



**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)

Interim Report

**2014**

Ho Chi Minh City, Vietnam



ATTILA VENUS 125 EFI  
Launch on 20 June 2014

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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  
Ms. Wu Kwei Mei

#### AUDIT COMMITTEE

Ms. Lin Ching Ching (Chairman)  
Mr. Shen Hwa Rong  
Ms. Wu Kwei Mei

#### REMUNERATION COMMITTEE

Mr. Wang Ching Tung  
Ms. Lin Ching Ching  
Ms. Wu Kwei Mei

#### AUTHORISED REPRESENTATIVES

Mr. Chan Chi Shing  
Mr. Yu Wen Lung

#### COMPANY SECRETARY

Mr. Chan Chi Shing

#### AUDITORS

KPMG

#### LEGAL ADVISERS

Norton Rose Fulbright 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 1109, 11/F., Metro Centre I  
32 Lam Hing Street  
Kowloon Bay, Kowloon  
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 economic growth picked up in the first half of the year 2014, with the gross domestic product (GDP) expanded 5.2%, up from 4.9% in the same period last year, according to a recent report from the General Statistics Office in Vietnam. Inflation had remained on a level below 5% and had fallen consistently since October 2013, showing slow recovery in the overall market demand and the economy. The central bank of Vietnam devalued the Vietnamese dong against the US dollar by 1% to help boost exports in June 2014 following anti-Chinese riots in May triggered by the protests.

The effect of the riots happened during the first half of 2014 on the economy was not as severe as originally contemplated. Although the riots damaged the country’s reputation of the foreign investors, Vietnam economic growth is still considerably stable. According to a statement from Standard & Poor issued on 20 May 2014, Vietnam’s growth potential was robust, in view of its well-diversified export manufacturing sector, a rising share of services and manufacturing in economic output, and the growth of the private sector, it also affirmed its ‘BB-’ long-term and ‘B’ short-term sovereign credit ratings on Vietnam indicating that the long-term outlook was stable. Vietnam’s prime minister Nguyen Tan Dung also said recently that the country was targeting a GDP growth of around 5.8% this year, followed by 6.0% in 2015 and 6.5% for the next four years.

### BUSINESS REVIEW

Vietnam’s consumption market remained weak in the first half of the year. In particular, the growth in motorbike industry was slackened and units sold by foreign direct invest manufacturers has slowed down by 10% over the same period of previous year. This, coupled with the added production capacity going on stream, had led to the intense competition during the year.

The Group sold an aggregate of approximately 35,200 units (which comprised of approximately 13,100 units of scooters and 22,100 units of cubs respectively) in Vietnam for the six months ended 30 June 2014, representing a decrease of 18% over the corresponding period of previous year. In the contrast, due to the increase in demand in overseas markets, approximately 80,800 units of scooters and cubs were exported to ASEAN countries representing an increase of 62% over the comparative period of last year, in particular, there has been a rapid growth in sales in Malaysian and the Philippines markets.

During the first half of 2014, the Group has also strengthened its distribution network with 256 SYM-authorized stores owned by dealers to cover almost every province in Vietnam.

## FINANCIAL REVIEW

Revenue decreased by 1% from US\$88.9 million for the six months ended 30 June 2013 to US\$88.4 million for the six months ended 30 June 2014, and the Group recorded a net loss of US\$5.2 million for the six months ended 30 June 2014 as compared to a loss of US\$4.3 million for the six months ended 30 June 2013.

## REVENUE

Revenue of the Group for the six months ended 30 June 2014 amounted to US\$88.4 million as compared to US\$88.9 million for the six months ended 30 June 2013, representing a slight decrease of US\$0.5 million or 1%. 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 18% and 53% respectively for the six months ended 30 June 2014 as compared with the six months ended 30 June 2013. In terms of geographical contribution, approximately 44% of total sales were generated from the domestic market in Vietnam for the six months ended 30 June 2014. Sales of scooters continued to be the Group's major profit driver. The principal scooter models include ATTILA-ELIZABETH, POWER, PASSING and SHARK, and cub models of ELEGANT and GALAXY.

## COST OF SALES

The Group's cost of sales increased by 1%, from US\$81.6 million for the six months ended 30 June 2013 to US\$82.2 million for the six months ended 30 June 2014. Such increase was primarily due to the increase in labour costs and rising import costs of advance technology components like electronic fuel injection engines which was partly offset by cost reduction arising from expanding procurement sources for materials and components. As a percentage of total revenue, the Group's cost of sales increased from 92% for the six months ended 30 June 2013 to 93% for the six months ended 30 June 2014.

## GROSS PROFIT AND GROSS PROFIT MARGIN

Owing to the drop of sales, the decrease of materials and components costs, and increase of labour costs as discussed above, the gross profit of the Group decreased by 16%, from US\$7.3 million for the six months ended 30 June 2013 to US\$6.1 million for the six months ended 30 June 2014. As compared with the comparative period, the Group's gross profit margin has decreased from 8% to 7%.

## DISTRIBUTION EXPENSES

The Group's distribution expenses slightly decreased by 16%, from US\$6.8 million for the six months ended 30 June 2013 to US\$5.6 million for the six months ended 30 June 2014. Such decrease was mainly attributed to a decrease of sales incentives and supporting fees to distributors, advertising expenses for promotion.

## TECHNOLOGY TRANSFER FEES

The technology transfer fees increased by 13%, from US\$1.9 million for the six months ended 30 June 2013 to US\$2.1 million for the six months ended 30 June 2014, resulting from an increase in the sales volume of SYM-branded motorbikes exported to ASEAN countries.

## ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by 3%, from US\$6.2 million for the six months ended 30 June 2013 to US\$6.4 million for the six months ended 30 June 2014, accounting for 7% of the Group's total revenue for the six months ended 30 June 2014. This was principally due to the increase of 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 5%, from a loss of US\$7.4 million for the six months ended 30 June 2013 to a loss of US\$7.8 million for the six months ended 30 June 2014.

## NET FINANCE INCOME

The Group's net finance income decreased by 27%, from US\$3.5 million for the six months ended 30 June 2013 to US\$2.6 million for the six months ended 30 June 2014. Such decrease was mainly attributable to a decrease in interest income by US\$1.1 million and an increase of bank interest expenses by US\$0.2 million. Foreign exchange losses arisen from fluctuation of the Vietnamese Dong against the US dollar for the six months ended 30 June 2013 decreased from US\$0.4 million to US\$0.1 million for the six months ended 30 June 2014.

## LOSS FOR THE PERIOD AND MARGIN

As a result of the factors discussed above, the Group's net loss for the six months ended 30 June 2014 amounted to US\$5.2 million, as compared to a loss of US\$4.3 million for the six months ended 30 June 2013. The Group's net loss margin worsen from 4.9% for the six months ended 30 June 2013 to 5.9% for the six months ended 30 June 2014.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group's net current assets amounted to US\$123.8 million (31 December 2013: US\$127.8 million) which consisted of current assets amounting to US\$177.8 million (31 December 2013: US\$177.2 million) and current liabilities amounting to US\$54.0 million (31 December 2013: US\$49.4 million).

As at 30 June 2014, the Group had bank loans repayable within one year of US\$28.3 million, including US\$21.1 million denominated in US\$ and US\$7.2 million denominated in Vietnamese Dong (31 December 2013: US\$21.3 million, including US\$13.9 million denominated in US\$ and US\$7.4 million denominated in Vietnamese Dong). As at 30 June 2014, the Group had no bank loans repayable beyond one year (31 December 2013: US\$Nil). As at 30 June 2014, these bank loans were at fixed interest rates and were secured by pledged bank deposits amounting to US\$9.7 million (31 December 2013: US\$7.3 million). As at 30 June 2014, the gearing ratio was 18% (31 December 2013: 13%) calculated as the ratio of total bank loans over total equity.

As at 30 June 2014, the cash and bank balances (including bank deposits) amounted to US\$112.3 million, including US\$66.6 million denominated in Vietnamese Dong, US\$29.4 million denominated in US\$, US\$16.1 million denominated in RMB and US\$0.2 million denominated in NT\$ and HK\$ (31 December 2013: US\$114.4 million, including US\$67.3 million denominated in Vietnamese Dong, US\$31.2 million denominated in US\$, US\$15.7 million denominated in RMB and US\$0.2 million denominated in NT\$ and HK\$). As at 30 June 2014, the Group had investments in financial instruments amounting to US\$3.0 million (31 December 2013: US\$3.0 million) which were 100% principal-protected US\$ callable collared floating rate 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 rate 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 2014, 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 2013: US\$16.5 million), which will all be settled from cash generated from the Group’s operations. The Group had no contingent liabilities as at 30 June 2014.

#### **HUMAN RESOURCES AND REMUNERATION POLICIES**

The Group offers competitive remuneration packages to its staff in Vietnam, Taiwan 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, staff living quarters, training and development opportunities, medical benefits, insurance plan and retirement benefits. As at 30 June 2014, the Group had 1,883 employees (30 June 2013: 1,956). The total amount of salaries and related costs for the employees for the six months ended 30 June 2014 amounted to US\$5.9 million (six months ended 30 June 2013: US\$6.1 million).

#### **CHANGES SINCE 31 DECEMBER 2013**

Save as disclosed in this report, since 31 December 2013, 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 2013.

#### **PROSPECTS**

Vietnam as an emerging market has great opportunity to take advantage of a young labor force and its vast rural market, to push its economic growth to become a middle income country. Vietnam was targeting GDP growth of around 5.8% for 2014, which will continue to be a year of challenges for many businesses due to slow economic growth.



In the second half of this year, the Group plans to launch several new and modified motorbike models in Vietnam to expand the sales volume and to raise product price and profitability. Scooter models include ATTILA VENUS was launched on early June 2014, which reinforce the leading position of ELIZABETH brand targeted for female customers, and 125cc models for male customers expect to be launched at the end of this year. Moreover, the Group plans to optimize its product mix by deploying new cub models BIKE and 50 cc targeted at the students and young labor force.

The Group will also further reinforce the uprising markets in ASEAN countries, mainly Malaysia, the Philippines, Thailand, Brunei and Singapore. The Group will more actively engage 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 2014 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 maximize 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 2014, such net proceeds were utilized in the following manner:

|  | <b>As disclosed<br/>in the<br/>prospectus</b><br><i>US\$' million</i> | <b>Amount<br/>Utilized</b><br><i>US\$' million</i> | <b>Balances<br/>as at<br/>30 June<br/>2014</b><br><i>US\$' million</i> |
|--|---|--|--|
| 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  | –  |
|  | <u>76.7</u>   | <u>22.0</u>  | <u>54.7</u>  |
| Total  |   |  |  |

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 any share options under the share option scheme during the six months ended 30 June 2014 and no share options was outstanding as at 30 June 2014.

### DIRECTORS' INTERESTS IN SHARES

As at 30 June 2014, 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 2014, 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 2014 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 2014, 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")<br>(Note 1)          | Corporate interest                   | 608,318,000 Shares             | 67.02%  |
| Sanyang Industry Co., Ltd<br>("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 2014, 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 AND SIGNIFICANT INVESTMENTS

During the six months ended 30 June 2014, the Group had no material acquisition or disposal of subsidiaries and associated companies, nor had the Group held any significant investments during such period. 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 2014, 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 2014.

**PUBLIC FLOAT**

As at the latest practicable date prior to the issue of this report, to the best knowledge of the Directors and based on information publicly available to the Company, the Company has maintained a public float of not less than 25% of the issued capital of the Company as required by 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 2014, 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 2014 and the 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 2014 (2013: 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, 6 August 2014



**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 12 to 28 which comprises the consolidated statement of financial position of Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") as of 30 June 2014 and the related consolidated statement of profit or loss and other comprehensive income, consolidated 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 2014 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

6 August 2014



## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

for the six months ended 30 June 2014 – unaudited  
(Expressed in United States dollars)

|   |       | Six months ended 30 June  |                     |
|---|-------|---------------------------|---------------------|
|   | Note  | 2014<br>US\$              | 2013<br>US\$        |
| Revenue   | 4     | 88,359,894                | 88,905,685          |
| Cost of sales   |       | <u>(82,223,295)</u>       | <u>(81,622,594)</u> |
| <b>Gross profit</b>   |       | <b>6,136,599</b>          | 7,283,091           |
| Other income  |       | <b>208,837</b>            | 155,472             |
| Distribution costs  |       | <b>(5,641,839)</b>        | (6,751,781)         |
| Technology transfer fees  | 19(a) | <b>(2,102,608)</b>        | (1,861,895)         |
| Administrative expenses   |       | <b>(6,365,349)</b>        | (6,164,933)         |
| Other operating expenses  |       | <u><b>(8,619)</b></u>     | <u>(60,652)</u>     |
| <b>Results from operating activities</b>  |       | <u><b>(7,772,979)</b></u> | <u>(7,400,698)</u>  |
| Finance income  |       | <b>2,992,742</b>          | 4,055,100           |
| Finance costs   |       | <u><b>(439,675)</b></u>   | <u>(579,693)</u>    |
| <b>Net finance income</b>   | 6(a)  | <u><b>2,553,067</b></u>   | <u>3,475,407</u>    |
| Share of profit of an associate, net of tax   |       | <u><b>39,042</b></u>      | <u>44,647</u>       |
| <b>Loss before taxation</b>   | 6     | <b>(5,180,870)</b>        | (3,880,644)         |
| Income tax  | 7     | <u><b>(21,867)</b></u>    | <u>(442,933)</u>    |
| <b>Loss for the period</b>  |       | <b>(5,202,737)</b>        | (4,323,577)         |
| <b>Other comprehensive income for the period (after tax):</b>                                       |       |                           |                     |
| Item that may be reclassified subsequently to profit or loss:                                       |       |                           |                     |
| Exchange differences on translation of financial statements of overseas subsidiaries                |       | <u><b>(801,146)</b></u>   | <u>(2,042,332)</u>  |
| <b>Total comprehensive income for the period attributable to equity shareholders of the Company</b> |       | <u><b>(6,003,883)</b></u> | <u>(6,365,909)</u>  |
| <b>Loss per share</b>   | 8     |                           |                     |
| – Basic and diluted   |       | <u><b>(0.006)</b></u>     | <u>(0.005)</u>      |

The notes on pages 17 to 28 form part of this interim financial report.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

at 30 June 2014 – unaudited

(Expressed in United States dollars)

|   | Note | At 30 June<br>2014<br>US\$ | At 31 December<br>2013<br>US\$ |
|---|------|----------------------------|--------------------------------|
| <b>Non-current assets</b>                               |      |                            |                                |
| Property, plant and equipment                           | 9    | 23,678,977                 | 25,314,801                     |
| Intangible assets                                       |      | 286,534                    | 370,887                        |
| Lease prepayments                                       | 10   | 5,787,168                  | 6,047,579                      |
| Interest in an associate                                |      | 655,135                    | 622,018                        |
| Deferred tax assets                                     |      | 876,659                    | 838,615                        |
|   |      | <u>31,284,473</u>          | <u>33,193,900</u>              |
| <b>Current assets</b>                                   |      |                            |                                |
| Inventories   | 11   | 28,542,876                 | 32,046,486                     |
| Trade receivables, other receivables and<br>prepayments | 12   | 33,835,668                 | 27,695,187                     |
| Current tax recoverable                                 |      | –                          | 11,241                         |
| Investment  | 13   | 3,000,000                  | 3,000,000                      |
| Derivatives   |      | 106,994                    | 106,994                        |
| Time deposits maturing after three months               | 14   | 94,039,225                 | 91,637,347                     |
| Cash and cash equivalents                               |      | 18,284,853                 | 22,741,624                     |
|   |      | <u>177,809,616</u>         | <u>177,238,879</u>             |
| <b>Current liabilities</b>                              |      |                            |                                |
| Trade and other payables                                | 15   | 24,245,794                 | 26,432,795                     |
| Bank loans  | 16   | 28,336,167                 | 21,313,260                     |
| Current tax payable                                     |      | 58,536                     | 104,842                        |
| Provisions  |      | 1,389,170                  | 1,513,577                      |
|   |      | <u>54,029,667</u>          | <u>49,364,474</u>              |
| <b>Net current assets</b>                               |      | <u>123,779,949</u>         | <u>127,874,405</u>             |
| <b>Net assets</b>                                       |      | <u>155,064,422</u>         | <u>161,068,305</u>             |

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION** *(Continued)*  
*at 30 June 2014 – unaudited*  
*(Expressed in United States dollars)*

|                             | <i>Note</i> | <b>At 30 June<br/>2014<br/>US\$</b> | At 31 December<br>2013<br>US\$ |
|-----------------------------|-------------|-------------------------------------|--------------------------------|
| <b>Capital and reserves</b> |             |                                     |                                |
| Share capital               |             | <b>1,162,872</b>                    | 1,162,872                      |
| Reserves                    |             | <b>153,901,550</b>                  | 159,905,433                    |
| <b>Total equity</b>         |             | <b><u>155,064,422</u></b>           | <u>161,068,305</u>             |

Approved and authorised for issue by the Board of Directors on 6 August 2014.

*Director*

*Director*

**Wang Ching Tung**

**Yu Wen Lung**

The notes on pages 17 to 28 form part of this interim financial report.



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2014 – unaudited  
(Expressed in United States dollars)

|   | Attributable to equity shareholders of the Company |                    |                  |                     |                    |                   |                    |
|---|--|--------------------|------------------|---------------------|--------------------|-------------------|--------------------|
|   | Share capital                                      | Share premium      | Capital reserve  | Exchange reserves   | Statutory reserves | Retained profits  | Total              |
|   | US\$   | US\$               | US\$             | US\$                | US\$               | US\$              | US\$               |
| <b>Balance at 1 January 2013</b>                                | 1,162,872  | 112,198,709        | 1,962,666        | (25,533,658)        | 36,731             | 82,074,976        | 171,902,296        |
| <b>Changes in equity for the six months ended 30 June 2013:</b> |  |                    |                  |                     |                    |                   |                    |
| 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)         | -                  | (4,323,577)       | (6,365,909)        |
| Appropriation to reserves                                       | -  | -                  | -                | -                   | 63,093             | (63,093)          | -                  |
| <b>Balance at 30 June 2013</b>                                  | <u>1,162,872</u>                                   | <u>112,198,709</u> | <u>1,962,666</u> | <u>(27,575,990)</u> | <u>99,824</u>      | <u>77,688,306</u> | <u>165,536,387</u> |
| <b>Balance at 1 January 2014</b>                                | 1,162,872  | 112,198,709        | 1,962,666        | (26,837,870)        | 99,824             | 72,482,104        | 161,068,305        |
| <b>Changes in equity for the six months ended 30 June 2014:</b> |  |                    |                  |                     |                    |                   |                    |
| Loss for the period   | -  | -                  | -                | -                   | -                  | (5,202,737)       | (5,202,737)        |
| Other comprehensive income                                      | -  | -                  | -                | (801,146)           | -                  | -                 | (801,146)          |
| Total comprehensive income                                      | -  | -                  | -                | (801,146)           | -                  | (5,202,737)       | (6,003,883)        |
| Appropriation to reserves                                       | -  | -                  | -                | -                   | 54,909             | (54,909)          | -                  |
| <b>Balance at 30 June 2014</b>                                  | <u>1,162,872</u>                                   | <u>112,198,709</u> | <u>1,962,666</u> | <u>(27,639,016)</u> | <u>154,733</u>     | <u>67,224,458</u> | <u>155,064,422</u> |



The notes on pages 17 to 28 form part of this interim financial report.

**CONDENSED CONSOLIDATED CASH FLOW STATEMENT***for the six months ended 30 June 2014 – unaudited**(Expressed in United States dollars)*

|   | <b>Six months ended 30 June</b> |              |
|---|---------------------------------|--------------|
|   | <b>2014</b>                     | <b>2013</b>  |
|   | <b>US\$</b>                     | <b>US\$</b>  |
| <b>Cash used in operations</b>                      | <b>(9,521,059)</b>              | (17,893,190) |
| Tax paid  | <b>(102,999)</b>                | (1,329,526)  |
| <b>Net cash used in operating activities</b>        | <b>(9,624,058)</b>              | (19,222,716) |
| <b>Net cash used in investing activities</b>        | <b>(650,108)</b>                | (27,417,067) |
| <b>Net cash generated from financing activities</b> | <b>6,664,478</b>                | 13,551,352   |
| <b>Net decrease in cash and cash equivalents</b>    | <b>(3,609,688)</b>              | (33,088,431) |
| <b>Cash and cash equivalents at 1 January</b>       | <b>22,741,624</b>               | 54,885,605   |
| <b>Effect of foreign exchange rate changes</b>      | <b>(847,083)</b>                | (758,979)    |
| <b>Cash and cash equivalents at 30 June</b>         | <b>18,284,853</b>               | 21,038,195   |

The notes on pages 17 to 28 form part of this interim financial report.

## NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in United States 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 have been listed on the Main Board of the Stock Exchange of Hong Kong Limited since 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 6 August 2014.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any 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 2013 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 11.

The financial information relating to the financial year ended 31 December 2013 that is included in the interim financial report as being previously reported information does not constitute the Company's financial statements for that financial year but is derived from those financial statements. The auditors have expressed an unqualified opinion on those financial statements in their report dated 3 March 2014.

### 3 Changes in accounting policies

The IASB has issued the following amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company:

- Amendments to IFRS 10, IFRS 12 and IAS 27, *Investment entities*
- Amendments to IAS 32, *Offsetting financial assets and financial liabilities*
- Amendments to IAS 36, *Recoverable amount disclosures for non-financial assets*
- IFRIC 21, *Levies*

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

#### **Amendments to IFRS 10, IFRS 12 and IAS 27, Investment entities**

The amendments provide consolidation relief to those parents which qualify to be an investment entity as defined in the amended IFRS 10. Investment entities are required to measure their subsidiaries at fair value through profit or loss. These amendments do not have an impact on the Group's interim financial report as the Company does not qualify to be an investment entity.

#### **Amendments to IAS 32, Offsetting financial assets and financial liabilities**

The amendments to IAS 32 clarify the offsetting criteria in IAS 32. The amendments do not have an impact on the Group's interim financial report as they are consistent with the policies already adopted by the Group.

#### **Amendments to IAS 36, Recoverable amount disclosures for non-financial assets**

The amendments to IAS 36 modify the disclosure requirements for impaired non-financial assets. Among them, the amendments expand the disclosures required for an impaired asset or CGU whose recoverable amount is based on fair value less costs of disposal. The amendments do not have an impact on the Group's interim financial report.

#### **IFRIC 21, Levies**

The Interpretation provides guidance on when a liability to pay a levy imposed by a government should be recognized. The amendments do not have an impact on the Group's interim financial report as the guidance is consistent with the Group's existing accounting policies.

### 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, assets and liabilities

|  | Six months ended 30 June 2014                           |   |   |                      |
|--|---|---|---|----------------------|
|  | Manufacture<br>and sale of<br>motorbikes<br><i>US\$</i> | Manufacture<br>and sale of<br>spare parts<br>and engines<br><i>US\$</i> | Moulds<br>and repair<br>services<br><i>US\$</i> | Total<br><i>US\$</i> |
| Revenue from external customers                          | 75,731,609  | 12,602,490  | 25,795  | 88,359,894           |
| Inter-segment revenue                                    | –   | 29,008,431  | 704,725   | 29,713,156           |
| <b>Reportable segment revenue</b>                        | <b>75,731,609</b>                                       | <b>41,610,921</b>   | <b>730,520</b>                                  | <b>118,073,050</b>   |
| <b>Reportable segment (loss)/ profit (adjusted EBIT)</b> | <b>(4,995,101)</b>                                      | <b>(1,819,586)</b>  | <b>160,250</b>                                  | <b>(6,654,437)</b>   |
| <b>Reportable segment assets</b>                         | <b>49,983,309</b>                                       | <b>32,628,957</b>   | <b>1,268,859</b>                                | <b>83,881,125</b>    |
| <b>Reportable segment liabilities</b>                    | <b>17,310,864</b>                                       | <b>8,991,561</b>  | <b>77,789</b>                                   | <b>26,380,214</b>    |
|  | Six months ended 30 June 2013                           |   |   |                      |
|  | Manufacture<br>and sale of<br>motorbikes<br><i>US\$</i> | Manufacture<br>and sale of<br>spare parts<br>and engines<br><i>US\$</i> | Moulds<br>and repair<br>services<br><i>US\$</i> | Total<br><i>US\$</i> |
| 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           |
| <b>Reportable segment revenue</b>                        | <b>75,056,145</b>                                       | <b>39,773,961</b>   | <b>665,542</b>                                  | <b>115,495,648</b>   |
| <b>Reportable segment (loss)/ profit (adjusted EBIT)</b> | <b>(3,970,526)</b>                                      | <b>(2,389,619)</b>  | <b>75,112</b>                                   | <b>(6,285,033)</b>   |
| <b>Reportable segment assets</b>                         | <b>48,634,021</b>                                       | <b>32,304,720</b>   | <b>1,394,592</b>                                | <b>82,333,333</b>    |
| <b>Reportable segment liabilities</b>                    | <b>16,575,660</b>                                       | <b>8,677,139</b>  | <b>270,324</b>                                  | <b>25,523,123</b>    |

The measure used for reporting segment loss is “adjusted EBIT” i.e. “adjusted loss before interest and taxes”, where “interest” is regarded as net finance income/costs. To arrive at adjusted EBIT the Group’s loss is 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 |              |
|---|--------------------------|--------------|
|   | 2014<br>US\$             | 2013<br>US\$ |
| Reportable segment loss   | <b>(6,654,437)</b>       | (6,285,033)  |
| Elimination of inter-segment profits                            | <b>(159,086)</b>         | (151,228)    |
| Reportable segment loss derived from Group's external customers | <b>(6,813,523)</b>       | (6,436,261)  |
| Net finance income  | <b>2,553,067</b>         | 3,475,407    |
| Share of profit of an associate                                 | <b>39,042</b>            | 44,647       |
| Unallocated corporate expenses                                  | <b>(959,456)</b>         | (964,437)    |
| Consolidated loss before taxation                               | <b>(5,180,870)</b>       | (3,880,644)  |

**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         | <b>2,992,742</b> | 4,055,100 |
| Finance income                     | <b>2,992,742</b> | 4,055,100 |
| Interest paid and payable to banks | <b>(358,429)</b> | (206,073) |
| Net foreign exchange loss          | <b>(81,246)</b>  | (373,620) |
| Finance costs                      | <b>(439,675)</b> | (579,693) |
|                                    | <b>2,553,067</b> | 3,475,407 |

**(b) Staff costs**

|  |                  |           |
|--|------------------|-----------|
| Salaries and wages                                     | <b>4,430,271</b> | 4,550,740 |
| Staff welfare  | <b>904,522</b>   | 983,720   |
| Contributions to defined contribution retirement plans | <b>503,356</b>   | 545,675   |
| Severance pay allowance                                | <b>17,509</b>    | 808       |
|  | <b>5,855,658</b> | 6,080,943 |

**6 Loss before taxation (Continued)**  
**(c) Other items**

|   | <b>Six months ended 30 June</b> |             |
|---|---------------------------------|-------------|
|   | <b>2014</b>                     | 2013        |
|   | <b>US\$</b>                     | <i>US\$</i> |
| Amortisation of lease prepayments/<br>intangible assets | <b>296,328</b>                  | 278,799     |
| Depreciation of property, plant and equipment           | <b>3,209,618</b>                | 3,312,657   |
| Write-down of inventory ( <i>Note 11</i> )              | <b>121,408</b>                  | 300,000     |
| Research and development expenses                       | <b>1,820,358</b>                | 1,940,559   |

**7 Income tax**

**Current tax**

|  |                |         |
|--|----------------|---------|
| Provision for the period                           | <b>69,967</b>  | 19,772  |
| (Over)/under-provision in respect of prior periods | <b>(2,200)</b> | 707,879 |
|  | <b>67,767</b>  | 727,651 |

**Deferred tax**

|   |                 |           |
|---|-----------------|-----------|
| Origination and reversal of temporary differences | <b>(45,900)</b> | (284,718) |
|   | <b>21,867</b>   | 442,933   |

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 2014.

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

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax ("CIT") for Vietnam Manufacturing and Export Processing Co., Limited ("VMEP") is calculated at 18% of the 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%.

On 19 June 2013, the National Assembly in Vietnam approved the Law on amendments and supplements to a number of articles of the Corporate Income Tax Law. Accordingly, the highest income tax rate shall be reduced from 25% to 22% for 2014 and 2015, and to 20% from 2016.

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 is 15% from 2013 onwards.

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 25% from 2013 onwards.

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% if the taxable profit for the year is above New Taiwan Dollar ("NT\$") 120,000. Income tax is exempted if the taxable profit is below NT\$120,000.



**8 Loss per share****(a) Basic loss per share**

The calculation of basic loss per share is based on the loss for the period of US\$5,202,737 (six months ended 30 June 2013: US\$4,323,577) and 907,680,000 ordinary shares (2013: 907,680,000 ordinary shares) in issue during the interim period.

**(b) Diluted loss per share**

The amount of diluted loss per share is the same as the basic loss per share for the six months ended 30 June 2014 as there was no dilutive effect on loss per share since all outstanding share options were anti-dilutive.

**9 Property, plant and equipment**

During the six months ended 30 June 2014, the Group acquired items of property, plant and equipment with a cost of US\$1,564,201 (six months ended 30 June 2013: US\$1,519,533). Items of property, plant and equipment with a net book value of US\$17,482 were disposed of during the six months ended 30 June 2014 (six months ended 30 June 2013: US\$65,312), resulting in a gain on disposal of US\$26,435 (six months ended 30 June 2013: loss on disposal of US\$14,664).

**10 Lease prepayments**

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

|                                       | <b>Six months ended 30 June</b> |             |
|---------------------------------------|---------------------------------|-------------|
|                                       | <b>2014</b>                     | 2013        |
|                                       | <i>US\$</i>                     | <i>US\$</i> |
| Additions                             | <b>5,971</b>                    | –           |
| Amortisation for the period           | <b>(214,486)</b>                | (181,840)   |
| Effect of movements in exchange rates | <b>(51,896)</b>                 | (106,567)   |

**11 Inventories**

During six months ended 30 June 2014, US\$121,408 (2013: US\$300,000) 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**

|  | <b>At 30 June</b> | At 31 December |
|--|-------------------|----------------|
|  | <b>2014</b>       | 2013           |
|  | <i>US\$</i>       | <i>US\$</i>    |
| Trade receivables                            | <b>14,318,426</b> | 9,401,308      |
| Non-trade receivables                        | <b>15,591,620</b> | 14,898,577     |
| Prepayments                                  | <b>3,236,177</b>  | 3,331,156      |
| Amounts due from related parties (non-trade) | <b>689,445</b>    | 64,146         |
|  | <b>33,835,668</b> | 27,695,187     |

**12 Trade receivables, other receivables and prepayments (Continued)**

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

|                                      | <b>At 30 June<br/>2014<br/>US\$</b> | At 31 December<br>2013<br>US\$ |
|--------------------------------------|-------------------------------------|--------------------------------|
| Within 3 months                      | <b>13,971,831</b>                   | 9,388,575                      |
| More than 3 months but within 1 year | <b>341,031</b>                      | 2,648                          |
| More than 1 year                     | <b>5,564</b>                        | 10,085                         |
|                                      | <b>14,318,426</b>                   | 9,401,308                      |
| Represented by:                      |                                     |                                |
| External parties                     | <b>13,285,597</b>                   | 8,155,481                      |
| Related parties                      | <b>1,032,829</b>                    | 1,245,827                      |
|                                      | <b>14,318,426</b>                   | 9,401,308                      |

The Group's exposure to credit risk is low as the Group generally offers no credit terms to domestic customers, which accounted for approximately 10% of total trade receivables from external parties for the six months ended 30 June 2014 (six months ended 30 June 2013: 23%). 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.

Non-trade receivables mainly represented VAT recoverable of US\$9,587,746 (31 December 2013: US\$9,380,986) and interest receivable of US\$2,503,577 (31 December 2013: US\$2,966,378).

**13 Investment**

|  |                  |           |
|--|------------------|-----------|
| US\$ callable collared floating rate notes | <b>3,000,000</b> | 3,000,000 |
|--|------------------|-----------|

Notes of US\$3 million were acquired on 16 April 2013. The notes are 100% principal-protected. 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 a maturity date of 16 April 2018.

**14 Time deposits maturing after three months**

|                     |                   |            |
|---------------------|-------------------|------------|
| Denominated in VN\$ | <b>62,177,381</b> | 57,945,076 |
| Denominated in US\$ | <b>18,861,333</b> | 18,000,000 |
| Denominated in RMB  | <b>13,000,511</b> | 15,692,271 |
|                     | <b>94,039,225</b> | 91,637,347 |

**14 Time deposits maturing after three months**

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

|                                | <b>At 30 June<br/>2014</b> | At 31 December<br>2013 |
|--------------------------------|----------------------------|------------------------|
| Effective interest rate – VN\$ | <b>6.2%~8.3%</b>           | 7.4%~10.8%             |
| Effective interest rate – US\$ | <b>0.25%~1.5%</b>          | 1.22%~1.5%             |
| Effective interest rate – RMB  | <b>3%</b>                  | 2.85%~3%               |

As at 30 June 2014, certain of the Group's time deposits with an aggregate value of US\$9,690,286 (31 December 2013: US\$7,263,703) were pledged to secure bank loans (see Note 16).

**15 Trade and other payables**

|   | <b>At 30 June<br/>2014<br/>US\$</b> | At 31 December<br>2013<br>US\$ |
|---|-------------------------------------|--------------------------------|
| Trade payables                                | <b>14,669,395</b>                   | 15,517,538                     |
| Other payables and accrued operating expenses | <b>6,052,279</b>                    | 7,984,486                      |
| Advances from customers                       | <b>875,953</b>                      | 1,115,504                      |
| Amounts due to related parties (non-trade)    | <b>2,648,167</b>                    | 1,815,267                      |
|   | <b>24,245,794</b>                   | 26,432,795                     |

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date, is as follows:

|                                      |                   |            |
|--------------------------------------|-------------------|------------|
| Within 3 months                      | <b>14,457,844</b> | 15,403,263 |
| More than 3 months but within 1 year | <b>211,304</b>    | 109,373    |
| More than 1 year but within 5 years  | <b>247</b>        | 4,902      |
|                                      | <b>14,669,395</b> | 15,517,538 |

Represented by:

|                  |                   |            |
|------------------|-------------------|------------|
| External parties | <b>11,243,418</b> | 12,316,236 |
| Related parties  | <b>3,425,977</b>  | 3,201,302  |
|                  | <b>14,669,395</b> | 15,517,538 |

**16 Bank loans**

As of the end of the reporting period, the bank loans were analysed as follows:

|           | <b>At 30 June<br/>2014<br/>US\$</b> | At 31 December<br>2013<br>US\$ |
|-----------|-------------------------------------|--------------------------------|
| Secured   | <b>13,970,379</b>                   | 14,478,417                     |
| Unsecured | <b>14,365,788</b>                   | 6,834,843                      |
|           | <b>28,336,167</b>                   | 21,313,260                     |

All of the bank loans are expected to be repayable within one year. As of the end of the reporting period, the bank loans of the Group were secured by certain time deposits of the Group (see Note 14).

## 17 Fair value measurement of financial instruments

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

#### (i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13, Fair value measurement. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date.
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available.
- Level 3 valuations: Fair value measured using significant unobservable inputs.

|   | Fair value measurement as at 30 June 2014 |   | Fair value measurement as at 31 December 2013 |   |
|---|---|---|---|---|
|   | Fair value at 30 June 2014                | Fair value at 30 June 2014 categorised into Level 2 | Fair value at 31 December 2013                | Fair value at 31 December 2013 categorised into Level 2 |
|   | US\$                                      | US\$  | US\$  | US\$  |
| <b>Recurring fair value measurement</b> |   |   |   |   |
| Financial asset:                        |   |   |   |   |
| Derivatives                             | 106,994                                   | 106,994   | 106,994                                       | 106,994   |

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3 (2013: nil). The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

#### (ii) Valuation technique and inputs used in Level 2 fair value measurement

The fair value of derivatives in Level 2 is determined using Cap-Floor model. The interest rate used is derived from the relevant interest yield curve as at the end of the reporting period.

### (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 31 December 2013 and 30 June 2014.

**18 Commitments****(a) Capital commitments**

Capital commitments outstanding not provided for in the interim financial report:

|                                   | <b>At 30 June<br/>2014<br/>US\$</b> | At 31 December<br>2013<br>US\$ |
|-----------------------------------|-------------------------------------|--------------------------------|
| Contracted for                    | <b>559,010</b>                      | 106,038                        |
| Authorised but not contracted for | <b>16,176,905</b>                   | 16,353,734                     |
|                                   | <b>16,735,915</b>                   | 16,459,772                     |

On 25 January 2011, the Company's Board of Directors resolved to relocate one of the Group's factories in 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 2015. The capital commitment authorised but not contracted for as at the end of the reporting period in respect of this relocation and construction of the new factory is US\$16 million. The authorised amount is an initial estimate and will be subject to regular review by the Company'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                   | <b>235,835</b>   | 559,650   |
| After 1 year but within 5 years | <b>887,260</b>   | 1,096,065 |
| After 5 years                   | <b>2,956,054</b> | 2,712,920 |
|                                 | <b>4,079,149</b> | 4,368,635 |

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

**19 Material related party transactions**

During the six months ended 30 June 2014, 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  |
| Quingzhou Engineering Industry Co., Ltd.               | A subsidiary of Sanyang   |
| Sanyang Global Co., Ltd.                               | A subsidiary of Sanyang   |
| Sanyang Motor Co., Ltd. Vietnam                        | A subsidiary of Sanyang   |
| Sanyang Vietnam Automobile Co., Ltd.                   | A subsidiary of Sanyang   |
| Xia Shing Xiamen Motorcycle Co., Ltd.                  | A subsidiary of Sanyang   |
| Hanoi Full Ta Precision Company Limited                | An associate of Sanyang   |
| Vietnam Three Brothers Machinery Industry Co., Limited | The associate of the Company and a non-wholly owned subsidiary of Sanyang |

## 19 Material related party transactions (Continued)

## (a) Recurring transactions

|  | Six months ended 30 June |                   |
|--|--------------------------|-------------------|
|  | 2014<br>US\$             | 2013<br>US\$      |
| <b>Sales of finished goods and/or spare parts:</b>       |                          |                   |
| Sanyang Industry Co., Ltd.                               | 306,230                  | 4,976,963         |
| Sanyang Motor Co., Ltd Vietnam                           | 1,774                    | –                 |
| Sanyang Vietnam Automobile Co., Ltd.                     | –                        | 548               |
| Xia Shing Xiamen Motorcycle Co., Ltd.                    | –                        | 3,300             |
|  | <u>308,004</u>           | <u>4,980,811</u>  |
| <b>Purchases of raw materials and/or finished goods:</b> |                          |                   |
| Sanyang Industry Co., Ltd.                               | 6,608,775                | 8,322,199         |
| Quingzhou Engineering Industry Co., Ltd.                 | 76,798                   | 3,181,055         |
| Sanyang Global Co., Ltd.                                 | 3,771,791                | 107,984           |
| Xia Shing Xiamen Motorcycle Co., Ltd.                    | 320,276                  | 2,613,048         |
| Hanoi Full Ta Precision Company Limited                  | 455,939                  | 467,782           |
| Vietnam Three Brothers Machinery Industry Co., Limited   | 1,499,535                | 1,186,793         |
|  | <u>12,733,114</u>        | <u>15,878,861</u> |
| <b>Six months ended 30 June</b>                          |                          |                   |
|  | 2014<br>US\$             | 2013<br>US\$      |
| <b>Purchases of property, plant and equipment:</b>       |                          |                   |
| Sanyang Industry Co., Ltd.                               | 622,108                  | 300,779           |
| Vietnam Three Brothers Machinery Industry Co., Limited   | 12,012                   | 134,813           |
|  | <u>634,120</u>           | <u>435,592</u>    |
| <b>Technology transfer fees:</b>                         |                          |                   |
| Sanyang Industry Co., Ltd.                               | 2,102,608                | 1,861,895         |
| <b>Technical consultancy fee:</b>                        |                          |                   |
| Sanyang Industry Co., Ltd.                               | 1,328,840                | 635,488           |

**19 Material related party transactions (Continued)****(b) Amounts due from related parties**

|  | <b>At 30 June<br/>2014<br/>US\$</b> | At 31 December<br>2013<br>US\$ |
|--|-------------------------------------|--------------------------------|
| <b>Trade</b>   |                                     |                                |
| Sanyang Industry Co., Ltd.                             | <b>115,156</b>                      | 86,134                         |
| Sanyang Global Co., Ltd.                               | <b>917,673</b>                      | 526,670                        |
| Sanyang Vietnam Automobile Co., Ltd.                   | –                                   | 1,825                          |
| Xia Shing Xiamen Motorcycle Co., Ltd.                  | –                                   | 477,448                        |
| Vietnam Three Brothers Machinery Industry Co., Ltd     | –                                   | 153,750                        |
|  | <u>1,032,829</u>                    | <u>1,245,827</u>               |
| <b>Sub-total</b>                                       |                                     |                                |
|  | <u>1,032,829</u>                    | <u>1,245,827</u>               |
| <b>Non-trade</b>                                       |                                     |                                |
| Sanyang Industry Co., Ltd.                             | <b>458,867</b>                      | 64,146                         |
| Vietnam Three Brothers Machinery Industry Co., Limited | <b>230,578</b>                      | –                              |
|  | <u>689,445</u>                      | <u>64,146</u>                  |
| <b>Sub-total</b>                                       |                                     |                                |
|  | <u>689,445</u>                      | <u>64,146</u>                  |
| <b>Total</b>   |                                     |                                |
|  | <u>1,722,274</u>                    | <u>1,309,973</u>               |

**(c) Amounts due to related parties**

|  | <b>At 30 June<br/>2014<br/>US\$</b> | At 31 December<br>2013<br>US\$ |
|--|-------------------------------------|--------------------------------|
| <b>Trade</b>   |                                     |                                |
| Sanyang Industry Co., Ltd.                             | <b>1,224,445</b>                    | 1,700,296                      |
| Qingzhou Engineering Industry Co., Ltd.                | <b>33,092</b>                       | 5,075                          |
| Sanyang Global Co., Ltd.                               | <b>1,844,239</b>                    | 873,133                        |
| Xia Shing Xiamen Motorcycle Co., Ltd.                  | –                                   | 304,289                        |
| Hanoi Full Ta Precision Company Limited                | <b>80,078</b>                       | 72,706                         |
| Vietnam Three Brothers Machinery Industry Co., Limited | <b>244,123</b>                      | 245,803                        |
|  | <u>3,425,977</u>                    | <u>3,201,302</u>               |
| <b>Sub-total</b>                                       |                                     |                                |
|  | <u>3,425,977</u>                    | <u>3,201,302</u>               |
| <b>Non-trade</b>                                       |                                     |                                |
| Sanyang Industry Co., Ltd.                             | <b>2,648,167</b>                    | 1,814,197                      |
| Vietnam Three Brothers Machinery Industry Co., Limited | –                                   | 1,070                          |
|  | <u>2,648,167</u>                    | <u>1,815,267</u>               |
| <b>Sub-total</b>                                       |                                     |                                |
|  | <u>2,648,167</u>                    | <u>1,815,267</u>               |
| <b>Total</b>   |                                     |                                |
|  | <u>6,074,144</u>                    | <u>5,016,569</u>               |