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)

Saigon Opera House

Nhà hát lớn Thành phố Hồ Chí Minh

Interim Report 2013

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CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Chou Ken Yuan (Chairman)
Mr. Wang Ching Tung
Mr. Yu Wen Lung
Mr. Chen Chung Long

Non-executive Directors
Mr. Chiang Shih Huang
Mr. Chiu Ying Feng

Independent Non-executive Directors
Ms. Lin Ching Ching
Mr. Shen Hwa Rong
Mr. Wei Sheng Huang
(resigned on 31 May 2013)

AUDIT COMMITTEE
Ms. Lin Ching Ching (Chairman)
Mr. Shen Hwa Rong
Mr. Wei Sheng Huang
(resigned on 31 May 2013)

REMUNERATION COMMITTEE
Ms. Lin Ching Ching
Mr. Wang Ching Tung
Mr. Wei Sheng Huang
(resigned on 31 May 2013)

AUTHORISED REPRESENTATIVES
Mr. Chan Chi Shing
Mr. Yu Wen Lung

COMPANY SECRETARY
Mr. Chan Chi Shing

AUDITORS
KPMG

LEGAL ADVISERS
Norton Rose Hong Kong

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
Unit 2106, 21/F, Technology Plaza
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Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR
Royal Bank of
Canada Trust Company (Cayman) Limited

HONG KONG BRANCH SHARE REGISTRAR
Computershare Hong Kong
Investor Services Limited

STOCK CODE
422

WEBSITE AND CONTACT
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MANAGEMENT DISCUSSION & ANALYSIS

Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") and its subsidiaries (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 (near Ho Chi Minh City) and Hanoi of Vietnam with an annual production capacity of 360,000 motorbikes. Offering a wide range of models, the Group's motorbikes are sold under the SYM brand name. 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

Vietnam's government has contended at the beginning of this year that Vietnam's economy slowdown has hit bottom and the inflation appeared to be under control. It also predicted that the economy would be back to normal with a robust 6% growth after overcoming inflation and other financial obstacles over the past several years.

Vietnam's economy has shown signs of growth in the second quarter of 2013 after its central bank cut interest rates to revive lending to businesses and rising foreign investment boosted the nation's exports. In the first half of 2013, the gross domestic product (GDP) stood at 4.9%, disbursed foreign investment rose 5.6 % to US$5.7 billion and the consumer price index (CPI) increased by only 2.4%, the smallest increase in the last ten years. The exchange rate of Vietnamese Dong against US$ has slipped from 20,828 to 21,036 which has remained unchanged since the end of 2011.

Vietnam's consumption market has little improvement but still at a low level in the first half of 2013. However, its motorbike industry experienced keen competition starting from 2012 onwards, as foreign investment manufacturers in Vietnam have expanded their production capacities and launched more models and promotion activities.

BUSINESS REVIEW

In the first half of 2013, the motorbike market in Vietnam was highly competitive and challenging and the Group has strived to improve its operational efficiency and implemented cost control in order to minimise the negative impacts arising from the slowdown of consumer spending. During the six months ended 30 June 2013, the costs of materials, components, wages and salaries increased moderately. The Group continued to introduce electronic fuel injection technology feature to enhance the quality and upgrade scooter models such as ATTILA-ELIZABETH, SHARK and PASSING. Such technology offers advantages in fuel saving and environmental protection, but the addition of imported sophisticated components utilised in connection with such technology also added pressure to the overall cost.

For the six months ended 30 June 2013, an aggregate of approximately 43,100 units (which comprised of approximately 28,100 units and 15,000 units of scooters and cubs respectively) were sold by the Group in Vietnam, representing a decrease of 20% over the same period of previous year. In contrast, due to the increase in overseas markets demands, approximately 50,000 units were exported to ASEAN countries, representing an increase of 12% over the comparative periods, in particular, there has been a rapid growth in sales in the Philippines and Malaysian markets.

During the first half of 2013, the Group has also strengthened its distribution network with 287 SYM-authorised stores owned by dealers as at 30 June 2013, covering almost every province in Vietnam.

FINANCIAL REVIEW

Revenue decreased by 5% from US$93.7 million for the six months ended 30 June 2012 to US$88.9 million for the six months ended 30 June 2013, and the Group's recorded a net loss of US$4.3 million for the six months ended 30 June 2013 as compared to a loss of US$0.5 million for the six months ended 30 June 2012.

REVENUE

Revenue of the Group for the six months ended 30 June 2013 amounted to US$88.9 million as compared to US$93.7 million for the six months ended 30 June 2012, representing a slight decrease of US$4.8 million or 5%. This decrease was due to a low level of economy and domestic spending in Vietnam during the period. The Group's overall sales quantities and sales quantities of scooters in Vietnam decreased by 20% and 10% respectively for the six months ended 30 June 2013 as compared with the six months ended 30 June 2012. Sales of scooters continued to be the Group's major profit driver. The principal scooter models include ATTILA-VICTORIA, ELIZABETH, SHARK and PASSING, and cub models of ELEGANT and ANGEL+EZ. In terms of geographical contribution, approximately 63% of total sales were generated from the domestic market in Vietnam for the six months ended 30 June 2013.

COST OF SALES

The Group's cost of sales decreased by 4%, from US$84.6 million for the six months ended 30 June 2012 to US$81.6 million for the six months ended 30 June 2013. Such decrease was primarily due to a drop of sales volume and cost reduction arising from expanding procurement sources for materials and components which was partly offset by the increase of labour costs and rising import costs of advance technology components like electronic fuel injection engines. As a percentage of total revenue, the Group's cost of sales increased from 90% for the six months ended 30 June 2012 to 92% for the six months ended 30 June 2013.

GROSS PROFIT AND GROSS PROFIT MARGIN

Owing to the drop of sales and materials and components costs, and increase of labour costs as discussed above, the gross profit of the Group decreased by 20%, from US$9.1 million for the six months ended 30 June 2012 to US$7.3 million for the six months ended 30 June 2013. In between such comparative periods, the Group's gross profit margin has decreased from 10% to 8%.

DISTRIBUTION EXPENSES

The Group's distribution expenses slightly increased by 2%, from US$6.6 million for the six months ended 30 June 2012 to US$6.8 million for the six months ended 30 June 2013. Such increase was mainly attributed to an increase of sales incentives and supporting fees to distributors, advertising expenses for promotion and market expansion in a competitive market.

TECHNOLOGY TRANSFER FEES

The technology transfer fees decreased by 8%, from US$2.0 million for the six months ended 30 June 2012 to US$1.9 million for the six months ended 30 June 2013, resulting from a decrease in the sales volume of SYM-branded motorbikes, in particular the sales of scooters.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by 10%, from US$5.6 million for the six months ended 30 June 2012 to US$6.2 million for the six months ended 30 June 2013, accounting for 7% of the Group's total revenue for the six months ended 30 June 2013. This was principally due to the increase of staff salaries and research and development expenses.

RESULTS FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's results from operating activities worsen by 49%, from a loss of US$5.0 million for the six months ended 30 June 2012 to US$7.4 million for the six months ended 30 June 2013.

NET FINANCE INCOME

The Group's net finance income decreased by 18%, from US$4.2 million for the six months ended 30 June 2012 to US$3.5 million for the six months ended 30 June 2013. Such decrease was mainly attributable to a net off of increase in interest income amounted to US$0.3 million but mostly offset by an increase of bank interest expenses of US$0.2 million. Foreign exchange gains arisen from fluctuation of the Vietnamese Dong against the US dollar for the six months ended 30 June 2012 amounted to US$0.4 million as compared to foreign exchange loss of US$0.4 million for the six months ended 30 June 2013.

LOSS FOR THE PERIOD AND MARGIN

As a result of the factors discussed above, the Group's net loss (after income tax under provision in respect of prior periods) for the six months ended 30 June 2013 amounted to US$4.3 million, as compared to a loss of US$0.5 million for the six months ended 30 June 2012. The Group's net loss margin worsen from negative 0.5% for the six months ended 30 June 2012 to negative 4.9% for the six months ended 30 June 2013.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2013, the Group's net current assets amounted to US$130.3 million (31 December 2012: US$134.5 million) which consisted of current assets amounting to US$167.7 million (31 December 2012: US$171.7 million) and current liabilities amounting to US$37.4 million (31 December 2012: US$37.2 million).

As at 30 June 2013, the Group had interest-bearing borrowings repayable within one year of US$13.5 million, including US$10.6 million denominated in Vietnamese Dong and US$2.9 million denominated in US$ (31 December 2012: US$Nil). As at 30 June 2013, the Group had no interest-bearing borrowings repayable beyond one year (31 December 2012: US$Nil). As at 30 June 2013, the gearing ratio was 8% (31 December 2012: 0%) calculated by dividing total interest-bearing borrowings by total equity.

As at 30 June 2013, the cash and bank balances (including bank deposits and pledged bank deposits) amounted to US$113.2 million, including US$67.6 million denominated in Vietnamese Dong, US$29.7 million denominated in United States Dollar, US$15.7 million denominated in Renminbi, US$0.2 million denominated in New Taiwanese Dollar, Hong Kong Dollar and Indonesian Rupiah (31 December 2012: US$120.3 million, including US$68.2 million denominated in Vietnamese Dong, US$36.1 million denominated in United States Dollar, US$15.4 million denominated in Renminbi, US$0.6 million denominated in New Taiwanese Dollar, HK$ and Indonesian Rupiah).

As at 30 June 2013, the Group had investments in financial instruments amounted to US$3.0 million (31 December 2012: US$3.0 million) which were 100% principal-protected US$ digital capital protected notes.

The board of directors ("Board") is of the opinion that the Group has a healthy financial position and has sufficient resources to satisfy its working capital requirements and foreseeable capital expenditure.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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 was not exposed to material exchange risk and had not employed any financial instruments for hedging purposes. The Group adopts conservative treasury policies in cash and financial management, with its cash generally placed in short-term deposits mostly denominated in Vietnamese Dong, United States Dollar and Renminbi.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2013, the capital commitments of the Group in respect of relocation and construction of a new factory in Hanoi amounted to US$16.7 million (31 December 2012: US$16.9 million), which will all be settled from cash generated from the Group's operations. The Group had no contingent liabilities as at 30 June 2013.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group 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, staff living quarters, training and development opportunities, medical benefits, insurance plan and retirement benefits. As at 30 June 2013, the Group had 1,956 employees (30 June 2012: 2,055). The total amount of salaries and related costs for the employees for the six months ended 30 June 2013 amounted to US$6.1 million (six months ended 30 June 2012: US$5.9 million).

CHANGES SINCE 31 DECEMBER 2012

Save as disclosed in this report, since 31 December 2012, there were no other significant changes in the Group's financial position and there were no other significant changes in relation to the information disclosed under the section headed "Management Discussion and Analysis" in the annual report of the Company for the year ended 31 December 2012.

PROSPECTS

Vietnam's government targets GDP growth at 5.5% for 2013 after a 5.03% pace last year, the slowest in the past ten years. Vietnam may not have a strong growth in 2013 but its economy is stabilizing. There are some signs that growth may be bottoming out, but it is premature to conclude whether this is the beginning of a sustained recovery. Businesses and production still face a lot of difficulties because consumption in the market is still at low levels. However, the Group is still optimistic that Vietnam's economic development will grow steadily and the motorbike industry in Vietnam will resume its growth momentum in a mid and long term. As for the major ASEAN countries, the Group expects the motorbike markets will also continue to maintain fast growth, driven by positive economic conditions in the respective markets.

The Group will continue its best effort to enhance customer satisfaction and cost effectiveness, by implementing measures to strengthen cost control, expanding its suppliers network and procurement sources, boosting productivity and operation efficiency, enhancing research and development capabilities and speeding up market penetration through its retail network. In the second half of this year, the Group plans to launch several new and modified motorbike models in Vietnam to raise product price and profitability, these include scooter of ELIZABETH and other models with larger engine capacity, cub models of 110 cc and 50 cc and BIKE 125. The Group will continue to consolidate the existing scooter market, including reinforcing the leading position in the female ATTILA series, upgrading product quality of models for male customers and deploying new models targeted at the young generation to expand the sales volume and enhance profitability.

The Group will also further reinforce the uprising markets in ASEAN countries, mainly Malaysia, the Philippines, Thailand, Brunei and Singapore. The Group will be more actively engaged in marketing and promotional activities, and provide better after sales service supporting systems in these markets.

The Group maintains a positive attitude towards market growth in the second half of 2013 and in the coming years. The Group will focus more on our core business and technology development to improve product functionality and expand service dimensions to our customers. The Group will strive to seize all available development opportunities to enhance its long-term profitability and maximise returns to the shareholders of the Company.

APPLICATION OF IPO PROCEEDS

The proceeds from the initial public offering of the Company in December 2007, net of related listing expenses, amounted to US$76.7 million. As at 30 June 2013, such net proceeds were utilized in the following manner:

	As disclosed in the prospectus *US$' million*	**Amount Utilized** *US$' million*	**Balances as at 30 June 2013** *US$' million*
Construction of research and development centre in Vietnam	15.0	11.7	3.3
Expanding distribution channels in Vietnam			
– Upgrading of existing facilities	4.0	4.0	–
– Establishing of new facilities	46.0	1.9	44.1
Mergers and acquisitions	9.0	1.7	7.3
General working capital	2.7	2.7	–
Total	76.7	22.0	54.7

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

ADDITIONAL INFORMATION

SHARE OPTION SCHEMES

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

The Board has not granted or cancelled any share options under the share option scheme during the six months ended 30 June 2013. All of the outstanding share options granted by the Board lapsed on 3 February 2013. Details of the share options during the six months ended 30 June 2013 are as follows:

	Number of share options				
	Outstanding as at 1 January 2013	Granted during the period	Exercised during the period	Lapsed during the period	Outstanding as at 30 June 2013
Directors					
Mr. Wang Ching Tung	398,000	–	–	(398,000)	–
Mr. Yu Wen Lung	249,000	–	–	(249,000)	–
Sub-total for Directors:	647,000	–	–	(647,000)	–
Employees	2,849,000	–	–	(2,849,000)	–
Sub-total for Directors and employees:	3,496,000	–	–	(3,496,000)	–
Other qualified participants	5,893,000	–	–	(5,893,000)	–
Total	9,389,000	–	–	(9,389,000)	–

Share options to subscribe for an aggregate of 20,000,000 ordinary shares of the Company were granted on 4 February 2008. The fair value of options granted is approximately HK$0.88 per share on average based on the binominal model. The significant inputs into the model were the closing price of the shares of the Company at the date of grant of HK$2.9 per share, the annual risk-free interest rate of approximately 2.6%, an expected option life of approximately five years, expected volatility of 55% and an annual dividend yield of 7%. The amortised fair value of the share options for the six months ended 30 June 2013 amounting to approximately US$Nil (2012: US$ Nil) was charged to the income statement.

The share options were exercisable from 4 August 2008 to 3 February 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. As at 30 June 2013, the Company had no outstanding share options.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2013, the interests or short positions of the directors and chief executives of the Company in the shares, underlying shares and debentures 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") were as follows:

Long position in the shares, underlying shares and debentures of the Company

Name of Director	Capacity	Nature of interest	Number of ordinary shares of the Company	Interests in underlying shares of the Company pursuant to share options	Approximate percentage of the Company's total issued share capital
Mr. Yu Wen Lung	Beneficial owner	Personal	50,000	–	0.006%

Save as disclosed above, as at 30 June 2013, none of the directors or chief executives of the Company 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 six months ended 30 June 2013 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 of the Company are aware, as at 30 June 2013, the following persons (who were not Directors or chief executives) had interests or short positions in the shares, underlying shares and debentures 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
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%

Note:

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

Save as disclosed above, as far as the directors of the Company are aware, as at 30 June 2013, 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.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2013, the Group had no material acquisition or disposal of subsidiaries and associated companies. As at the date of this report, the Group has no plan to make any material investment in or acquisition of capital assets.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2013, the Company has complied with the code provisions as set out in the Corporate Governance Code and Corporate Governance Report (the "Code") in Appendix 14 to the Listing Rules, except for the following deviation:

Paragraph A.5 of the Code provides that an issuer should establish a nomination committee with specific written terms of reference for, among others, the following duties: (i) review the structure, size and composition of the Board, (ii) select and nominate individuals to be appointed as directors, (iii) assess the independence of independent non-executive directors, and (iv) make recommendations to the Board on the appointment or reappointment of directors and succession planning for directors. The Company has not set up a nomination committee as all major decisions regarding the Board composition and its members are made in consultation with the Board in which all directors of the Company will participate in the process and perform the duties of a nomination committee as contemplated in the Code. The Board considers that it is not necessary to establish a nomination committee given that the current arrangements meet the objective of the Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code as the code of conduct in respect of transactions in securities of the Company by the directors of the Company. Having made specific enquiry, the Company confirms that the directors of the Company have complied with the required standards set out in the Model Code for the six months ended 30 June 2013.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Board, as at the date of this report, the Company has maintained the prescribed public float of no less than 25% under the Listing Rules.

EVENT AFTER THE REPORT DATE

Save as disclosed in this report, there were no other material events after the reporting period as at the date of this report.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2013, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

AUDIT COMMITTEE

The unaudited interim results for the six months ended 30 June 2013 and this interim report 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.

INTERIM DIVIDEND

The Board has resolved not to recommend payment of interim dividend for the six months ended 30 June 2013 (2012: Nil). Accordingly, no closure of the register of members of the Company is proposed.

OUR APPRECIATION

Finally, we would like to express our gratitude to the Shareholders of the Company 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
Chou Ken Yuan
Chairman

Hong Kong, 5 August 2013

REVIEW REPORT TO THE BOARD OF DIRECTORS OF
VIETNAM MANUFACTURING AND EXPORT PROCESSING (HOLDINGS) LIMITED
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 13 to 30 which comprises the consolidated statement of financial position of Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") as of 30 June 2013 and the related consolidated statement of profit or loss and other comprehensive income and statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2013 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

5 August 2013

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2013 – unaudited
(Expressed in United Stated dollars)

		Six months ended 30 June	
		2013	2012
	Note	***US$***	*US$*
Revenue	*4*	**88,905,685**	93,712,790
Cost of sales		**(81,622,594)**	(84,601,798)
Gross profit		**7,283,091**	9,110,992
Other income		**155,472**	167,127
Distribution costs		**(6,751,781)**	(6,595,850)
Technology transfer fees	*20(a)*	**(1,861,895)**	(2,019,243)
Administrative expenses		**(6,164,933)**	(5,586,911)
Other operating expenses		**(60,652)**	(41,566)
Results from operating activities		**(7,400,698)**	(4,965,451)
Finance income		**4,055,100**	4,251,581
Finance costs		**(579,693)**	(7,891)
Net finance income	*6(a)*	**3,475,407**	4,243,690
Share of profit of an associate, net of tax		**44,647**	26,803
Loss before taxation	*6*	**(3,880,644)**	(694,958)
Income tax (expense)/credit	*7*	**(442,933)**	179,728
Loss for the period		**(4,323,577)**	(515,230)
Other comprehensive income for the period (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(2,042,332)**	558,423
Total comprehensive income for the period attributable to equity shareholders of the Company		**(6,365,909)**	43,193
Earnings per share	*8*		
– basic and diluted		**(0.005)**	(0.001)

The notes on pages 13 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2013 – unaudited
(Expressed in United Stated dollars)

	Note	**At 30 June 2013 US$**	At 31 December 2012 US$
Non-current assets			
Property, plant and equipment	9	**27,058,186**	29,395,797
Intangible assets		**398,328**	239,934
Lease prepayments	10	**6,105,557**	6,393,964
Investment in an associate		**710,024**	677,338
Deferred tax assets		**1,003,065**	734,143
		35,275,160	37,441,176
Current assets			
Inventories	11	**29,239,061**	31,943,920
Trade receivables, other receivables and prepayments	12	**22,040,748**	16,359,364
Income tax recoverable		**14,399**	11,082
Investments	13	**3,000,000**	3,000,000
Derivatives		**111,554**	95,496
Pledged bank deposits	14	**6,098,821**	–
Time deposits maturing after three months	15	**86,110,120**	65,425,866
Cash and cash equivalents		**21,038,195**	54,885,605
		167,652,898	171,721,333
Total assets		**202,928,058**	209,162,509
Current liabilities			
Trade and other payables	16	**22,160,467**	34,828,939
Interest-bearing borrowings	17	**13,522,875**	–
Income tax payable		**17,518**	625,716
Provisions		**1,690,811**	1,785,268
Total current liabilities		**37,391,671**	37,239,923
Net current assets		**130,261,227**	134,481,410
Total assets less current liabilities		**165,536,387**	171,922,586
Non-current liabilities			
Other payables		**–**	20,290
		–	20,290
Net assets		**165,536,387**	171,902,296

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

at 30 June 2013 – unaudited
(Expressed in United Stated dollars)

	Note	**At 30 June 2013** ***US$***	At 31 December 2012 *US$*
Equity			
Share capital		**1,162,872**	1,162,872
Reserves		**164,373,515**	170,739,424
Total equity attributable to equity shareholders of the Company		**165,536,387**	171,902,296
Total liabilities and equity		**202,928,058**	209,162,509

Approved and authorised for issue by the Board of Directors on 5 August 2013.

Director | *Director*

Wang Ching Tung | **Yu Wen Lung**

The notes on pages 13 to 30 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2013 – unaudited
(Expressed in United Stated dollars)

	Attributable to equity shareholders of the Company						
	Share capital *US$*	Share premium *US$*	Capital reserve *US$*	Exchange reserves *US$*	Statutory reserves *US$*	Retained profits *US$*	Total *US$*
Balance at 1 January 2012	1,162,872	112,198,709	1,962,666	(26,445,963)	1,181	86,539,531	175,418,996
Loss for the period	–	–	–	–	–	(515,230)	(515,230)
Other comprehensive income	–	–	–	558,423	–	–	558,423
Total comprehensive income	–	–	–	558,423	–	(515,230)	43,193
Balance at 30 June 2012	1,162,872	112,198,709	1,962,666	(25,887,540)	1,181	86,024,301	175,462,189
Balance at 1 January 2013	1,162,872	112,198,709	1,962,666	(25,533,658)	36,731	82,074,976	171,902,296
Loss for the period	–	–	–	–	–	(4,323,577)	(4,323,577)
Other comprehensive income	–	–	–	(2,042,332)	–	–	(2,042,332)
Total comprehensive income	–	–	–	(2,042,332)	–	(4,253,577)	(6,365,909)
Balance at 30 June 2013	1,162,872	112,198,709	1,962,666	(27,575,990)	36,731	77,751,399	165,536,387

The notes on pages 13 to 30 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

for the six months ended 30 June 2013 – unaudited
(Expressed in United Stated dollars)

	Six months ended 30 June	
	2013	2012
	US$	*US$*
Cash used in operating activities	**(17,893,190)**	(2,964,028)
Income tax paid	**(1,329,526)**	(1,076,241)
Net cash used in operating activities	**(19,222,716)**	(4,040,269)
Net cash used in investing activities	**(27,417,067)**	(30,954,973)
Net cash generated from/(used in) financing activities	**13,551,352**	(421,033)
Net decrease in cash and cash equivalents	**(33,088,431)**	(35,416,275)
Cash and cash equivalents at 1 January	**54,885,605**	65,896,469
Effect of foreign exchange rates changes	**(758,979)**	183,397
Cash and cash equivalents at 30 June	**21,038,195**	30,663,591

The notes on pages 13 to 30 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in United Stated dollars unless otherwise indicated)

1 Reporting 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 on 20 December 2007.

2 Basis of preparation

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 5 August 2013.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2012 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2013 annual financial statements. Details of these changes in accounting policies are set out in note 3.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2012 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's review report to the Board of Directors is included on page 12.

The financial information relating to the financial year ended 31 December 2012 that is included in the interim financial report as being previously reported information does not constitute the Company's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2012 are available from the Company's registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 4 March 2013.

3 Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs 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:

- Amendments to IAS 1, *Presentation of financial statements – Presentation of items of other comprehensive income*
- IFRS 10, *Consolidated financial statements*
- IFRS 12, *Disclosure of interests in other entities*
- IFRS 13, *Fair value measurement*
- IAS 28, *Investments in associates and joint ventures* (2011)
- *Annual improvements to IFRSs – 2009 – 2011 Cycle*
- Amendments to IFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

Amendments to IAS 1, Presentation of financial statements – *Presentation of items of other comprehensive income*

The amendments to IAS 1 require entities to present the items of other comprehensive income that would be reclassified to profit or loss in the future if certain conditions are met separately from those that would never be reclassified to profit or loss. The adoption of this amendment has no impact on the recognised assets, liabilities and comprehensive income of the Group.

IFRS 10, *Consolidated financial statements*

IFRS 10 replaces the requirements in IAS 27, *Consolidated and separate financial statements* relating to the preparation of consolidated financial statements and SIC 12 *Consolidation – Special purpose entities*. It introduces a single control model to determine whether an investee should be consolidated, by focusing on whether the entity has power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of those returns.

As a result of the adoption of IFRS 10, the Group has changed its accounting policy with respect to determining whether it has control over an investee. The adoption does not change any of the control conclusions reached by the Group in respect of its involvement with other entities as at 1 January 2013.

IFRS 12, *Disclosure of interests in other entities*

IFRS 12 brings together into a single standard all the disclosure requirements relevant to an entity's interests in subsidiaries, joint arrangements, associates and unconsolidated structured entities. The disclosures required by IFRS 12 are generally more extensive than those previously required by the respective standards. Since those disclosure requirements only apply to a full set of financial statements, the Group has not made additional disclosures in this interim financial report as a result of adopting IFRS 12.

3 Changes in accounting policies (Continued)

IFRS 13, *Fair value measurement*

IFRS 13 replaces existing guidance in individual IFRSs with a single source of fair value measurement guidance. IFRS 13 also contains extensive disclosure requirements about fair value measurements for both financial instruments and non-financial instruments. Some of the disclosures are specifically required for financial instruments in the interim financial reports. The Group has provided those disclosures in note 18. The adoption of IFRS 13 does not have any material impact on the fair value measurements of the Group's assets and liabilities.

IAS 28, *Investments in associates and joint ventures* (2011)

IAS 28 (2011) expanded guidance on how to apply IFRS 5, Non-current assets held for sale and discontinued operations, to an investment or a portion of an investment in an associate or a joint venture. IAS 28 (2011) also modifies the accounting required when there are changes in interest which result in a change in the nature of the investment but equity method continues to be applied. The adoption of this standard does not have any material impact on the financial position or the financial result of the Group.

Annual improvements to IFRSs – 2009 – 2011 Cycle

This cycle of annual improvements contains amendments to five standards with consequential amendments to other standards and interpretations. Among them, IAS 34 has been amended to clarify that total assets for a particular reportable segment are required to be disclosed only if the amounts are regularly provided to the chief operating decision maker ("CODM") and only if there has been a material change in the total assets for that segment from the amount disclosed in the last annual financial statements. The amendment also requires the disclosure of segment liabilities if the amounts are regularly provided to the CODM and there has been a material change in the amounts compared with the last annual financial statements. In respect of this amendment, the Group now discloses segment assets and liabilities in note 4.

Amendments to IFRS 7, *Financial instruments: Disclosures – Disclosures – Offsetting financial assets and financial liabilities*

The amendments introduce new disclosures in respect of offsetting financial assets and financial liabilities. Those new disclosures are required for all recognised financial instruments that are set off in accordance with IAS 32, Financial instruments: Presentation and those that are subject to an enforceable master netting arrangement or similar agreement that covers similar financial instruments and transactions, irrespective of whether the financial instruments are set off in accordance with IAS 32.

The adoption of the amendments does not have an impact on the Group's interim financial report because the Group has not offset financial instruments, nor has it entered into any master netting arrangement or similar agreement which is subject to the amended disclosure requirements of IFRS 7.

4 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 identified three reportable segments. No operating segments have been aggregated to form the following reportable segments.

4 Segment reporting (Continued)

(a) Information about profit or loss

	Six months ended 30 June 2013			
	Manufacture and sales of motorbikes *US$*	Manufacture and sales of spare parts and engines *US$*	Moulds and repair services *US$*	Group *US$*
Revenue from external customers	75,056,145	13,747,730	101,810	88,905,685
Inter-segment revenue	–	26,026,231	563,732	26,589,963
Reportable segment revenue	75,056,145	39,773,961	665,542	115,495,648
Reportable segment loss (adjusted EBIT)	(3,970,526)	(2,463,484)	(2,251)	(6,436,261)
Reportable segment assets	48,634,021	32,304,720	1,394,592	82,333,333
Reportable segment liabilities	16,575,660	8,677,139	270,324	25,523,123

	Six months ended 30 June 2012			
	Manufacture and sales of motorbikes *US$*	Manufacture and sales of spare parts and engines *US$*	Moulds and repair services *US$*	Group *US$*
Revenue from external customers	78,787,625	14,833,836	91,329	93,712,790
Inter-segment revenue	–	27,597,258	425,280	28,022,538
Reportable segment revenue	78,787,625	42,431,094	516,609	121,735,328
Reportable segment loss (adjusted EBIT)	(2,158,875)	(1,768,777)	(62,973)	(3,990,625)
Reportable segment assets	52,336,083	34,293,073	895,708	87,524,864
Reportable segment liabilities	18,430,071	9,492,587	117,658	28,040,316

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/costs. 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, directors' and auditors' remuneration and other head office or corporate administration costs.

4 Segment reporting (Continued)

(b) Reconciliation of reportable segment profit or loss

	Six months ended 30 June	
	2013	2012
	US$	*US$*
Reportable segment loss derived from Group's external customers	**(6,436,261)**	(3,990,625)
Net finance income	**3,475,407**	4,243,690
Share of profit of an associate	**44,647**	26,803
Unallocated corporate expenses	**(964,437)**	(974,826)
Consolidated loss before taxation	**(3,880,644)**	(694,958)

5 Seasonality of operations

The Group on average experiences 30-70% higher sales in December and January, compared to other months in a year, due to the increased demand for its products during the Calendar New Year and Lunar New Year period. The Group anticipates this demand by increasing its production to build up inventories during the third quarter of the year.

6 Loss before taxation

Loss before taxation is arrived at after charging/(crediting):

(a) Net finance income

Interest income from banks	**4,055,100**	3,804,420
Net foreign exchange gains	**–**	447,161
Finance income	**4,055,100**	4,251,581
Interest paid and payable to banks	**(206,073)**	(7,891)
Net foreign exchange losses	**(373,620)**	–
Finance costs	**(579,693)**	(7,891)
	3,475,407	4,243,690

(b) Staff costs

Wages and salaries	**4,550,740**	4,221,210
Staff welfare	**983,720**	1,236,474
Contributions to defined contribution plan	**545,675**	428,292
Severance allowance	**808**	9,219
	6,080,943	5,895,195

6 Loss before taxation (Continued)

(c) Other items

	Six months ended 30 June	
	2013	2012
	US$	*US$*
Amortisation of lease prepayments/ intangible assets	**278,799**	219,105
Depreciation of property, plant and equipment	**3,312,657**	3,854,922
Inventory write-down *(Note 11)*	**300,000**	68,337
Research and development expenses	**1,940,559**	3,592,582

7 Income tax

Current tax		
Provision for the period	**19,772**	7,334
Under-provision in respect of prior periods	**707,879**	336,484
	727,651	343,818
Deferred tax		
Origination and reversal of temporary differences	**(284,718)**	(523,546)
	442,933	(179,728)

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 six months ended 30 June 2013.

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

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax ("CIT") for Vietnam Manufacturing and Export Processing Co., Limited ("VMEP"), a wholly-owned subsidiary of the Company, 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%. The applicable tax rate for the other entities in Vietnam is 25%.

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%.

8 Earnings per share

(a) Basic earnings per share

The calculation of basic earnings per share is based on the loss attributable to ordinary equity shareholders of the Company of US$4,323,577 (six months ended 30 June 2012: US$515,230) and 907,680,000 ordinary shares (six months ended 30 June 2012: 907,680,000 ordinary shares) in issue during the interim period.

(b) Diluted earnings per share

The amount of diluted earnings per share is the same as the basic earnings per share for the six months ended 30 June 2013 as there was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

9 Property, plant and equipment

The additions, disposals and the effect of movements in exchange rate of the items of property, plant and equipment are as follows:

	Six months ended 30 June	
	2013	2012
	US$	*US$*
Additions	**1,519,533**	915,054
Disposals (net carrying amount)	**(65,312)**	(36,928)
Effect of movements in exchange rate	**(479,175)**	222,827

10 Lease prepayments

The additions, disposals and the effect of movements in exchange rate of the items of lease prepayments are as follows:

Additions	**–**	26,726
Amortisation for the period	**(181,840)**	(175,580)
Effect of movements in exchange rate	**(106,567)**	43,263

11 Inventories

During six months ended 30 June 2013, US$300,000 (2012: US$68,337) has been recognised as a reduction in the amount of inventories recognised as an expense in profit or loss during the period, being the amount of a write-down of inventories to estimated net realisable value. This write-down arose due to a decrease in the estimated net realisable value of certain inventories as a result of slow moving status.

12 Trade receivables, other receivables and prepayments

	At 30 June	At 31 December
	2013	2012
	US$	*US$*
Trade receivables	**6,226,263**	4,864,000
Non-trade receivables	**12,248,677**	7,925,125
Prepayments	**3,171,258**	2,928,183
Amounts due from related parties *(Note 20(b))*		
– trade	**394,550**	523,848
– non-trade	**–**	118,208
	22,040,748	16,359,364

The Group's exposure to credit risk is attributable to trade receivables from overseas customers, as the Group generally offers no credit terms to domestic customers in Vietnam, which accounted for approximately 23% (six months ended 30 June 2012: 68%) of total customers for the six-month period ended 30 June 2013. 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.

12 Trade receivables, other receivables and prepayments (Continued)

An aging analysis of the trade receivables of the Group including trade receivables due from related parties is as follows:

	At 30 June 2013 *US$*	At 31 December 2012 *US$*
Within three months	**6,610,775**	5,331,427
More than three months but within one year	**10,038**	56,421
	6,620,813	5,387,848

Non-trade receivables mainly represented VAT recoverable of US$6,536,313 (2012: US$4,567,404, and interest receivables of US$3,331,541 (2012: US$2,009,593).

13 Investments

US$ callable collared floating rate notes	**3,000,000**	3,000,000

Notes of US$3 million as at 31 December 2012 were acquired on 27 September 2012 and sold on 3 January 2013. The notes are 100% principal-protected provided that they are redeemed at maturity. The notes had a collared variable coupon rate of a floor of 1.45% and a cap of 5.00%, and an embedded call option. The notes had a term of three years and a maturity date of 27 September 2015.

Notes of US$3 million as at 30 June 2013 were acquired on 16 April 2013. The notes are 100% principal-protected provided that they are redeemed at maturity. The notes have a collared variable coupon rate of a floor of 1.71% and a cap of 6.00%, and an embedded call option. The notes have a term of five years and will maturity date of 16 April 2018.

14 Pledged bank deposits

Bank deposits were restricted or pledged as guarantees for interest-bearing borrowings. The pledged bank despites are released upon settlement of the relevant interest-bearing borrowings *(note 17)*.

15 Time deposits maturing after three months

Denominated in VN$	**57,295,005**	45,274,688
Denominated in US$	**18,498,021**	10,000,000
Denominated in RMB	**10,317,094**	10,151,178
	86,110,120	65,425,866

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

	At 30 June 2013	At 31 December 2012
Effective interest rate – VN$	**6.8%~12.5%**	8.6%~14%
Effective interest rate – US$	**0.5%**	0.219%~3%
Effective interest rate – RMB	**2.85%**	1.4%~3.15%

16 Trade and other payables

	At 30 June 2013 *US$*	At 31 December 2012 *US$*
Trade payables	**8,387,906**	10,438,907
Other payables and accrued operating expenses	**7,475,317**	9,106,037
Advances from customers	**688,663**	2,149,084
Amounts due to related parties *(Note 20(c))*		
– trade	**3,596,797**	10,578,705
– non-trade	**2,011,784**	2,556,206
	22,160,467	34,828,939

An aging analysis of trade payables of the Group including trade payables due to related parties is as follows:

Within three months	**11,780,766**	20,810,216
More than three months but within one year	**203,937**	19,558
More than one year but within five years	**–**	187,838
	11,984,703	21,017,612

17 Interest-bearing borrowings

Current	**13,522,875**	–

These are short-term bank loans with loan periods ranging from 14 days to 90 days. These bank loans are secured by bank deposits *(note 14)*.

18 Fair value measurement of financial instruments

(a) Financial assets and liabilities measured at fair value

(i) Fair value hierarchy

	Fair value at 30 June 2013 *US$*	**Fair value measurements at 30 June 2013 using significant other observable inputs (Level 2)** *US$*
Recurring fair value measurement		
Financial assets:		
Derivative financial instruments:		
– Callable collared floating rate notes	3,111,554	3,111,554

	Fair value at 31 December 2012 *US$*	**Fair value measurements at 31 December 2012 using significant other observable inputs (Level 2)** *US$*
Recurring fair value measurement		
Financial assets:		
Derivative financial instruments:		
– Callable collared floating rate notes	3,095,496	3,095,496

18 Fair value measurement of financial instruments (Continued)

(a) Financial assets and liabilities measured at fair value (Continued)

(i) Fair value hierarchy (Continued)

During the six months ended 30 June 2013, there were no transfers between Level and Level 2, or transfers into or out of Level 3 (2012: nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

(ii) Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of derivatives was measured using valuation techniques in which all significant inputs are directly or indirectly based on observable market data.

(b) Fair values of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 30 June 2013 and 31 December 2012. At the end of the period, the fair value of derivatives of the Group was US$111,554 (31 December 2012: US$95,496).

19 Commitments

(a) Capital commitments

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

	At 30 June 2013 *US$*	At 31 December 2012 *US$*
Contracted for	**156,251**	419,798
Authorised but not contracted for	**16,525,879**	16,525,879
	16,682,130	16,945,677

On 25 January 2011, the Group's Board of Directors resolved to relocate one of the Group's factories from Hanoi City to a new location, as the Group has been informed that the Vietnam government intends to redevelop the region. The relocation is expected to be completed by the end of 2014. The capital commitment authorised but not contracted for as at the period end in respect of this relocation and construction of the new factory is US$17 million. The authorised amount is an initial estimate and will be subject to regular review by the Group's Board of Directors.

(b) Operating lease commitments

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

Within 1 year	**633,960**	777,982
After 1 year but within 5 years	**1,120,802**	1,256,311
After 5 years	**9,456,667**	9,732,196
	11,211,429	11,766,489

The leases are for an initial period of one to five years, except for a lease of land and factories which is for fifty years.

20 Material related party transactions

During the six months ended 30 June 2013, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Sanyang Industry Co., Ltd. ("Sanyang")	The ultimate holding company
Xia Shing Xiamen Motorcycle Co., Ltd.	Effectively controlled by Sanyang, the controlling equity shareholder of the Group
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 shareholder of the Company
Sanyang Global Co., Ltd.	Effectively controlled by Sanyang, the controlling equity shareholder of the Group
Hanoi Full Ta Precision Company Limited	An associate of Sanyang, the controlling equity shareholder of the Group
Quingzhou Engineering Industry Co., Ltd.	A subsidiary of Sanyang, the controlling equity shareholder of the Group

(a) Recurring transactions

	Six months ended 30 June	
	2013	2012
	US$	*US$*
Sales of finished goods or/and spare parts:		
Sanyang Industry Co., Ltd.	**4,976,963**	171,174
Xia Shing Xiamen Motorcycle Co., Ltd.	**3,300**	–
Sanyang Vietnam Automobile Co., Ltd.	**548**	–
	4,980,811	171,174
Purchases of raw materials or/and finished goods:		
Sanyang Industry Co., Ltd.*	**8,322,199**	8,501,460
Xia Shing Xiamen Motorcycle Co., Ltd.	**2,613,048**	6,274,352
Vietnam Three Brothers Machinery Industry Co., Limited	**1,186,793**	1,138,370
Sanyang Global Co., Ltd.	**107,984**	5,249,293
Hanoi Full Ta Precision Company Limited	**467,782**	436,294
Quingzhou Engineering Industry Co., Ltd.	**3,181,055**	–
	15,878,861	21,599,769

* *During the period, the Group, through VMEP, purchased raw materials totaling US$277,638 (six months ended 30 June 2012: US$2,564,332) from Sanyang Industry Co., Ltd.. The remaining amount of US$8,044,561 (six months ended 30 June 2012: US$5,937,128) was in respect of the purchases of finished goods through Chin Zong.*

20 Material related party transactions (Continued)

(a) Recurring transactions (Continued)

	Six months ended 30 June	
	2013	2012
	US$	*US$*
Purchases of property, plant and equipment:		
Sanyang Industry Co., Ltd.	**300,779**	81,636
Vietnam Three Brothers Machinery Industry Co., Limited	**134,813**	34,459
Technology transfer fees:		
Sanyang Industry Co., Ltd.	**1,861,895**	2,019,243
Technical consultancy fee:		
Sanyang Industry Co., Ltd.	**635,488**	572,530

(b) Amount due from related parties

	At 30 June 2013	At 31 December 2012
	US$	*US$*
Trade		
Sanyang Industry Co., Ltd.	**78,069**	40,292
Xia Shing Xiamen Motorcycle Co., Ltd.	**5,601**	480,410
Vietnam Three Brothers Machinery Industry Co., Ltd	**113,165**	–
Sanyang Vietnam Automobile Co., Ltd.	**543**	–
Sanyang Global Co., Ltd.	**12**	3,146
Quingzhou Engineering Industry Co., Ltd.	**197,160**	–
Sub-total	**394,550**	523,848
Non-trade		
Sanyang Industry Co., Ltd.	**–**	3,174
Vietnam Three Brothers Machinery Industry Co., Limited	**–**	115,034
Sub-total	**–**	118,208
Total	**394,550**	642,056

20 Material related party transactions (Continued)

(c) Amount due to related parties

	At 30 June 2013 US$	At 31 December 2012 US$
Trade		
Sanyang Industry Co., Ltd.	**2,147,885**	8,295,455
Xia Shing Xiamen Motorcycle Co., Ltd.	**407,027**	191,676
Vietnam Three Brothers Machinery Industry Co., Limited	**178,591**	336,192
Sanyang Global Co., Ltd.	**663**	1,664,219
Hanoi Full Ta Precision Company Limited	**70,338**	91,163
Quingzhou Engineering Industry Co., Ltd.	**792,293**	–
Sub-total	**3,596,797**	10,578,705
Non-trade		
Sanyang Industry Co., Ltd.	**1,900,980**	2,556,206
Vietnam Three Brothers Machinery Industry Co., Limited	**110,804**	–
Sub-total	**2,011,784**	2,556,206
Total	**5,608,581**	13,134,911