interest rate risk at the balance sheet date. In respect of the exposure to cash flow interest rate risk arising from floating rate non-derivative instruments held by the Group at the balance sheet date, the impact on the Group's profit after tax (and retained profits) and other components of consolidated equity is estimated as an annualised impact on interest expense or income of such a change in interest rates. The analysis is performed on the same basis for 2009.

**(c) Currency risk**

The Group is exposed to currency risk primarily through sales, purchases, investments and borrowings that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. The currency giving rise to significant currency risk is primarily US\$.

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.

**(i) Exposure to currency risk**

The following table details the Group's exposure at the balance sheet date to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in US\$, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the Group's presentation currency are excluded.

## Notes to the Consolidated Financial Statements

**33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE** (Continued)**(c) Currency risk** (Continued)**(i) Exposure to currency risk** (Continued)**The Group**

	<b>Exposure to foreign currencies (expressed in US\$) US\$</b>
<b>2010</b>	
Trade and other receivables	1,569,558
Cash and cash equivalents	5,049,156
Trade and other payables	(11,016,628)
Interest-bearing borrowings	(1,125,966)
	<hr/>
Balance sheet exposure	(5,523,880)
	<hr/>
<b>2009</b>	<i>US\$</i>
Trade and other receivables	2,813,074
Cash and cash equivalents	6,956,585
Trade and other payables	(49,824,991)
Interest-bearing borrowings	(6,000,000)
	<hr/>
Balance sheet exposure	(46,055,332)
	<hr/>

The Company does not have any significant exposure to foreign currency risk.

**(ii) Sensitivity analysis**

The following table indicates the instantaneous increase/(decrease) in the Group's profit after tax (and retained profits) and other components of consolidated equity that would arise if foreign exchange rates to which the Group has significant exposure at the balance sheet date had changed at that date, assuming all other risk variables remained constant.

<b>The Group</b>	<b>2010</b>		<b>2009</b>	
	<b>Increase/ (decrease) in foreign exchange rates</b>	<b>Effect on profit after tax and retained profits US\$</b>	<b>Increase/ (decrease) in foreign exchange rates</b>	<b>Effect on profit after tax and retained profits US\$</b>
United States Dollar	<b>10%</b>	<b>(552,389)</b>	5%	(1,905,605)
	<b>(10%)</b>	<b>552,389</b>	(5%)	1,905,605

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss/profit after tax and equity measured in the respective functional currencies, translated into US\$ at the exchange rate ruling at the balance sheet date for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to foreign currency risk at the balance sheet date, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2009.

## Notes to the Consolidated Financial Statements

**33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE** (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 25 and 26.

The following tables show the remaining contractual maturities at the balance sheet date of the Group's and the Company's non-derivative financial liabilities, which are based on the contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on the rates current at the balance sheet date) and the earliest date the Group and the Company can be required to pay:

The Group	Contractual undiscounted cash outflow				Carrying amount at 31 Dec US\$
	Within 6 months or on demand US\$	6 – 12 months US\$	More than 1 year US\$	Total US\$	
<b>2010</b>					
Trade and other payables excluding advances from customers	33,811,102	604,271	–	34,415,373	34,415,373
Bank borrowings – unsecured	1,127,101	–	–	1,127,101	1,125,966
	<b>34,938,203</b>	<b>604,271</b>	<b>–</b>	<b>35,542,474</b>	<b>35,541,339</b>
	Within 6 months or on demand US\$	6 – 12 months US\$	More than 1 year US\$	Total US\$	Carrying amount at 31 Dec US\$
<b>2009</b>					
Trade and other payables excluding advances from customers	35,689,430	2,417,975	–	38,107,405	38,107,405
Bank borrowings – unsecured	7,978,818	12,849	19,924	8,011,591	7,992,860
	<b>43,668,248</b>	<b>2,430,824</b>	<b>19,924</b>	<b>46,118,996</b>	<b>46,100,265</b>
<b>The Company</b>					
<b>2010</b>					
Trade and other payables	798,218	–	–	798,218	798,218
Bank borrowings – secured	–	–	–	–	–
	<b>798,218</b>	<b>–</b>	<b>–</b>	<b>798,218</b>	<b>798,218</b>
	Within 6 months or on demand US\$	6 – 12 months US\$	More than 1 year US\$	Total US\$	Carrying amount at 31 Dec US\$
<b>2009</b>					
Trade and other payables	474,818	–	–	474,818	474,818
Bank borrowings – secured	6,003,888	–	–	6,003,888	6,000,000
	<b>6,478,706</b>	<b>–</b>	<b>–</b>	<b>6,478,706</b>	<b>6,474,818</b>

## Notes to the Consolidated Financial Statements

### 33. FINANCIAL RISK MANAGEMENT AND FAIR VALUE (Continued)

#### (e) Business risk

The Group has certain concentration risk of raw materials and finished goods sourcing from related parties. The Group's total purchases of raw materials and finished goods from the related parties amounted to US\$29,822,340 (2009: US\$28,708,079) which accounted for approximately 17.7% (2009: 20.1%) of the Group's total purchases for the year ended 31 December 2010.

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 and has made sufficient provision for warranty claims.

#### (f) Fair value

All financial instruments are carried at amounts not materially different from their fair values as at 31 December 2010 and 2009 due to either the short maturities of these financial instruments or variable market interest rate for long-term bank borrowings.

#### (g) Estimation of fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2010. The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

##### (i) 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.

##### (ii) Available-for-sale financial assets

The fair value of the mutual funds described in Note 21(i) was established with reference to the quoted market price in an active market.

### 34. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty are as follows:

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

As explained in Note 33(a)(i), impairment losses on trade receivables, other receivables and prepayments are assessed and provided based on the directors' regular review of the aging analysis and past collection history of each individual customer. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and collectability of each receivable. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated income statement in future years.

#### (b) Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value. The Group reviews annually the useful life of the assets and their 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 prices and the historical experience of distributing and selling products of a 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.

## Notes to the Consolidated Financial Statements

### 34. ACCOUNTING ESTIMATES AND JUDGEMENTS (Continued)

#### (d) Income taxes

Determining income tax provisions involves judgement regarding 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) Provision for warranties

As explained in Note 28, the Group makes provisions under the warranties it gives on sale of its motorbikes and other products taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. Any increase or decrease in the provision would affect profit or loss in future years.

### 35. IMMEDIATE AND ULTIMATE HOLDING COMPANY

The directors of the Company consider the immediate holding and ultimate holding company of the Company to be SY International Ltd. and Sanyang Industry Co., Ltd., respectively. Sanyang Industry Co., Ltd. is incorporated in Taiwan.

### 36. SUBSEQUENT EVENTS

On 25 January 2011, the Group's Board of Directors resolved to relocate one of the Group's factories from Ha Tay province to a new location, as the Group has been informed that the Vietnam government intends to redevelop Ha Tay province. The relocation is expected to be completed by the end of 2012. The capital commitment authorised but not contracted for after the balance sheet date in respect of this relocation and construction of the new factory is US\$28.5 million. The authorised amount is an initial estimate and will be subject to regular review by the Group's Board of Directors