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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)

**ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2016**

Financial Highlights :

| | (expressed in US\$'million) | | |
|-------------------------|-------------------------------|-------------|---------------|
| | 2016 | 2015 | change |
| • Total Revenue | 133.2 | 125.7 | +6% |
| • Gross Profit | 15.7 | 9.1 | +73% |
| • Net Loss after Tax | (0.7) | (8.0) | +91% |
| • Loss per share (US\$) | (0.001) | (0.009) | +89% |

The board of directors (the “**Board**”) of Vietnam Manufacturing and Export Processing (Holdings) Limited (the “**Company**”) hereby announces the consolidated financial results of the Company and its subsidiaries (collectively, the “**Group**”) for the year ended 31 December 2016 together with the comparative figures for the immediately preceding financial year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2016

(expressed in United States dollars)

| | | 2016 US\$ | 2015 US\$ |
|---|-----------|---------------------------|----------------------------|
| Revenue | Note 2 | 133,202,011 | 125,675,328 |
| Cost of sales | | <u>(117,469,298)</u> | <u>(116,591,874)</u> |
| Gross profit | | 15,732,713 | 9,083,454 |
| Other income | | 1,000,260 | 511,340 |
| Distribution costs | | (6,959,150) | (7,173,483) |
| Technology transfer fees | | (3,224,785) | (2,880,912) |
| Administrative expenses | | (9,707,052) | (10,330,238) |
| Other expenses | | <u>(116,759)</u> | <u>(225,075)</u> |
| Results from operating activities | |(3,274,773) |(11,014,914) |
| Finance income | | 4,054,987 | 4,989,337 |
| Finance costs | | <u>(1,702,530)</u> | <u>(1,797,981)</u> |
| Net finance income | 3(a) |2,352,457 |3,191,356 |
| Share of profit of an associate, net of tax | | <u>85,314</u> | <u>60,333</u> |
| Loss before taxation | 3 | (837,002) | (7,763,225) |
| Income tax | 4 | <u>89,880</u> | <u>(261,536)</u> |
| Loss for the period | | (747,122) | (8,024,761) |
| 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 | | <u>(985,116)</u> | <u>(5,074,094)</u> |
| Total comprehensive income for the period attributable to equity shareholders of the Company | | <u><u>(1,732,238)</u></u> | <u><u>(13,098,855)</u></u> |
| Loss per share | | | |
| - Basic and diluted | 5 | <u><u>(0.001)</u></u> | <u><u>(0.009)</u></u> |

Consolidated Statement of Financial Position

at 31 December 2016

(expressed in United States dollars)

| | Note | 2016 US\$ | 2015 US\$ |
|---|------|--------------------|--------------------|
| Non-current assets | | | |
| Property, plant and equipment | 6 | 18,077,947 | 18,259,022 |
| Intangible assets | | 37,037 | 79,668 |
| Lease prepayments | | 4,864,995 | 5,114,868 |
| Interest in an associate | | 498,764 | 577,189 |
| Deferred tax assets | | <u>936,285</u> | <u>774,244</u> |
| | | <u>24,415,028</u> | <u>24,804,991</u> |
| Current assets | | | |
| Inventories | 7 | 24,810,273 | 20,649,546 |
| Trade receivables, other receivables and prepayments | 8 | 24,535,220 | 29,341,932 |
| Time deposits maturing after three months | | 93,040,713 | 81,550,559 |
| Cash and cash equivalents | | 11,106,900 | 20,988,920 |
| Current tax recoverable | | <u>73,490</u> | <u>-</u> |
| | | <u>153,566,596</u> | <u>152,530,957</u> |
| Current liabilities | | | |
| Trade and other payables | 9 | 16,371,490 | 15,355,074 |
| Bank loans | | 26,166,074 | 24,558,291 |
| Current tax payable | | 13,905 | 53,847 |
| Provisions | | <u>835,432</u> | <u>1,018,653</u> |
| | | <u>43,386,901</u> | <u>40,985,865</u> |
| Net current assets | | <u>110,179,695</u> | <u>111,545,092</u> |
| Total assets less current liabilities | | <u>134,594,723</u> | <u>136,350,083</u> |
| Non-current liability | | | |
| Deferred tax liabilities | | <u>35,644</u> | <u>58,766</u> |
| Net assets | | <u>134,559,079</u> | <u>136,291,317</u> |
| Capital and reserves | | | |
| Share capital | | 1,162,872 | 1,162,872 |
| Reserves | | <u>133,396,207</u> | <u>135,128,445</u> |
| Total equity | | <u>134,559,079</u> | <u>136,291,317</u> |

Notes:

1. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the Group's financial statements for the year ended 31 December 2016, but is derived from these financial statements. The following significant accounting policies have been adopted by the Group in the preparation of these financial statements.

(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.

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 1(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 2016 comprise the 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.

(c) Changes in accounting policies

The IASB has issued a number of amendments to IFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on loss the Group's results and financial position for the current or prior periods have been prepared or presented.

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

2. 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:

| | 2016 <i>US\$</i> | 2015 <i>US\$</i> |
|---|----------------------------|----------------------------|
| Sales of motorbikes | 112,000,060 | 103,103,364 |
| Sales of spare parts and engines | 21,149,969 | 22,510,704 |
| Revenue from moulds and repair services | <u>51,982</u> | <u>61,260</u> |
| | <u><u>133,202,011</u></u> | <u><u>125,675,328</u></u> |

The Group's customer base is diversified and there is no customer with whom transactions have exceeded 10% of the Group's revenue.

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.

(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 2016 and 2015 is set out below.

| | 2016 | | | |
|---|--|---|--|-----------------------|
| | 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 | 112,000,060 | 21,149,969 | 51,982 | 133,202,011 |
| Inter-segment revenue | - | <u>43,514,252</u> | <u>957,748</u> | <u>44,472,000</u> |
| Reportable segment revenue | <u>112,000,060</u> | <u>64,664,221</u> | <u>1,009,730</u> | <u>177,674,011</u> |
| Reportable segment (loss)/profit (adjusted EBIT) | <u>(2,339,226)</u> | <u>973,359</u> | <u>(93,630)</u> | <u>(1,459,497)</u> |
| Interest income | 2,111,239 | 1,531,929 | 25,140 | 3,668,308 |
| Interest expenses | (564,297) | - | (197) | (564,494) |
| Depreciation and amortisation | (3,347,021) | (652,419) | (1,611) | (4,001,051) |
| Reportable segment assets | <u>45,463,977</u> | <u>25,915,592</u> | <u>911,424</u> | <u>72,290,993</u> |
| Reportable segment liabilities | <u>3,293,798</u> | <u>13,350,922</u> | <u>80,246</u> | <u>16,724,966</u> |

| | 2015 | | | |
|---|--|---|--|-----------------------|
| | 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 | 103,103,364 | 22,510,704 | 61,260 | 125,675,328 |
| Inter-segment revenue | - | 38,810,864 | 921,834 | 39,732,698 |
| Reportable segment revenue | <u>103,103,364</u> | <u>61,321,568</u> | <u>983,094</u> | <u>165,408,026</u> |
| Reportable segment (loss)/profit (adjusted EBIT) | <u>(7,472,190)</u> | <u>(1,456,687)</u> | <u>(18,659)</u> | <u>(8,947,536)</u> |
| Interest income | 2,253,684 | 1,905,238 | 80,538 | 4,239,460 |
| Interest expenses | (647,350) | (336,882) | - | (984,232) |
| Depreciation and amortisation | (2,825,317) | (1,967,879) | (87,451) | (4,880,647) |
| Reportable segment assets | <u>47,252,138</u> | <u>24,327,639</u> | <u>1,479,592</u> | <u>73,059,369</u> |
| Reportable segment liabilities | <u>1,944,033</u> | <u>13,661,939</u> | <u>186,568</u> | <u>15,792,540</u> |

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

| | 2016 US\$ | 2015 US\$ |
|--|----------------------|----------------------|
| Revenue | | |
| Reportable segment revenue | 177,674,011 | 165,408,026 |
| Elimination of inter-segment revenue | <u>(44,472,000)</u> | <u>(39,732,698)</u> |
| Consolidated revenue | <u>133,202,011</u> | <u>125,675,328</u> |
| Loss | | |
| Reportable segment loss | (1,459,497) | (8,947,536) |
| Elimination of inter-segment profits | <u>-</u> | <u>-</u> |
| Reportable segment loss derived from Group's external customers | (1,459,497) | (8,947,536) |
| Share of profit of an associate | 85,314 | 60,333 |
| Net finance income | 2,352,457 | 3,191,356 |
| Unallocated corporate expenses | <u>(1,815,276)</u> | <u>(2,067,378)</u> |
| Consolidated loss before taxation | <u>(837,002)</u> | <u>(7,763,225)</u> |

| | 2016 | 2015 |
|---|---------------------------|---------------------------|
| | US\$ | US\$ |
| Assets | | |
| Reportable segment assets | 72,290,993 | 73,059,369 |
| Elimination of inter-segment receivables | - | - |
| | <u>72,290,993</u> | <u>73,059,369</u> |
| Interest in an associate | 498,764 | 577,189 |
| Time deposits maturing after three months | 93,040,713 | 81,550,559 |
| Cash and cash equivalents | 11,106,900 | 20,988,920 |
| Deferred tax assets | 936,285 | 774,244 |
| Unallocated corporate assets | <u>107,969</u> | <u>385,667</u> |
| Consolidated total assets | <u><u>177,981,624</u></u> | <u><u>177,335,948</u></u> |
| Liabilities | | |
| Reportable segment liabilities | 16,724,966 | 15,792,540 |
| Elimination of inter-segment payables | - | - |
| | <u>16,724,966</u> | <u>15,792,540</u> |
| Bank loans | 26,166,074 | 24,558,291 |
| Current tax payable | 13,905 | 53,847 |
| Deferred tax liabilities | 35,644 | 58,766 |
| Unallocated corporate liabilities | <u>481,956</u> | <u>581,187</u> |
| Consolidated total liabilities | <u><u>43,422,545</u></u> | <u><u>41,044,631</u></u> |

(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 | | Specified | |
|-----------------------------|---------------------------|---------------------------|---------------------------|--------------------------|
| | external customers | | non-current assets | |
| | 2016 | 2015 | 2016 | 2015 |
| | US\$ | US\$ | US\$ | US\$ |
| Vietnam (place of domicile) | 57,942,192 | 59,235,129 | 22,976,881 | 23,452,095 |
| Malaysia | 46,479,642 | 37,336,101 | - | - |
| The Philippines | 26,909,911 | 27,415,668 | - | - |
| Singapore | 547,951 | 595,534 | - | - |
| Indonesia | 593,912 | 693,626 | - | - |
| Thailand | 142,030 | 286,879 | - | - |
| Other countries* | <u>586,373</u> | <u>112,391</u> | <u>3,098</u> | <u>1,463</u> |
| | <u><u>133,202,011</u></u> | <u><u>125,675,328</u></u> | <u><u>22,979,979</u></u> | <u><u>23,453,558</u></u> |

* Other countries mainly consist of Myanmar, Brunei and Taiwan.

3. Loss before taxation

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

(a) Net finance income

| | 2016 US\$ | 2015 US\$ |
|------------------------------------|--------------------|--------------------|
| Interest income from banks | <u>4,054,987</u> | <u>4,989,337</u> |
| Finance income | <u>4,054,987</u> | <u>4,989,337</u> |
| Interest paid and payable to banks | (564,494) | (984,232) |
| Net foreign exchange loss | <u>(1,138,036)</u> | <u>(813,749)</u> |
| Finance costs | <u>(1,702,530)</u> | <u>(1,797,981)</u> |
| | <u>2,352,457</u> | <u>3,191,356</u> |

(b) Staff costs

| | | |
|---|-------------------|-------------------|
| Contributions to defined contribution retirement retirement plans | 1,009,314 | 911,513 |
| Severance pay allowance | 62,861 | 28,096 |
| Salaries, wages and other benefits | <u>11,120,840</u> | <u>9,787,865</u> |
| | <u>12,193,015</u> | <u>10,727,474</u> |

(c) Other items

| | | |
|--|--------------------|--------------------|
| Amortisation of lease prepayments and intangible assets | 304,334 | 359,400 |
| Depreciation of property, plant and equipment | 3,696,717 | 4,521,247 |
| Write-down of inventories | 544,906 | 445,738 |
| (Reversal of)/impairment losses on property, plant and equipment | (9,986) | 1,494,806 |
| Net loss on disposal and write off of property, plant and equipment | 964 | 138,110 |
| Operating lease charges: minimum lease payments in respect of property rentals | 602,842 | 606,795 |
| Auditors' remuneration | 391,303 | 357,596 |
| Research and development expenses (i) | 7,303,282 | 7,804,437 |
| Cost of inventories (ii) | <u>106,958,234</u> | <u>106,587,223</u> |

- (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 3(b) for each of these types of expenses. No development expenditure was capitalised during the years ended 31 December 2016 and 31 December 2015.
- (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 3(b) for each of these types of expenses.

4. Income tax in the consolidated statement of profit or loss and other comprehensive income

| | 2016 US\$ | 2015 US\$ |
|---|------------------|----------------|
| Current tax | | |
| Provision for the year | 110,155 | 148,842 |
| (Over)/under-provision in respect of prior years | <u>(110)</u> | <u>11,260</u> |
| | 110,045 | 160,102 |
| Deferred tax | | |
| Origination and reversal of temporary differences | <u>(199,925)</u> | <u>101,434</u> |
| | <u>(89,880)</u> | <u>261,536</u> |

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 2016 and 2015.

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 25%.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000, the Investment Law of 2006, and the Law on Corporate Income Tax of 2003 in Vietnam, the applicable tax rate for Duc Phat Molds Inc. is 25% from 2013 onwards.

In accordance with the 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 exempted if the taxable profit is below NT\$120,000.

5. 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\$747,122 (2015: US\$8,024,761) and the weighted average of 907,680,000 (2015: 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 2016 (2015: same) as there were no dilutive potential ordinary shares during the years ended 31 December 2016 and 2015.

6. 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\$ |
|--|---|---|---|--|---------------------------|---|--------------------|
| Cost | | | | | | | |
| At 1 January 2015 | 14,870,252 | 72,918,378 | 1,833,100 | 7,042,823 | 1,077,537 | 758,166 | 98,500,256 |
| Additions | 4,581 | 1,930,643 | 37,557 | 23,989 | - | 775,378 | 2,772,148 |
| Transfer from assets under construction | - | 558,068 | - | - | - | (558,068) | - |
| Transfer to short-term prepayment | - | - | - | - | - | (205,875) | (205,875) |
| Reclassification | - | (632,752) | - | 630,247 | 2,505 | - | - |
| Disposals | (2,989) | (235,209) | (4,220) | (815) | (57,455) | - | (300,688) |
| Written off | (221,238) | (569,951) | (345,299) | (81,016) | (80,038) | (116,173) | (1,413,715) |
| Exchange adjustments | <u>(717,681)</u> | <u>(3,560,952)</u> | <u>(157,042)</u> | <u>(278,949)</u> | <u>(49,672)</u> | <u>(34,758)</u> | <u>(4,799,054)</u> |
| At 31 December 2015 | <u>13,932,925</u> | <u>70,408,225</u> | <u>1,364,096</u> | <u>7,336,279</u> | <u>892,877</u> | <u>618,670</u> | <u>94,553,072</u> |
| 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 | <u>(153,750)</u> | <u>(844,463)</u> | <u>(15,416)</u> | <u>(77,423)</u> | <u>(10,276)</u> | <u>(3,412)</u> | <u>(1,104,740)</u> |
| At 31 December 2016 | <u>13,789,434</u> | <u>71,902,959</u> | <u>1,371,069</u> | <u>7,144,527</u> | <u>897,629</u> | <u>500,007</u> | <u>95,605,625</u> |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2015 | 7,043,526 | 61,100,879 | 1,604,517 | 5,160,751 | 657,228 | - | 75,566,901 |
| Charge for the year | 555,612 | 3,354,769 | 156,631 | 328,964 | 125,271 | - | 4,521,247 |
| Impairment losses | - | 1,187,510 | - | - | - | 307,296 | 1,494,806 |
| Reclassification | (66,603) | (465,339) | (76,083) | 607,321 | 704 | - | - |
| Written back on disposals | (2,883) | (235,209) | (3,669) | (555) | (45,778) | - | (288,094) |
| Written off | (201,355) | (569,951) | (345,299) | (79,768) | (77,534) | - | (1,273,907) |
| Exchange adjustments | <u>(347,079)</u> | <u>(3,007,923)</u> | <u>(72,597)</u> | <u>(267,342)</u> | <u>(31,962)</u> | <u>-</u> | <u>(3,726,903)</u> |
| At 31 December 2015 | <u>6,981,218</u> | <u>61,364,736</u> | <u>1,263,500</u> | <u>5,749,371</u> | <u>627,929</u> | <u>307,296</u> | <u>76,294,050</u> |
| 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 losses | - | - | - | - | - | (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 | <u>(89,588)</u> | <u>(717,443)</u> | <u>(15,047)</u> | <u>(68,441)</u> | <u>(9,525)</u> | <u>(3,090)</u> | <u>(903,134)</u> |
| At 31 December 2016 | <u>7,321,981</u> | <u>62,057,362</u> | <u>1,292,902</u> | <u>5,854,453</u> | <u>706,760</u> | <u>294,220</u> | <u>77,527,678</u> |
| Net book value | | | | | | | |
| At 31 December 2016 | <u>6,467,453</u> | <u>9,845,597</u> | <u>78,167</u> | <u>1,290,074</u> | <u>190,869</u> | <u>205,787</u> | <u>18,077,947</u> |
| At 31 December 2015 | <u>6,951,707</u> | <u>9,043,489</u> | <u>100,596</u> | <u>1,586,908</u> | <u>264,948</u> | <u>311,374</u> | <u>18,259,022</u> |

7. Inventories

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

| | 2016 | 2015 |
|---|--------------------------|--------------------------|
| | <i>US\$</i> | <i>US\$</i> |
| Raw materials | 19,077,735 | 14,560,937 |
| Tools and supplies | 458,152 | 456,626 |
| Work in progress | 864,133 | 986,683 |
| Finished goods | 3,292,061 | 3,158,580 |
| Merchandise inventories* | <u>3,121,156</u> | <u>3,053,364</u> |
| | 26,813,237 | 22,216,190 |
| Provision for write-down of inventories | <u>(2,002,964)</u> | <u>(1,566,644)</u> |
| Net realisable value | <u><u>24,810,273</u></u> | <u><u>20,649,546</u></u> |

* 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:

| | 2016 | 2015 |
|-------------------------------------|---------------------------|---------------------------|
| | <i>US\$</i> | <i>US\$</i> |
| Carrying amount of inventories sold | 106,958,234 | 106,587,223 |
| Write-down of inventories | <u>544,906</u> | <u>445,738</u> |
| | <u><u>107,503,140</u></u> | <u><u>107,032,961</u></u> |

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

| | 2016 | 2015 |
|----------------------|-------------------------|-------------------------|
| | <i>US\$</i> | <i>US\$</i> |
| At 1 January | 1,566,644 | 1,334,574 |
| Additions | 544,906 | 445,738 |
| Utilisation | (77,538) | (142,937) |
| Exchange adjustments | <u>(31,048)</u> | <u>(70,731)</u> |
| At 31 December | <u><u>2,002,964</u></u> | <u><u>1,566,644</u></u> |

8. Trade receivables, other receivables and prepayments

| | 2016 | 2015 |
|----------------------------------|--------------------------|--------------------------|
| | <i>US\$</i> | <i>US\$</i> |
| Trade receivables | 11,848,607 | 7,968,784 |
| Non-trade receivables | 10,269,379 | 18,363,761 |
| Prepayments | 1,921,943 | 2,231,285 |
| Amounts due from related parties | | |
| -trade | 432,704 | 280,522 |
| -non-trade | <u>62,587</u> | <u>497,580</u> |
| | <u><u>24,535,220</u></u> | <u><u>29,341,932</u></u> |

(i) Trade receivables

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:

| | 2016 <i>US\$</i> | 2015 <i>US\$</i> |
|--------------------------------------|----------------------------|----------------------------|
| Within 3 months | 12,189,667 | 8,249,306 |
| More than 3 months but within 1 year | <u>91,644</u> | <u>-</u> |
| | <u><u>12,281,311</u></u> | <u><u>8,249,306</u></u> |

9. Trade and other payables

| | 2016 <i>US\$</i> | 2015 <i>US\$</i> |
|---|----------------------------|----------------------------|
| Trade payables | 7,166,993 | 6,647,702 |
| Other payables and accrued operating expenses | 5,308,447 | 4,912,858 |
| Receipts in advance from customers | 112,748 | 123,455 |
| Amounts due to related parties | | |
| -trade | 1,748,157 | 1,569,945 |
| -non-trade | <u>2,035,145</u> | <u>2,101,114</u> |
| | <u><u>16,371,490</u></u> | <u><u>15,355,074</u></u> |

(i) 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:

| | 2016 <i>US\$</i> | 2015 <i>US\$</i> |
|--------------------------------------|----------------------------|----------------------------|
| Within 3 months | 8,915,150 | 8,161,844 |
| More than 3 months but within 1 year | - | 46,994 |
| More than 1 year but within 5 years | <u>-</u> | <u>8,809</u> |
| | <u><u>8,915,150</u></u> | <u><u>8,217,647</u></u> |

10. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is one of the leading manufacturers of scooters and cub motorbikes in Vietnam. Its manufacturing and assembly operations are located in Dong Nai Province (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

In 2016, Vietnam's economy was steady, with the gross domestic product (GDP) growing at 6.21%. Although the figure is lower than the government's target of 6.7%, the economy performed unprecedentedly well in various areas. In 2016, Vietnam returned to trade surplus, foreign direct investment (FDI) grew by 9% to a record-high of US\$15.8 billion, and foreign currency reserve reached US\$41 billion, keeping the exchange rate of Vietnam dong on a stable path. As a result of the Vietnamese government's commitment to improve investment and business environment, domestic production continued to revive.

Vietnam is one of the biggest suppliers of motorbikes in the world. Over the past few years, many 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 2016, there were a total of more than 45 million motorbikes in Vietnam. In other words, every two Vietnamese owned one motorbike on average. This indicates that Vietnam's motorbike market is close to saturation and the business environment of motorbike industry in Vietnam remains challenging.

According to statistics from the Vietnam Association of Motorcycle Manufacturers, total sales of the 5 largest FDI motorbike manufacturers in Vietnam reached 3.12 million units in 2016, slightly increased by 9.5% compared to 2015. The Group ranked third in the Vietnam's motorbike market, after the Japanese brands Honda and Yamaha, reached a sale of approximately 65,300 units in 2016, accounted for 2.1% of the total market share.

BUSINESS REVIEW

In 2016, the Group launched various kinds of new or modified motorbike models, which include the scooter named Shark Mini 125 and Amigo 50 targeting female and male student customers respectively, and three modified motorbike models, namely Galaxy Sport 115cc (equipped with clutch), Galaxy 115cc and STAR X 125cc, offering different product segments to meet consumer needs. In addition, the electronic injection parts manufactured by Bosch, a renowned brand in Germany, have been applied into such new products, which improved the performance of such products and would be more energy-saving and environmentally friendly.

The revenue of the Group for the year ended 31 December 2016 increased 6.0% to US\$133.2 million from US\$125.7 million of the previous year, the increase was due to the adoption of ongoing strategies on research and development and expansion of overseas markets during the year. The Group sold an aggregate of approximately 65,300 units (which comprised of approximately 4,600 units of scooters and 60,700 units of cubs respectively) in Vietnam during the year, representing an increase of 9.7% from the previous year. The Group sold an aggregate of approximately 117,000 units of scooters and cubs and exported to ASEAN countries, representing an increase of 11% from the previous year, in particular, there has been a rapid growth in sales in Malaysian and the Philippines markets.

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 2016, 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\$0.7 million for the year ended 31 December 2016 as compared to a net loss of US\$8.0 million for the year ended 31 December 2015, which reflected the challenging operating environment for the motorbike industry. Further analysis on the operating results of the Group is set out below.

REVENUE

Revenue of the Group for the year ended 31 December 2016 increased to US\$133.2 million from US\$125.7 million for the year ended 31 December 2015, representing an increase of US\$7.5 million or 6%. Such increase was attributed to rise in sales volume of motorbikes in Vietnam and ASEAN during the year.

In terms of geographical contribution, approximately 43% of total revenue was generated from the domestic market in Vietnam for the year ended 31 December 2016 as compared with approximately 47% for the year ended 31 December 2015. Domestic sales in Vietnam decreased by 2% from US\$59.2 million for the year ended 31 December 2015 to US\$57.9 million for the year ended 31 December 2016. Export sales to ASEAN markets increased by 13% from US\$66.4 million for the year ended 31 December 2015 to US\$75.3 million for the year ended 31 December 2016. The number of engines exported decreased from approximately 23,800 units for the year ended 31 December 2015 to approximately 16,700 units for the year ended 31 December 2016.

COST OF SALES

The Group's cost of sales increased by 0.8%, from US\$116.6 million for the year ended 31 December 2015 to US\$117.5 million for the year ended 31 December 2016, resulting from the rise of sales in Vietnam and ASEAN countries. As a percentage of total revenue, the Group's cost of sales decreased from 93% for the year ended 31 December 2015 to 88% for the year ended 31 December 2016. Such decrease was primarily due to cost reduction arising from expanding procurement sources for materials and components at a lower cost, and effort to enhance cost effectiveness.

GROSS PROFIT AND GROSS PROFIT MARGIN

Owing to the rise of sales and the decrease of materials and components costs as discussed above, the gross profit of the Group increased by 73%, from US\$9.1 million for the year ended 31 December 2015 to US\$15.7 million for the year ended 31 December 2016. As compared with the comparative period, the Group's gross profit margin has increased from 7% to 12%.

DISTRIBUTION EXPENSES

The Group's distribution expenses decreased by 2.8%, from US\$7.2 million for the year ended 31 December 2015 to US\$7.0 million for the year ended 31 December 2016. Such decrease was mainly attributed to rectification of existing distribution network, a decrease of sales incentives and supporting fees to distributors.

TECHNOLOGY TRANSFER FEES

The technology transfer fees increased by 10% from US\$2.9 million for the year ended 31 December 2015 to US\$3.2 million for the year ended 31 December 2016, resulting from an increase in the sales of SYM-branded motorbikes in Vietnam.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses decreased by 5.8% from US\$10.3 million for the year ended 31 December 2015 to US\$9.7 million for the year ended 31 December 2016, which account for 7.3% of the Group's total revenue for the year ended 31 December 2016. The decrease was principally due to the decrease in 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 improved by 70%, from a loss of US\$11.0 million for the year ended 31 December 2015 to a loss of US\$3.3 million for the year ended 31 December 2016.

NET FINANCE INCOME

The Group's net finance income decreased by 25%, from US\$3.2 million for the year ended 31 December 2015 to US\$2.4 million for the year ended 31 December 2016. Such decrease was mainly attributable to a decrease in interest income by US\$0.9 million and increase in foreign exchange losses of US\$0.3 million arising from fluctuation of the Vietnamese Dong and Renminbi against the US dollar for the year ended 31 December 2016.

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 2016 amounted to US\$0.7 million, a decrease of 91% as compared to a loss of US\$8.0 million for the year ended 31 December 2015. The Group's net loss margin improved from 6.4% for the year ended 31 December 2015 to 0.6% for the year ended 31 December 2016.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group's net current assets amounted to US\$110.2 million (31 December 2015: US\$111.5 million) which consisted of current assets of US\$153.6 million (31 December 2015: US\$152.5 million) and current liabilities of US\$43.4 million (31 December 2015: US\$41.0 million).

As at 31 December 2016, the bank loans repayable within one year was US\$26.2 million, including US\$23.9 million denominated in US\$ and US\$2.3 million denominated in Vietnamese Dong (31 December 2015: US\$24.6 million, including US\$19.3 million denominated in US\$ and US\$5.3 million denominated in Vietnamese Dong). As at 31 December 2016, the Group had no bank loans repayable beyond one year (31 December 2015: Nil). As at 31 December 2016, the gearing ratio was 19% (31 December 2015: 18%) calculated by dividing total bank loans by total equity.

As at 31 December 2016, the cash and bank balances (including bank deposits), amounted to 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 (31 December 2015: US\$102.5 million, which mainly included US\$57.6 million denominated in Vietnamese Dong, US\$27.2 million denominated in US\$, US\$17.7 million denominated in Renminbi).

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 or 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 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 2016, the Group had 1,696 employees (2015: 1,578). The total amount of salaries and related costs for the year ended 31 December 2016 amounted to US\$12.2 million (2015: US\$10.7 million).

PROSPECTS

Looking forward to 2017, Vietnam's economic goals are to maintain macroeconomic stability, to strengthen restructuring and reform through growth, and to enhance the competitiveness of Vietnam's economy. The rising

costs and wages in China has driven more multinational firms to set up their production plants in the neighbouring Asian countries, which is significantly beneficial to Vietnam. In 2017, a strong growth of FDI investment amount can be expected. Export sales of Vietnam-based FDI manufacturers are expected to boost Vietnam's economic growth. The Vietnamese government forecasts the economy will grow at 6.7% and the export sales will grow at 7%, with a targeted inflation rate of 5%.

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. The Group will also speed up market expansion by proactively extending the coverage of its sales and servicing centres, and introduce more new products to meet market demands and consumer preferences. The Group will take advantage of its good relationship with distributor customers, the research and development skills it has accumulated over the years, its productivity and complete supply chain, to further improve the quality of its products so as to accommodate customer demand and achieve higher customer satisfaction. In ASEAN markets, the Group will step up further to engage in marketing and promotional activities, and to provide better after-sales services overseas, in particular of those rapidly developing markets such as Malaysia, the Philippines and Thailand. The Group will launch more motorbike models with higher unit prices to boost and stimulate the profitability of export sales.

Since 2017, in order to reduce the pollution from motorbike emissions, the Vietnamese government has introduced a series of measures, requiring new and imported motorbikes to strictly comply with the Euro 3 emission standards. Therefore, from 2017, the Group has been compliant to the Euro 3 emission standards in the making of motorbikes in Vietnam, and has since then rolled out a number of new or modified models of scooter and cub products. In light of the increasing environmental awareness, the Group will also launch different types of low-carbon energy-efficient electric motorbikes to open up the new electric motorbike market in Vietnam for higher sales volume, more product offerings and greater profitability.

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 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 2016, the net proceeds were utilised in the following manner:

| | Per Prospectus US\$' million | Amount utilised US\$' million | Balances as at December 2016 US\$' million |
|--|------------------------------------|-------------------------------------|--|
| Construction of research and development centre in Vietnam | 15.0 | 11.7 | 3.3 |
| Expanding distribution channels in Vietnam | | | |
| - Upgrading of existing facilities | 4.0 | 4.0 | - |
| - Establishing of new facilities | 46.0 | 12.9 | 33.1 |
| Mergers and acquisitions | 9.0 | 1.7 | 7.3 |
| General working capital | 2.7 | 2.7 | - |
| Total | <u>76.7</u> | <u>33.0</u> | <u>43.7</u> |

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**".

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2016, 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 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 enquiry of 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 2016.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2016 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.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group’s consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been compared by the Group’s auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group’s draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

ANNUAL GENERAL MEETING AND BOOK CLOSURE FOR ENTITLEMENT OF ATTENDING THE MEETING

The forthcoming annual general meeting of the Company will be held on 27 June 2017. Notice of the annual general meeting will be published and issued to the Shareholders in due course. For determining the entitlement to attend and vote in the annual general meeting, the register of members of the Company will be closed from 22 June 2017 to 27 June 2017 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the attendance of the annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 21 June 2017.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2016.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2016, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the website of Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk and on the Company's website at www.vmeph.com. The annual report 2016 of the Company will also be published on the aforesaid websites in due course.

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 over last year.

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

Hong Kong, 24 March 2017

As at the date of this announcement, the Board comprised four executive Directors, namely Mr. Liu Wu Hsiung, Mr. Lu Tien Fu, Mr. Lin Chun Yu and Mr. Chou Ken Yuan, two non-executive Directors, namely Mr. Chiu Ying Feng and Ms. Wu Li Chu and three independent non-executive Directors, namely Ms. Lin Ching Ching, Mr. Shen Hwa Rong and Ms. Wu Kwei Mei.