

**VMEP**

V i e t n a m

**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)

# LANGBIANG

**THÀNH PHỐ ĐÀ LẠT**  
DALAT CITY



ANNUAL REPORT **2017**

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## Corporate Information

### BOARD OF DIRECTORS

#### Executive Directors

Mr. Liu Wu Hsiung (*Chairman*)  
 Mr. Lu Tien Fu (*Chief Executive Officer*)  
 Mr. Lin Chun Yu  
 Mr. Huang Kwang Wu (appointed on 10 August 2017;  
 resigned on 21 December 2017)  
 Mr. Chou Ken Yuan (resigned on 10 August 2017)

#### Non-executive Directors

Ms. Wu Li Chu  
 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

Ms. Lin Ching Ching (*Chairman*)  
 Ms. Wu Kwei Mei  
 Mr. Liu Wu Hsiung

### AUTHORISED REPRESENTATIVES

Mr. Liu Wu Hsiung  
 Ms. Ng Wing Shan

### COMPANY SECRETARY

Ms. Ng Wing Shan

### AUDITOR

KPMG

### LEGAL ADVISER

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

18/F., Tesbury Centre,  
 28 Queen's Road East,  
 Wanchai, Hong Kong

### CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

SMP Partners (Cayman) Limited  
 Royal Bank House, 3rd Floor,  
 24 Shedden Road, P.O. Box 1586,  
 Grand Cayman, KY1-1110,  
 Cayman Islands

### HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited  
 Shops 1712-16, 17th Floor, Hopewell Centre,  
 183 Queen's Road East, Wanchai  
 Hong Kong

### PRINCIPAL BANKERS

Asia Commercial Bank  
 Jointstock commercial Bank for Foreign Trade of Vietnam

### STOCK CODE

422

### WEBSITE AND CONTACT

[www.vmeph.com](http://www.vmeph.com)  
 Tel: (886) 3597 2788  
 Fax: (886) 3597 1883



## Financial Summary

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

	<b>2017</b>	2016	2015	2014	2013
	<b>US\$'M</b>	US\$'M	US\$'M	US\$'M	US\$'M
<b>RESULTS</b>					
Revenue	<b>93.7</b>	133.2	125.7	177.5	172.7
Gross profit	<b>6.1</b>	15.7	9.1	11.9	13.4
Results from operating activities	<b>(13.2)</b>	(3.3)	(11.0)	(15.5)	(15.3)
Loss before income tax	<b>(9.8)</b>	(0.8)	(7.8)	(10.2)	(8.8)
Loss attributable to equity shareholders	<b>(9.3)</b>	(0.7)	(8.0)	(10.4)	(9.5)
Loss per share (US\$) (Note 1)	<b>(0.010)</b>	(0.001)	(0.009)	(0.011)	(0.010)
<b>ASSETS AND LIABILITIES</b>					
Total assets	<b>161.7</b>	178.0	177.3	212.1	210.4
Total liabilities	<b>35.9</b>	43.4	41.0	62.7	49.3
Net assets	<b>125.8</b>	134.6	136.3	149.4	161.1
Equity attributable to equity shareholders	<b>125.8</b>	134.6	136.3	149.4	161.1
Return on equity (%)	<b>(7.4)</b>	(0.5)	(5.9)	(7.0)	(5.9)
Current ratio (times) (Note 2)	<b>3.9</b>	3.5	3.7	2.9	3.6
Gearing ratio (%) (Note 3)	<b>19</b>	19	18	25	13

*Notes:*

1. The calculation of loss per share for above is based on the profit or loss attributable to equity shareholders and the weighted average number of ordinary shares in issue (i.e. 907,680,000 shares) during the year.
2. Current ratio is calculated by dividing current assets by current liabilities.
3. Gearing ratio is equal to total bank loans divided by total equity times 100%.



## Management Discussion and 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 200,000 motorbikes. The Group’s motorbikes are sold under the SYM brand name and offering a wide range of models. It also produces motorbike engines and parts for internal use and export as well as selling and providing services associated with moulds to make die-cast and forged metal parts.

### OPERATION ENVIRONMENT

The Vietnamese economy performed better than expected in 2017, with a gross domestic product (GDP) growth rate of 6.81% that exceeded the targeted 6.7% and marked a record high over the past decade. The Vietnamese government’s successful moves in 2017 to, among others, adjust economic structure, stabilise macro-economy, improve investment environment and curb inflation, have led to a positive change in the business environment in Vietnam.

Vietnam is one of the biggest suppliers of motorbikes in the world. Over the past few years, many foreign direct investment (“FDI”) manufacturers have continued to expand their investment in launching new models and enhancing marketing and promotion activities for a larger market share. As at the end of 2017, there were a total of more than 48 million motorbikes in Vietnam. However, with the Vietnamese government pay attention to air pollution control gradually and limiting vehicles to ease overloaded transport infrastructure, the business environment of motorbike industry in Vietnam continues to be challenging.

According to statistics from the Vietnam Association of Motorcycle Manufacturers, total sales of the 5 largest FDI motorbike manufacturers in Vietnam reached 3.26 million units in 2017, slightly increased by 4.4% compared to 2016. The Group ranked third in the Vietnam’s motorbike market, after the Japanese brands Honda and Yamaha, reached a sale of approximately 57,600 units in 2017, accounted for 1.7% of the total market share.

### BUSINESS REVIEW

Despite the continued instability of the Vietnamese economy and the fierce competitions in the motorbike industry, the Group adopted on-going strategies on the cost reduction and efficiency enhancement, research and development, expansion of overseas markets during the year 2017 to improve its operational efficiency. In 2017, the Group launched various kinds of new or modified motorbike models, which include the scooter named Elite 50, Fancy 125 and Husky Classic 125 targeting student, female and male customers respectively, two electric motorbikes named EV Elite and SYM Z1 and three modified motorbike models, namely Angela 50, Elegant II 100 and Star X 125 EFI, offering different product segments and more energy-saving product to meet consumer needs.

The Group sold an aggregate of approximately 57,600 units (which comprised of approximately 6,000 units of scooters, 49,800 units of cubs and 1,800 units of electric motorbikes, respectively) in Vietnam for the year ended 31 December 2017, representing a decrease of 11.8% from the previous year. The Group sold an aggregate of approximately 71,200 units of scooters and cubs and exported to ASEAN countries, representing a decrease of 39.1% from the previous year, in particular, there has been a substantial reduction in sales in Malaysian markets. In view of challenges above, the Group strived to develop market and accelerate product research and development so as to curb the downward trend.

The Group strived in building its product sales network, aiming to achieve customer loyalty by constant expansion across Vietnam and implementing flexible marketing strategies. As of 31 December 2017, the Group’s extensive distribution network comprised over 206 SYM authorised stores owned by dealers, covering every province in Vietnam.

### FINANCIAL REVIEW

The Group recorded a net loss of US\$9.3 million for the year ended 31 December 2017 as compared to a net loss of US\$0.7 million for the year ended 31 December 2016, which reflected the challenging operating environment for the motorbike industry. Further analysis on the operating results of the Group is set out below.



## Management Discussion and Analysis

### REVENUE

Revenue of the Group for the year ended 31 December 2017 decreased to US\$93.7 million from US\$133.2 million for the year ended 31 December 2016, representing a decrease of US\$39.5 million or 30%. The decrease was attributable to the competition from Japanese manufacturers, the Group's major competitors, who aggressively seized market share of domestic sales of motorbike in Vietnam by adopting a price-cutting strategy in 2017. Such competition posed a significant pressure on the Group. Further, the Vietnamese government has amended the regulations, prohibiting students going to schools by motorbikes, which resulted in a decline in volume of sales to key consumers. In the aspect of export, it was mainly due to the fact that the management of the Group became more conservative in the policy of customer credit control in order to strengthen its risk management, and as a result, the shipment volume was impacted. Secondly, the acute economic downturn of Malaysia, the Group's major market, and China's import of low-priced motorbike models caused a sharp reduction in sales volume from those markets in domestic.

In terms of geographical contribution, approximately 54% of total revenue was generated from the domestic market in Vietnam for the year ended 31 December 2017 as compared with approximately 43% for the year ended 31 December 2016. Domestic sales in Vietnam decreased by 12% from US\$57.9 million for the year ended 31 December 2016 to US\$50.7 million for the year ended 31 December 2017. Export sales decreased by 43% from US\$75.3 million for the year ended 31 December 2016 to US\$43.0 million for the year ended 31 December 2017. The number of engines exported decreased from approximately 16,700 units for the year ended 31 December 2016 to approximately 11,900 units for the year ended 31 December 2017.

### COST OF SALES

The Group's cost of sales decreased by 25%, from US\$117.5 million for the year ended 31 December 2016 to US\$87.7 million for the year ended 31 December 2017, resulting from the rise of sales in Vietnam and ASEAN countries. As a percentage of total revenue, the Group's cost of sales increased from 88% for the year ended 31 December 2016 to 94% for the year ended 31 December 2017. The increase in cost rate was attributable to the decline in sales volume, which increased the percentage of costs to total revenue. Such increase was partly offset by the reduced purchase costs as the Group has strived to develop new sourcing channels.

### GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the foregoing, the gross profit of the Group decreased by 61%, from US\$15.7 million for the year ended 31 December 2016 to US\$6.1 million for the year ended 31 December 2017. As compared with the comparative period, the Group's gross profit margin has decreased from 11.8% to 6.5%. This is mainly due to a decrease of the Group's product which has a higher gross profit margin leading to a drop in gross profit margin.

### DISTRIBUTION EXPENSES

The Group's distribution expenses decreased by 1.4%, from US\$7.0 million for the year ended 31 December 2016 to US\$6.9 million for the year ended 31 December 2017. Such decrease was mainly attributed to rectification of existing distribution network, a decrease of sales incentives and supporting fees to distributors.

### ADMINISTRATIVE EXPENSES

The Group's administrative expenses decreased by 4.1% from US\$9.7 million for the year ended 31 December 2016 to US\$9.3 million for the year ended 31 December 2017, which account for 9.9% of the Group's total revenue for the year ended 31 December 2017. The decrease was principally due to the decrease in related research and development expenses and other operating costs, and effort to boost operation efficiency and strengthen cost control.

### RESULTS FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's results from operating activities worsened by 300%, from a loss of US\$3.3 million for the year ended 31 December 2016 to a loss of US\$13.2 million for the year ended 31 December 2017.

### NET FINANCE INCOME

The Group's net finance income increased by 42%, from US\$2.4 million for the year ended 31 December 2016 to US\$3.4 million for the year ended 31 December 2017. Such increase was mainly attributable to an increase in interest income by US\$0.1 million and increase in foreign exchange losses of US\$0.9 million arising from fluctuation of the Vietnamese Dong against the US dollar for the year.

### LOSS FOR THE PERIOD AND MARGIN

As a result of the factors discussed above, the Group's net loss for the year ended 31 December 2017 amounted to US\$9.3 million, an increase of 1,229% as compared to a loss of US\$0.7 million for the year ended 31 December 2016. The Group's net loss margin worsened from 0.6% for the year ended 31 December 2016 to 10% for the year ended 31 December 2017.



## Management Discussion and Analysis

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group's net current assets amounted to US\$105.1 million (31 December 2016: US\$110.2 million) which consisted of current assets of US\$141.0 million (31 December 2016: US\$153.6 million) and current liabilities of US\$35.9 million (31 December 2016: US\$43.4 million).

As at 31 December 2017, the Group's bank loans repayable within one year was US\$23.3 million, including US\$17.5 million denominated in US\$ and US\$5.8 million denominated in Vietnamese Dong (31 December 2016: US\$26.2 million, including US\$23.9 million denominated in US\$ and US\$2.3 million denominated in Vietnamese Dong). As at 31 December 2017, the Group had no bank loans repayable beyond one year (31 December 2016: Nil). As at 31 December 2017, the gearing ratio was 18.6% (31 December 2016: 19.4%) calculated by dividing total bank loans by total equity.

As at 31 December 2017, the Group's cash and bank balances (including bank deposits), amounted to US\$102.2 million, which mainly included US\$61.1 million denominated in Vietnamese Dong and US\$41.1 million denominated in US\$ (31 December 2016: US\$104.1 million, which mainly included US\$62.2 million denominated in Vietnamese Dong, US\$40.9 million denominated in US\$ and US\$1.0 million denominated in Renminbi).

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

### KEY FINANCIAL INDICATORS

For details of the key financial performance indicators to the performance of the Group's business, please refer to "Financial Summary" on page 3 of this annual report.

### 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 and US dollar. 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 and US dollar.

### CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

The Group had no material capital commitments and contingent liabilities as at 31 December 2017.

### HUMAN RESOURCES AND REMUNERATION POLICIES

The Group currently 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, quality staff living quarters, training and development opportunities, medical benefits, an insurance plan and retirement benefits. As at 31 December 2017, the Group had 1,578 employees (2016: 1,696). The total amount of salaries and related costs for the year ended 31 December 2017 amounted to approximately US\$12.1 million (2016: US\$12.2 million).

### PROSPECTS

Looking forward to 2018, the overall economic target of the Vietnamese government is to reach a growth rate of between 6.5% and 6.7% in GDP and of between 7% and 8% in exports, as well as to keep its inflation rate under 4%. To this end, the Vietnamese government will take active role in maintaining the macroeconomic stability, promoting economic structural adjustment and improving business environment, in an effort to boost rapid and sustainable economic development. Despite such growth prospects, the Vietnamese economy will also encounter hurdles that may have negative impact to the economic development of Vietnam, such as unstable global economic recovery, challenges of multilateral trade liberalisation, and trade frictions, increasing disputes and occasional trade retaliations among major economies.



## Management Discussion and Analysis

This year, the Vietnam motorbike market will remain difficult, challenging and highly competitive. Amid the tough business environment, the Group will adhere to its operating approach of focusing on its primary business, product quality and customers' satisfaction. The Group will adopt product innovation as its key strategy to further strengthen its capabilities in product design and core technology development. In 2018, the Group plans to roll out a number of new or modified motorbike models in the Vietnamese market, including scooter, cub and electric motorbikes, so as to achieve product diversification and greater profitability, and offer consumers with environmentally-friendly and convenient products at reasonable prices. As for promotion and place of marketing, the Group will open flagship stores in four major cities in Vietnam and execute holistic sales strategies to promote its brand image. The Group will also improve its "distributor licensing system" and extend the geographical coverage of its sales and services centres in order to provide its customers with better product repair and maintenance services. In ASEAN markets, the Group will step up further to engage in marketing and promotional activities, and to provide better after-sales services overseas. The Group will launch more motorbike models with higher unit prices to boost and stimulate the profitability of export sales.

In addition, the Group will seize all available development opportunities to enhance its long-term profitability and maximise returns to the shareholders of the Company (the "Shareholders").

### APPLICATION OF IPO PROCEEDS

The proceeds from the issuance of new shares in the IPO by the Company in December 2007, net of listing expenses, were approximately US\$76.7 million. As at 31 December 2017, the net proceeds were utilised in the following manner:

	<b>Per Prospectus</b> <i>US\$' million</i>	<b>Amount utilised</b> <i>US\$' million</i>	<b>Balances as at December 2017</b> <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	13.7	32.3
Mergers and acquisitions	9.0	1.7	7.3
General working capital	2.7	2.7	–
<b>Total</b>	<b>76.7</b>	<b>33.8</b>	<b>42.9</b>

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

### REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2017 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.

### FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2017.

### PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2017, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

### OUR APPRECIATION

Lastly, on behalf of the Board, I hereby express my sincere 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 hard work and contribution to the Group over last year.

By order of the Board  
**Vietnam Manufacturing and Export Processing (Holdings) Limited**  
**Liu Wu Hsiung**  
*Chairman*

Hong Kong, 26 March 2018



## Corporate Governance Report

The Board is committed to maintaining high standards of corporate governance. The principles of corporate governance adopted by the Company emphasise a Board of high quality, sound internal control, transparency and accountability to all Shareholders.

### CORPORATE GOVERNANCE PRACTICES

During the financial year ended 31 December 2017, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"), except for the following deviation:

Paragraph A.5.2 of the Code provides that an issuer should establish a nomination committee with specific written terms of reference for 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 recommendation 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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiries with all the Directors, the Company confirms that the Directors have complied with the required standard set out in the Model Code for the financial year ended 31 December 2017.

### THE BOARD OF DIRECTORS

The Board has a balance of skills and experience and a balanced composition of executive and non-executive Directors and is responsible for the oversight of the management of the Group's business and affairs.

The principal roles of the Board are:

- (a) to set the Group's objectives, strategies, policies and business plan;
- (b) to monitor and control operating and financial performance by deciding the annual budget; and
- (c) to set appropriate policies to manage risks in pursuit of the Group's strategic objectives.

The Board has delegated the day-to-day operational responsibilities to the executive Directors and senior management of the Company. The executive Directors and senior management of the Company, who meet on a regular basis and are accountable to the Board, collectively make principal management decisions according to the delegated authorities from the Board.

### COMPOSITION OF THE BOARD

The members of the Board for the year ended 31 December 2017 were:

#### Executive Directors

Mr. Liu Wu Hsiung (*Chairman*)  
 Mr. Lu Tien Fu (*Chief Executive Officer*)  
 Mr. Lin Chun Yu  
 Mr. Huang Kwang Wu (appointed on 10 August 2017; resigned on 21 December 2017)  
 Mr. Chou Ken Yuan (resigned on 10 August 2017)

#### Non-executive Directors

Ms. Wu Li Chu  
 Mr. Chiu Ying Feng

#### Independent Non-executive Directors

Ms. Lin Ching Ching  
 Mr. Shen Hwa Rong  
 Ms. Wu Kwei Mei



## Corporate Governance Report

The Directors have no financial, business, family or other material/relevant relationships with each other (including the chairman and the chief executive officer). The biographical details of the current Directors are set out in the "Directors and Senior Management Profile" section on pages 14 to 15 of this annual report.

The Company has also maintained on its website and that of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") an updated list of the Directors identifying their roles and functions. The independent non-executive Directors are explicitly identified in all of the Company's corporate communications.

### BOARD MEETINGS AND GENERAL MEETINGS

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

7 Board meetings and 1 annual general meeting were held during the year ended 31 December 2017. The attendance record of each Director at the Board meetings and the annual general meeting is set out in the table below:

Name of Directors	Number of Meetings Attended	
	Board meetings	Annual general meeting
Mr. Liu Wu Hsiung	7/7	1/1
Mr. Lu Tien Fu	7/7	1/1
Mr. Lin Chun Yu	7/7	1/1
Ms. Wu Li Chu	6/7	1/1
Mr. Chiu Ying Feng	6/7	0/1
Ms. Lin Ching Ching	7/7	1/1
Mr. Shen Hwa Rong	7/7	1/1
Ms. Wu Kwei Mei	7/7	1/1
Mr. Huang Kwang Wuu (appointed on 10 August 2017; resigned on 21 December 2017)	3/3	0/0
Mr. Chou Ken Yuan (resigned on 10 August 2017)	3/4	0/1

Minutes of Board meetings and board committee meetings are recorded in appropriate detail and are kept by the company secretary of the Company. Draft minutes are circulated to the Directors for comment within a reasonable period of time after each meeting and the final version is open for the Directors' inspection. If necessary, the Directors may, upon reasonable request, seek independent professional advice in appropriate circumstances, at the Company's expense.

### THE CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under code provision A.2.1 of the Code, the roles of the chairman and the chief executive officer should be separated and should not be performed by the same individual. As at the date of this report, the chairman and chief executive officer of the Company are Mr. Liu Wu Hsiung and Mr. Lu Tien Fu respectively.

The roles and responsibilities of the chairman and the chief executive officer of the Company are separated so as to ensure a balance of power and authority. This balance ensures that all matters brought before the Board are fully and objectively discussed, taking into account the interests of Shareholders as a whole, including in particular, those of the minority Shareholders.

### NON-EXECUTIVE DIRECTORS

In line with code provision A.4.1 of the Code, the non-executive Directors (including the independent non-executive Directors) are appointed for a specific term of three years, subject to re-election at annual general meetings of the Company in accordance with the articles of association of the Company.

The Company has received annual written confirmations from each of the independent non-executive Directors of their independence pursuant to Rule 3.13 of the Listing Rules and considers them to be independent.

### BOARD COMMITTEES

The Company currently maintains two board committees (namely the Audit Committee and the Remuneration Committee) with defined terms of reference which are posted on the websites of the Company and the Stock Exchange. The Board is responsible for performing the corporate governance duties set out in the Code.



## Corporate Governance Report

### REMUNERATION COMMITTEE

The Company has established a remuneration committee (the “Remuneration Committee”) which consists of two independent non-executive Directors and one executive Director. The members of the Remuneration Committee for the year ended 31 December 2017 were Ms. Lin Ching Ching (Chairman), Ms. Wu Kwei Mei and Mr. Liu Wu Hsiung.

The Remuneration Committee is responsible for ensuring that the Company has formal and transparent procedures for developing and overseeing its policies on the remuneration of the Directors and senior management of the Company. The Remuneration Committee’s authorities and duties are set out in its written terms of reference.

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

- (a) considering and recommending the Board on the Company’s policy and structure of remuneration of the Directors and senior management of the Company and on the establishment of a formal and transparent procedure for developing remuneration policy;
- (b) recommending the Board on the specific remuneration packages of the executive Directors and senior management of the Company;
- (c) recommending for the Board’s approval the remuneration of the non-executive Directors;
- (d) reviewing and approving performance-based remuneration by reference to corporate goals and objectives resolved by the Board from time to time;
- (e) reviewing and approving the compensation payable to the executive Directors and senior management of the Company in connection with any loss or termination of their office or appointment; and
- (f) reviewing and approving compensative arrangements relating to dismissal or removal of Directors for misconduct.

During the year ended 31 December 2017, the Remuneration Committee held three meetings where all members attended. The Remuneration Committee recommended to the Board on the overall remuneration policy and structure relating to executive Directors and senior management of the Company and ensure none of the Directors determine their own remuneration.

### AUDIT COMMITTEE

The Company has established an audit committee (the “Audit Committee”) which consists of three independent non-executive Directors. The members of the Audit Committee for the year ended 31 December 2017 were Ms. Lin Ching Ching (Chairman), Mr. Shen Hwa Rong and Ms. Wu Kwei Mei.

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

- (a) considering the appointment of external auditors and any questions of resignation or dismissal;
- (b) discussing with external auditors before the audit commences, the nature and scope of the audit;
- (c) reviewing half-year and annual financial statements before submission to the Board;
- (d) discussing problems and reservations arising from the audits, and any matters the external auditors may wish to discuss; and
- (e) considering and reviewing the Company’s financial report, risk management and internal control systems.

During the year ended 31 December 2017, the Audit Committee held four meetings where all members attended. The Audit Committee met with the external auditors to discuss and review areas of concern, risk management and internal control system, and reviewed the interim and annual financial statements of the Group before submission to the Board. The Audit Committee of the Company has reviewed with management the accounting principles and practices adopted by the Group and discussed risk management and internal control and financial reporting matters including the review of the audited financial statements, the interim and annual reports. The Audit Committee received comprehensive reports from the management team and the internal and external auditors for the meetings held.

### NOMINATION COMMITTEE

During the year ended 31 December 2017, the Company has not set up a nomination committee as all major decisions regarding Board composition and its members were made in consultation with the Board in which all Directors will participate in the process and perform the duties of a nomination committee as contemplated in the Code. The Chairman of the Company reviewed the composition of the Board from time to time with particular regard to ensure that there is an appropriate number of Directors on the Board who are independent of management.



## Corporate Governance Report

As part of high standards of corporate governance, the Board has adopted a board diversity policy. Under the board diversity policy, selection of candidates for Board appointment is made in accordance with gender, age, cultural and educational background, work or professional experience, the Group's specific needs from time to time and other objective criteria considered by the Board. Board appointments will be based on merit and the contribution that the chosen candidate(s) will bring to the Board. The Board has considered the board diversity policy, the relevant provisions of the company's articles of incorporation and the past working experience of the director candidates before the appointment of the directors during the year.

### AUDITOR'S REMUNERATION

For the year ended 31 December 2017, the remunerations paid or payable to KPMG, the external auditor of the Company, in respect of its audit services and non-audit services are approximately US\$367,399 (2016: US\$383,515) and US\$41,030 (2016: US\$7,788), respectively. The non-audit services for the year of 2017 mainly consist of Environmental, Social and Governance and Risk Management and Internal Control consultancy services.

### COMPANY SECRETARY

Ms. NG Wing Shan ("Ms. Ng") is the company secretary of the Company. She is the assistant vice president of SW Corporate Services Group Limited. Her primary contact person with the Company is Mr. Lin Chun Yu, the chief financial officer and an executive Director of the Company.

Ms. Ng is responsible for providing advice to the Board on corporate governance matters. Ms. Ng has confirmed that she has taken no less than 15 hours of relevant professional training for the year ended 31 December 2017.

### DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors are responsible for ensuring that the Group keeps proper accounting records with reasonable accuracy of the financial position of the Group at the relevant time. The Directors are also responsible for ensuring that the preparation of the financial statements of the Group for the relevant accounting periods are in compliance with applicable statutory and regulatory requirements and that such financial statements give a true and fair view of the financial position, the financial performance and cashflows of the Group.

In preparing the financial statements of the Group for the year ended 31 December 2017, suitable accounting policies have been adopted and applied consistently. The Board is not aware of any material uncertainties relating to events or conditions that might cast significant doubt upon the Group's ability to continue in business. The financial statements of the Group for the reporting year have been prepared on a going concern basis.

### PERFORMANCE OF CORPORATE GOVERNANCE DUTIES

The Board is responsible for performing the corporate governance function. The Board had reviewed the Group's policies and practices on corporate governance and compliance with legal and regulatory requirements including the compliance with the corporate governance code during the year ended 31 December 2017. The Board also reviewed the training and continuous professional development of directors and senior management of the Company.

### RISK MANAGEMENT AND INTERNAL CONTROL

The Group has set up the Internal Audit Department performs internal audit function and the Board is responsible for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Group's strategic business objectives, and ensuring the Group establishes and maintains appropriate and effective risk management and internal control systems. The Board also reviews and monitors the effectiveness of the internal control and risk management systems at least annually to ensure that the systems in place are adequate. The internal control system of the Group aims to facilitate effective and efficient operation which in turn minimises the risks to which the Group is exposed. The system can only provide reasonable but not absolute assurance against misstatement or losses.

The Board has conducted a review of the risk management and internal control system of the Group for the year ended 31 December 2017, covering financial, operational and legal compliance controls and risk management system. The Board keeps monitoring the risk management system on an ongoing basis, ensuring a review of the effectiveness of the Group's risk management system is conducted regularly. The Directors consider that the Group has implemented appropriate procedures safeguarding the Group's assets against unauthorised use or misappropriation, maintaining proper accounting records, execution with appropriate authority and compliance of the relevant laws and regulations. In addition, the Board also considered the adequacy of resources, staff qualifications and experience, training programmes and budget of the Group's accounting and internal audit and financial reporting function. For the year ended 31 December 2017, the management has confirmed to the Board that the risk management and internal control systems of the Company are effective and adequate.



## Corporate Governance Report

The Group recognises that good risk management is essential for the long-term development on the Group's business. The management is responsible for establish, implement, review and evaluate the sound and effective internal control system underpinning the risk management framework. All employees are committed to implement the risk management framework into the daily operation.

The internal audit reports ("IA Reports") were issued by the Company to the Audit Committee and the Board for review of the adequacy and effectiveness of the internal audit function. The issues raised in the IA Reports would be addressed and managed promptly by the management, and the Audit Committee and the Board are satisfied that there are adequate risk management and internal control systems in the Company.

### Process used to identify, evaluate and manage significant risks

During the process of risk assessment, the management is responsible for identifying the risk of the Group and deciding on the risk levels and the Board is responsible for assessing and determining the nature and extent of the risks that are acceptable to the Group when achieving its strategic objectives. After discussing and taking into consideration the risk response, the relevant departments and business units shall be assigned to implement the risk management solutions in accordance with their respective roles and responsibilities.

### Procedures and internal controls for the handling and dissemination of inside information

The Group complies with requirements of Securities and Futures Ordinance ("SFO") and the Listing Rules. The Group discloses inside information to the public as soon as reasonably practicable unless the information falls within any of the safe harbours as provided in the SFO. Before the information is fully disclosed to the public, the Group ensures the information is kept strictly confidential. If the Group believes that the necessary degree of confidentiality cannot be maintained or that confidentiality may have been breached, the Group would immediately disclose the information to the public. The Group is committed to ensure that information contained in announcements or circulars are not false or misleading as to a material fact, or false or misleading through the omission of a material fact in view of presenting information in a clear and balanced way, which requires equal disclosure of both positive and negative facts.

## DIRECTORS' CONTINUOUS PROFESSIONAL DEVELOPMENT

All Directors have been given relevant guideline materials regarding the duties and responsibilities of being a Director, the relevant laws and regulations applicable to the Directors, duty of disclosure of interest and business of the Group. And the newly appointed Directors were given an induction after their appointment so as to ensure that they have appropriate understanding of the Group's business and of their duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements.

All Directors confirmed that they have complied with the code provision A.6.5 of the CG Code on Directors' training. All Directors have participated in continuous professional development by reading materials or participating course, seminar and online debriefs regarding taxation, compliance, and global economic development to develop and refresh their knowledge.

## SAFEGUARDING THE INTERESTS OF INDEPENDENT SHAREHOLDERS

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

### DEED OF NON-COMPETITION

The independent non-executive Directors are to review whether or not to pursue any investment or other commercial opportunity referred to the Company by any of the Covenantors under the Deed of Non-competition (to the extent such opportunity arises and is referred by the Covenantors).

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

### CONTINUING CONNECTED TRANSACTIONS

The continuing connected transactions entered into by the Group for the year ended 31 December 2017 were based on normal commercial terms, in the ordinary and usual course of business of the Group and were conducted on a fair and reasonable basis.

The independent non-executive Directors reviewed the terms of the continuing connected transactions entered into by the Group during the year ended 31 December 2017 to ensure that the terms of such transactions were in the best interests of the Company and the Shareholders as a whole.



## Corporate Governance Report

The Company's external auditor, KPMG, reviewed the continuing connected transactions entered into by the Group during the year ended 31 December 2017 and provided a letter to the Board confirming (i) the matters set out in Rule 14A.56 of the Listing Rules; and (ii) that the amounts for the relevant continuing connected transactions have not exceeded the relevant proposed annual caps.

Details of the continuing connected transactions entered into by the Group during the year ended 31 December 2017 are set out on page 22 to 23 of this annual report.

### INVESTOR AND SHAREHOLDERS RELATIONS

The Board recognizes the importance of maintaining clear, timely and effective communication with the Shareholders and the Company's investors. The Board also recognizes that effective communication with the Company's investors is the key to establishing investor confidence and attracting new investors. Therefore, the Group is committed to maintaining a high degree of transparency to ensure that the Company's investors and the Shareholders are receiving accurate, clear, comprehensive and timely information relating to the Group via the publication of annual reports, interim reports, quarterly reports, announcements and circulars on the website of the Stock Exchange, and also via the Company's website at [www.vmeph.com](http://www.vmeph.com).

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

### SHAREHOLDERS' RIGHTS

Shareholders may put forward their proposals or inquiries to the Board by sending their written request to the Company's principal place of business in Hong Kong at 18/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for the attention of the Board.

#### (a) Procedures for Shareholders to convene an extraordinary general meeting ("EGM")

The Board shall, on the requisition in writing of one or more Shareholders holding at the date of deposit of requisition of not less than one-tenth of the paid-up capital of the Company upon which all calls or other sums then due have been paid; and the EGM shall be held within two months after the deposit of such requisition. The written request, stating the objects of the EGM and signed by the Shareholders concerned, should be deposited at the Company's principal place of business in Hong Kong at 18/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong, for the attention of the Board. If within twenty-one days of such deposit the Board fails to proceed to convene the EGM, the requisitionist(s) or any of them representing more than one half of the total voting rights of all of them, may themselves convene a EGM, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

#### (b) Procedures for putting forward proposals at shareholders' meeting

There are no provisions under the Company's articles of association or the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands regarding procedures for Shareholders to put forward proposals at general meetings other than a proposal of a person for election as director. Shareholders may follow the procedures for convening an EGM in putting forward proposals at a general meeting.

Pursuant to Article 88 of the Company's Articles of Association, no person other than a retiring director shall, unless recommended by the Board for election, be eligible for election to the office of director at any general meeting, unless a Shareholder other than the person to be proposed shall have given a notice in writing of the intention to propose that person for election as a Director and also a notice in writing by that person of his willingness to be elected shall have been given to the Company in the period commencing no earlier than the day after the despatch of the notice of the meeting appointed for such election and ending no later than 7 days prior to the date of such meeting, provided that the minimum length of such notice period shall be at least 7 days. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules.

#### (c) Shareholders' enquiries

Shareholders should direct their questions about their shareholdings to the Company's Share Registrar. Shareholders and potential investors of the Company may at any time make a request for the Company's information to the extent that such information is publicly available. Shareholders may also make enquiries to the Board by writing to the Company Secretary, at the Company's principal place of business in Hong Kong at 18/F., Tesbury Centre, 28 Queen's Road East, Wanchai, Hong Kong.

### CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year ended 31 December 2017.



## Directors and Senior Management Profile

The following sets out the profile of the directors of the Company and senior management of the Group as at the date of this annual report.

### DIRECTORS

#### Executive Directors

**Mr. LIU Wu Hsiung (劉武雄)**, aged 53, was appointed as an executive Director and the chairman of the Company on 16 May 2015, he was also appointed as a member of the Remuneration Committee on 20 July 2015. Mr. Liu was a non-executive Director of the Company from November 2007 to January 2012. Mr. Liu joined the Group in 1996 and worked from 1996 to 1999 in the sales department of Vietnam Manufacturing and Export Processing Company Limited ("VMEP"), a major subsidiary of the Company. Prior to joining the Group, Mr. Liu had also worked in various departments of Sanyang Motor Co., Ltd. ("Sanyang", together with its subsidiaries, the "Sanyang Group"), the ultimate holding company of the Company, including strategic planning and overseas market management from 1988 onwards, he became the vice general director of the overseas business division of Sanyang from 2006 to 2009, and the general manager of Sanyang Motor Vietnam Co., Ltd. from 2009 to May 2015. In addition, he has also been a director of various subsidiaries of Sanyang. Mr. Liu has over 25 years of experience in the motor vehicle industry which he has acquired through his work experience and leadership role at the Group and Sanyang. Mr. Liu graduated from Feng Chia University in Taiwan with a bachelor's degree in international trade in 1986. He also holds a master's degree in business administration from the National Cheng Chi University in Taiwan and an executive master degree in business administration (EMBA) from the National Taiwan University respectively.

**Mr. LU Tien Fu (呂天福)**, aged 51, was appointed as an executive Director in October 2014 and the chief executive officer of the Company in July 2015. Mr. Lu first joined the Group in 1998 up to 2006 and worked in the product development and purchasing development departments of VMEP. He was an assistant vice president in the research development and purchase division of VMEP from 2009 and 2011 until he re-joined Sanyang Group. Mr. Lu joined Sanyang Group from 2006 to 2009 and 2011 to 2014 and worked in the design office, product development department and motor product division respectively. Mr. Lu has over 20 years of experience in the motor vehicle industry which he has acquired through his work experience and leadership role at the Group and Sanyang Group. He graduated from the National Taipei University of Technology, Taiwan with an associate degree of mechanical engineering in 1988.

**Mr. LIN Chun Yu (林俊宇)**, aged 43, was appointed as an Executive Director of the Company in April 2016. Mr. Lin has over 20 years of experience in the audit and finance field and has held senior financial and administration management positions in various companies. Mr. Lin joined the Group in June 2015, and is currently the chief financial officer of the Company and the head of the finance department of various subsidiaries of the Group, including VMEP, Vietnam Casting Forge Precision Limited ("VCFP") and Duc Phat Molds Inc. ("Duc Phat"). Before joining the Group in June 2015, he was the finance manager of Sanyang Motor Vietnam Co., Ltd., a subsidiary of Sanyang Motor Co., Ltd. which is the ultimate holding company of the Group, from 2010 to 2015. Mr. Lin graduated from the Fu Jen Catholic University in Taiwan with a bachelor degree in accounting in 1997.

#### Non-executive Directors

**Mr. CHIU Ying Feng (邱穎峰)**, aged 57, was appointed as a non-executive Director in January 2012. Mr. Chiu has joined Sanyang Group since July 1987 and he is currently the deputy vice president of the research and development division of Sanyang. He was mainly responsible for product research and development and has served as a senior officer or manager in the research and developments, and product planning divisions of Sanyang. Mr. Chiu has over 30 years of experience in the motor vehicle industry which was acquired through his work experience at Sanyang Group. He graduated from National Taiwan University with a bachelor's degree in mechanical engineering in 1987.

**Ms. WU Li Chu (吳麗珠)**, aged 52, was appointed as an Executive Director of the Company in August 2015 and re-designated as a Non-executive Director on 27 June 2016. She is currently the vice chairman of Sanyang and a director of various subsidiaries of Sanyang. She has also worked as the finance manager at Jiou Ding Construction Co., Ltd., and finance and administration officer at Ying Cheng Construction Co., Ltd. Ms. Wu has over 25 years of experience in finance, administration and management by holding various positions in companies in the construction and manufacturing industry in Taiwan.



## Directors and Senior Management Profile

### Independent non-executive Directors

**Ms. LIN Ching Ching (林青青)**, aged 53, was appointed as an independent non-executive Director in November 2007. Ms. Lin is the chairman of the Audit Committee and the Remuneration Committee. Ms. Lin has over 25 years of experience in the finance industry and has held senior financial management positions in various companies, including Deloitte & Touche, Corporate Finance Co., Ltd. and Citibank, N.A., Taipei. She graduated from Eastern Michigan University with a master's degree in business administration in 1991 and graduated from Fu Jen Catholic University in Taiwan with a bachelor's degree in accounting in 1987.

**Mr. SHEN Hwa Rong (沈華榮)**, aged 68, was appointed as our independent non-executive Director and a member of the Audit Committee in August 2011. Mr. Shen is currently the president of Environmental Management Accounting Network-Taiwan and a director of China Productivity Center Foundation in Taiwan. Mr. Shen has over 35 years of teaching and working experience with different universities, governmental and commercial sector. He graduated from the Shoochow University in Taiwan with a bachelor's degree in business administration in 1972, He also obtained a master's degree in business administration from the University of Central Oklahoma in the United States in 1980 and a doctorate degree in business administration from the National Chiao Tung University in Taiwan in 1992.

**Ms. WU Kwei Mei (吳貴美)**, aged 74, was appointed as an independent non-executive Director in August 2013, and she is also a member of the Remuneration Committee and the Audit Committee. Prior to joining the Group, Ms. Wu worked in the Department of Mathematics at the National Taiwan University as an associate professor and an instructor from 1972 to 2009. She received a bachelor's degree in Mathematics from the National Taiwan University in 1965 and a master's degree in Mathematics from the University of New Orleans in the United States in 1967.

### SENIOR MANAGEMENT

**Mr. TSAI Yu Tsai (蔡有財)**, age 60, is a director and general director of Duc Phat. Mr. Tsai joined the Group in 1999 and has over 35 years of experience in the production of motorbikes. He graduated from the Kai Nan High School of Commerce and Industry in Taiwan with a degree in mechanical engineering in 1973.

**Mr. TSENG Chih Kunchen (曾支昆)**, aged 54, is an executive vice president of VCFP. Mr. Tseng joined the Group in May 2016 and has over 25 years of experience in the production of motorbikes. He graduated from the National Taipei University of Technology with a bachelor's degree in mining and metallurgy in 1984.

**Mr. TSENG Kuo Lung (曾國龍)**, aged 54, is the deputy vice president of northern area marketing division of VMEP. Mr. Tseng joined the Group in July 2015 and has over 20 years of experience in the marketing and sale of motorbikes. He graduated from Fu Hsin Trade & Arts School in Taiwan in 1982.

**Mr. TSENG Chung Chao (曾仲兆)**, aged 54, is the deputy vice president of central area marketing division of VMEP. Mr. Tseng joined the Group in August 2016 and has over 25 years of experience in the marketing and sale of motorbikes. He graduated from the Chung Yuan Christian University, Taiwan with a bachelor's degree of mechanical engineering in 1986.

**Mr. WU Chuan Te (吳權特)**, aged 55, is the head of the production division of VMEP and also a director of Duc Phat and VCFP. Mr. Wu joined the Group in 2014 and has over 30 years of experience in the motorbike industry. He obtained an associate degree in industrial engineering and management from Minghsin University of Science and Technology in Taiwan in 2004.

**Mr. YEH Yung Pao (葉永波)**, aged 60, is the deputy vice president of research department of VMEP. Mr. Yeh joined the Group in February 2017 and has over 30 years of experience in the research of motorbikes. He graduated from the National Kaohsiung Institute of Technology in Taiwan with a degree in mechanical in 1977.

Details of directors' remunerations are set out in note 8 to the financial statements. Remunerations of senior management per above were within the range of nil to HK\$1 million, please also referred to note 9 to the financial statements.



## Directors' Report

The Directors present their report and the audited financial statements of the Company and the Group for the year ended 31 December 2017.

### DIRECTORS

The Directors of the Company for the year ended 31 December 2017 and up to the date of this annual report were:

#### Executive Directors

Mr. Liu Wu Hsiung (*Chairman*)

Mr. Lu Tien Fu (*Chief Executive Officer*)

Mr. Lin Chun Yu

Mr. Huang Kwang Wuu \* (appointed on 10 August 2017; resigned on 21 December 2017)

Mr. Chou Ken Yuan \*\* (resigned on 10 August 2017)

#### Non-executive Directors

Ms. Wu Li Chu

Mr. Chiu Ying Feng

#### Independent Non-executive Directors

Ms. Lin Ching Ching

Mr. Shen Hwa Rong

Ms. Wu Kwei Mei

\* Mr. Huang Kwang Wuu has resigned as an executive director of the Company with effect from 21 December 2017 to devote more time to his personal endeavours.

\*\* Mr. Chou Ken Yuan has resigned as an executive director of the Company with effect from 10 August 2017 to devote more time to his personal endeavours.

### PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company is an investment holding company. Details of the principal activities of the subsidiaries of the Company are manufacturing and sale of motorbikes, related spare parts and engines and provision of motorbike maintenance services. There were no significant changes in the nature of the Group's principal activities for the year ended 31 December 2017.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance can be found in the Management Discussion and Analysis set out on pages 4 to 7 of this annual report. This discussion forms part of this directors' report.

### RESULTS AND DIVIDENDS

The Group's result for the year ended 31 December 2017 and the financial position of the Group as at that date are set out in the financial statements on pages 39 to 90 of this annual report. The Board does not recommend the payment of a final dividend for the year ended 31 December 2017.

### FINANCIAL SUMMARY

A financial summary of the results and the financial position of the Group for the last five financial years is set out on page 3 on this annual report.

### PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in note 11 to the financial statements.

### BANK LOANS

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

### SHARE CAPITAL

Details of movements in the Group's registered and issued share capital for the year ended 31 December 2017 are set out in note 23 to the financial statements.



## Directors' Report

### PRE-EMPTIVE RIGHTS

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

### PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities for the year ended 31 December 2017.

### RESERVES

Details of movements in the reserves of the Company and the Group for the year ended 31 December 2017 are set out in note 23 to the financial statements and in the consolidated statement of changes in equity, respectively. The Company's reserves available for distribution to Shareholders as at 31 December 2017 was US\$118,177,542.

### MAJOR CUSTOMERS AND SUPPLIERS

The five largest customers and suppliers of the Group for the year ended 31 December 2017 contributed to less than 50% of the total operating revenues and purchases, respectively, of the Group.

The major customers are private companies incorporated in Vietnam, Malaysia and Philippines. They have been the major customers of the Group from 2007 to 2017 in general. The Group generally offers no credit terms to domestic major customers. Overseas major customers are generally granted credit terms ranging from 30 days to 90 days and they are in line with those granted to other customers. As the Group maintains strict credit controls on its customers in order to protect the interest of the Group and its stakeholders, it considers that the risks associated with reliance on these major customers in the Group's business are minimal.

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

### RELATIONSHIP WITH SUPPLIERS AND CUSTOMERS

The Group has maintained close relationships with a number of suppliers and takes great care to ensure that they share the Group's commitment on quality and ethics. The Group carefully selects and requires the suppliers to satisfy certain assessment criteria including, experience, reputation, ability to produce high-quality products and quality control effectiveness.

The Group is committed to offer a wide range of motorbikes models and motorbike engines and parts to its customers. The Group has also been aiming to provide quality services to its clients in order to maintain continuous relationship. The Group stays connected with its customers. The Group maintains communications with its customers through various channels like the Company's website, telephone, direct mail and marketing materials.

### RELATIONSHIP WITH EMPLOYEES

The Group understands that employees are valuable assets to the Group and on which the Group's success depends. The Group provides competitive remuneration packages to attract and motivate the employees. The Group regularly reviews the remuneration packages of employees and makes necessary adjustments to conform with the market standard. The Group also places emphasis on the training and development of staff. In particular, the Group focuses on the training of management and key personnel to develop their management and decision-making abilities to enhance their work performance.

### RETIREMENT BENEFITS SCHEMES

Details of the retirement benefits schemes participated by the Group are set out in note 6(b) to the consolidated financial statements.

### DONATIONS

For the year ended 31 December 2017, the Group made charitable and other donations amounted to about 1.3 billion Vietnamese Dong (equivalent to approximately US\$59,300).



## Directors' Report

### COMPLIANCE WITH LAWS AND REGULATIONS

During the year ended 31 December 2017, as far as the Company is aware, there is no material breach of or non-compliance with applicable laws and regulations by the Group which has a significant impact on its business and operations.

### RETIREMENT OF DIRECTORS

Pursuant to article 87 of the articles of association of the Company, one third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation at each annual general meeting provided that every Director shall be subject to retirement at an annual general meeting at least once every three years. Further, article 86(3) of the articles of association of the Company, provides that any Director appointed by the Board to fill a casual vacancy shall hold office until the first general meeting of Shareholders after his appointment and be subject to re-election at such meeting and any Director appointed by the Board as an addition to the existing Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election.

Accordingly, Mr. Lin Chun Yu, Ms. Wu Li Chu and Ms. Lin Ching Ching shall retire by rotation and being eligible, have offered themselves for re-election as Directors at the forthcoming annual general meeting.

### DIRECTORS AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

### DIRECTORS' SERVICE CONTRACTS

Each of the executive, non-executive, and independent non-executive Directors has entered into a service contract with the Company. None of the Directors have entered into any service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

### DIRECTORS' REMUNERATION

The Directors' remuneration is determined by the Board with reference to the Company's operating results, individual performance and comparable market statistics. Details of the Directors' remuneration are set out in note 8 to the financial statements.

### DIRECTORS' AND CONTROLLING SHAREHOLDERS' INTERESTS IN CONTRACTS

Details of the connected transactions and the related party transactions during the financial year ended 31 December 2017 are set out on page 22 and page 23 of this annual report respectively. Save as disclosed in this report, none of the Directors or any entity connected with the Directors or controlling shareholders of the Company or its subsidiaries had a material interest, either directly or indirectly, in any transactions, arrangements and contract of significance to the business of the Group to which the Company, or any of the subsidiaries of the Company, or any of the Company's holding companies, or any of the subsidiaries of such holding companies, was a party, which subsisted at the end of the year or at any time during the year.

### DIRECTORS' RIGHTS TO ACQUIRE SHARES

For the year ended 31 December 2017 no 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 Director or their respective spouses or minor children aged under 18, 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.

### SHARE OPTION SCHEME

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. Set out below is a summary of share option scheme ("share option scheme" or "scheme").

#### (a) Participants of the scheme

The Board may at its discretion grant options to: (i) any executive Director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest (the "Invested Entity"); (ii) any non-executive Director (including independent non-executive Directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the Board has contributed or will contribute to the Group (collectively the "Qualified Participants").



## Directors' Report

**(b) Purpose of the scheme**

The share option scheme seeks to provide an incentive for Qualified Participants to work with commitment towards enhancing the value of the Company and its shares for the benefit of its Shareholders as a whole.

**(c) Grant of option**

An offer of the grant of an option shall be made to a Qualified Participant by letter (the "Offer Letter") in such form as the Board may from time to time determine, requiring the Qualified Participant to undertake to hold the option on the terms on which it is to be granted and to be bound by the provisions of the share option scheme (including any operational rules made under the share option scheme). The offer shall remain open for acceptance for a period of five business days from the date on which it is made. Unless otherwise determined by the Board and stated in the Offer Letter, there shall be no general performance target for the vesting or exercise of options.

An option shall be deemed to have been granted to (subject to certain restrictions in the share option scheme), and accepted by, the Qualified Participant (the "Grantee") and to have taken effect upon the issue of an option certificate after the duplicate letter comprising acceptance of the option duly signed by the Grantee together with a remittance in favour of the Company of HK\$1.00 by way of consideration for the grant of the option shall have been received by the Company on or before the last day for acceptance set out above. The remittance is not in any circumstances refundable. Once accepted, the option is granted as from the date on which it was offered to the relevant Grantee.

**(d) Subscription price**

The price per share at which a Grantee may subscribe for shares upon exercise of an option (the "Subscription Price") shall, subject to any adjustment, be a price determined by the Board but in any event shall be at least the highest of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheets on the date on which the option is offered (the "Offer Date"); (ii) the average of the closing prices of the shares as stated in the Stock Exchange's daily quotation sheets for the five business days immediately preceding the Offer Date; and (iii) the nominal value of the shares.

**(e) Maximum number of shares**

The maximum number of shares in respect of which options may be granted under the share option scheme and any other share option schemes of the Company shall not in aggregate exceed 90,768,000 shares (representing 10% of the issued shares as at the date of this annual report), being the number of shares that shall represent 10% of the total number of shares in issue as of the Company's listing date.

**(f) Maximum entitlement of each Qualified Participant**

Unless approved by Shareholders in general meeting in the manner prescribed in the Listing Rules, the Board shall not grant options to any Qualified Participant if the acceptance of those options would result in the total number of shares issued and to be issued to that Qualified Participant on exercise of his options during any 12 month period exceeding 1% of the total shares then in issue.

**(g) Timing for exercise of options**

The period during which an option may be exercised in accordance with the terms of the share option scheme shall be a period of time to be notified by the Board to each Grantee, which the Board may in its absolute discretion determine, save that such period shall not be more than 10 years commencing on the Offer Date.

**(h) Life of the scheme**

The share option scheme shall be valid and effective for 10 years from the date on which the share option scheme becomes unconditional, after which time no further option will be granted but the provisions of the share option scheme shall remain in full force and effect in all other respects.

The Board has not granted or cancelled any share options under the share option scheme for the year ended 31 December 2017 and no share options was outstanding as at 31 December 2017. The share option scheme expired on 23 November 2017 and no further options could be granted under the share option scheme therefor.



## Directors' Report

### INTERESTS AND SHORT POSITIONS OF DIRECTORS AND CHIEF EXECUTIVE OF THE COMPANY IN SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ITS ASSOCIATED CORPORATION

As at 31 December 2017, the interests and short positions of the Directors and chief executive of the Company in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO, which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interests and short position in accordance with such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register kept by the Company referred to therein, or which were required, pursuant to the Model Code to be notified to the Company and the Stock Exchange were as follows.

#### Interests and short positions in the shares of Sanyang Motor Company Limited

Name of Directors	Types of Shares	Capacity	Number of Shares held (shares)	Approximate percentage of total share capital (%)
Mr. Liu Wu Hsiung	Ordinary Shares	Beneficial Owner	111,380 (L)	0.01%
Mr. Lu Tien Fu	Ordinary Shares	Beneficial Owner	8,098 (L)	0.00%
Mr. Chiu Ying Feng	Ordinary Shares	Beneficial Owner	18,412 (L)	0.00%
Ms. Wu Li Chu	Ordinary Shares	Beneficial Owner	17,046,560 (L)	1.93%

(L) – Long position

Save as disclosed above, as at 31 December 2017, so far as is known to the Directors, none of the Directors or chief executive of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including those taken or deemed as their interest and short position in accordance with such provisions of the SFO), or which were required, pursuant to section 352 of the SFO, to be entered in the register kept by the Company referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.



## Directors' Report

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

As of 31 December 2017, so far as known to the Company after reasonable enquiry, the following persons (other than the Directors or chief executive of the Company) had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO and has been entered in the register kept by the Company according to Section 336 of the SFO:

Name of Substantial Shareholders	Types of Shares	Capacity	Number of Shares/ underlying shares held (shares)	Approximate percentage of total share capital (%)
Sanyang Motor Company Limited	Ordinary Shares	Interest in controlled corporation	608,818,000 (L)	67.07%
SY International Ltd. <sup>1</sup>	Ordinary Shares	Beneficial owner	608,818,000 (L)	67.07%

(L) – Long position

Note:

1. SYI International Ltd. is a direct wholly-owned subsidiary of Sanyang Motor Company Limited and therefore Sanyang Motor Company Limited is deemed to be interested in the shares of the Company held by SYI International Ltd. under Part XV of the SFO.

Save as disclosed above, as at 31 December 2017, the Directors are not aware of any other person (other than Directors or chief executive of the Company) have an interest or short position in the Shares or underlying shares of the Company which would fall to be disclosed to the Company pursuant to Division 2 and 3 of Part XV of the SFO, or as recorded in the register required to be kept by the Company under section 336 of the SFO.

### DIRECTORS' INTERESTS IN COMPETING BUSINESSES

During the year and up to the date of this report, none of the Directors has any interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group.

### PRINCIPAL RISKS AND UNCERTAINTIES FACING THE GROUP

The Group recognizes the importance of risk management practices. Thus, it endeavors its best to mitigate its exposure to operating and financial risks in an effective and efficient manner.

The principal risks, challenges and uncertainties faced by the Group include: (1) keen competition among peers. The motorbike industry in Vietnam is highly competitive and the market is dominated by the two leading players, which create a challenging operating environment for the Group; and (2) variations in governmental regulations. The Group incurs increased costs in compliance with the more stringent regulations regarding safety, emission and discharge imposed on the motorbike industry in ASEAN countries.

The financial risk management objectives and policies of the Group can be found in note 24 to the consolidated financial statements.



## Directors' Report

### CONTINUING CONNECTED TRANSACTIONS

The Group's related parties transactions for the year ended 31 December 2017 set out in note 26 to the consolidated financial statements constitute continuing connected transactions as defined in chapter 14A of the Listing Rules and the Company has complied with the disclosure requirements in chapter 14A of the Listing Rules.

Details of the continuing connected transactions of the Group with Sanyang (an indirect substantial Shareholder of the Company) and the Sanyang Group are as follows:

#### Continuing connected transactions which are subject to the reporting, announcement requirements and independent Shareholders' approval requirements

	2017 US\$	2016 US\$
Master Purchase Agreement <sup>1</sup>	7,918,868	13,095,848
Distributorship Agreement <sup>2</sup>	1,287,226	4,079,870
Technology Licence Agreement <sup>3</sup>	934,865	3,224,785
Research and Development Agreement <sup>4</sup>	729,634	1,007,769

#### Notes:

- On 8 December 2015, the Group and the Sanyang Group entered into the Master Purchase Agreement in relation to purchase of motorbike parts by the Group from members of the Sanyang Group. In accordance with the Master Purchase Agreement, the annual cap shall be US\$20,600,000, US\$32,830,000 and US\$42,430,000 in 2016, 2017 and 2018 respectively. Details of the Master Purchase Agreement were set out in the circular of the Company dated 28 January 2016 (the "2016 Circular").
- On 8 December 2015, the Group and the Sanyang Group entered into the Distributorship Agreement in relation to the Group as the exclusive distributor of motorbikes and related parts manufactured by Sanyang Group in all of the member countries of the Association of South East Asian Nations (excluding Vietnam, unless the motorbikes are resold in Vietnam for exhibition purposes). In accordance with the Master Purchase Agreement, the annual cap for each of the three years ended 31 December 2016, 2017 and 2018, is US\$10,000,000. Details of the Distributorship Agreement were set out in the 2016 Circular of the Company.
- On 26 November 2007, VMEP, a subsidiary of the Group and the Sanyang entered into the Technology Licence Agreement in relation to license of technology, know-how, trade secrets and production information by Sanyang to VMEP. In accordance with the Technology Licence Agreement, the annual cap shall be US\$4,410,000, US\$4,970,000 and US\$5,680,000 in 2016, 2017 and 2018 respectively. Details of the Technology Licence Agreement were set out in the 2016 Circular of the Company.
- On 8 December 2015, the Group and the Sanyang Group entered into the Research and Development Agreement in relation to provision of research and development and technical support services by Sanyang Group to the Group. In accordance with the Research and Development Agreement, the annual cap shall be US\$4,320,000, US\$4,860,000 and US\$4,910,000 in 2016, 2017 and 2018 respectively. Details of the Research and Development Agreement were set out in the 2016 Circular of the Company.



## Directors' Report

### Continuing connected transactions which are subject to the reporting and announcement requirements but exempt from independent Shareholders' approval requirement

	2017 US\$	2016 US\$
Production Machinery, Moulds and Equipment Purchase Agreement <sup>1</sup>	871,181	2,007,426
Parts Sales Agreement <sup>2</sup>	689,793	510,904
MIO Manufacture Agreement – Manufacturing and assembly the MIO Motorbikes <sup>3</sup>	1,701,000	–
MIO Manufacture Agreement – Sourcing of MIO parts <sup>3</sup>	1,449,000	–

#### Notes:

- On 8 December 2015, the Group and the Sanyang Group entered into the Production Machinery, Moulds and Equipment Purchase Agreement in relation to purchase of production machinery, moulds and equipment by the Group from Sanyang Group. In accordance with such purchase agreement, the annual cap shall be US\$2,010,000, US\$2,300,000 and US\$2,340,000 in 2016, 2017 and 2018 respectively. Details of the Production Machinery, Moulds and Equipment Purchase Agreement were set out in the Company's announcement dated 8 December 2015.
- On 8 December 2015, the Group and the Sanyang Group entered into the Parts Sales Agreement in relation to sale of motorbike parts by the Group to Sanyang Group. On 30 December 2016 and 8 December 2017, the original annual caps were revised in an amount of US\$550,000, US\$700,000 and US\$750,000 in 2016, 2017 and 2018 respectively. Details of the Parts Sales Agreement were set out in the Company's announcement dated 30 December 2016 and 8 December 2017.
- On 19 January 2017, the Group and Sanyang Group entered into the MIO Manufacture Agreement in relation to (i) the provision of manufacturing and assembly services of the motorbike model named MIO by the Group to the Sanyang Group; and (ii) the sale of relevant motorbike parts by the Sanyang Group to the Group. In accordance with the manufacturing and assembly the MIO Motorbikes under the MIO Manufacture Agreement, the annual cap shall be US\$1,701,000 in 2017 and 2018. In accordance with the sourcing of MIO parts under the MIO Manufacture Agreement, the annual cap shall be US\$1,450,000 in 2017 and 2018. Details of the MIO Manufacture Agreement were set out in the Company's announcement dated 19 January 2017.

The continuing connected transactions disclosed above complied with the reporting, announcement and annual review requirements and are exempt from the independent shareholders' approval requirements (as the case may be) under Chapter 14A of the Listing Rules.

For the financial year ended 31 December 2017, the actual transaction amount for each of the abovementioned continuing connected transactions has not exceeded the respective annual cap of the relevant transactions as approved by the Board or the independent Shareholders (as the case may be).

The independent non-executive Directors have reviewed the above continuing connected transactions in accordance with Rule 14A.55 of the Listing Rules, and confirmed that the transactions have been entered into:

- in the ordinary and usual course of business of the Group;
- on normal commercial terms or on terms no less favourable than terms available to or from independent third parties; and
- in accordance with the relevant agreements governing such transactions on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

The Company's auditor was engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Company's auditor has issued their unqualified letter containing the auditor's findings and conclusions in respect of the continuing connected transactions disclosed by the Group on pages 22 to 23 of this annual report in accordance with Rule 14A.56 of the Listing Rules. A copy of the auditor's letter has been provided by the Company to the Stock Exchange.

Save as disclosed above, none of the related party transactions as disclosed in note 26 to the consolidated financial statements of the Group falls under the definition of connected transaction or constituted continuing connected transactions under the Listing Rules which are required to be disclosed in this annual report in accordance with Chapter 14A of the Listing Rules.

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



## Directors' Report

### SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within knowledge of the Directors, the Company has maintained a sufficient public float as required under the Listing Rules as at the date of this report.

### INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the directors of the Company is currently in force and was in force throughout this financial year.

### MANAGEMENT CONTRACTS

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

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

For the year ended 31 December 2017, the Group had no material acquisition or disposal of subsidiaries and associated companies.

### ENVIRONMENTAL, SOCIAL AND GOVERNANCE

The Group is committed to contributing to the sustainability of the environment and maintaining a high standard of corporate social governance essential for creating a framework for motivating staff, and contributes to the community in which we conduct our businesses and creating a sustainable return to the Group. Information on the environmental and social responsibility of the Group is set out in the "Environmental, Social and Governance Report" on pages 25 to 34 of this annual report.

### AUDITOR

KPMG retire and, being eligible, offer themselves for re-appointment. A resolution for re-appointment of KPMG as auditor of the Company will be proposed at the forthcoming annual general meeting. No change in auditor within the last three years.

On behalf of the Board  
**Liu Wu Hsiung**  
*Chairman*

Hong Kong, 26 March 2018



# Environmental, Social and Governance Report

## ABOUT THIS REPORT

This report is prepared with reference to the “Environmental, Social and Governance (“ESG”) Reporting Guide” under Appendix 27 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”) (the “Listing Rules”).

The scope of this report covers management policies, commitments, managerial guidelines, compliance with laws and regulations in respect of the environment, social and governance for the Group’s major operational locations in Vietnam, including mainly the headquarter and a production plant in Dong Nai Province and a production plant in Ha Tay Province, as well as some key projects and measures implemented for the year. Those for the subsidiaries are not included in this report since revenues of the subsidiaries account for only minor portion of the Company’s operating revenue.

## ESG RISKS AND OPPORTUNITIES

In addition to risks associated with the consumer market and the economy, the Group was also confronted with some risks associated with the environment and the community. First, Vietnam is tightening up its air pollution emission standards for vehicles and motorbikes. Besides, owing to accelerating urbanization and social transition of Vietnam in the past 20 years, the Group’s production plants in Dong Nai Province and Ha Tay Province were forced to move to industrial zones designated by the government in succession. Vietnam is also making its labor-related laws and regulations governing salary, labor conditions and so forth stricter, couple with a rise in the statutory minimum wage year by year. Such changes in the above mentioned decrees and norms may directly cause an increase in our production and technology costs.

On the other hand, in light of issues such as traffic congestion and air pollution, Ho Chi Minh City and some other first-tier cities may impose restrictions on the number of vehicles in future, dealing a blow to the consumer market of the motorbike industry. Along with the heightened consciousness of labor rights in recent years, labor strikes nowadays have also been affecting the day-to-day operations in some industries.

Confronted with such market and regulatory risks, the Group, on the one hand, keeps itself abreast of changes in laws and regulations, learns from the experience and the technology of Sanyang Motor Co., Ltd., (“Sanyang”) the Company’s ultimate holding company, and adapts itself to the tightening standards and norms of environmental protection and labor affairs, while on the other, embarks on planning for the removal of its plants with an aim to complete the removal smoothly without prejudice to production. Moreover, the Group upholds the principle of “creating a harmonic, comfortable and safe workplace” to provide salaries and benefits surpassing legally required and bring to the staff a stable work and life, such that the labor relations are in harmony with no occurrence of labor strike so far.

As to restrictions on the urban consumer market, the Group would address such external challenges by persisting in strategies in relation to enhancement of operational achievement, stringent control over costs and expenses, continued innovation of R&D technologies and expansion into overseas markets. What is more, it would make more efforts in expanding rural and overseas markets and in adapting to the consumer trend in respect of environmental protection by continued research and development (“R&D”) and launch of environmental protection vehicles and electric cars to enrich offerings to consumers.

## 1. ENVIRONMENTAL PROTECTION AND SAFETY

### Environmental Protection and Safety Management System

The Group complies with requirements of the ISO14001 Environment Management System to establish a complete environment management system and pass its certification, so as to ascertain supervision and measurement over its daily operation execute internal audit and propose correction and precaution measures, set targets for continued improvement and ensure satisfaction of environmental protection policies and targets as scheduled.

With regard to management of occupational safety and hygiene, the 5S Management System comprising SEIRI, SEITON, SEISO, SEIKETSU and SAFETY is implemented in full to upgrade product quality, promote work-related safety and hygiene, ensuring physical and mental health of the staff to reduce occurrence of occupational diseases and disasters.



## Environmental, Social and Governance Report

The Group has a Safety and Hygiene committee in place to review environment and labor safety policies and their achievement performance, and to promote continued improvement of the same. The safety and hygiene committee has the general manager acted as its chairman with the manager of the Administration Department and the representative(s) from the Environment and Safety Division under the General Affairs Department been delegated with the responsibility for overall planning and coordination, execution and tracing of relevant policies and resolutions. Committee members are comprised of representatives from the labor and the management to ensure a smooth communication between the two parties and serve the purpose of accomplishing the objectives of preventing occupational disasters and safeguarding labor safety and health.

The Group's management policies measures in respect of environment and safety issues are detailed in Section 1.1–1.4 below.

Structure of the Safety and Hygiene Committee



### 1.1. Air Pollutants

Volatile Organic Compound (VOC) wasted gases generated in the process of plastics coating are the gravest and the most potentially hazardous air pollutants during the daily operation of the Group. The wasted gases from the coating process if not completely gathered and treated, may cause pollution to the Group internally or to the surrounding environment, or even spread further to causing pollution to the whole district while endangering the health of our front-line staffs and that of residents in the vicinity.

To prevent the wasted gases from the coating process from leaking outside, the Group has installed air filters for the operational environment of the two plant zones in Dong Nai and Ha Tay with the wasted gases absorbed by water curtains and the paint residues properly retrieved and handed over to qualified contractors for treatment. The Group aggregates monthly usage as reported by each coating using unit, compile statistics for VOC content of the same and report quarterly to the Environmental Protection Bureau according to law for payment of the prevention fee for air pollution. Such payment information is filed with the Materials Department as reference for procurement of coatings, in the hope of choosing more environmental friendly and safer materials in a cost saving manner to reduce emission of wasted gases.

Besides, the Group has instituted contingency measures for the handling of notification of poor air quality, under which all implementation units must halt their outdoor operations upon receipt of such notification as stipulated. The Group would equally require the construction units to report their air pollution fee as stipulated and set up necessary air pollution precaution measures such as signing, fencing, capping, water spraying and the like.



## Environmental, Social and Governance Report

To effectively bring emission of wasted gases under control, the Group has drawn up an annual inspection plan, under which regular inspections are conducted quarterly on items like Toluene, a wasted gas from the coating process, ashes (or smoke concentration), etc., and an assessment report is prepared according to findings of the inspections as a basis for improvement of quality of emission of wasted gases. The inspection findings for 2017 all conformed to national standards and relevant laws and regulations. For the year ended 31 December 2017, the Group reported no significant non-compliance matter related to air pollution.

The Group strives to reduce the emission of VOC. According to the data collected by the Group, its VOC emission decreased 44% from 2016.

Further detailed data of greenhouse gas emissions is as follows:

	<b>Emissions</b>	<b>Intensity</b>
CO <sub>2</sub> (kg)	10,908,180	78.98
SO <sub>2</sub> (kg)	7,955	0.06
NO <sub>x</sub> (kg)	90,747	0.66
VOC (kg)	28,282	0.20

### 1.2. Wastes and Wasted water

#### 1.2.1. Management of wastes

Hazardous wastes generated in the course of operation of the Group can be classified into several major categories, namely paint residues, sludge, wasted oils and wasted cloths. The hazardous waste production decreased from 1,088,150 kilogram in 2016 to 862,694 kilogram in 2017.

The Group's management of wastes is carried out in accordance with the principle of "reducing emissions while recycling the recyclable", and the dumping and storage of hazardous wastes are monitored by security guards or personnel from the Environment and Safety Division under the General Affairs Department. Meanwhile, the Group continues to promote source separation of wastes by all departments so as to reduce emissions and thus pollution through complete source separation.

The Group's production plants all have reported to competent authorities and obtained emission permits from their respective local Environmental Protection Office in the sense that all hazardous wastes conform to environmental protection and related laws and regulations and handed over to qualified contractor(s) for recycling treatment. Directed against reduction and management of paint residues, the Company would implement reinforced management of material requisition and quantitative painting standards, and ensure proper outsourced treatment of paint residues after allowing them to stay stationary for some time.

As for ordinary domestic refuse, the principle of recycling and separation for centralized treatment is applied equally to reduce wastage and elevate recycling rate. In 2017, the Group reported no significant non-compliance matter related to disposal of wastes.

Further detailed data of hazardous waste is as follows:

	<b>Emissions</b>	<b>Intensity</b>
Hazardous waste (kg)	351,696	2.55
Non-hazardous waste (kg)	510,998	3.70
<b>Total (kg)</b>	<b>862,694</b>	<b>6.25</b>



## Environmental, Social and Governance Report

### 1.2.2. Management of Wasted Water

The Group's plant in Dong Nai Province is located at District 5, Phường Tam Hiệp of Thành phố Biên Hòa, part of the drainage area of the Dong Nai River, the water source serving the population of Thành phố Biên Hòa and Ho Chi Minh City; the Group's plant in Ha Tay Province is located at Le Trong Tan, La Khê of Quận Hà Đông, part of the drainage area of the Hanoi River, the water source serving the population of Quận Hà Đông and the whole Hanoi City. Given that the wasted water emitted from the two plants is of significant concerns as to the health and the safety of residents there, industrial wasted water emitted from the Group's plants is subject to stringent regulation by respective governments that the sewage emitted must tally with national standards.

The Group's two plants are both equipped with sound wasted water treatment systems. Wasted water generated in the course of manufacturing processes would be collected and treated centrally, and emitted only after processes like concentration blending, precipitating, bio-treatment, suspension filtering and debugging, in order to ensure compliance with national emission standards.

The Group sets targets for its sewage emission annually and maintains a 24-hour surveillance over the water quality of the wasted water emitted, which covers items like Biochemical Oxygen Demand (BOD), Chemical Oxygen Demand (COD), Suspended Solids (SS), etc. Local Environmental Protection Offices would conduct regular examinations on the water quality of the wasted water emitted. In 2017, the wasted water emitted from our two plant zones all conformed to national standards and relevant laws and regulations, and the Group reported no significant non-compliance matter related to emission of wasted water.

### 1.3. Energy Saving and Water Saving Measures

Primary energy and resources used in the course of production of the Group involve electricity, gasoline, diesel fuel, natural gas, tap water and underground water.

The Group's Environment and Safety Division under the General Affairs Department is dedicated to planning, launching and overseeing various energy saving and water saving programs. The Group manages electricity used in production systems and electricity used by indirect units separately, proposes and implements improvement programs in connection with work characteristics. In the aspect of manufacturing process, targets are set for continued enhancement of efficiency energy and resource use and reduction of resource wastage; in the aspect of office administration, targets are set for improvement of energy saving directed against air-conditioning and lighting for public areas.

The Group makes efforts in reducing energy consumption through improving system design, adopting efficient equipment and cycling use and other measures. The personnel from the Environment and Safety Division under the General Affairs Department would conduct regular checks on pipelines or piping to detect ruptures or leakages (if any) of water and have them mended timely.

On the other hand, by verified accessing every month and every time-interval and compiling statistics incorporating usage of energy, water and all other forms of energy and resources, the Group is able to trace use conditions and spot anomalies and embark on improvement and conservation accordingly. Besides, the Group keeps on propagandizing to staffs the concept of getting resources and economizing to augment control over use of resources.

Further detailed data of energy consumption and consumption of resources is as follows:

Item	Detail	Emissions	Intensity
Gasoline	Diesel fuel (liter)	597,855	4.33
	Gasoline (liter)	10,348	0.07
Electricity	Electricity (Kwh)	12,683,615	91.84
Gas	Liquefied Petroleum Gas (Kg)	74,541	0.54
Water	Tap water (m <sup>3</sup> )	139,911	1.01
	Underground water (m <sup>3</sup> )	13,203	0.10
Packaging Material	Paper (kg)	455,804	3.29
	Packaging film (kg)	30,232	0.22



## Environmental, Social and Governance Report

### 1.4. Occupational Health and Safety

The Group's prime consideration of occupational health and safety pivots on the potential safety and health injuries that our frontline staffs may suffer in their daily work.

To ensure the occupational health and safety of our frontline staffs, the Group's Safety and Hygiene Committee would lay down its annual "Labor Protection Plan" to appropriate budget for protective gear for staffs, such as gloves, masks and protective uniforms for use by staffs, which can effectively prevent them from main causes of damages and poisons often happening at workplaces; and for improvement works of, say, restaurant and plant renovation projects.

Apart from this, the Group has instituted a labor protection organization to conduct regular checks on the execution of labor protection work at all branch plants every six months or annually in respect of different work safety themes designated by the Environment and Safety Division under the General Affairs Department, during which staffs are reminded to wear protective gear as required. Once potentially significant safety damages are detected, the organization would request the unit head concerned to effect measures aimed at eliminating such causes of damages.

Basic occupational health and safety measures provided by the Group to the staff mainly include:

- Annual inspection on the operational environment covering items like noises, poisonous wasted gases, dusts, VOCs, and etc.; and based on the findings of which to conduct body checks for staffs serving at those workplaces proved to be particularly damaging and materialize management by grading
- Annual body checks for general staffs to comprehend their health conditions and materialize management by grading with post re-designation as the case may be; and conduct checks on occupational disease for staffs serving at special posts. Based on the findings of the checks in 2017, no staff was found suffering from occupational disease
- Annual educational training on environmental safety and hygiene to promote awareness of environmental safety and hygiene among staffs
- Deployment of one healthcare staff at each plant zone, equipped with medicine and first-aid related equipment

On the propaganda front, the Group has formulated the "Codes of Work on Safety and Hygiene for the Staff" pursuant to the Rules Governing Educational Training on Labor Safety and Hygiene and standardized safety and environmental protection certifications, trainings and on-the-job educational trainings required for all types of jobs. The survey on needy trainings conducted at the end of every year would be used as a basis for courses and trainings to be held in the coming year, in which the importance of environment, safety and hygiene is propagandized through relevant educational trainings.

In 2017, the Group has complied with all relevant laws and regulations and reported no significant non-compliance matter related to occupational health and safety.



## Environmental, Social and Governance Report

### 2. PRODUCT RESPONSIBILITY

#### 2.1. Product Quality Control

The Group attaches great importance to product quality that it has established a set of standardized quality control procedures in accordance with requirements of the ISO9001 Quality Management System, under which all processes ranging from feeding to production and processes after completion and before delivery are implemented with quality control, accomplishing our highest guiding principle of “focusing on underlying businesses while securing quality first and customers’ satisfaction”.

The Group sets its quality targets every year in accordance with its corporate policies and quality management requirements with concrete measures to trace their conformity with standards. The assessment indicators include defective loss, defective rate, costs incurred during the warranty period of complete bikes and so on. Besides, the Group strictly requires all production units to put into effect the following measures and to incorporate quality-related achievement performance into the assessment as the basis for salary adjustment and bonus distribution.

- To intensify continuously quality management, educational training and practical operation
- To ascertain truthful operation of the quality management system in the course of production, adhering to the “three “not”’s principle of “not accepting, not producing and not discharging defective goods”
- To materialize concretely monitoring and management of quality-related indicators

The General Manager’s Office is delegated by the Group to assemble the R&D, the production, the services, the quality management and other relevant units to address significant quality issues that have occurred or may occur on the market by convening weekly meetings to review, draw up addressing or improving programs and ensure that the product quality issue is well taken care of and conformed to relevant national laws and regulations.

The Group has the “Recalling and Correcting Defective Goods Methods” in place as the corporate policies for units concerned to abide by in case of handling quality issues. In 2017, the Group has complied with all relevant laws and regulations and reported no significant non-compliance matter related to quality and product recall issues.

#### 2.2. Management of Suppliers

The Group’s suppliers are mainly from Vietnam, Taiwan, Thailand, China and other countries, and major components and assemblies include frames, engines, envelopes, electric parts (such as luminaire), etc. The ESG risks of marked suppliers mainly include manufacturers involving an electroplating process that may have potential impact on the environment.

To ensure the quality of major components and assemblies and raw materials, the Group adopts the principle of global procurement to identify suppliers providing products with the finest quality, at the most competitive price and conforming to local decrees and norms and those of Vietnam government and other consumer markets. To make contribution to local economy, we materialize local procurement whenever possible as long as components and assemblies can be produced locally in Vietnam.

The Group conducts regular assessments on goods delivered by suppliers monthly. It also conducts regular on-site audits in respect of quality, technology, labor safety and hygiene and environmental protection to ensure that the product quality of suppliers conforms to the Company’s requirements and complies with local environmental protection and labor-related norms. Those having grave breaches or failing to live up to standards are declined for further cooperation. For new suppliers, the Group has stringent assessment and examination operational procedures in place and only those passing such procedures can become part of the Group’s collaborative manufacturer system. To maintain our relationship with suppliers and to facilitate a harmonic development of the industrial chain, the Group has convened one meeting of collaborative manufacturers during the year, thereby building an emotional tie with them through the meal gathering and sports activities there and helping the Group understand problems the suppliers may have and arrive at settlement resolutions hand in hand.

To maintain our relationship with suppliers and to facilitate a harmonic development of the industrial chain, the Group has convened one meeting of collaborative manufacturers during the year, thereby building an emotional tie with them through the meal gathering and sports activities there and helping the Group understand problems the suppliers may have and arrive at settlement resolutions hand in hand.



## Environmental, Social and Governance Report

### 2.3. Maintaining Customer Relationship

#### 2.3.1. Dealers

The Group must rely on local Vietnamese and overseas dealers to market its products and therefore it pays much attention to customers' opinions and feedbacks such that there are responsible unit officers in charge of product development and design, product delivery and maintenance services and other aspects to effect customer visits and routine communications in accordance with our "Benchmarks for Customer Services and Customer Satisfaction Management and Operation" to comprehend customers' needs and their expectations on products.

The Group executes regular surveys on customer satisfaction annually and compiles the "Analysis Report based on Findings of the Survey on Customer Satisfaction", and in respect of which a review meeting would be held for reporting the survey findings to high-ranking superiors and requesting relevant units to submit improvement programs in response to items that customers are not satisfied with. In addition, the Group keeps prompt response to customers' opinions and feedbacks with an aim to maintain a long-term and healthy cooperation relationship.

To ensure that our dealers provide quality sales and after-sales services, the Group has formulated the "Operational Benchmarks for Handling the Request Form for use by Dealer" and the "Operational Benchmarks for Warranties" to augment the quality requirements proposed by dealers during the manufacturing process and the warranty services provided after delivery. Besides, the Group would conduct regular assessments on dealers quarterly and the results of which are used as the basis for dealer improvement and for counseling or subsidy provided by the Company.

#### 2.3.2. Market and Consumers

The Group cares about consumers using products of SYM and other subsidiary brands, such that surveys on user satisfaction are conducted as a new product makes its debut and product surveys of larger scale in respect of the market of Vietnam would also be conducted regularly, to find out the user experiences and the preferences that end-consumers may have on the Company's products. Their opinions are collected for directing future product planning and for serving or satisfying needs of social trends.

To provide Vietnamese consumers with a more environmental friendly choice, apart from motorbikes using gasoline, the Group is devoted to the R&D of a variety of electric motorbikes featuring characteristics like compact appearance and convenient use.

### 2.4. Products and services responsibility

For the year ended 31 December 2017, the Group was not aware of any incidents of non-compliance with regulations and voluntary codes concerning the provision and use of the Group's products and services, including but not limited to, product and service information and labelling, marketing communications including advertising, promotion and sponsorship, and property rights including intellectual property rights that have a significant impact on the Group.

## 3. CARING FOR THE STAFF

### 3.1. Remuneration and Benefits

#### 3.1.1. Employment and Pay

The Group's staff consists mainly of Taiwanese and Vietnamese staffs. The Group establishes its human resource management system based on the value concept that respects diversity and declines discrimination, and acts on the highest guiding principle that turns a blind eye to nationalities (whether Taiwanese or Vietnamese), advocates equality between the sexes, recognizes contribution, cultivates talents and cherishes unity.



## Environmental, Social and Governance Report

The Group draws up its “Management Methods for Recruitment and Appointment” based on labor-related decrees, which stipulate clearly the principle for staff recruitment and appointment, labor rights and obligations, wages and benefits and other contents. The hiring of Vietnamese and foreign staffs by the Group is proceeded strictly pursuant to local decrees and norms. Furthermore, the Group views its employees as significant human resources and capital, except in the case of severe breach of conduct, the Group does not execute instant termination of employment contract with employees. In the case of justifiable dismissal, the terminated employee is entitle to compensation according to local labor laws. In 2017, the Group reported no significant non-compliance matter related to employment.

The Group remunerates its staffs according to their respective academic qualifications and background, professional knowledge and skills, professional seniority and experience and individual performance. The salary of a staff does not vary with his/her gender, ethnicity, religion, political stance, marriage conditions, labor union or association. In order to ensure a stable supply of manpower, lower staff turnover costs and risks and provide the staff with a better life, the Group hires its staffs at a benchmark salary approximately 14.6% higher than the statutory minimum wage set by the government. Apart from basic salary, the Group offers year-end bonus, Labor Day and National Day bonuses and other variable remuneration to timely motivate staffs to attain better results.

### 3.1.2. Benefit Items

The Group’s benefit system targets at formal staffs to provide the staff with a superior working environment in which they can work with delights. Benefit affairs are transacted by the Staff Benefits Committee (hereinafter be abbreviated as the “SBC”) jointly formed by the labor and the management. The Group and the SBC would also provide allowances and subsidies of varied amount with regard to different occasions such as weddings, funerals, festive events, further studies, hospitalization, occupational injuries and so on.

The Group provides labor insurance, maternity/parental leave, pension reserve and so forth according to law; takes out group accident and staff health check insurance for the staff at the expense of the Group; and transacts staff solidarity fund insurance, overseas business trip or travel accident insurance, staff body check, etc. On the other hand, the SBC sponsors cultural and recreational, community and sports activities for the staff; offers staff language (English, Chinese and Vietnamese) learning allowances, education subsidies for children of staffs, subsidies for birthdays, benefit marks coupons for the three festivals and the Labor Day and travelling and other kinds of subsidy.

### 3.2. Labor Environment

The Group endeavors to create a harmonic, comfortable and safe workplace that welfare facilities within plant zones are diversified and complete, including staff dormitory, restaurant, recreation centre, convenience shop for staff, clinic manned with professional medical personnel. The Group complies severely with labor-related norms in Vietnam and bans hiring of child labor and forced labor. In 2017, the Group reported no significant non-compliance matter related to labor standards.

The Group holds a morning assembly every day, during which all units communicate with their respective staffs on key work-related matter for the day, and staffs may bring up opinions or feedback, or engage in face-to-face discussion with the unit head on problems they may encounter.

To safeguard work-related interests of staff, strive for a desirable workplace and in the meantime secure a smooth communication between the labor and the management, the Group has formed the labor union according to law, which holds meetings quarterly to review staff-related welfare measures and staff safety and all significant work-related matters. The 15 representatives of the committee of the labor union are collectively elected and appointed by the staff for a term of office of five years. In 2017, Group’s the labor union organized activities such as the football match for staffs 2017, the gift presenting at the International Women’s Day, the monthly staff birthday celebrations, regular visits to staffs falling ill, having a baby or victimized in traffic accidents and so on.

Besides, the Group holds the annual “Laborers’ Meeting”, during which staffs may propose relevant labor polices to representatives of the Company, or the Company may commend outstanding staffs with rewards to recognized the contributions they made.



## Environmental, Social and Governance Report

### 3.3. Training and Development

The Group maintains a complete staff training system to serve our highest guiding principle of enhancing staffs' knowledge, skills and quality, and upgrading their individual and organizational work quality and performance.

The Group has a training center housing various plants for practical training, equipment and lecturers. The training center holds courses based on the Company's training regime and files the particulars and the number of training hours of participants with the educational training system, with the information reserved as reference for future promotion. Every year, the training center would arrange its annual training plans according to the Company's operational guiding principle and strategic objectives and by finding out training needs of all units. Apart from holding trainings on its own, the center transacts the business of entrusted training for other enterprises to provide diversified training courses and sound on-the-job education, aiming at cultivating talents rich in professional competence and eager to take challenges.

The Group's training system incorporates training courses in the following types:

- General training: trainings on environmental protection, fire-control, and trainings for new recruits (basic legal knowledge, work safety obligations, staff rights, etc.), and courses relating to safety and hygiene management and so on
- Quality management training: quality controller training, ISO training, basic concepts of quality management and so on
- Management training: include project management, project reporting and briefing techniques, the Five GEN Principle, the seven major approaches to quality management, an introduction to corporate management, issue analysis and decision-making and so on
- Language training: Chinese, Vietnamese training

In 2017, the Group organized a variety of training courses, which, apart from basic fire-control, industrial safety at plants, labor safety and hygiene, ISO Quality Management and environmental protection system related courses, included also CIC Training, trainings on operating forklift trucks and equipment safety and so on. The Group also encourages staffs to apply for skill verifications and obtain certifications.

Besides, to materialize the perpetual operational objective of "cultivating talents", enhance staffs' managerial abilities, and to study the management techniques and corporate culture of the Company's ultimate controlling company, the Group offered some Vietnamese cadres an opportunity to practice at Sanyang, Taiwan, and the contents of which included corporate strategic planning concepts, costing concepts, department operational management, departmental budget control and management and other courses.

The Group organizes achievement assessment and annual promotion for the staff in the fourth quarter every year, through which all units would appraise work achievements of their respective staffs, recognize their contributions and ascertain adequate development opportunities for staffs.

### 3.4. Anti-corruption

#### 3.4.1. Anti-corruption Policies

The Group thinks highly of staff discipline that corruption, extortion, blackmail, misappropriation of public funds and money laundering behaviors in any form are sternly banned. The Group has framed the exacting "Occupational Ethic Norms", stipulated clearly in the Staff Manual and the Corporate Norms relevant standards in relation to fighting corruption, bribery and money laundering and required all the staff to cogently abide by the same to ensure no conflict of interests, such that all staffs, themselves or their respective relatives or friends are banned from demanding or receiving, whether directly or indirectly, any private rewards, gifts, monies, borrowings/loans, services, presents and so forth from manufacturers having business dealings or contemplating to engage in dealings with the Company. In case of breaches of the aforesaid occupational ethic norms of the Group, the staffs or the manufacturers concerned may report to the Company's audit and personnel units by means of any channel, such as e-mail, correspondence or APPs.



## Environmental, Social and Governance Report

To materialize strengthening work disciplines for staffs, give play to team spirit, elevate work efficiency and operational effectiveness, the Group makes staff discipline a key item in the educational training for new recruits and all the staff are required to receive training courses on rule of law, industrial safety and information safety. New norms, once issued by competent authorities, are communicated through notices, propaganda seminars and educational trainings and in other manners to the staff, allowing them to learn about relevant stipulations they should observe. In 2017, the Group has complied with all relevant laws and regulations and reported no significant malpractice or bribery or dereliction of duty in breach of relevant decrees and norms.

### 3.4.2. Internal Audit

The Group has established a comprehensive internal audit system incorporating five major aspects of environment control, risk assessment, operation control, information communication and supervision, which is used as the important internal control measure to prevent corruption, malpractice and other unlawful acts. There is also an internal audit unit instituted under the Board and the Board has full powers to be responsible for effectiveness of the internal supervision and control system.

In 2017, the Group's audit unit has carried out routine audits in respect of nine aspects, namely procurement and payment, production, research and development, salary and wage, fixed assets, sales and receipts, financing, investment and e-information processing. It has also engaged in audits in respect of four key business projects and spotted no significant non-compliance or corruption related matter.

## 4. COMMUNITY INVESTMENT

The Group upholds the community investment concept of "What are taken from the community is used for the community – be an enterprise needed by the Vietnamese society" and has been making efforts in giving back to local communities since its foundation. The Group has formed the "Compassion Society" in 2003 to organize and drive related activities since then. It also encourages collaborative manufacturers and the Group as a whole to join in practicing the saying of "hands up for public welfare, a passionate move; join hands for public welfare, a blissful and beautiful life" as an active feedback and contribution to the Vietnamese society, such that its charity work for years has set a firm footing in Vietnam and won profound affirmations and recognitions with the Vietnamese society and the government.

The Company introduces a community involvement structure in relation to corporate social responsibility and propels comprehensive community investment work in three major dimensions covering environmental protection, community involvement and education and culture, so as to deliver in full its social responsibility. The Group's investment in community public welfare activities amounts to approximately 1.3 billion Vietnamese dong (equivalent to approximately US\$59,300) per year, and key dimensions of which are described as follows:

Environmental protection	<ul style="list-style-type: none"> <li>• Advancing the ISO14001 Environment Management System</li> <li>• R&amp;D of oil-saving motorbike types</li> <li>• Continued investment in processing equipment for domestic sewage, wasted gases and so on</li> </ul>
Community involvement	<ul style="list-style-type: none"> <li>• Continued advancement of care for orphans, the elderly and patients in the surrounding areas of our plant zones</li> <li>• Donating cattle to farmers to improve their lives</li> <li>• Advancing bridge building and road paving in rural areas</li> <li>• Forging a harmonic community and advancing public drainage and cleaning activities</li> </ul>
Education and culture	<ul style="list-style-type: none"> <li>• Donating bursaries/scholarships to needy students</li> <li>• Cooperating with the education sector to offer practicing opportunities for specialized schools</li> <li>• Sponsoring government educational and cultural activities, sports and matches for the disabled; and providing study tools for orphans adopted</li> </ul>

The Group had sponsored the construction of 100 cement bridges in Mekong Delta in the past to improve the transport and thus the economy for farmers in the rural areas. In 2017, the Group's key activities under community investment included donating study tools to needy students in Thành phố Biên Hòa, sponsoring road paving works behind our plant at Phường Tam Hiệp, visiting the Home for the Blind and donating gifts, sponsoring compassionate houses for the poor to improve their living conditions, sponsoring the work of Fu Shin association in constructing a harmonic community and in looking after the poor in the community.



## Independent Auditor's Report



**Independent auditor's report to the shareholders of  
Vietnam Manufacturing and Export Processing (Holdings) Limited**  
*(incorporated in the Cayman Islands with limited liability)*

### OPINION

We have audited the consolidated financial statements of Vietnam Manufacturing and Export Processing (Holdings) Limited ("the Company") and its subsidiaries ("the Group") set out on pages 39 to 90, which comprise the consolidated statement of financial position as at 31 December 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

### BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the consolidated financial statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in the Cayman Islands and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.



## Independent Auditor's Report

### KEY AUDIT MATTERS (Continued)

#### Valuation of non-current assets (including property, plant and equipment, intangible assets and lease prepayments)

Refer to notes 11, 12 and 13 to the consolidated financial statements and the accounting policies in note 2(j)(ii).

##### The Key Audit Matter

The Group suffered losses during the years ended 31 December 2015, 2016 and 2017 as a result of the weakened markets and economic conditions in the Group's key operating locations. There is a risk that financial performance of the Group could be adversely affected if the markets and economic conditions in locations where the Group operates continue to be weak. On the basis of the above, management determined that indicators of potential impairment of non-current assets existed as at 31 December 2017.

When it is determined that indicators of potential impairment exist, management performs an impairment assessment of the relevant assets by determining their recoverable amounts using the discounted cash flow method which involves significant management judgement particularly in estimating future revenue growth rates, future material costs and the discount rate applied.

The carrying value of the Group's non-current assets (including property, plant and equipment, intangible assets and lease prepayments) of the only cash generating unit of the Group as at 31 December 2017 amounted to US\$21,070,365.

Based on management's impairment assessment, the recoverable amount of the Group's non-current assets was US\$18,837,612 at 31 December 2017. Accordingly, an impairment loss of US\$2,232,753 was charged to the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

We identified valuation of the Group's non-current assets as a key audit matter because determining the level of impairment, if any, involves forecasting and discounting future cash flows and estimating the recoverable amounts of the non-current assets all of which are inherently uncertain and could be subject to management bias.

##### How the matter was addressed in our audit

Our audit procedures to assess the valuation of non-current assets included the following:

- evaluating the methodology used by management in the preparation of the discounted cash flow forecast with reference to the requirements of the prevailing accounting standards;
- assessing and challenging management's impairment assessment model. This included assessing the impairment indicators identified by management, evaluating the discounted cash flow forecast and comparing the resultant value in use calculation with the carrying values of the relevant assets and considering whether impairment was required;
- assessing the most significant inputs used in the discounted cash flow forecast, including future revenue growth rates and future material costs, by comparison with historical performance and the budget and forecasts approved by the directors;
- engaging our internal valuation specialists to assist us in assessing whether the discount rate applied in the discounted cash flow forecast was within the range adopted by other companies in the same industry;
- performing sensitivity analyses of key assumptions, including the discount rate, the future revenue growth rates and future material costs, and considering the resulting impact on the conclusions reached by management and whether there were any indicators of management bias; and
- considering the adequacy of the disclosures in the consolidated financial statements in respect of impairment testing of non-current assets (including property, plant and equipment, intangible assets and lease prepayments), including the key assumptions adopted, with reference to the requirements of the prevailing accounting standards.



## Independent Auditor's Report

### INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

### RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs issued by the IASB and the disclosure requirements of the Hong Kong Companies Ordinance and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



## Independent Auditor's Report

### AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and, where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Wong Sau Ling.

#### **KPMG**

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

26 March 2018



## Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2017  
(Expressed in United States dollars)

	Notes	2017 US\$	2016 US\$
Revenue	4	93,746,331	133,202,011
Cost of sales		(87,680,654)	(117,469,298)
<b>Gross profit</b>		<b>6,065,677</b>	15,732,713
Other income	5	157,139	1,000,260
Distribution costs		(6,940,838)	(6,959,150)
Technology transfer fees	26(a)(iv)	(934,865)	(3,224,785)
Administrative expenses		(9,299,828)	(9,707,052)
Impairment loss on property, plant and equipment	6(c)	(2,232,753)	–
Other expenses		(22,318)	(116,759)
<b>Results from operating activities</b>		<b>(13,207,786)</b>	(3,274,773)
Finance income		4,156,691	4,054,987
Finance costs		(770,508)	(1,702,530)
<b>Net finance income</b>	6(a)	<b>3,386,183</b>	2,352,457
Share of profit of an associate	14	44,766	85,314
<b>Loss before taxation</b>	6	<b>(9,776,837)</b>	(837,002)
Income tax credit	7(a)	444,619	89,880
<b>Loss for the year</b>		<b>(9,332,218)</b>	(747,122)
<b>Loss per share</b>			
– basic and diluted	10	(0.01)	(0.001)
<b>Loss for the year</b>		<b>(9,332,218)</b>	(747,122)
<b>Other comprehensive income for the year (after tax):</b>			
Item that may be reclassified subsequently to profit or loss:			
– Exchange differences on translation of financial statements of overseas subsidiaries		567,637	(985,116)
<b>Total comprehensive income for the year attributable to equity shareholders of the Company</b>		<b>(8,764,581)</b>	(1,732,238)

The notes on pages 43 to 90 form part of these financial statements.



## Consolidated Statement of Financial Position

At 31 December 2017

(Expressed in United States dollars)

	Notes	2017 US\$	2016 US\$
<b>Non-current assets</b>			
Property, plant and equipment	11	14,095,943	18,077,947
Intangible assets	12	9,011	37,037
Lease prepayments	13	4,732,658	4,864,995
Interest in an associate	14	544,336	498,764
Deferred tax assets	21(b)	1,322,531	936,285
		<b>20,704,479</b>	24,415,028
<b>Current assets</b>			
Inventories	15	18,958,820	24,810,273
Trade receivables, other receivables and prepayments	16	19,828,211	24,535,220
Time deposits maturing after three months	17	88,805,816	93,040,713
Cash and cash equivalents	18	13,356,314	11,106,900
Current tax recoverable	21(a)	25,504	73,490
		<b>140,974,665</b>	153,566,596
<b>Current liabilities</b>			
Trade and other payables	19	11,726,438	16,371,490
Bank loans	20	23,343,521	26,166,074
Current tax payable	21(a)	–	13,905
Provisions	22	814,687	835,432
		<b>35,884,646</b>	43,386,901
<b>Net current assets</b>		<b>105,090,019</b>	110,179,695
<b>Total assets less current liabilities</b>		<b>125,794,498</b>	134,594,723
<b>Non-current liabilities</b>			
Deferred tax liabilities	21(b)	–	35,644
<b>Net assets</b>		<b>125,794,498</b>	134,559,079
<b>Capital and reserves</b>			
Share capital	23(b)	1,162,872	1,162,872
Reserves		124,631,626	133,396,207
<b>Total equity attributable to equity shareholders of the Company</b>		<b>125,794,498</b>	134,559,079

Approved and authorised for issue by the Board of Directors on 26 March 2018.

**Lu, Tien-Fu**  
Director

**Lin, Chun-Yu**  
Director

The notes on pages 43 to 90 form part of these financial statements.



## Consolidated Statement of Changes in Equity

At 31 December 2017  
(Expressed in United States dollars)

	Attributable to equity shareholders of the Company						Total US\$
	Share capital US\$	Share premium US\$	Capital reserve US\$	Exchange reserve US\$	Statutory reserves US\$	Retained profits US\$	
<b>Balance at 1 January 2016</b>	1,162,872	112,198,709	1,962,666	(33,207,960)	202,856	53,972,174	136,291,317
<b>Changes in equity for 2016:</b>							
Loss for the year	-	-	-	-	-	(747,122)	(747,122)
Other comprehensive income	-	-	-	(985,116)	-	-	(985,116)
Total comprehensive income	-	-	-	(985,116)	-	(747,122)	(1,732,238)
Appropriation to reserves	-	-	-	-	25,487	(25,487)	-
<b>Balance at 31 December 2016</b>	1,162,872	112,198,709	1,962,666	(34,193,076)	228,343	53,199,565	134,559,079
<b>Balance at 1 January 2017</b>	1,162,872	112,198,709	1,962,666	(34,193,076)	228,343	53,199,565	134,559,079
<b>Changes in equity for 2017:</b>							
Loss for the year	-	-	-	-	-	(9,332,218)	(9,332,218)
Other comprehensive income	-	-	-	567,637	-	-	567,637
Total comprehensive income	-	-	-	567,637	-	(9,332,218)	(8,764,581)
Appropriation to reserves	-	-	-	-	9,365	(9,365)	-
<b>Balance at 31 December 2017</b>	1,162,872	112,198,709	1,962,666	(33,625,439)	237,708	43,857,982	125,794,498

The notes on pages 43 to 90 form part of these financial statements.

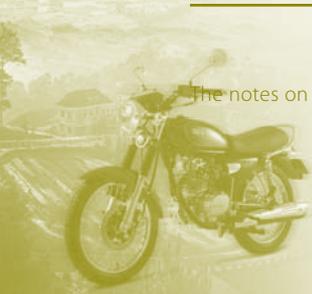


## Consolidated Cash Flow Statement

For the year ended 31 December 2017  
(Expressed in United States dollars)

	Notes	2017 US\$	2016 US\$
<b>Operating activities</b>			
Loss before taxation		(9,776,837)	(837,002)
Adjustments for:			
Amortisation of lease prepayments and intangible assets	6(c)	315,468	304,334
Depreciation of property, plant and equipment	6(c)	3,592,665	3,696,717
Interest income	6(a)	(4,156,691)	(4,054,987)
Interest expenses	6(a)	517,297	564,494
Share of profit of an associate		(44,766)	(85,314)
Impairment loss/(reversal of impairment loss) on property, plant and equipment	6(c)	2,232,753	(9,986)
Net gain on disposal and write off of property, plant and equipment	5, 6(c)	(6,110)	(5,797)
Foreign exchange loss/(gain)		518,261	(622,701)
		(6,807,960)	(1,050,242)
Changes in working capital:			
Decrease/(increase) in inventories		5,851,453	(4,160,727)
Decrease in trade receivables, other receivables and prepayments		4,705,234	4,475,081
(Decrease)/increase in trade and other payables		(4,645,052)	1,016,416
Decrease in provisions		(21,693)	(183,221)
Cash (used in)/generated from operations		(918,018)	97,307
Income tax refunded/(paid)		56,457	(226,721)
<b>Net cash used in operating activities</b>		<b>(861,561)</b>	<b>(129,414)</b>
<b>Investing activities</b>			
Interest received		4,158,466	4,386,618
Proceeds from disposal of property, plant and equipment		6,929	17,497
Payment for purchase of property, plant and equipment, intangible assets and lease prepayments		(1,966,845)	(3,791,189)
Decrease/(increase) in time deposits maturing after three months		4,234,897	(11,490,154)
Dividends received from an associate		-	159,573
<b>Net cash generated from/(used in) investing activities</b>		<b>6,433,447</b>	<b>(10,717,655)</b>
<b>Financing activities</b>			
Proceeds from borrowings		51,629,903	62,310,568
Repayment of borrowings		(54,452,456)	(60,507,608)
Interest paid		(517,297)	(564,494)
<b>Net cash (used in)/generated from financing activities</b>		<b>(3,339,850)</b>	<b>1,238,466</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>2,232,036</b>	<b>(9,608,603)</b>
<b>Cash and cash equivalents at 1 January</b>		<b>11,106,900</b>	<b>20,988,920</b>
<b>Effect of foreign exchange rate changes</b>		<b>17,378</b>	<b>(273,417)</b>
<b>Cash and cash equivalents at 31 December</b>	18	<b>13,356,314</b>	<b>11,106,900</b>

The notes on pages 43 to 90 form part of these financial statements.



## Notes to the Consolidated Financial Statements

*(Expressed in United States dollars unless otherwise indicated)*

### 1. REPORTING ENTITY

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 (the "Stock Exchange") since 20 December 2007.

### 2. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IASs") and Interpretations issued by the International Accounting Standards Board ("IASB"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

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

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries (together referred to as the "Group") and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates. The Group has adopted United States dollars as its presentation currency as the directors of the Company consider that presentation of the consolidated financial statements in United States dollars will facilitate analysis of the Group's financial information.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in Note 3.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (c) Changes in accounting policies

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. However, additional disclosure has been included in note 18(b) to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

#### (d) Subsidiaries

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions, cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate (see Note 2(e)).

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see Note 2(j)).



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (e) Associates

An associate is an entity in which the Group has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method. Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see Note 2(j)). Any acquisition-date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in profit or loss, whereas the Group's share of the post acquisition, post-tax items of the investees' other comprehensive income are recognised in other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with the Group's long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset.

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

The following items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see Note 2(j)):

- buildings held for own use which are situated on leasehold land classified as held under operating lease (see Note 2(i)); and
- other items of plant and equipment.

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see Note 2(u)).

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

Depreciation is calculated to write off the cost of items of property, plant and equipment, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings held for own use	8 – 30 years
– Machinery, moulds and equipment	2 – 16 years
– Office equipment, furniture and fittings	4 – 10 years
– Electrical, water and utility systems	5 – 10 years
– Motor vehicles	5 – 7 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

#### (g) Intangible assets

Expenditure on research activities is recognised as an expense in the period in which it is incurred. Expenditure on development activities is capitalised if the product or process is technically and commercially feasible and the Group has sufficient resources and the intention to complete development. The expenditure capitalised includes the costs of materials, direct labour, and an appropriate proportion of overheads and borrowing costs, where applicable (see Note 2(u)). Capitalised development costs are stated at cost less accumulated amortisation and impairment losses (see Note 2(j)). Other development expenditure is recognised as an expense in the period in which it is incurred.

Other intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see Note 2(j)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss on a straight-line basis over the assets' estimated useful lives. Software with finite useful lives are amortised from the date they are available for use and over their estimated useful lives of 3 years.

Both the period and method of amortisation are reviewed annually.

#### (h) Lease prepayments

Lease prepayments represent prepaid land lease rentals and related costs. Lease prepayments are carried at cost less amortisation and impairment losses (see Note 2(j)). Amortisation is charged to profit or loss on a straight-line basis over the lease period of 30-50 years.

#### (i) Operating lease charges

Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Impairment of assets

##### (i) Impairment of investments in equity securities and other receivables

Investments in equity securities and other current and non-current receivables that are stated at cost or amortised cost are reviewed at the end of each reporting period to determine whether there is objective evidence of impairment. Objective evidence of impairment includes observable data that comes to the attention of the Group about one or more of the following loss events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- a significant or prolonged decline in the fair value of investments in equity instruments below their costs.

If any such evidence exists, any impairment loss is determined and recognised as follows:

- For investment in an associate accounted for under equity method in the consolidated financial statements (see Note 2(e)), the impairment loss is measured by comparing the recoverable amount of the investment with its carrying amount in accordance with Note 2(j)(ii). The impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount in accordance with Note 2(j)(ii).
- For trade and other current receivables and other financial assets carried at amortised cost, the impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition of these assets), where the effect of discounting is material. This assessment is made collectively where these financial assets share similar risk characteristics, such as similar past due status, and have not been individually assessed as impaired. Future cash flows for financial assets which are assessed for impairment collectively are based on historical loss experience for assets with credit risk characteristics similar to the collective group.

If in a subsequent period the amount of an impairment loss decreases and the decrease can be linked objectively to an event occurring after the impairment loss was recognised, the impairment loss is reversed through profit or loss. A reversal of an impairment loss shall not result in the asset's carrying amount exceeding that which would have been determined had no impairment loss been recognised in prior years.

Impairment losses are written off against the corresponding assets directly, except for impairment losses recognised in respect of trade debtors and bills receivable included within trade and other receivables, whose recovery is considered doubtful but not remote. In this case, the impairment losses for doubtful debts are recorded using an allowance account. When the Group is satisfied that recovery is remote, the amount considered irrecoverable is written off against trade debtors and bills receivable directly and any amount held in the allowance account relating to that debt are reversed. Subsequent recoveries of amounts previously charged to the allowance account are reversed against the allowance account. Other changes in the allowance account and subsequent recoveries of amounts previously written off directly are recognised in profit or loss.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (j) Impairment of assets (Continued)

##### (ii) Impairment of other assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- intangible assets;
- lease prepayments; and
- investments in subsidiaries in the Company's statement of financial position.

If any such indication exists, the asset's recoverable amount is estimated.

##### – Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

##### – Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable), or value in use (if determinable).

##### – Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determining the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

##### (iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with IAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see Notes 2(j)(i) and (ii)).



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (k) Inventories

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

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

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

#### (l) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method, less allowance for impairment of doubtful debts (see Note 2(j)), except where the receivables are interest-free loans made to related parties without any fixed repayment terms or the effect of discounting would be immaterial. In such cases, the receivables are stated at cost less allowance for impairment of doubtful debts.

#### (m) Interest-bearing borrowings

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

#### (n) Trade and other payables

Trade and other payables are initially recognised at fair value. Trade and other payables are subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

#### (o) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (p) Employee benefits

##### (i) Short-term employee benefits and contributions to defined contribution retirement plans

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

##### (ii) Share-based payments

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

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

##### (iii) Termination benefits

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

#### (q) Income tax

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

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

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (q) Income tax (Continued)

The limited exceptions to recognition of deferred tax assets and liabilities are those temporary differences arising from the initial recognition of assets or liabilities that affect neither accounting nor taxable profit (provided they are not part of a business combination), and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

Additional income taxes that arise from the distribution of dividends are recognised when the liability to pay the related dividends is recognised.

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
  - the same taxable entity; or
  - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

#### (r) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (s) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Provided it is probable that the economic benefits will flow to the Group and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in profit or loss as follows:

##### (i) Sales of goods

Revenue is recognised when goods are delivered at the customers' premises or picked up by customers or when goods are shipped on board/arrived the designated port, which are taken to be the point in time when the customer has accepted the goods and the related risks and rewards of ownership. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

##### (ii) Rendering of services

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

##### (iii) Dividend income

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

##### (iv) Interest income

Interest income is recognised as it accrues using the effective interest method.

#### (t) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into United States dollars at the exchange rates approximating the foreign exchange rate ruling at the dates of the transactions. Statement of financial position items are translated into United States dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

#### (u) Borrowing costs

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

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (v) Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
  - (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
  - (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

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

#### (w) Segment reporting

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

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 3. ACCOUNTING JUDGEMENT AND ESTIMATES

Note 24 contains information about the assumptions and their risk factors relating to valuation of financial instruments. Other key sources of estimation uncertainty are as follows:

**(a) Impairment loss on property, plant and equipment, intangible assets and lease prepayments**

The Group assesses annually whether there are indications of impairment of property, plant and equipment, intangible assets and lease prepayments in accordance with the relevant accounting policies. If such indication exists, the recoverable amounts of the assets would be determined by reference to value in use and fair value less costs of disposal. Value in use is determined using the discounted cash flow method. Due to inherent risk associated with estimations in the timing and magnitude of the future cash flows, the estimated recoverable amount of the assets may be different from its actual recoverable amount and the Group's profit or loss could be affected by the accuracy of the estimations.

**(b) Impairment losses on trade receivables**

Impairment losses on trade receivables are assessed and recognised based on the directors' regular review of the aging analysis and past collection history of each individual customer. A considerable level of judgement is exercised by the directors when assessing the credit worthiness and collectability of each receivable. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the Group's profit or loss in future years.

**(c) Depreciation**

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

**(d) Net realisable value of inventories**

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

**(e) Income taxes**

Determining income tax provisions involves judgement regarding the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

Deferred tax assets are recognised for unused tax losses and temporary deductible differences. As deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised, management's judgement is required to assess the probability of future taxable profits. At the end of each reporting period, management reassesses the probability of future taxable profits to determine the amount of deferred tax assets to be recognised.

**(f) Provision for warranties**

The Group makes provisions under the warranties for the motorbikes and other products sold taking into account the Group's recent claim experience. As the Group is continually upgrading its product designs and launching new models it is possible that the recent claim experience is not indicative of future claims that it will receive in respect of past sales. The provision will be adjusted if there are significant changes in the estimates of future claims.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 4. REVENUE AND SEGMENT REPORTING

#### (a) Revenue

The principal activities of the Group are manufacturing and sale of motorbikes, related spare parts and engines and provision of motorbike maintenance services.

Revenue represents the sales value of motorbikes, spare parts and engines supplied to customers, and revenue from moulds and repair services. The amount of each significant category of revenue recognised during the year is as follows:

	2017 US\$	2016 US\$
Sales of motorbikes	74,768,209	112,000,060
Sales of spare parts and engines	18,897,902	21,149,969
Revenue from moulds and repair services	80,220	51,982
	<b>93,746,331</b>	133,202,011

The Group's customer base is diversified and includes only two customers with whom transactions have exceeded 10% of the Group's revenue. During the year ended 31 December 2017, revenue from sales of motorbikes to the customers was as follows:

	2017 US\$	2016 US\$
Customer A	22,731,657	46,479,642
Customer B	14,860,468	26,909,911
	<b>37,592,125</b>	73,389,553

Details of concentration of credit risk arising from this customer are set out in note 23(a).

Further details regarding the Group's principal activities are disclosed below:

#### (b) Segment reporting

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

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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

#### (b) Segment reporting (Continued)

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

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

Segment assets include all tangible, intangible assets and current assets with the exception of interest in an associate, deferred tax assets, time deposits maturing after three months, cash and cash equivalents and other corporate assets. Segment liabilities include provisions, trade and other payables attributable to the manufacturing and sales activities of the individual segments with the exception of interest-bearing borrowings, current tax payable, deferred tax liabilities and other corporate liabilities.

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

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

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales), interest income and expenses from cash balances and borrowings managed directly by the segments, depreciation, amortisation and additions to non-current segment assets used by the segments in their operations. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below.

	2017			Total US\$
	Manufacturing and sale of motorbikes US\$	Manufacturing and sale of spare parts and engines US\$	Moulds and repair services US\$	
Revenue from external customers	74,768,209	18,897,902	80,220	93,746,331
Inter-segment revenue	–	29,330,890	602,515	29,933,405
<b>Reportable segment revenue</b>	<b>74,768,209</b>	<b>48,228,792</b>	<b>682,735</b>	<b>123,679,736</b>
<b>Reportable segment loss ("adjusted EBIT")</b>	<b>(8,959,345)</b>	<b>(2,342,101)</b>	<b>(54,819)</b>	<b>(11,356,265)</b>
Interest income	2,205,672	1,633,864	3,323	3,842,859
Interest expenses	(295,109)	(219,778)	(2,410)	(517,297)
Depreciation and amortisation for the year	(2,032,493)	(1,831,551)	(44,089)	(3,908,133)
Impairment loss on property, plant and equipment	(1,339,607)	(880,679)	(12,467)	(2,232,753)
<b>Reportable segment assets</b>	<b>35,257,488</b>	<b>21,193,792</b>	<b>1,027,766</b>	<b>57,479,046</b>
<b>Reportable segment liabilities</b>	<b>7,191,377</b>	<b>4,404,695</b>	<b>299,994</b>	<b>11,896,066</b>



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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

#### (b) Segment reporting (Continued)

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

	2016			Total US\$
	Manufacturing and sale of motorbikes US\$	Manufacturing and sale of spare parts and engines US\$	Moulds and repair services US\$	
Revenue from external customers	112,000,060	21,149,969	51,982	133,202,011
Inter-segment revenue	–	43,514,252	957,748	44,472,000
<b>Reportable segment revenue</b>	<b>112,000,060</b>	<b>64,664,221</b>	<b>1,009,730</b>	<b>177,674,011</b>
<b>Reportable segment (loss)/profit ("adjusted EBIT")</b>	<b>(2,339,226)</b>	<b>973,359</b>	<b>(93,630)</b>	<b>(1,459,497)</b>
Interest income	2,111,239	1,531,929	25,140	3,668,308
Interest expenses	(564,297)	–	(197)	(564,494)
Depreciation and amortisation for the year	(3,347,021)	(652,419)	(1,611)	(4,001,051)
Impairment loss on property, plant and equipment	–	–	–	–
<b>Reportable segment assets</b>	<b>45,463,977</b>	<b>25,915,592</b>	<b>911,424</b>	<b>72,290,993</b>
<b>Reportable segment liabilities</b>	<b>10,621,748</b>	<b>6,022,972</b>	<b>80,246</b>	<b>16,724,966</b>

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

	2017 US\$	2016 US\$
<b>Revenue</b>		
Reportable segment revenue	<b>123,679,736</b>	177,674,011
Elimination of inter-segment revenue	<b>(29,933,405)</b>	(44,472,000)
Consolidated revenue (Note 4(a))	<b>93,746,331</b>	133,202,011
<b>Loss</b>		
Reportable segment loss	<b>(11,356,265)</b>	(1,459,497)
Elimination of inter-segment profits	–	–
Reportable segment loss derived from Group's external customers	<b>(11,356,265)</b>	(1,459,497)
Share of profit of an associate	<b>44,766</b>	85,314
Net finance income	<b>3,386,183</b>	2,352,457
Unallocated corporate expenses	<b>(1,851,521)</b>	(1,815,276)
Consolidated loss before taxation	<b>(9,776,837)</b>	(837,002)



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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

#### (b) Segment reporting (Continued)

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

	2017 US\$	2016 US\$
<b>Assets</b>		
Reportable segment assets	57,479,046	72,290,993
Elimination of inter-segment receivables	-	-
	<b>57,479,046</b>	72,290,993
Interest in an associate	544,336	498,764
Time deposits maturing after three months	88,805,816	93,040,713
Cash and cash equivalents	13,356,314	11,106,900
Deferred tax assets	1,322,531	936,285
Unallocated corporate assets	171,101	107,969
Consolidated total assets	<b>161,679,144</b>	177,981,624
<b>Liabilities</b>		
Reportable segment liabilities	11,896,066	16,724,966
Elimination of inter-segment payables	-	-
	<b>11,896,066</b>	16,724,966
Bank loans	23,343,521	26,166,074
Current tax payable	-	13,905
Deferred tax liabilities	-	35,644
Unallocated corporate liabilities	645,059	481,956
Consolidated total liabilities	<b>35,884,646</b>	43,422,545



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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

#### (b) Segment reporting (Continued)

##### (iii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and lease prepayments ("specified non-current assets"). The geographical location of customers is based on the location at which the goods were delivered to or the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset.

	Revenues from external customers		Specified non-current assets	
	2017 US\$	2016 US\$	2017 US\$	2016 US\$
Vietnam (place of domicile)	50,704,289	57,942,192	18,835,894	22,976,881
Malaysia	22,731,657	46,479,642	-	-
The Philippines	14,860,468	26,909,911	-	-
Singapore	2,692,827	547,951	-	-
Indonesia	310,186	593,912	-	-
Taiwan	2,406,327	508,181	-	-
Thailand	-	142,030	-	-
Other countries	40,577	78,192	1,718	3,098
	<b>93,746,331</b>	133,202,011	<b>18,837,612</b>	22,979,979

### 5. OTHER INCOME

	2017 US\$	2016 US\$
Net gain on disposal of property, plant and equipment	6,110	6,761
Others	151,029	993,499
	<b>157,139</b>	1,000,260



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 6. LOSS BEFORE TAXATION

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

#### (a) Net finance income

	2017 US\$	2016 US\$
Interest income from banks	(4,156,691)	(4,054,987)
Finance income	(4,156,691)	(4,054,987)
Interest paid and payable to banks	517,297	564,494
Net foreign exchange loss	253,211	1,138,036
Finance costs	770,508	1,702,530
	<b>(3,386,183)</b>	(2,352,457)

#### (b) Staff costs

	2017 US\$	2016 US\$
Contributions to defined contribution retirement plans	957,568	1,009,314
Severance pay allowance (Note 22)	66,376	62,861
Salaries, wages and other benefits	11,107,290	11,120,840
	<b>12,131,234</b>	12,193,015

#### Description of the defined contribution retirement plan

The Group participates in a defined contribution plan managed by the Vietnam government whereby the Group is required to make contributions to the plan, representing the employer's portion of social and health insurance contributions. The applicable rates of contribution are 17.5% and 3% of total contractual salaries, respectively. The Group has no obligation for the payment of retirement benefits other than the contributions described above. The Group's contributions vest fully with the employees when contributed into the plan.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 6. LOSS BEFORE TAXATION (Continued)

#### (c) Other items

	2017 US\$	2016 US\$
Amortisation of lease prepayments and intangible assets	315,468	304,334
Depreciation of property, plant and equipment	3,592,665	3,696,717
Write-down of inventories (Note 15(b))	2,105,463	544,906
Impairment loss/(reversal of impairment loss) on property, plant and equipment (Note 11(a))	2,232,753	(9,986)
Net loss on disposal and write off of property, plant and equipment	-	964
Operating lease charges: minimum lease payments in respect of property rentals	542,184	602,842
Auditors' remuneration	444,399	391,303
– Audit services	367,399	383,515
– Other services	41,030	7,788
Research and development expenses (i)	4,097,561	7,303,282
Cost of inventories (ii) (Note 15)	76,497,450	106,958,234

(i) Research and development expenses include amounts relating to technology transfer fee, staff costs, depreciation and amortisation expenses, rental expense of properties and other miscellaneous expenses, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses. No development expenditure was capitalised during the years ended 31 December 2017 and 31 December 2016.

(ii) Cost of inventories includes amounts relating to staff costs, depreciation and amortisation expenses and rental expense of properties, which are also included in the respective total amounts disclosed separately above or in Note 6(b) for each of these types of expenses.

### 7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

#### (a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents:

	2017 US\$	2016 US\$
<b>Current tax</b>		
Provision for the year	-	110,155
Over-provision in respect of prior years	(22,731)	(110)
	(22,731)	110,045
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(421,888)	(199,925)
	(444,619)	(89,880)

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax for the years ended 31 December 2017 and 2016.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 7. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME (Continued)

#### (a) Income tax in the consolidated statement of profit or loss and other comprehensive income represents: (Continued)

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 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 20%.

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 20% from 2016 onwards.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, the applicable CIT rate for Vietnam Casting Forge Precision Limited ("VCFP") is 15% from 2013 onwards.

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 2015, and to 20% from 2016.

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 is above new Taiwan Dollar ("NT\$") 120,000. Income tax is exempt if the taxable profit is below NT\$120,000.

#### (b) Reconciliation between tax credit and accounting loss at applicable tax rates:

	2017 US\$	2016 US\$
Loss before taxation	<b>(9,776,837)</b>	(837,002)
Notional tax on loss before taxation, calculated at the rates applicable to profit or loss in the countries concerned	<b>(1,386,783)</b>	(126,799)
Tax effect of non-deductible expenses	<b>311,415</b>	392,109
Tax effect of non-taxable income	<b>(59,003)</b>	(76,415)
Tax effect of differences in tax rates of subsidiaries	-	870
Tax effect of unused tax losses not recognised	<b>712,483</b>	-
Tax effect of utilisation of tax losses not recognised in prior years	-	(279,535)
Over-provision in prior years	<b>(22,731)</b>	(110)
Actual tax credit	<b>(444,619)</b>	(89,880)



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 8. DIRECTORS' REMUNERATION

Directors' remuneration disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	<b>Salaries, allowances and benefits in kind</b>	<b>Discretionary bonuses</b>	<b>Directors' fees</b>	<b>Share-based payments</b>	<b>2017 Total</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
<i>Chairman:</i>					
Liu, Wu-Hsiung	44,756	–	–	–	44,756
<i>Executive directors:</i>					
Lu, Tien-Fu	92,196	2,024	–	–	94,220
Lin, Chun-Yu	70,634	1,514	–	–	72,148
Chou, Ken-Yuan (resigned on 10 August 2017)	28,248	–	–	–	28,248
Huang, Kwang Wuu (appointed on 10 August 2017 and resigned on 21 December 2017)	34,258	–	–	–	34,258
<i>Non-executive directors:</i>					
Chiu, Ying-Feng	–	–	3,000	–	3,000
Wu, Li-Chu	–	–	3,000	–	3,000
<i>Independent non-executive directors:</i>					
Shen, Hwa-Rong	–	–	25,000	–	25,000
Lin, Ching-Ching	–	–	25,000	–	25,000
Wu, Kwei-Mei	–	–	25,000	–	25,000
	270,092	3,538	81,000	–	354,630



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 8. DIRECTORS' REMUNERATION (Continued)

	Salaries, allowances and benefits in kind US\$	Discretionary bonuses US\$	Directors' fees US\$	Share-based payments US\$	2016 Total US\$
<i>Chairman:</i>					
Liu, Wu-Hsiung	40,046	–	–	–	40,046
<i>Executive directors:</i>					
Lu, Tien-Fu	82,315	3,763	–	–	86,078
Lin, Chun-Yu (appointed on 20 April 2016)	48,316	2,227	–	–	50,543
Chou, Ken-Yuan (appointed on 7 July 2016)	20,803	–	–	–	20,803
<i>Non-executive directors:</i>					
Chiu, Ying-Feng	–	–	3,000	–	3,000
Chang, Yung-Chieh (resigned on 27 June 2016)	–	–	1,500	–	1,500
Wu, Li-Chu (redesignated on 27 June 2016)	30,774	1,869	1,525	–	34,168
<i>Independent non-executive directors:</i>					
Shen, Hwa-Rong	–	–	25,000	–	25,000
Lin, Ching-Ching	–	–	25,000	–	25,000
Wu, Kwei-Mei	–	–	25,000	–	25,000
	222,254	7,859	81,025	–	311,138

The emoluments of each individual director are within the band of HK\$Nil to HK\$1,000,000 for both 2017 and 2016.

### 9. INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments, two are directors (2016: one is director) whose emoluments are disclosed in Note 8. The aggregate of the emoluments in respect of the other three (2016: four) individuals are as follows:

	2017 US\$	2016 US\$
Salaries and other benefits	201,663	255,167
Discretionary bonuses	2,975	11,302
	<b>204,638</b>	266,469

The emoluments of the three (2016: four) individuals with the highest emoluments are within the band of HK\$Nil to HK\$1,000,000 for both 2017 and 2016.

### 10. LOSS PER SHARE

#### (a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year of US\$9,332,218 (2016: US\$747,122) and the weighted average of 907,680,000 (2016: 907,680,000) ordinary shares in issue during the year.

#### (b) Diluted loss per share

The amount of diluted loss per share is the same as the basic loss per share for the year ended 31 December 2017 (2016: same) as there were no dilutive potential ordinary shares during the years ended 31 December 2017 and 2016.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 11. PROPERTY, PLANT AND EQUIPMENT

	Buildings held for own use carried at cost US\$	Machinery, moulds and equipment US\$	Office equipment, furniture and fittings US\$	Electrical, water and utility systems US\$	Motor vehicles US\$	Assets under construction US\$	Total US\$
<b>Cost</b>							
At 1 January 2016	13,932,925	70,408,225	1,364,096	7,336,279	892,877	618,670	94,553,072
Additions	10,259	3,076,207	22,389	-	41,739	575,129	3,725,723
Transfer from assets under construction	-	690,380	-	-	-	(690,380)	-
Disposals	-	(101,391)	-	(54,649)	(26,711)	-	(182,751)
Written off	-	(1,325,999)	-	(59,680)	-	-	(1,385,679)
Exchange adjustments	(153,750)	(844,463)	(15,416)	(77,423)	(10,276)	(3,412)	(1,104,740)
At 31 December 2016	13,789,434	71,902,959	1,371,069	7,144,527	897,629	500,007	95,605,625
At 1 January 2017	13,789,434	71,902,959	1,371,069	7,144,527	897,629	500,007	95,605,625
Additions	6,921	1,452,761	9,726	23,457	-	326,419	1,819,284
Transfer from assets under construction	-	258,099	-	-	-	(258,099)	-
Disposals	-	(423,289)	(789)	-	(6,044)	-	(430,122)
Written off	-	(179,914)	(1,518)	-	-	-	(181,432)
Exchange adjustments	21,300	111,915	2,872	11,052	1,380	825	149,344
At 31 December 2017	13,817,655	73,122,531	1,381,360	7,179,036	892,965	569,152	96,962,699
<b>Accumulated depreciation and impairment losses</b>							
At 1 January 2016	6,981,218	61,364,736	1,263,500	5,749,371	627,929	307,296	76,294,050
Charge for the year	430,351	2,837,361	44,449	287,852	96,704	-	3,696,717
Reversal of impairment loss	-	-	-	-	-	(9,986)	(9,986)
Written back on disposals	-	(101,391)	-	(54,649)	(8,348)	-	(164,388)
Written off	-	(1,325,901)	-	(59,680)	-	-	(1,385,581)
Exchange adjustments	(89,588)	(717,443)	(15,047)	(68,441)	(9,525)	(3,090)	(903,134)
At 31 December 2016	7,321,981	62,057,362	1,292,902	5,854,453	706,760	294,220	77,527,678
At 1 January 2017	7,321,981	62,057,362	1,292,902	5,854,453	706,760	294,220	77,527,678
Charge for the year	415,793	2,809,063	37,369	263,704	66,736	-	3,592,665
Impairment loss	-	2,232,753	-	-	-	-	2,232,753
Written back on disposals	-	(423,289)	(723)	-	(5,291)	-	(429,303)
Written off	-	(179,914)	(1,518)	-	-	-	(181,432)
Exchange adjustments	11,638	99,357	2,557	9,250	1,139	454	124,395
At 31 December 2017	7,749,412	66,595,332	1,330,587	6,127,407	769,344	294,674	82,866,756
<b>Net book value</b>							
At 31 December 2017	6,068,243	6,527,199	50,773	1,051,629	123,621	274,478	14,095,943
At 31 December 2016	6,467,453	9,845,597	78,167	1,290,074	190,869	205,787	18,077,947



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 11. PROPERTY, PLANT AND EQUIPMENT (Continued)

#### (a) Impairment loss

The manufacturing and sales of motorbikes segment, manufacturing and sales of spare parts and engines segment and moulds and services segment are considered one cash generating unit of the Group.

The Group suffered losses during the year ended 31 December 2017. Based on an impairment assessment conducted by Management, an impairment loss of \$2,232,753 was recognised in the consolidated statement of profit or loss during the year ended 31 December 2017 to write down the carrying value of the non-current assets (comprising property, plant and equipment, intangible assets and lease prepayments) of the cash generating unit to their recoverable amount of \$18,837,612.

The recoverable amount was based on the value-in-use of the non-current assets using discounted cash flow method. The discount rate applied in the discounted cash flow was 12% (2016: 11%) for the year ended 31 December 2017.

At 31 December 2017, the fair value less cost of disposal of the lease prepayments was higher than their carrying value and the carrying value of intangible assets was insignificant. Accordingly, no impairment loss was recognised in lease prepayments and intangible assets. All impairment loss was recognised in property, plant and equipment.

### 12. INTANGIBLE ASSETS

Intangible assets represent computer software.

	2017 US\$	2016 US\$
<b>Cost</b>		
At 1 January	1,479,793	1,496,271
Exchange adjustments	2,285	(16,478)
At 31 December	1,482,078	1,479,793
<b>Accumulated amortisation</b>		
At 1 January	1,442,756	1,416,603
Charge for the year	28,061	43,024
Exchange adjustments	2,250	(16,871)
At 31 December	1,473,067	1,442,756
<b>Net book value</b>		
At 31 December	9,011	37,037

The amortisation charge for the year is included in "administrative expenses" in the consolidated statement of profit or loss and other comprehensive income.

### 13. LEASE PREPAYMENTS

Lease prepayments represent prepaid land lease rental and related costs.

	2017 US\$	2016 US\$
At 1 January	4,864,995	5,114,868
Addition	147,561	65,466
Less: amortisation	(287,407)	(261,310)
Exchange adjustments	7,509	(54,029)
At 31 December	4,732,658	4,864,995



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 14. INTEREST IN AN ASSOCIATE

The Group's interest in an associate of US\$544,336 (2016: US\$498,764) represents its share of the net assets of the Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM").

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

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

VTBM is accounted for using the equity method in the consolidated financial statements.

Summarised financial information of VTBM, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

	2017 US\$	2016 US\$
<b>Gross amounts of the associate</b>		
Current assets	1,804,104	2,386,903
Non-current assets	777,962	675,131
Current liabilities	(826,144)	(1,453,118)
Non-current liabilities	-	-
Equity	1,755,922	1,608,916
Revenue	5,658,686	6,999,187
Profit from continuing operations	143,992	275,206
Other comprehensive income	3,014	-
Total comprehensive income	147,006	275,206
Dividend declared by the associate	-	(514,753)
<b>Reconciled to the Group's interest in the associate</b>		
Gross amounts of net assets of the associate	1,755,922	1,608,916
Group's effective interest	31%	31%
Group's share of net assets of the associate and the carrying amount in the consolidated financial statements	544,336	498,764



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 15. INVENTORIES

#### (a) Inventories in the consolidated statement of financial position comprise:

	2017 US\$	2016 US\$
Raw materials	14,891,538	19,077,735
Tools and supplies	509,109	458,152
Work in progress	805,759	864,133
Finished goods	2,983,880	3,292,061
Merchandise inventories*	3,746,884	3,121,156
	<b>22,937,170</b>	26,813,237
Provision for write down of inventories	<b>(3,978,350)</b>	(2,002,964)
Net realisable value	<b>18,958,820</b>	24,810,273

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

#### (b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2017 US\$	2016 US\$
Carrying amount of inventories sold	76,497,450	106,958,234
Write-down of inventories	2,105,463	544,906
	<b>78,602,913</b>	107,503,140

#### (c) Movements in the provision for write down of inventories were as follows:

	2017 US\$	2016 US\$
At 1 January	2,002,964	1,566,644
Additions	2,105,463	544,906
Utilisation	(134,735)	(77,538)
Exchange adjustments	4,658	(31,048)
At 31 December	<b>3,978,350</b>	2,002,964



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

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

	2017 US\$	2016 US\$
Trade receivables (Note 16(a))	9,065,477	11,848,607
Non-trade receivables (Note 16(b))	8,672,581	10,269,379
Prepayments (Note 16(c))	1,927,395	1,921,943
Amounts due from related parties (Note 26(b))		
– Trade (Note 16(a))	154,534	432,704
– Non-trade	8,224	62,587
	<b>19,828,211</b>	24,535,220

#### (a) Trade receivables

##### (i) Ageing analysis

All of the trade receivables (including trade receivables due from related parties) are expected to be recovered within one year.

As of the end of the reporting period, the aging 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:

	2017 US\$	2016 US\$
Within 3 months	9,085,180	12,189,667
More than 3 months but within 1 year	134,831	91,644
	<b>9,220,011</b>	12,281,311

Further details on the Group's credit policy are set out in Note 24(a).

##### (ii) Trade receivables that are not impaired

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

	2017 US\$	2016 US\$
Neither past due nor impaired	8,855,398	10,238,300
Less than 1 month past due	229,782	1,951,367
1 to 3 months past due	134,831	91,644
	<b>364,613</b>	2,043,011
	<b>9,220,011</b>	12,281,311

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

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 16. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (Continued)

#### (b) Non-trade receivables

	2017 US\$	2016 US\$
Deductible value-added tax	3,906,745	5,052,435
Import tax refundable	1,128,713	2,404,198
Interest receivable	1,742,073	1,743,848
Others	1,895,050	1,068,898
	<b>8,672,581</b>	10,269,379

The above balances are expected to be recovered or utilised within one year.

#### (c) Prepayments

	2017 US\$	2016 US\$
Prepayments	1,444,420	1,909,468
Advances to suppliers	482,975	12,475
	<b>1,927,395</b>	1,921,943

### 17. TIME DEPOSITS MATURING AFTER THREE MONTHS

	2017 US\$	2016 US\$
Denominated in VN\$	51,714,097	53,262,672
Denominated in US\$	37,091,719	38,825,776
Denominated in RMB	–	952,265
	<b>88,805,816</b>	93,040,713

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

	2017	2016
Effective interest rates – VN\$	6.4% – 6.8%	5.4% to 6.7%
Effective interest rates – US\$	1.06% – 1.6%	0.6% to 1.0%
Effective interest rates – RMB	N/A	2.9%

As at 31 December 2017, certain of the Group's time deposits with an aggregate value of US\$10,892,481 (2016: US\$11,396,476) were pledged to secure bank loans (see Note 20).



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 18. CASH AND CASH EQUIVALENTS

(a) **Cash and cash equivalents in the consolidated statement of financial position comprise:**

	<b>2017</b>	2016
	<b>US\$</b>	US\$
Denominated in VN\$	<b>9,340,636</b>	8,932,924
Denominated in US\$	<b>3,961,926</b>	2,081,169
Denominated in RMB	<b>3,278</b>	16,892
Denominated in NT\$	<b>27,572</b>	45,069
Denominated in HK\$	<b>22,902</b>	30,846
	<b>13,356,314</b>	11,106,900

(b) **Reconciliation of liabilities arising from financing activities**

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows were, or future cash flows will be, classified in the Group's consolidated cash flow statement as cash flows from financing activities.

	<b>Bank loans and other borrowings</b>
	US\$
<b>At 1 January 2017</b>	26,166,074
<b>Changes from financing cash flows:</b>	
Proceeds from new bank loans	51,629,903
Repayment of bank loans	(54,452,456)
Other borrowing costs paid	(517,297)
	(3,339,850)
<b>Other changes:</b>	
Interest expenses	517,297
	517,297
<b>At 31 December 2017</b>	23,343,521

Note: Bank loans and other borrowings consist of bank loans as disclosed in note 20.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 19. TRADE AND OTHER PAYABLES

	2017 US\$	2016 US\$
Trade payables (Note 19(a))	3,739,769	7,166,993
Other payables and accrued operating expenses (Note 19(b))	4,658,868	5,308,447
Receipts in advance from customers	162,633	112,748
Amounts due to related parties (Note 26(c))		
– Trade (Note 19(a))	1,809,282	1,748,157
– Non-trade	1,355,886	2,035,145
	<b>11,726,438</b>	16,371,490

#### (a) Trade payables

As of the end of the reporting period, the aging analysis of trade payables of the Group (including trade payables due to related parties), based on the invoice date, is as follows:

	2017 US\$	2016 US\$
Within 3 months	5,292,246	8,915,150
More than 3 months but within 1 year	250,648	–
More than 1 year but within 5 years	6,157	–
	<b>5,549,051</b>	8,915,150

#### (b) Other payables and accrued operating expenses

	2017 US\$	2016 US\$
Other tax payables	163,178	289,039
Commission and bonuses payable to dealers	441,623	224,286
Accrued expenses	1,653,935	1,988,120
Other payables	2,400,132	2,807,002
	<b>4,658,868</b>	5,308,447

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

### 20. BANK LOANS

At 31 December 2017, the bank loans were analysed as follows:

	2017 US\$	2016 US\$
Secured	<b>23,343,521</b>	26,166,074

All of the bank loans are interest-bearing at 2.3% to 4.6% (2016: 1.8% to 5.4%) per annum and to be settled within 1 to 6 months. At 31 December 2017, the secured bank loans of the Group were secured over certain time deposits of the Group (see Note 17).



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

#### (a) Current taxation in the consolidated statement of financial position represents:

	2017 US\$	2016 US\$
Provision for tax for the year	–	110,155
Provisional tax paid	(25,859)	(172,984)
Exchange adjustments	355	3,244
<b>At 31 December</b>	<b>(25,504)</b>	<b>(59,585)</b>
Representing:		
Tax recoverable	(25,504)	(73,490)
Tax payable	–	13,905
	<b>(25,504)</b>	<b>(59,585)</b>

#### (b) Deferred tax assets/(liabilities) recognised:

The components of deferred tax assets/(liabilities) recognised in the consolidated statement of financial position and the movements during the year are as follows:

Deferred tax arising from:	Write-down of inventories US\$	Depreciation in excess of the related depreciation allowances US\$	Provisions and accruals US\$	Others US\$	Total US\$
At 1 January 2016	232,785	220,583	320,876	(58,766)	715,478
Credited to profit or loss	70,985	988	103,782	24,170	199,925
Exchange adjustments	(3,346)	(2,441)	(7,927)	(1,048)	(14,762)
<b>At 31 December 2016 and 1 January 2017</b>	<b>300,424</b>	<b>219,130</b>	<b>416,731</b>	<b>(35,644)</b>	<b>900,641</b>
Credited/(charged) to profit or loss	305,582	137,626	(81,484)	60,164	421,888
Exchange adjustments	936	279	517	(1,730)	2
<b>At 31 December 2017</b>	<b>606,942</b>	<b>357,035</b>	<b>335,764</b>	<b>22,790</b>	<b>1,322,531</b>

Represented by:

	2017 US\$	2016 US\$
Deferred tax assets	1,322,531	936,285
Deferred tax liabilities	–	(35,644)
<b>At 31 December</b>	<b>1,322,531</b>	<b>900,641</b>



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 21. INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION (Continued)

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

In accordance with the accounting policy set out in Note 2(q), the Group has not recognised deferred tax assets in respect of cumulative tax losses of US\$27,044,345 (2016: US\$23,086,106) of a subsidiary as at 31 December 2017, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity. The tax losses would expire within 5 years under current tax legislation.

### 22. PROVISIONS

	Warranties US\$	Severance pay US\$	Total US\$
At 1 January 2016	100,697	917,956	1,018,653
Additional provisions made	375,351	62,861	438,212
Provision utilised	(392,983)	(222,850)	(615,833)
Exchange adjustments	(589)	(5,011)	(5,600)
At 31 December 2016	82,476	752,956	835,432
At 1 January 2017	82,476	752,956	835,432
Additional provisions made	38,615	66,376	104,991
Provision utilised	(56,394)	(70,290)	(126,684)
Exchange adjustments	114	834	948
At 31 December 2017	64,811	749,876	814,687

Pursuant to the labour regulations in Vietnam, employers are required to pay a severance allowance to each local employee, who joined the Company before 1 January 2009, which was calculated as half a month's salary for every completed year of service when the employee leaves the Group. In addition, pursuant to the policy of the Group, a severance allowance will be paid to each Taiwanese employee (calculated as one month's salary for every completed year of service) when the employee leaves the Group. For both severance allowances, the obligation vests and is payable regardless of the reasons for departure.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 23. CAPITAL, RESERVES AND DIVIDENDS

#### (a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Group's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

The Company	Share capital US\$	Share premium US\$	Capital reserve US\$	Retained profits US\$	Total US\$
<b>Balance at 1 January 2016</b>	1,162,872	112,198,709	1,962,666	8,926,857	124,251,104
<b>Change in equity for 2016:</b>					
Total comprehensive income for the year	–	–	–	(1,660,227)	(1,660,227)
<b>Balance at 31 December 2016 and 1 January 2017</b>	1,162,872	112,198,709	1,962,666	7,266,630	122,590,877
<b>Change in equity for 2017:</b>					
Total comprehensive income for the year	–	–	–	(1,287,797)	(1,287,797)
<b>Balance at 31 December 2017</b>	1,162,872	112,198,709	1,962,666	5,978,833	121,303,080

#### (b) Share capital

	2017		2016	
	Number of shares	Amount US\$	Number of shares	Amount US\$
<b>Authorised:</b>				
Ordinary shares of HK\$0.01 each	10,000,000,000	12,811,479	10,000,000,000	12,811,479
<b>Ordinary shares, issued and fully paid:</b>				
At 1 January/31 December	907,680,000	1,162,872	907,680,000	1,162,872

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 23. CAPITAL, RESERVES AND DIVIDENDS (Continued)

#### (c) Nature and purpose of reserves

##### (i) Share premium

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

##### (ii) Capital reserve

Capital reserve represents the portion of the grant date fair value of unexercised share options granted to employees of the Company that has been recognised in accordance with the accounting policy adopted for share-based payments (see Note 2(p)(ii)).

##### (iii) Exchange reserve

The exchange reserves comprise all foreign exchange differences arising from the translation of the financial statements of foreign operations. The reserve is dealt with in accordance with the accounting policy adopted for foreign currencies (see Note 2(t)).

##### (iv) Statutory reserves

Statutory reserves represents the statutory reserve of Chin Zong.

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

#### (d) Distributability of reserves

At 31 December 2017, the aggregate amount of reserves available for distribution to equity shareholders of the Company was US\$118,177,542 (2016: US\$119,465,339).

#### (e) Capital management

The Group's primary objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group defines "capital" as including all components of equity less unaccrued proposed dividends.

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

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements in either the current or prior year.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

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

The Group's financial assets comprise mainly cash and cash equivalents, trade and other receivables and deposits with banks. The Group's financial liabilities comprise bank loans and trade and other payables.

Exposure to credit, interest rate, currency and liquidity risks arises in the normal course of the Group's business. The Group's exposure to these risks and the financial risk management policies and practices used by the Group to manage these risks are described below.

#### (a) Credit risk

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

The Group's exposure to credit risk is low as the Group generally offers no credit terms to domestic customers, which accounted for approximately 42% (2016: 43%) of total sales. Overseas customers are generally granted credit terms ranging from 30 days to 90 days.

At the end of the reporting period, 54% (2016: 74%) of the total trade receivables was due from the Group's largest debtor.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Individual credit evaluations are performed on all customers requiring credit over a certain amount. The Group does not obtain collateral in respect of trade receivables.

The maximum exposure to credit risk for trade receivables at the end of the reporting period by business type was as follows:

	2017 US\$	2016 US\$
Manufacture and sales of motorbikes	8,020,223	10,755,003
Manufacture and sales of spare parts and engines	1,181,116	1,505,911
Moulds and repair services	18,672	20,397
	<b>9,220,011</b>	12,281,311



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (b) Interest rate risk

The Group's interest rate risk arises primarily from the following interest-bearing financial assets and liabilities.

##### (i) Time deposits maturing after three months

Time deposits maturing after three months are placed to satisfy conditions for borrowing facilities granted to the Group and for higher yield returns than cash at banks.

##### (ii) Bank borrowings

The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes of interest rates.

##### (iii) Interest rate profile

At 31 December 2017, the interest rate profile of the Group was as follows:

	2017		2016	
	Effective interest rate %	US\$	Effective interest rate %	US\$
<b>Net variable rate deposits</b>				
Time deposits maturing after three months	1.06% – 6.8%	88,805,816	0.6% to 6.7%	93,040,713
Less: interest-bearing borrowings	2.0% – 5.1%	(23,343,521)	1.8% to 5.4%	(26,166,074)
		<b>65,462,295</b>		66,874,639

##### (iv) Sensitivity analysis

As at 31 December 2017, it is estimated that a general increase/decrease of 100 basis points in interest rates, with all other variables held constant, would have decreased/increased the Group's net loss after tax and increased/decreased the Group's retained profits by approximately US\$597,096 (2016: US\$572,450) in response to the general increase/decrease in interest rates.

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (c) Currency risk

The Group is exposed to currency risk primarily through sales and purchases which give rise to receivables, payables and cash balances that are denominated in a foreign currency i.e. a currency other than the functional currency of the operations to which the transactions relate. In addition, the Group's deposits with banks and bank loans denominated in a currency other than the functional currency of the entity to which they relate also give rise to currency risk. The currency giving rise to significant currency risk is primarily United States dollars ("US\$"), Renminbi ("RMB") and NT\$.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

#### (i) Exposure to currency risk

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

	Exposure to foreign currencies (expressed in United States dollars)		
	US\$	RMB	NT\$
<b>2017</b>			
Trade and other receivables	6,480,584	-	-
Time deposits maturing after three months	3,800,000	-	-
Cash and cash equivalents	2,683,797	3,278	-
Trade and other payables	(2,911,386)	(9,003)	(1,147,977)
Bank loans	(17,461,771)	-	-
Net exposure arising from recognised assets and liabilities	(7,408,776)	(5,725)	(1,147,977)
	Exposure to foreign currencies (expressed in United States dollars)		
	US\$	RMB	NT\$
<b>2016</b>			
Trade and other receivables	10,688,519	169,263	-
Time deposits maturing after three months	3,800,000	952,265	-
Cash and cash equivalents	1,300,775	16,892	-
Trade and other payables	(3,885,129)	(997,167)	(1,441,461)
Bank loans	(23,859,392)	-	-
Net exposure arising from recognised assets and liabilities	(11,955,227)	141,253	(1,441,461)



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (c) Currency risk (Continued)

##### (ii) Sensitivity analysis

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

	2017			2016		
	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) loss after tax US\$	(Decrease)/ increase retained profits US\$	Increase/ (decrease) in foreign exchange rates	Increase/ (decrease) loss after tax US\$	(Decrease)/ increase retained profits US\$
US\$	5%	301,210	(301,210)	5%	488,140	(488,140)
	(5)%	(301,210)	301,210	(5)%	(488,140)	488,140
RMB	5%	205	(205)	5%	(6,304)	6,304
	(5)%	(205)	205	(5)%	6,304	(6,304)
NT\$	5%	47,067	(47,067)	5%	59,100	(59,100)
	(5)%	(47,067)	47,067	(5)%	(59,100)	59,100

Results of the analysis as presented in the above table represent an aggregation of the instantaneous effects on each of the Group entities' loss after tax and equity measured in the respective functional currencies, translated into United States dollars at the exchange rate ruling at the end of the reporting period for presentation purposes.

The sensitivity analysis assumes that the change in foreign exchange rates had been applied to re-measure those financial instruments held by the Group which expose the Group to currency risk at the end of the reporting period, including inter-company payables and receivables within the Group which are denominated in a currency other than the functional currencies of the lender or the borrower. The analysis excludes differences that would result from the translation of the financial statements of foreign operations into the Group's presentation currency. The analysis is performed on the same basis for 2016.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 24. FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (Continued)

#### (d) Liquidity risk

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

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

2017	Contractual undiscounted cash outflow			Carrying amount at 31 December US\$
	Within 6 months or on demand US\$	More than 6 months but less than 1 year US\$	Total US\$	
Trade and other payables excluding receipts in advance from customers	11,563,805	–	11,563,805	11,563,805
Bank loans	23,520,200	–	23,520,200	23,343,521
	<b>35,084,005</b>	<b>–</b>	<b>35,084,005</b>	<b>34,907,326</b>

2016	Contractual undiscounted cash outflow			Carrying amount at 31 December US\$
	Within 6 months or on demand US\$	More than 6 months but less than 1 year US\$	Total US\$	
Trade and other payables excluding receipts in advance from customers	16,258,742	–	16,258,742	16,258,742
Bank loans	26,329,206	–	26,329,206	26,166,074
	<b>42,587,948</b>	<b>–</b>	<b>42,587,948</b>	<b>42,424,816</b>

#### (e) Business risk

The Group has certain concentration risk of raw materials and finished goods sourcing from related parties. The Group's total purchases of raw materials and finished goods from the related parties amounted to US\$10,656,077 (2016: US\$16,876,315) which accounted for approximately 14% (2016: 11%) of the Group's total purchases for the year ended 31 December 2017.

In the opinion of the directors, the Group has taken appropriate quality control measures to mitigate the effect from any claims caused by products, which may affect adversely its financial results and has made sufficient provision for warranty claims.

#### (f) Fair value measurement

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 2016 and 2017.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 25. COMMITMENTS

#### Operating lease commitments

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

	2017 US\$	2016 US\$
Within 1 year	140,360	141,332
After 1 year but within 5 years	363,456	324,528
After 5 years	1,523,351	1,593,783
	<b>2,027,167</b>	2,059,643

The Group is the lessee in respect of a number of properties held under operating leases. The leases typically run for an initial period of one to five years, except for a lease of land and factories which is for fifty years. None of the leases includes contingent rentals.

### 26. MATERIAL RELATED PARTY TRANSACTIONS

During the year ended 31 December 2017, transactions with the following parties are considered as material related party transactions:

Name of party	Relationship
Sanyang Motor Co., Ltd. ("Sanyang") (formerly known as Sanyang Industry Co., Ltd.)	The ultimate holding company
Qingzhou Engineering Industry Co., Ltd.	A subsidiary of Sanyang
Sanyang Global Co., Ltd.	A subsidiary of Sanyang
Sanyang Motor Vietnam Co., Ltd	A subsidiary of Sanyang
Xiamen Xiashing Motorcycle Co., Ltd.	A subsidiary of Sanyang
Jiyang Machinery Industry Co., Ltd.	A subsidiary of Sanyang
Full Ta Co., Ltd.	A subsidiary of Sanyang
Vietnam Three Brothers Machinery Industry Co., Limited	The associate of the Company and a non-wholly owned subsidiary of Sanyang



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 26. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### (a) Recurring transactions

	2017 US\$	2016 US\$
<b>Sales of finished goods and spare parts: Note (i)</b>		
Sanyang Motor Co., Ltd.	2,390,793	501,621
Xiamen Xiashing Motorcycle Co., Ltd.	-	9,283
	<b>2,390,793</b>	510,904
<b>Purchases of raw materials and finished goods: Note (ii)</b>		
Sanyang Motor Co., Ltd.	4,263,920	6,587,891
Qingzhou Engineering Industry Co., Ltd.	-	186,109
Sanyang Global Co., Ltd.	257,336	4,334,755
Xiamen Xiashing Motorcycle Co., Ltd.	1,063,334	608,730
Jiyang Machinery Industry Co., Ltd.	2,284,682	1,517,704
Vietnam Three Brothers Machinery Industry Co., Limited	2,785,822	3,940,529
	<b>10,655,094</b>	17,175,718
<b>Purchases of property, plant and equipment: Note (iii)</b>		
Sanyang Motor Co., Ltd.	490,055	1,885,310
Xiamen Xiashing Motorcycle Co., Ltd.	232,867	-
Sanyang Motor Vietnam Co., Ltd	2,286	33,334
Vietnam Three Brothers Machinery Industry Co., Limited	145,973	88,782
	<b>871,181</b>	2,007,426
<b>Technology transfer fees: Note (iv)</b>		
Sanyang Motor Co., Ltd.	934,865	3,224,785
<b>Technical consultancy fees: Note (v)</b>		
Sanyang Motor Co., Ltd.	729,634	1,007,769



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 26. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

#### (a) Recurring transactions (Continued)

Notes:

- (i) Sales of finished goods and spare parts are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.
- (ii) Purchases of raw materials and finished goods are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.
- (iii) Purchases of property, plant and equipment were carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and in the ordinary course of business.
- (iv) Pursuant to certain technology transfer agreements entered into between Sanyang, the Company and VMEP ("Technology License Agreements"), Sanyang has granted an exclusive license to VMEP to use the technology, know-how, trade secrets and production information owned by Sanyang in connection with the Group's manufacturing and sale of "SYM" brand motorbikes and related parts in all of the member countries of the Association of South East Asians Nations, including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam. The license fee as provided for in the Technology License Agreement is 4% of the annual net selling price of products manufactured using such technology. Starting from 1 January 2017, technology transfer fees are only payable for motorbikes and related products within 3 years from the date of commencement of mass production.
- (v) Technical consultancy fees charged by Sanyang are staff costs and other related expenses, as defined in the technical consultancy agreement entered into between the Company and Sanyang.

#### (b) Amounts due from related parties

	2017 US\$	2016 US\$
<b>Trade</b>		
Sanyang Motor Co., Ltd.	124,038	73,342
Sanyang Global Co., Ltd.	57	73,848
Xiamen Xiashing Motorcycle Co., Ltd.	1,941	2,255
Vietnam Three Brothers Machinery Industry Co., Limited	153	-
Jiyang Machinery Industry Co., Ltd.	28,345	283,259
<b>Subtotal</b>	<b>154,534</b>	432,704
<b>Non-trade</b>		
Sanyang Motor Co., Ltd.	8,224	29,497
Vietnam Three Brothers Machinery Industry Co., Limited	-	33,090
<b>Subtotal</b>	<b>8,224</b>	62,587
<b>Total</b>	<b>162,758</b>	495,291

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



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 26. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

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

	2017 US\$	2016 US\$
<b>Trade</b>		
Sanyang Motor Co., Ltd.	914,813	765,532
Sanyang Global Co., Ltd.	1,382	143,734
Xiamen Xiashing Motorcycle Co., Ltd.	527,272	67,927
Jiyang Machinery Industry Co., Ltd.	182,219	486,200
Vietnam Three Brothers Machinery Industry Co., Limited	183,596	284,764
<b>Subtotal</b>	<b>1,809,282</b>	1,748,157
<b>Non-trade</b>		
Sanyang Motor Co., Ltd.	1,355,886	2,024,829
Full Ta Co., Ltd.	-	10,316
<b>Subtotal</b>	<b>1,355,886</b>	2,035,145
<b>Total</b>	<b>3,165,168</b>	3,783,302

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

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

#### (d) Key management personnel remuneration

Remuneration for key management personnel of the Group, including amounts paid to the Company's directors as disclosed in Note 8 and certain of the highest paid employees as disclosed in Note 9, is as follows:

	2017 US\$	2016 US\$
Short-term employee benefits	784,294	670,347



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 27. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2017 US\$	2016 US\$
<b>Non-current assets</b>		
Investments in subsidiaries	63,285,883	63,285,883
<b>Current assets</b>		
Trade receivables, other receivables and prepayments	23,982,941	23,946,684
Time deposits maturing after three months	33,291,719	35,025,776
Cash and cash equivalents	1,304,290	814,490
	<b>58,578,950</b>	59,786,950
<b>Current liabilities</b>		
Other payables	333,205	289,527
Provisions	228,548	192,429
	<b>561,753</b>	481,956
<b>Net current assets</b>	<b>58,017,197</b>	59,304,994
<b>Total assets less current liabilities</b>	<b>121,303,080</b>	122,590,877
<b>Net assets</b>	<b>121,303,080</b>	122,590,877
<b>Capital and reserves</b>		
Share capital	1,162,872	1,162,872
Reserves	120,140,208	121,428,005
<b>Total equity</b>	<b>121,303,080</b>	122,590,877

Approved and authorised for issue by the Board of Directors on 26 March 2018.

**Lu, Tien-Fu**  
Director

**Lin, Chun-Yu**  
Director



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 28. NON ADJUSTING EVENT AFTER THE REPORTING PERIOD

On 26 March 2018, the Company entered into a Sale and Purchase Agreement with SY International Ltd. ("SYI"), the immediate parent of the Company, pursuant to which the Company has conditionally agreed to purchase and SYI has conditionally agreed to sell the capital contribution in Sanyang Motor Vietnam Company Limited, a limited liability company incorporated in Vietnam (the "Acquisition") at a total consideration of US\$2,700,000. The Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to the reporting and announcement requirements and the independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The Acquisition is expected to be completed by July 2018.

### 29. COMPARATIVE FIGURES

Certain comparative figures have been adjusted to conform to current year's presentation.

### 30. IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 December 2017, the directors consider the immediate parent and ultimate controlling party of the Company to be SY International Ltd. and Sanyang Motor Co., Ltd., respectively. Sanyang Motor Co., Ltd. is incorporated in Taiwan and produces financial statements available for public use.

### 31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	<b>Effective for accounting periods beginning on or after</b>
IFRS 9, <i>Financial instruments</i>	1 January 2018
IFRS 15, <i>Revenue from contracts with customers</i>	1 January 2018
Amendments to IFRS 2, <i>Share-based payment: Classification and measurement of share-based payment transactions</i>	1 January 2018
Amendments to IAS 40, <i>Investment property: Transfers of investment property</i>	1 January 2018
IFRIC 22, <i>Foreign currency transactions and advance consideration</i>	1 January 2018
IFRS 16, <i>Leases</i>	1 January 2019
IFRIC 23, <i>Uncertainty over income tax treatments</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 9 and IFRS 15, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's consolidated financial statements for the year ending 31 December 2018. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in the consolidated financial statements.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

#### **IFRS 9, Financial instruments**

IFRS 9 will replace the current standard on accounting for financial instruments, IAS 39, *Financial instruments: Recognition and measurement*. IFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, IFRS 9 incorporates without substantive changes the requirements of IAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

IFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

#### – Impairment

The new impairment model in IFRS 9 replaces the "incurred loss" model in IAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised.

Instead, an entity is required to recognise and measure either a 12-month expected credit loss or a lifetime expected credit loss, depending on the asset and the facts and circumstances. The Group expects that the application of the expected credit loss model will result in earlier recognition of credit losses.

#### **IFRS 15, Revenue from contracts with customers**

IFRS 15 establishes a comprehensive framework for recognising revenue from contracts with customers. IFRS 15 will replace the existing revenue standards, IAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and IAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

#### – Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 2(s). Currently, revenue arising from the sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers.

Under IFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract.

The Group recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sales of goods.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 31. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 DECEMBER 2017 (Continued)

#### IFRS 16, Leases

As disclosed in note 2(i), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

IFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once IFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

IFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 25, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to US\$2,027,167 for properties and other assets, the majority of which is payable either between 1 and 5 years after the reporting date or in more than 5 years. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once IFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of IFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of IFRS 16 and the effects of discounting.

The Group is considering whether to adopt IFRS 16 before its effective date of 1 January 2019. However, early adoption of IFRS 16 is only permitted if this is no earlier than the adoption of IFRS 15. It is therefore unlikely that IFRS 16 will be adopted before the effective date of IFRS 15, being 1 January 2018.



## Notes to the Consolidated Financial Statements

(Expressed in United States dollars unless otherwise indicated)

### 32. LIST OF PRINCIPAL SUBSIDIARIES

Details of the principal subsidiaries of the Company as at 31 December 2017 are set out below. The class of shares held is ordinary unless otherwise stated.

Name of company	Place and date of incorporation, establishment and operation	Particulars of issued and fully paid share capital/registered capital	Proportion of ownership interest		Principal activity
			Held by the Company %	Held by a subsidiary %	
Vietnam Manufacturing and Export Processing Co., Ltd	Vietnam 25 March 1992	US\$58,560,000/ US\$58,560,000	100	–	Manufacturing and sales of motorbikes and related spare parts
Chin Zong Trading Co., Ltd.	Taiwan 6 July 2007	US\$4,528,712/ US\$9,057,424	100	–	Sales of motor vehicles and motorbikes and related spare parts
Vietnam Casting Forge Precision Ltd.	Vietnam 12 April 2002	US\$4,500,000/ US\$4,500,000	–	100	Manufacturing of spare parts for motorbikes and motor vehicles
Duc Phat Molds Inc.	Vietnam 14 June 2002	US\$1,200,000/ US\$1,200,000	–	100	Manufacturing and processing of moulds and jigs

