VMEPH
Vietnam

Vietnam Manufacturing and Export Processing (Holdings) Limited

越南製造加工出口(控股)有限公司

(Incorporated in the Cayman Islands with limited liability)

(Stock Code: 422)

INTERIM REPORT 2019

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Liu Wu Hsiung (Chairman)
Mr. Lin Chih Ming (Chief Executive Officer)
Mr. Lin Chun Yu
Mr. Chiang Chin Yung

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

AUDITORS

KPMG

LEGAL ADVISERS

Norton Rose Fulbright Hong Kong

REGISTERED OFFICE

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

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Dong Nai Vietnam

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40th Floor, Sunlight Tower
No. 248 Queen's Road East
Wanchai, Hong Kong

CAYMAN ISLANDS PRINCIPAL SHARE REGISTRAR

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

Computershare Hong Kong
Investor Services Limited
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183 Queen's Road East,
Wanchai Hong Kong

STOCK CODE

422

WEBSITE AND CONTACT

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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.

OPERATING ENVIRONMENT

In the first half of 2019, the global economy was still troubled by uncertainties. The US-Sino trade war escalated and the status of conflicts in the Middle East remained intense with tensions combined to impact the fluctuation on international exchange rates and interest rates. These unstable factors have added uncertainty to the global economic and market atmosphere. Consumers have become more cautious, which ultimately affected the Group's business growth during the period.

In Vietnam, the growth rate of the gross domestic product (GDP) in the first half of 2019 was 6.76%, slightly lower than 7.08% in the first half of 2018. The overall macroeconomic has slowed down step by step. Nevertheless, the intense price competition in the motorcycle markets has shown no signs of abating, which affected not only the Group's major markets but also its overall profitability.

In the first half of 2019, according to the statistics of The Vietnam Association of Motorcycle Manufacturers, the five largest foreign direct investment manufacturers in Vietnam sold more than 1.49 million units of motorbikes in total, demonstrating the continuous expansion of foreign investment manufacturers in Vietnam, which led the Group to an intensive competition during the period.

BUSINESS REVIEW

For the six months ended 30 June 2019, the Group sold about 22,700 units of motorbikes (including about 2,500 units of scooters, 18,300 units of cubs and 1,900 units of electric motorbikes) in Vietnam, representing a decrease of 11% as compared with the same period last year. The Group exported about 26,900 units of motorbikes to ASEAN countries, representing a decrease of 27% as compared with the same period last year. The decrease was attributable to the intense price competition among motorcycle industry players has also presented challenges to the Group's major markets and further squeezed its overall profitability. Confronted with such serious issues in both sales and production, the Group has strived to improve and adjust its production and followed its business strategy of "ensuring profit is the priority", the Group did not participate in the price-cutting market competition. Instead, the Group progressively increased the selling price of certain products and reduced the supply of low-margin models. Therefore, sales volume in all markets declined in different degrees. In the ASEAN countries, in particular of Malaysia and the Philippines which are the major markets of the Group in terms of export sales, the Group continued to suffer from the import of low-priced motorbikes from China, and the competition from Japanese manufacturers who aggressively seized the market share with their strong brand names and ample resources. Sales volume in those markets dropped as a result.

To cope with the rapidly evolving and competitive environment, in the first half of 2019, the Group was committed to fortifying its business by expanding and deepening its sales network. For the first half of 2019, the Group has 199 SYM-authorised stores owned by dealers to cover almost every province in Vietnam.

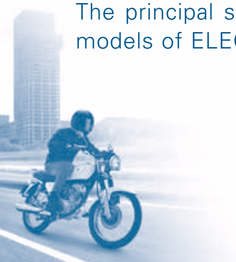
FINANCIAL REVIEW

The Group's revenue decreased by 0.9% from US$44.5 million for the six months ended 30 June 2018 to US$44.1 million for the six months ended 30 June 2019. The Group's net loss for the six months ended 30 June 2019 increased by US$2.8 million, from a net loss of US$5.6 million for the six months ended 30 June 2018 to a net loss of US$8.4 million for the six months ended 30 June 2019.

REVENUE

The Group's revenue for the six months ended 30 June 2019 was US$44.1 million, representing a decrease of US$0.4 million or 0.9% as compared with US$44.5 million for the six months ended 30 June 2018. Such decrease was mainly attributable to the decline in sales volume in Vietnam and the ASEAN countries in the face of fierce business competition. The decline in sales volume in all markets was partially compensated by the implementation of the Group's strategy of "ensuring profit is the priority".

The principal scooter models include ATTILA-V, ELIZABETH, ELITE and SHARK, and cub models of ELEGANT, GALAXY, START X, AMIGO and ANGELA.



COST OF SALES

The Group's cost of sales decreased by 6%, from US$45.1 million for the six months ended 30 June 2018 to US$42.3 million for the six months ended 30 June 2019. As a percentage of total revenue, the Group's cost of sales decreased from 101% for the six months ended 30 June 2018 to 96% for the six months ended 30 June 2019. The total cost of sales of the Group during the six months ended 30 June 2019 remained high due to the rising labour costs and costs of raw materials, spare parts and assemblies in Vietnam. The Group will continue to strive to decrease the production cost per unit and stabilise production costs by developing new sourcing channels and reselecting suppliers.

GROSS PROFIT/(LOSS) AND GROSS PROFIT/(LOSS) MARGIN

During the six months ended 30 June 2019, the Group recorded a gross profit and gross profit margin of approximately US$1.8 million and 4% respectively (six months ended 30 June 2018: gross loss and gross loss margin of approximately US$0.6 million and 1% respectively). The overall gross profit showed improvement, mainly attributable to the decrease in depreciation expenses after the impairment provision for the property, plant and equipment and other assets in respect of the business of manufacturing and sale of motorbikes in 2018. However, having regard to the market competition, the Group was unable to reflect the increased costs by adjusting its selling prices for the time being. The greater increase in costs than in prices will continue to negatively impact the profitability of the Group's products. The Group has actively reviewed and optimised the sales mix of products, implemented a persistent control over production costs, and explored strategic alliances and collaborations. These moves, coupled with its geographical advantage and international experience, are expected to enhance the business synergy and diversify the income stream of the Group.

DISTRIBUTION EXPENSES

The Group's distribution expenses decreased by 4%, from US$2.8 million for the six months ended 30 June 2018 to US$2.7 million for the six months ended 30 June 2019. Such decrease was mainly attributed to rectification of existing distribution network, a decrease of sales incentives and supporting fees to the distributors.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses decreased by 5%, from US$4.3 million for the six months ended 30 June 2018 to US$4.1 million for the six months ended 30 June 2019. The expenses accounted for 9% of the Group's total revenue for the six months ended 30 June 2019. The decrease was principally due to the decrease of research and development expenses, and efforts to boost the operation efficiency and strengthen the expense control.

RESULTS FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's results from operating activities improved by US$2.7 million, from a loss of US$8.2 million for the six months ended 30 June 2018 to a loss of US$5.5 million for the six months ended 30 June 2019.

NET FINANCE INCOME

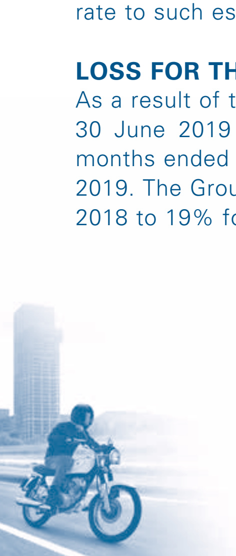
The Group's net finance income decreased by 42%, from US$1.9 million for the six months ended 30 June 2018 to US$1.1 million for the six months ended 30 June 2019. Such decrease was mainly attributable to a decrease in interest income by US$0.8 million and an increase in finance cost by US$0.07 million.

IMPAIRMENT ON OTHER PROPERTY, PLANT AND EQUIPMENT, RIGHT-OF-USE ASSETS AND PREPAYMENTS FOR OTHER PROPERTY, PLANT AND EQUIPMENT

Due to the poor results of the Group's manufacturing and sales of motorbikes segment, manufacturing and sales of spare parts and engines segment and moulds and services segment during the six months ended 30 June 2019, the Group considered it was an indication that the other property, plant and equipment for the manufacturing and sales of motorbikes segment, manufacturing and sales of spare parts and engines segment and moulds and services segment (the "Relevant PPE"), right-of-use assets and prepayments for other property, plant and equipment be impaired. Accordingly, the Group carry out an impairment testing on the Relevant PPE, right-of-use assets and prepayments for other property, plant and equipment and noted an impairment loss of approximately US$4.0 million on the other property, plant and equipment, right-of-use assets and prepayments for other property, plant and equipment were required as at 30 June 2019. The recoverable amount of the Relevant PPE, right-of-use assets and prepayments for other property, plant and equipment were determined based on the higher of its value-in-use and the fair value less costs of disposal calculation. The estimate of the recoverable amount of the non-current assets has been determined based on a value-in-use calculation. These calculations are estimated based on (i) the estimated future cash flow to be generated from the continuing use of those assets; and (ii) an appropriate discount rate to such estimated future cash flow i.e. a pre-tax discount rates of 13% (2018: 11%).

LOSS FOR THE PERIOD AND MARGIN

As a result of the factors discussed above, the Group's net loss for the six months ended 30 June 2019 increased by US$2.8 million, from a loss of US$5.6 million for the six months ended 30 June 2018 to a loss of US$8.4 million for the six months ended 30 June 2019. The Group's net loss margin worsened from 13% for the six months ended 30 June 2018 to 19% for the six months ended 30 June 2019.



LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group's net current assets amounted to US$69.4 million (31 December 2018: US$77.7 million) which consisted of current assets amounting to US$108.5 million (31 December 2018: US$110.8 million) and current liabilities amounting to US$39.0 million (31 December 2018: US$33.1 million).

As at 30 June 2019, the Group had bank loans repayable within one year of US$20.1 million, including US$20.1 million denominated in US dollar (31 December 2018: US$18.9 million, including US$15.8 million denominated in US dollar and US$3.1 million denominated in Vietnamese Dong). As at 30 June 2019, the Group had no interest-bearing bank loans repayable beyond one year (31 December 2018: Nil). As at 30 June 2019, the gearing ratio was 27% (31 December 2018: 23%) calculated as the ratio of total bank loans over total equity.

As at 30 June 2019, the cash and bank balances (including bank deposits) amounted to US$63.9 million, including US$34.9 million denominated in Vietnamese Dong and US$29.0 million denominated in US dollar (31 December 2018: US$63.7 million, which mainly included US$34.7 million denominated in Vietnamese Dong and US$29.0 million denominated in US dollar).

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.

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.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group offers competitive remuneration packages to its staff in Vietnam and Taiwan, and regularly reviews its remuneration packages in light of the overall development of the Group. The Group's remuneration packages include basic salaries, bonuses, staff quarters, training and development opportunities, medical benefits, insurance plan and retirement benefits. As at 30 June 2019, the Group had 1,618 employees (30 June 2018: 1,680). The total amount of salaries and related costs for the employees for the six months ended 30 June 2019 amounted to approximately US$7.0 million (six months ended 30 June 2018: US$6.2 million).

CONTINGENT LIABILITIES

As at 30 June 2019, the Group did not have any contingent liabilities.

MERGER AND ACQUISITIONS OF SUBSIDIARIES

Duc Phat Molds Inc., a subsidiary of the Group, was approved by Vietnam government to merge with Vietnam Manufacturing and Export Processing Co., Limited ("VMEP"), a wholly-owned subsidiary of the Group on 8 May 2019.

VMEP acquired 99.66% of the equity interest of Dinh Duong Joint Stock Company, a company incorporated in Vietnam, at the total consideration of Vietnam Dong 29,250,000,000 (equivalent to US$1,263,772) on 10 May 2019.

Save as disclosed above, for the six months ended 30 June 2019, the Group had no acquisition or disposal of subsidiaries and associated companies.

CHANGES SINCE 31 DECEMBER 2018

Save as disclosed in this report, since 31 December 2018, there were no other significant changes in the Group's financial position and there were no other significant changes in relation to the information disclosed under the section headed "Management Discussion and Analysis" in the annual report of the Company for the year ended 31 December 2018.

PROSPECTS

In 2019, the Vietnam government has actively participated in the consolidation of the regional economy. It has benefitted from the introduction of foreign direct investment ("FDI") facilitated by, for example, the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) and the European Union's free trade agreements (FTA). Vietnam has also benefitted from the shift of investment from foreign investors to the country to avoid the trade tensions. However, it still has to face the risks caused by the Sino-US trade disputes and non-tariff barriers for export products will also add uncertainties which may affect Vietnam economic growth.

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 the second half of 2019, the Group plans to roll out a number of new or modified motorbike models in the Vietnamese and ASEAN market 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 new motorbike models to boost and stimulate the sales volume of export.

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.

APPLICATION OF INITIAL PUBLIC OFFERING PROCEEDS

The proceeds from the initial public offering of the Company in December 2007, net of related listing expenses, amounted to approximately US$76.7 million, which will be used in accordance with the manners stated in the prospectus of the Company (the "Prospectus") and the announcement headed "change in use of proceeds" of the Company dated 10 May 2019 (the "Announcement").

The table below sets out the detailed items of the use of proceeds from the initial public offering as at 30 June 2019:

	Net proceeds from the initial public offering as stated in the Prospectus and the Announcement Approximately in *US$' million*	**Amounts utilised as at 30 June 2019** Approximately in *US$' million*	**Balance unutilised as at 30 June 2019** Approximately in *US$' million*
Construction of research and development centre in Vietnam	11.7	11.7	–
Expanding distribution channels in Vietnam			
– Upgrading of existing facilities	4.0	4.0	–
– Establishing of new facilities	15.0	15.0	–
Mergers and acquisitions	9.0	9.0	–
General working capital	2.7	2.7	–
Development of production sites as well as the relocation of existing production facilities	15.0	3.0	12.0
Land development	19.3	–	19.3
Total	76.7	45.4	31.3

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

OTHER INFORMATION

CHANGES OF DIRECTORS' AND CHIEF EXECUTIVE'S INFORMATION

No information relating to the directors or chief executive of the Company is required to be disclosed in accordance with Rules 13.51(2) and 13.51(B)(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") since the publication of the Company's 2018 annual report.

SHARE OPTION SCHEME

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

The Board has not granted any share options under the share option scheme during the six months ended 30 June 2019 and no share options was outstanding as at 30 June 2019. The share option scheme expired on 23 November 2017 and no further options could be granted under the share option scheme therefor.

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 30 June 2019, 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 Securities and Futures Ordinance (the "SFO"), which were required to be notified to the Company and the Stock Exchange of Hong Kong Limited ("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 for Securities Transactions by Directors of Listed Issuers (the "Model Code") contained in Appendix 10 to the Listing Rules 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[1] (%)
Mr. Liu Wu Hsiung	Ordinary Shares	Beneficial owner	111,380 (L)	0.013%
Mr. Lin Chih Ming	Ordinary Shares	Beneficial owner	26,793 (L)	0.003%
Mr. Chiang Chin Yung	Ordinary Shares	Beneficial owner	165,480 (L)	0.019%
Mr. Chiu Ying Feng	Ordinary Shares	Beneficial owner	18,412 (L)	0.002%
Ms. Wu Li Chu	Ordinary Shares	Beneficial owner	17,046,560 (L)	1.997%

(L) – Long position

Note:

1. The calculation is based on the total number of 853,595,604 shares of Sanyang Motor Company Limited in issue as of 30 June 2019.

Save as disclosed above, as at 30 June 2019, so far as is known to the directors of the Company, 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.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As of 30 June 2019, 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 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.[1]	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 30 June 2019, the directors of the Company 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' RIGHTS TO ACQUIRE SHARES

At no time during the six months ended 30 June 2019 were rights to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, granted to any directors of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of the subsidiaries of the Company, or any of the Company's holding companies, or any of the subsidiaries of such holding companies a party to any arrangement to enable the directors of the Company to acquire such benefits through such means.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2019, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to 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, among others, the following duties: (i) review the structure, size and composition of the Board, (ii) select and nominate individuals to be appointed as directors, (iii) assess the independence of independent non-executive directors, and (iv) make recommendations to the Board on the appointment or reappointment of directors and succession planning for directors. The Company has not set up a nomination committee as all major decisions regarding the Board composition and its members are made in consultation with the Board in which all directors of the Company will participate in the process and perform the duties of a nomination committee as contemplated in the Code. The Board considers that it is not necessary to establish a nomination committee given that the current arrangements meet the objectives of the Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code contained in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the directors of the Company. Having made specific enquiry of all directors of the Company, the Company confirms that the directors of the Company have complied with the required standards set out in the Model Code for the six months ended 30 June 2019.

PUBLIC FLOAT

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

EVENT AFTER THE REPORT DATE

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

During the six months ended 30 June 2019, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The unaudited interim results for the six months ended 30 June 2019 and the interim report have been reviewed by the audit committee of the Company which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements.

INTERIM DIVIDEND

The Board has resolved not to recommend payment of interim dividend for the six months ended 30 June 2019 (2018: Nil). Accordingly, no closure of the register of members of the Company is proposed.

OUR APPRECIATION

Finally, we would like to express our gratitude to the shareholders of the Company and the suppliers and customers of the Group for their unwavering support. We would also like to thank our dedicated staff for their hard work and contribution to the Group.

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

Hong Kong, 12 August 2019

Review report to the Board of Directors of
Vietnam Manufacturing and Export Processing (Holdings) Limited
(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 16 to 40 which comprises the consolidated statement of financial position of Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") as of 30 June 2019 and the related consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six-month period then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of an interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34, *Interim financial reporting*, issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

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

SCOPE OF REVIEW

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

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report as at 30 June 2019 is not prepared, in all material respects, in accordance with International Accounting Standard 34, *Interim financial reporting*.

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

12 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 - unaudited
(Expressed in United States dollars)

		Six months ended 30 June	
		2019	2018
			(Note)
	Note	***US$***	*US$*
Revenue	*4*	**44,078,363**	44,540,908
Cost of sales		**(42,265,863)**	(45,092,373)
Gross profit/(loss)		**1,812,500**	(551,465)
Other income		**266,383**	156,768
Distribution costs		**(2,691,264)**	(2,848,486)
Technology transfer fees		**(821,265)**	(598,128)
Administrative expenses		**(4,082,216)**	(4,341,510)
Other operating expenses		**(13,916)**	(16,333)
Results from operating activities		**(5,529,778)**	(8,199,154)
Finance income		**1,432,147**	2,208,113
Finance costs		**(343,954)**	(277,936)
Net finance income	*5(a)*	**1,088,193**	1,930,177
Impairment loss on other property, plant and equipment	*5(c)*	**(1,206,954)**	–
Impairment loss on prepayments for other property, plant and equipment	*5(c)*	**(1,793,806)**	–
Impairment loss on right-of-use assets	*5(c)*	**(994,232)**	–
Share of profit/(loss) of an associate		**7,886**	(4,707)
		(3,987,106)	(4,707)
Loss before taxation	*5*	**(8,428,691)**	(6,273,684)
Income tax credit	*6*	**258**	689,363
Loss for the period attributable to equity shareholders of the Company		**(8,428,433)**	(5,584,321)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019 - unaudited (continued)
(Expressed in United States dollars)

		Six months ended 30 June	
		2019	2018 (Note)
	Note	***US$***	*US$*
Other comprehensive income for the period (after tax)			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		**(221,432)**	(973,257)
Total comprehensive income for the period attributable to equity shareholders of the Company		**(8,649,865)**	(6,557,578)
Loss per share			
– Basic and diluted	*7*	**(0.009)**	(0.006)

Note: The Group has initially applied IFRS 16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

The notes on pages 22 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 - unaudited
(Expressed in United States dollars)

	Note	**At 30 June 2019** **US$**	At 31 December 2018 *(Note)* US$
Non-current assets			
Investment property	*9*	**1,259,690**	–
Other property, plant and equipment	*9*	**3,238,359**	3,324,760
Interest in an associate		**488,756**	482,437
Other non-current prepayments		**–**	628,727
		4,986,805	4,435,924
Current assets			
Inventories	*10*	**20,679,248**	24,571,587
Trade receivables, other receivables and prepayments	*11*	**23,860,253**	22,446,972
Cash and bank balances	*12*	**63,904,743**	63,732,793
Current tax recoverable		**34,915**	23,938
		108,479,159	110,775,290
Current liabilities			
Trade and other payables	*13*	**17,695,464**	13,392,333
Bank loans	*14*	**20,113,954**	18,925,591
Lease liabilities		**73,138**	–
Current tax payable		**–**	22,763
Provisions		**1,160,159**	737,757
		39,042,715	33,078,444
Net current assets		**69,436,444**	77,696,846
Total assets less current liabilities		**74,423,249**	82,132,770
Non-current liabilities			
Lease liabilities		**936,180**	–
Deferred tax liabilities		**12,894**	13,037
		949,074	13,037
NET ASSETS		**73,474,175**	82,119,733

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019 - unaudited (continued)
(Expressed in United States dollars)

	At 30 June 2019 US$	At 31 December 2018 *(Note)* US$
Capital and reserves		
Share capital	**1,162,872**	1,162,872
Reserves	**72,306,996**	80,956,861
Total equity attributable to equity shareholders of the Company	**73,469,868**	82,119,733
Non-controlling interests	**4,307**	–
TOTAL EQUITY	**73,474,175**	82,119,733

Note: The Group has initially applied IFRS 16 at 1 January 2019 using modified retrospective approach. Under this approach, comparative information is not restated. See note 3.

Approved and authorised for issue by the Board of Directors on 12 August 2019.

Director
Mr. Lin Chih Ming

Director
Mr. Lin Chun Yu

The notes on pages 22 to 40 form part of this interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019 - unaudited
(Expressed in United States dollars)

	Share capital	Share premium	Capital reserve	Exchange reserves	Statutory reserves	Retained profits/ accumulated loss	Total	Non-controlling interests	Total equity
	US$	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*	*US$*
Balance at 1 January 2018	1,162,872	112,198,709	1,962,666	(33,625,439)	237,708	43,857,982	125,794,498	–	125,794,498
Changes in equity for the period:									
Loss for the period	–	–	–	–	–	(5,584,321)	(5,584,321)	–	(5,584,321)
Other comprehensive income	–	–	–	(973,257)	–	–	(973,257)	–	(973,257)
Total comprehensive income	–	–	–	(973,257)	–	(5,584,321)	(6,557,578)	–	(6,557,578)
Balance at 30 June 2018	1,162,872	112,198,709	1,962,666	(34,598,696)	237,708	38,273,661	119,236,920	–	119,236,920
Balance at 1 January 2019	1,162,872	112,198,709	1,962,666	(35,457,531)	–	2,253,017	82,119,733	–	82,119,733
Changes in equity for the period:									
Loss for the period	–	–	–	–	–	(8,428,433)	(8,428,433)	–	(8,428,433)
Other comprehensive income	–	–	–	(221,432)	–	–	(221,432)	–	(221,432)
Total comprehensive income	–	–	–	(221,432)	–	(8,428,433)	(8,649,865)	–	(8,649,865)
Acquisition of a subsidiary	–	–	–	–	–	–	–	4,307	4,307
Balance at 30 June 2019	1,162,872	112,198,709	1,962,666	(35,678,963)	–	(6,175,416)	73,469,868	4,307	73,474,175

The notes on pages 22 to 40 form part of this interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

For the six months ended 30 June 2019 - unaudited
(Expressed in United Stated dollars)

	Six months ended 30 June	
	2019	2018
	US$	*US$*
Cash generated from/(used in) operations	**1,508,798**	(7,650,971)
Tax paid	**(33,618)**	(5,729)
Net cash generated from/(used in) operating activities	**1,475,180**	(7,656,700)
Investing activities		
Decrease in time deposits maturing after three months	**6,105,263**	21,996,698
Others	**(2,210,105)**	43,777
Net cash generated from investing activities	**3,895,158**	22,040,475
Financing activities		
Proceeds from borrowings	**23,482,077**	29,764,143
Repayment of borrowings	**(22,230,914)**	(27,629,475)
Other interest paid	**(330,872)**	(288,627)
Net cash generated from financing activities	**920,291**	1,846,041
Net increase in cash and cash equivalents	**6,290,629**	16,229,816
Cash and cash equivalents at 1 January	**28,578,446**	13,356,314
Effect of foreign exchange rate changes	**(13,416)**	(57,537)
Cash and cash equivalents at 30 June	**34,855,659**	29,528,593

The notes on pages 22 to 40 form part of this interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

(Expressed in United Stated dollars unless otherwise indicated)

1. REPORTING CORPORATE INFORMATION

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

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

The Company's shares have been listed on the Main Board of The Stock Exchange of Hong Kong Limited since 20 December 2007.

2. BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB"). It was authorised for issue on 12 August 2019.

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

2. BASIS OF PREPARATION (Continued)

The interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 15.

The financial information relating to the financial year ended 31 December 2018 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's auditor has reported on those financial statements. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

3. CHANGES IN ACCOUNTING POLICIES

The IASB has issued a new IFRS, IFRS 16, *Leases*, and a number of amendments to IFRSs that are first effective for the current accounting period of the Group.

Except for IFRS 16, *Leases*, none of the developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented in this interim financial report. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

IFRS 16, *Leases*

IFRS 16 replaces IAS 17, *Leases*, and the related interpretations, IFRIC 4, *Determining whether an arrangement contains a lease*, SIC 15, *Operating leases – incentives*, and SIC 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less ("short-term leases") and leases of low value assets. The lessor accounting requirements are brought forward from IAS 17 substantially unchanged.

The Group has initially applied IFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. Comparative information has not been restated and continues to be reported under IAS 17.

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

3. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 16, *Leases* (continued)

(a) Changes in the accounting policies

(i) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. IFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in IFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under IAS 17 continue to be accounted for as leases under IFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(ii) Lessee accounting

IFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by IAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under IAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to other property, plant and equipment as disclosed in note 16(b).

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are typically laptops or office furniture. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 16, *Leases* (continued)

(a) Changes in the accounting policies (continued)

(ii) Lessee accounting (continued)

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

(b) Transitional impact

At the date of transition to IFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 6.8% per annum.

To ease the transition to IFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of IFRS 16:

(i) when measuring the lease liabilities at the date of initial application of IFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and

(ii) when measuring the right-of-use assets at the date of initial application of IFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

3. CHANGES IN ACCOUNTING POLICIES (Continued)

IFRS 16, *Leases* (continued)

(b) Transitional impact (continued)

The following table reconciles the operating lease commitments as disclosed in note 16(b) as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019 ***US$***
Operating lease commitments at 31 December 2018	**1,870,609**
Add: lease payments for the additional periods where the Group considers it reasonably certain that it will exercise the extension options	**811,092**
	2,681,701
Less: total future interest expenses	**(1,669,112)**
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019 and total lease liabilities recognised at 1 January 2019	**1,012,589**

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the statement of financial position at 31 December 2018.

The Group presents right-of-use assets in "other property, plant and equipment" and presents lease liabilities separately in the statement of financial position.

There is no impact on the opening balance of the Group's equity as at 1 January 2019 on the initial application of IFRS 16.

4. REVENUE AND SEGMENT REPORTING

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has identified three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	Six months ended 30 June	
	2019	2018
	US$	*US$*
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
– Manufacture and sale of motorbikes	**37,118,869**	36,873,016
– Manufacture and sale of spare parts and engines	**6,939,860**	7,637,002
– Moulds and repair services	**19,634**	30,890
	44,078,363	44,540,908
Disaggregated by geographical location of customers		
– Vietnam (place of domicile)	**20,516,526**	23,683,204
– Malaysia	**12,721,711**	11,834,664
– The Philippines	**5,113,783**	8,382,339
– Singapore	**667,630**	97,219
– Taiwan	**323,303**	376,153
– Thailand	**1,914,497**	–
– Greece	**2,050,085**	–
– Other countries	**770,828**	167,329
	44,078,363	44,540,908

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Information about reportable segment revenue and profit or loss

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purpose of resource allocation and assessment of segment performance for the period in set out below:

	Six months ended 30 June 2019			
	Manufacture and sale of motorbikes *US$*	Manufacture and sale of spare parts and engines *US$*	Moulds and repair services *US$*	Total *US$*
Revenue from external customers				
– recognised at "point in time"	37,118,869	6,939,860	19,634	44,078,363
Inter-segment revenue	–	12,176,085	38,704	12,214,789
Reportable segment revenue	37,118,869	19,115,945	58,338	56,293,152
Reportable segment loss (adjusted EBIT)	(4,037,539)	(681,065)	(3,226)	(4,721,830)
Share of profit of an associate				7,886
Net finance income				1,088,193
Impairment loss on other property, plant and equipment				(1,206,954)
Impairment loss on prepayments for other property, plant and equipment				(1,793,806)
Impairment loss on right-of-use assets				(994,232)
Unallocated corporate expenses				(807,948)
Loss before taxation				(8,428,691)

4. REVENUE AND SEGMENT REPORTING (Continued)

(b) Information about reportable segment revenue and profit or loss (continued)

	Six months ended 30 June 2018			
	Manufacture and sale of motorbikes *US$*	Manufacture and sale of spare parts and engines *US$*	Moulds and repair services *US$*	Total *US$*
Revenue from external customers				
– recognised at "point in time"	36,873,016	7,637,002	30,890	44,540,908
Inter-segment revenue	–	13,889,195	451,954	14,341,149
Reportable segment revenue	36,873,016	21,526,197	482,844	58,882,057
Reportable segment profit/(loss)				
(adjusted EBIT)	(6,225,288)	(1,258,446)	5,807	(7,477,927)
Share of loss of an associate				(4,707)
Net finance income				1,930,177
Unallocated corporate expenses				(721,227)
Loss before taxation				(6,273,684)

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

5. LOSS BEFORE TAXATION

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

(a) Net finance income

	Six months ended 30 June	
	2019	2018
	US$	*US$*
Interest income from banks	**(1,332,139)**	(2,121,698)
Net foreign exchange gain	**(100,008)**	(86,415)
Finance income	**(1,432,147)**	(2,208,113)
Interest paid and payable to banks	**343,954**	277,936
Finance costs	**343,954**	277,936
	(1,088,193)	(1,930,177)

(b) Staff costs

	Six months ended 30 June	
	2019	2018
	US$	*US$*
Salaries and wages	**4,755,077**	4,488,349
Staff welfare	**1,067,015**	1,051,098
Contributions to defined contribution retirement plans	**672,354**	633,263
Severance pay allowance	**513,761**	–
	7,008,207	6,172,710

5. LOSS BEFORE TAXATION (Continued)

(c) Other items

	Six months ended 30 June	
	2019	2018
	US$	*US$*
Amortisation of lease prepayments/intangible assets	**–**	155,484
Depreciation of other property, plant and equipment/right-of-use assets	**102,228**	3,725,123
(Gain)/loss on disposal of other property, plant and equipment	**(432)**	540
Write-down of inventories (note 10)	**573,350**	162,730
Research and development expenses	**1,129,118**	1,610,159
Impairment loss on other property, plant and equipment#	**1,206,954**	–
Impairment loss on prepayments for other property, plant and equipment#	**1,793,806**	–
Impairment loss on right-of-use assets#	**994,232**	–

\# The manufacturing and sale of motorbikes segment, manufacturing and sale of spare parts and engines segment and moulds and repair services segment ("motorbike business") in Vietnam are considered one cash generating unit ("CGU") of the Group.

The Group suffered significant operating losses (before impairment losses on non-current assets) during the six months ended 30 June 2019 due to the increase of manufacturing costs on new launched products. Based on an impairment assessment conducted by management, impairment losses totaling US$3,994,992 was recognised in profit or loss to write-down the carrying value of other property, plant, and equipment, right-of-use assets and prepayments for other property, plant and equipment of the CGU to the recoverable amounts of US$3,238,359 during the period ended 30 June 2019.

The recoverable amount of the CGU is determined based on the higher of its value-in-use and the fair value less costs of disposal. The estimate of the recoverable amount of the non-current assets has been determined based on a value-in-use calculation. These calculations use cash flow forecast based on financial budgets approved by management covering a five-year period. Cash flows are discounted using pre-tax discount rate of 13% (2018: 11%).

6. INCOME TAX CREDIT

	Six months ended 30 June	
	2019	2018
	US$	*US$*
Current tax		
Provision for the period	**–**	3,216
(Over)/under-provision in respect of prior periods	**(258)**	860
	(258)	4,076
Deferred tax		
Origination and reversal of temporary differences	**–**	(693,439)
	(258)	(689,363)

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax for the six months ended 30 June 2019 and 2018.

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

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax ("CIT") for Vietnam Manufacturing and Export Processing Co., Limited ("VMEP") is calculated at 18% of the taxable profits on motorbike assembling and manufacturing activities and at the rate of 10% of taxable profits on engine assembling and manufacturing activities. The applicable tax rate for profits from other operating activities is 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 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 2018, the applicable tax rate for Chin Zong Trading Co., Ltd. ("Chin Zong") is 20% if the taxable profit for the year is above New Taiwan Dollar ("NT$") 120,000. Income tax is exempted if the taxable profit is below NT$120,000.

7. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the period of US$8,428,433 (six months ended 30 June 2018: US$5,584,321) and 907,680,000 ordinary shares (2018: 907,680,000 ordinary shares) in issue during the interim period.

(b) Diluted loss per share

The amount of diluted loss per share is the same as the basic loss per share for the six months ended 30 June 2019 and 2018 as there were no dilutive potential ordinary shares during the six months ended 30 June 2019 and 2018.

8. DIVIDEND

No dividend has been paid or declared by the Company for the six months ended 30 June 2019 (2018: nil).

9. INVESTMENT PROPERTY AND OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Right-of-use assets

As discussed in note 3, the Group has initially applied IFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under IAS 17. Further details on the net book value of the Group's right-of-use assets are set out in note 3. Right-of-use assets have been fully impaired at 30 June 2019 (see note 5(c)).

(b) Acquisitions of other property, plant and equipment

During the six months ended 30 June 2019, the Group acquired items of other property, plant and equipment with a cost of US$1,217,793 (six months ended 30 June 2018: US$1,446,500).

(c) Acquisitions of investment property

During the six months ended 30 June 2019, the Group acquired an investment property with a cost of Vietnam Dong 29,250,000,000 (equivalent to US$1,263,772) through acquisition of 99.66% of equity interest of Dinh Duong Joint Stock Company from unrelated third party. The Group's investment property is stated at cost less accumulated depreciation and less any accumulated impairment losses.

(d) Impairment losses

During the six months period ended 30 June 2019, an impairment loss of US$2,201,186 was recognised in profit or loss for other property, plant and equipment and right-of-use assets (see note 5(c)).

10. INVENTORIES

During six months ended 30 June 2019, US$573,350 (six months ended 30 June 2018: US$162,730) has been recognised as an expense in profit or loss, being the amount of a write-down of inventories to estimated net realisable value. This write-down arose due to a decrease in the estimated net realisable value of certain inventories as a result of slow moving status.

11. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	At 30 June 2019	At 31 December 2018
	US$	*US$*
Trade receivables	**14,363,464**	11,927,395
Non-trade receivables	**8,938,331**	9,742,519
Prepayments	**431,767**	717,809
Amounts due from related parties		
Trade	**123,890**	55,473
Non-trade	**2,801**	3,776
	23,860,253	22,446,972

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date and net of loss allowance, is as follows:

	At 30 June 2019	At 31 December 2018
	US$	*US$*
Within 3 months	**13,827,294**	11,550,465
More than 3 months but within 1 year	**660,060**	431,620
More than 1 year but within 5 years	**–**	783
Trade receivables, net of loss allowance	**14,487,354**	11,982,868

11. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS (Continued)

The Group's exposure to credit risk is low as the Group generally offers no credit terms to domestic customers, except for a customer, who is granted a credit term of 90 days. Overseas customers are generally granted credit terms ranging from 30 days to 90 days. At the end of the reporting period, 49% (31 December 2018: 65%) of the total trade receivables was due from the Group's largest debtor.

Non-trade receivables mainly represented VAT recoverable of US$4,653,800 (31 December 2018: US$5,689,306) and interest receivable of US$1,010,207 (31 December 2018: US$1,101,972).

12. CASH AND BANK BALANCES

	At 30 June 2019	At 31 December 2018
	US$	*US$*
Cash at banks and on hand	**8,245,195**	4,362,866
Time deposits maturing within three months	**26,610,464**	24,215,580
Cash and cash equivalents in condensed consolidated cash flow statement	**34,855,659**	28,578,446
Time deposits maturing after three months	**29,049,084**	35,154,347
	63,904,743	63,732,793

13. TRADE AND OTHER PAYABLES

	At 30 June 2019	At 31 December 2018
	US$	*US$*
Trade payables	**6,488,886**	5,842,998
Other payables and accrued operating expenses	**6,466,537**	5,058,688
Contract liabilities – billings in advance of performance	**1,813,299**	109,122
Amounts due to related parties		
Trade	**1,990,952**	1,008,432
Non-trade	**935,790**	1,373,093
	17,695,464	13,392,333

13. TRADE AND OTHER PAYABLES (Continued)

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

	At 30 June 2019	At 31 December 2018
	US$	*US$*
Within 3 months	**8,466,609**	6,763,928
More than 3 months but within 1 year	**13,229**	87,450
More than 1 year but within 5 years	**–**	52
	8,479,838	6,851,430

14. BANK LOANS

As of the end of the reporting period, the bank loans of the Group were secured by time deposits of US$10,409,130 (31 December 2018: US$9,881,184) of the Group.

15. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

All of the Group's financial instruments were carried at cost or amortised cost as at 31 December 2018 and 30 June 2019 and their carrying amounts are not materially different from their fair values.

16. COMMITMENTS

(a) Capital commitments outstanding at 30 June 2019 not provided for in the interim financial report

	At 30 June 2019	At 31 December 2018
	US$	*US$*
Contracted for	**4,920,300**	–
Authorised but not contracted for	**8,029,143**	–
	12,949,443	–

16. COMMITMENTS (Continued)

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 31 December 2018 *US$*
Within 1 year	147,137
After 1 year but within 5 years	298,167
After 5 years	1,425,305
	1,870,609

The Group is the lessee in respect of a number of properties and items of land, warehouse and office premises held under leases which were previously classified as operating leases under IAS 17. The Group has initially applied IFRS 16 using the modified retrospective approach. Under this approach, the Group adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to these leases (see note 3). From 1 January 2019 onwards, future lease payments are recognised as lease liabilities in the statement of financial position in accordance with the policies set out in note 3.

17. MATERIAL RELATED PARTY TRANSACTIONS

During the six months ended 30 June 2019, transactions with the following parties are considered as material related party transactions:

Name of party	**Relationship**
Sanyang Motor Co., Ltd. ("Sanyang")	The ultimate holding company
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
Vietnam Three Brothers Machinery Industry Co., Limited	The associate of the Company and a non-wholly owned subsidiary of Sanyang

17. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(a) Recurring transactions

	Six months ended 30 June	
	2019	2018
	US$	*US$*
Sales of finished goods and spare parts:		
The ultimate holding company	**323,042**	376,112
A fellow subsidiary	**680,170**	2,158
	1,003,212	378,270
Purchases of raw materials and finished goods:		
The ultimate holding company	**1,901,744**	5,727,108
Fellow subsidiaries	**3,283,778**	2,429,960
The associate	**1,322,576**	1,365,473
	6,508,098	9,522,541
Purchases of other property, plant and equipment:		
The ultimate holding company	**98,739**	9,542
The associate	**59,207**	–
	157,946	9,542
Disposal of other property, plant and equipment:		
The ultimate holding company	**4,993**	–
Technology transfer fees:		
The ultimate holding company	**821,265**	598,128
Technical consultancy fee:		
The ultimate holding company	**29,330**	900

17. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(b) Amounts due from related parties

	At 30 June 2019 *US$*	At 31 December 2018 *US$*
Trade		
The ultimate holding company	**120,692**	53,265
Fellow subsidiaries	**3,178**	2,070
The associate	**20**	138
	123,890	55,473
Non-trade		
The ultimate holding company	**2,801**	3,776
Total	**126,691**	59,249

17. MATERIAL RELATED PARTY TRANSACTIONS (Continued)

(c) Amounts due to related parties

	At 30 June 2019 *US$*	At 31 December 2018 *US$*
Trade		
The ultimate holding company	**551,301**	304,447
Fellow subsidiaries	**1,062,915**	498,888
The associate	**376,736**	205,097
	1,990,952	1,008,432
Non-trade		
The ultimate holding company	**935,790**	1,347,298
The associate	**–**	16,048
Fellow subsidiaries	**–**	9,747
	935,790	1,373,093
Total	**2,926,742**	2,381,525

18. COMPARATIVE FIGURES

The Group has initially applied IFRS 16 at 1 January 2019 using the modified retrospective method. Under this approach, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3. In addition, certain comparative figures were reclassified to conform with current period presentation.