

# CONNECTED TRANSACTIONS

## OVERVIEW

Following completion of the Global Offering, the Group will continue to have certain transactions that constitute connected transactions within the meaning of the Listing Rules. All of the continuing connected transactions of the Company are conditional upon completion of the Listing. Set out below is an overview of the continuing connected transactions of the Company and the waivers from strict compliance with the relevant requirements of the Listing Rules that the Company has received from the Stock Exchange:

Category	Nature of transaction	Applicable Listing Rule	Waiver Sought
<b>PURCHASES</b>			
1A	Purchase of motorbike parts from Sanyang	Rule 14A.35 of the Listing Rules	Waiver from announcement and independent shareholders' approval requirements
1B	Purchase of motorbike parts manufactured in Vietnam from VTBM	Rule 14A.35 of the Listing Rules	Waiver from announcement and independent shareholders' approval requirements
<b>SALES</b>			
2	Sales of motorbike parts to Sanyang and its associates	Rule 14A.34 of the Listing Rules	Waiver from announcement requirements
<b>LICENSING OF TRADE MARKS AND TECHNOLOGY AND PROVISION OF RESEARCH AND DEVELOPMENT AND TECHNICAL SUPPORT SERVICES</b>			
3A	Licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP	Rule 14A.35 of the Listing Rules	Waiver from announcement and independent shareholders' approval requirements
3B	Licensing of trade marks by Sanyang to the Company	Rule 14A.33(3) of the Listing Rules	None
3C	Provision of research and development and technical support services by Sanyang and its associates to the Group	Rule 14A.34 of the Listing Rules	Waiver from announcement requirements

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Category	Nature of transaction	Applicable Listing Rule	Waiver Sought
<b>DISTRIBUTION</b> 4	The Company being engaged as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates in the Exclusive Territory (excluding Vietnam, unless the motorbikes are re-sold in Vietnam for exhibition purposes)	Rule 14A.35 of the Listing Rules	Waiver from announcement and independent shareholders' approval requirements

### CONTINUING CONNECTED TRANSACTIONS

Details of the continuing connected transactions are set out below.

### PURCHASES

#### Purchase of motorbike parts from Sanyang (Category 1A)

*Background:* During the Track Record Period, Sanyang and its subsidiaries had been supplying motorbike parts (such as carburettors, pulleys and brake units) to the Group, some of which were manufactured by Sanyang and/or its subsidiaries while others were sourced by Sanyang and/or such subsidiaries from Independent Third Parties. In connection with the supply of such parts to the Group, Sanyang and/or such subsidiaries also provided the Group with quality testing, packaging, customs clearance and logistics services. For the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, the Group's total purchases and receipt of services from Sanyang and one of its subsidiaries (namely, Plassen International Limited) amounted to approximately US\$50.3 million, US\$28.7 million, US\$24.8 million and US\$13.3 million, respectively. The decrease in the purchase amounts in 2005 and 2006 was due to the decrease in revenue of the Group in the corresponding periods as a result of quality control issues affecting certain of its cub models. The Directors believe that the Group's purchases of motorbike parts from Sanyang and/or such subsidiary during the Track Record Period were conducted on a market price basis.

*Future purchase arrangements:* The Company and Sanyang entered into the VMEP Holdings Purchase Agreement on 26 November 2007, which will come into effect on the Listing Date and expire on 31 December 2009. Pursuant to the VMEP Holdings Purchase Agreement, the Company may (but is not obliged to), whether itself or through any of its subsidiaries, purchase motorbike parts from Sanyang.

*Connected persons:* Through its wholly-owned subsidiary, SYI, Sanyang holds a 90% shareholding in the Company. Sanyang, therefore, is an indirect substantial shareholder of the Company and hence, a connected person of the Company.

*Connected transactions:* Any purchase of motorbike parts or receipt of services by any member of the Group from Sanyang pursuant to the VMEP Holdings Purchase Agreement following the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

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*Pricing:* The pricing at which motorbike parts will be supplied by Sanyang to the Group under the VMEP Holdings Purchase Agreement will be (a) in relation to any such part which is manufactured by Sanyang outside of Vietnam, the manufacturing cost plus a margin of 15% if the import duty charged by the Vietnamese government for the import of such part into Vietnam is less than 20% or a margin of 10% if such import duty is 20% or more; or (b) in relation to any such part which is purchased by Sanyang from Independent Third Parties, the purchase cost plus a margin of 15% if the import duty charged by the Vietnamese government for the import of such part into Vietnam is less than 20% or a margin of 10% if such import duty is 20% or more.

The additional margin of 10% or 15% over the manufacturing cost or purchase cost charged by Sanyang represents management fees and service fees for the services to be provided to the Group in connection with the supply of motorbike parts, including quality testing, packaging, customs clearance and logistics services. Such margins of 10% and 15% were determined based on market comparables and taking into consideration the cost incurred by Sanyang in providing the abovementioned services. In addition, Sanyang is also responsible for export taxes whereas the Group is responsible for all import taxes in relation to any purchase of motorbike parts which is chargeable by the Vietnamese government.

*Caps:* The Directors estimate that the annual caps for the amounts payable by the Group under the VMEP Holdings Purchase Agreement shall be approximately US\$32,200,000, US\$29,700,000 and US\$27,300,000 for the years ending 31 December 2007, 2008 and 2009, respectively. Such annual caps have been determined by reference to (i) the historical transaction amounts paid by the Group to Sanyang during the six-month period ended 30 June 2007, (ii) the projected increase in sales volume of SYM motorbikes by the Group in the six-month period ending 31 December 2007 based on a projected growth rate of approximately 40% in the sales volume of SYM motorbikes from the six-month period ended 30 June 2007 to the six-month period ending 31 December 2007 due to an expected increase in market demand for SYM motorbikes and (iii) the projected decrease in purchases by the Group from Sanyang in the years ending 31 December 2008 and 2009, respectively, due to the Group's intention, as part of its efforts to localise its supply chain, to increase its sourcing of parts directly from Independent Third Parties locally or from countries within AFTA in order to further reduce operating costs and further reduce the Group's reliance on Sanyang for the supply of motorbike parts. The above growth rate assumption is an approximation that has been made for the purpose of calculating the abovementioned annual caps only and should not be relied on as an indication of the actual sales volume growth rate.

*Reasons for such transactions:* The parts which are sourced by Sanyang from Independent Third Parties are generally available in the market. The Group purchases these parts from Sanyang and not directly from Independent Third Parties because they are also required by Sanyang for its production and because, by combining its demand with those of the Group's, Sanyang is able to negotiate better terms with those suppliers which in turn benefits the Group. As these parts are all currently sourced from suppliers outside Vietnam because they are either unavailable or not of acceptable quality or pricing in Vietnam, Sanyang is also able to provide quality testing, packaging, customs clearance and logistics services to the Group at a lower cost than if the Group had to request such services to be provided by Independent Third Parties outside Vietnam. In addition, certain motorbike parts which are manufactured by Sanyang are purchased by the Group for the manufacture and assembly of motorbikes produced by the Group. The entering into of the VMEP Holdings Purchase Agreement allows the Group to secure a cost effective and stable source of supply of motorbike parts required for its operations.

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### **Purchase of motorbike parts manufactured in Vietnam from VTBM (Category 1B)**

*Background:* During the Track Record Period, the Group purchased motorbike parts (such as fuel tanks, frames and rear shafts) from VTBM, all of which were manufactured in Vietnam. The Directors believe that such purchases by the Group from VTBM during the Track Record Period were conducted on a market price basis. The Group also sourced certain of those motorbike parts from Independent Third Party suppliers at comparable prices and quality during the Track Record Period and will continue to do so in the future. For the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, the Group's total purchases from VTBM amounted to approximately US\$3.0 million, US\$3.3 million, US\$3.7 million and US\$1.9 million, respectively.

*Future purchase arrangements:* The Company and VTBM entered into the VMEP Holdings VTBM Purchase Agreement on 26 November 2007, which will come into effect on the Listing Date and expire on 31 December 2009. Pursuant to the VMEP Holdings VTBM Purchase Agreement, the Company may (but is not obliged to), whether itself or through any of its subsidiaries, purchase motorbike parts manufactured in Vietnam from VTBM.

*Connected persons:* VTBM is an indirect non wholly-owned subsidiary of Sanyang and is therefore an associate of Sanyang and hence a connected person of the Company.

*Connected transactions:* Any purchase of motorbike parts by the Group from VTBM pursuant to the VMEP Holdings VTBM Purchase Agreement following the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

*Pricing:* The pricing at which motorbike parts will be sold by VTBM to the Group under the VMEP Holdings VTBM Purchase Agreement will be determined on a market price basis.

*Caps:* The Directors estimate that the annual caps for the amounts payable by the Group under the VMEP Holdings VTBM Purchase Agreement shall be approximately US\$4,400,000, US\$5,200,000 and US\$6,200,000 for the years ending 31 December 2007, 2008 and 2009, respectively. Such annual caps have been determined by reference to (i) the historical transaction amounts paid by the Group to VTBM during the six-month period ended 30 June 2007 and (ii) the projected increase in the future requirements of the Group for motorbike parts produced by VTBM in the years ending 31 December 2007, 2008 and 2009, respectively, based on a projected year-on-year growth rate of approximately 19% and the projected increase in sales of motorbikes by the Group in the years ending 31 December 2007, 2008 and 2009, respectively. The above growth rate assumption is an approximation that has been made for the purpose of calculating the abovementioned annual caps only and should not be relied on as an indication of the actual year-on-year growth rate.

*Reasons for such transactions:* The entering into of the VMEP Holdings VTBM Purchase Agreement allows the Group to secure a cost effective and stable source of supply of motorbike parts required for its operations.

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### SALES

#### Sales of motorbike parts to Sanyang and its associates (Category 2)

*Background:* During the Track Record Period, the Group sold motorbike parts (such as connecting rods, side and body covers, panels and battery lids) to the Sanyang Group. Such motorbike parts were used by the Sanyang Group for the production of its products. The Directors believe that such sales by the Group to the Sanyang Group during the Track Record Period were conducted on a market price basis. For the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, the Group's sales of motorbike parts to the Sanyang Group amounted to approximately US\$0.9 million, US\$1.4 million, US\$1.8 million and US\$1.3 million, respectively. The increase in those sales from 2004 to 2006 was due to the increase in the volume of motorbike parts sold to Sanyang for export to countries in the Exclusive Territory and an increase in sales of and demand for certain models of motorbikes produced by Sanyang.

*Future sales arrangements:* The Company and Sanyang entered into the VMEP Holdings Parts Sales Agreement on 26 November 2007, which will come into effect on the Listing Date and expire on 31 December 2009. Pursuant to the VMEP Holdings Parts Sales Agreement, the Company may (but is not obliged to), whether itself or through any of its subsidiaries, from time to time, sell motorbike parts to Sanyang and/or any of its associates.

#### *Connected persons:*

- Sanyang. As described in Category 1A above, Sanyang is a connected person of the Company.
- Sanyang's associates. Any associate of Sanyang is also a connected person of the Company.

*Connected transactions:* Any sale of motorbike parts by the Group to Sanyang and/or any of its associates pursuant to the VMEP Holdings Parts Sales Agreement following the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

*Pricing:* The pricing for the purchase of motorbike parts by Sanyang and/or any of its associates from the Group will be determined on a market price basis.

*Caps:* The Directors estimate that the annual caps for the amounts payable by Sanyang and its associates under the VMEP Holdings Parts Sales Agreement shall be approximately US\$2,970,000, US\$2,970,000 and US\$2,970,000 for the three years ending 31 December 2007, 2008 and 2009, respectively. Such annual caps have been determined by reference to (i) the historical transaction amounts paid by the Sanyang Group to the Group during the six-month period ended 30 June 2007, (ii) the estimated sales for the six-month period ending 31 December 2007 which are expected to be at a similar level as those for the six-month period ended 30 June 2007 and (iii) Sanyang's intention to increase its purchase of parts from Independent Third Parties in 2008 and 2009. The increase from the historical transaction amount of US\$1.8 million for the year ended 31 December 2006 to the proposed annual caps of US\$2,970,000 for each of the three years ending 31 December 2007, 2008 and 2009 is mainly due to the projected increase in sales of SYM motorbikes by the Sanyang Group in the three years ending 31 December 2007, 2008 and 2009.

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*Reasons for such transactions:* The sale of motorbike parts pursuant to the VMEP Holdings Parts Sales Agreement will increase the utilisation rate and hence economies of scale of the production facilities of the Group by utilising the spare and otherwise unused production capacity of such production facilities and will also be an additional source of income for the Group.

The Group, as one of several suppliers of motorbike parts engaged by Sanyang, supplies motorbike parts to the Sanyang Group for use in the production of motorbikes by the Sanyang Group, while at the same time the Group also sources motorbike parts from Sanyang as the motorbike parts purchased by the Group from Sanyang are different from those sold by the Group to the Sanyang Group.

### **LICENSING OF TRADE MARKS AND TECHNOLOGY AND PROVISION OF RESEARCH AND DEVELOPMENT AND TECHNICAL SUPPORT SERVICES**

#### **Licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP (Category 3A)**

*Background:* During the Track Record Period, pursuant to certain technology transfer agreements entered into between Sanyang and VMEP, Sanyang (i) licensed to VMEP the use of the “SYM” trade mark and the trade marks of certain product names of motorbikes in connection with the manufacture and sale of certain models of SYM motorbikes and related parts in Vietnam on a non-exclusive basis, (ii) licensed to VMEP the use of the Sanyang Licensed Technology in connection with the manufacture and sale of certain models of SYM motorbikes and related parts in Vietnam and (iii) provided technical support and research and development services to VMEP. The licensing fees under such technology transfer agreements over the Track Record Period were in line with the licensing fees paid by the Group’s contemporaries over the Track Record Period. In 2006, Sanyang adjusted the royalty payment under the technology transfer agreements from 5% to 3% of the annual net sales price of products manufactured by using the technology licensed from Sanyang, as a result of a decrease in revenue of the Group in 2005 due to quality control issues in certain cub models. Such adjusted royalty payment resulted in a substantial decrease in the amount paid by VMEP to Sanyang pursuant to the technology transfer agreements in 2006 as compared with such amount paid by VMEP in 2004 and 2005. For the years ended 31 December 2004, 2005 and 2006 and the six months ended 30 June 2007, the Group’s expenditure in connection with the use of the above-mentioned trade marks, technology, know-how, trade secrets and production information licensed from Sanyang and the receipt of the abovementioned support services amounted to approximately US\$7.8 million, US\$4.9 million, US\$3.1 million and US\$2.5 million, respectively. For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, the Group’s sales of SYM motorbikes amounted to approximately US\$232.4 million, US\$139.9 million, US\$152.2 million and US\$94.6 million, respectively.

*Future licensing arrangements:* VMEP and Sanyang entered into the Technology Licence Agreement on 26 November 2007, which will come into effect on the Listing Date. The Technology Licence Agreement will continue in force (a) for so long as Sanyang remains as a controlling shareholder of the Company; and, (b) if Sanyang ceases to be a controlling shareholder of the Company, then for a further period from the date on which Sanyang ceases to be a controlling shareholder of the Company up to and including the date falling immediately before the 20th anniversary of the date on which Sanyang ceases to be such controlling shareholder. Pursuant to the Technology Licence Agreement, Sanyang granted an exclusive licence to VMEP to continue to use the Sanyang Licensed Technology (which was previously licensed to VMEP during the

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Track Record Period), in connection with the manufacture and sale of SYM motorbikes and related parts in the Exclusive Territory. The Directors believe that the long-term nature of the Technology Licence Agreement is appropriate and in the best interests of the Group and the Shareholders as a whole because (i) it enables the Group to continue manufacturing and selling SYM motorbikes and related parts (the sales of which contributed to a significant portion of the Group's total revenue during the Track Record Period), (ii) it prevents Sanyang from discontinuing the licence under the Technology Licence Agreement for so long as it remains a controlling shareholder of the Company, and if Sanyang ceases to be a controlling shareholder of the Company, for a further period of 20 years, provided that no competitor has become a controlling shareholder of the Company and whose shareholding in the Company exceeds that of Sanyang and (iii) it provides the Group with sufficient time to develop its own research and development capabilities and its own brand names which will further reduce its dependence on the Sanyang Licensed Technology and the "SYM" trade mark. The Company will comply with the then applicable requirements under Chapter 14A of the Listing Rules in respect of the Technology Licence Agreement upon the expiry of the three-year period ending 31 December 2009. VMEP has a right to grant non-exclusive sub-licences to any subsidiary of the Company to use the Sanyang Licensed Technology in the Exclusive Territory in accordance with the terms of the Technology Licence Agreement.

The Technology Licence Agreement will be subject to termination in certain circumstances, including in any one of the following scenarios:

- Sanyang has the right to terminate the Technology Licence Agreement with immediate effect if:
  - (i) a competitor (being an entity that is engaged in the manufacture and sale of motorbikes, including cubs or scooters, and related parts anywhere in the world) becomes a controlling shareholder of the Company; and
  - (ii) such competitor's shareholding in the Company exceeds Sanyang's shareholding in the Company.
- Either party has the right to terminate the Technology Licence Agreement with immediate effect if:
  - (i) the other party is in material breach of the Technology Licence Agreement subject to a grace period of 60 days; or
  - (ii) the other party becomes insolvent or becomes subject to winding-up.

*Connected person:* Sanyang. As described in Category 1A above, Sanyang is a connected person of the Company.

*Connected transactions:* The licensing of the Sanyang Licensed Technology by Sanyang to VMEP pursuant to the Technology Licence Agreement following the completion of the Global Offering will constitute a continuing connected transaction under Rule 14A.14 of the Listing Rules.

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*Pricing:* The licence fee (or royalty) payable for the use of the Sanyang Licensed Technology under the Technology Licence Agreement is 4% of the annual net selling price of products manufactured by using the Sanyang Licensed Technology and sold by VMEP. Such licence fee has been determined by reference to licence fees payable in connection with comparable technology licensing arrangements in the motorbike industry in Vietnam. As described above, the licence fee was adjusted from 5% to 3% in 2006. However, the licence fee pursuant to the Technology Licence Agreement will increase to 4% in the years ending 31 December 2007, 2008 and 2009 from 3% in the year ended 31 December 2006 as the rate of 4% is in line with comparable market rates of licence fees currently paid by the Group's contemporaries. The Directors are of the view that such pricing basis is fair and reasonable. The licence fee payable under the Technology Licence Agreement will be reviewed by a firm of independent valuers of international repute (to be selected by VMEP and Sanyang, or failing agreement, by VMEP) every three years commencing from the Listing Date, taking account of comparable market rates at the relevant time.

*Caps:* The Directors estimate that the annual caps for the amounts payable by the Group under the Technology Licence Agreement shall be approximately US\$6,000,000, US\$6,900,000 and US\$7,900,000 for the years ending 31 December 2007, 2008 and 2009, respectively. Such annual caps have been determined by reference to (i) the aggregate historical transaction amounts paid by the Group which is attributable to the use of the Sanyang Licensed Technology during the Track Record Period as estimated by the Directors, (ii) the estimated frequency and quantity of use of the Sanyang Licensed Technology and (iii) the projected growth in revenue of the Group in the years ending 31 December 2007, 2008 and 2009, respectively. In particular, the annual cap for the year ending 31 December 2009 has been determined by reference to the projected increase in sales of SYM motorbikes by the Group from 2008 to 2009. The increase from the historical transaction amount of US\$3.1 million for the year ended 31 December 2006 to the annual cap of US\$6,000,000 for the year ending 31 December 2007 is mainly due to the increase in sales of SYM motorbikes by the Group in the six-month period ended 30 June 2007 and projected increase in sales of SYM motorbikes by the Group in the six-month period ending 31 December 2007.

*Reasons for such transactions:* The Group requires the continued use of the Sanyang Licensed Technology to enable the Group to continue manufacturing and selling SYM motorbikes.

### **Licensing of trade marks by Sanyang to the Company (Category 3B)**

*Background:* For further details of the background of this transaction, please refer to the description in Category 3A above.

*Future licensing arrangements:* The Company and Sanyang entered into the Trade Marks Licence Agreement on 26 November 2007, which will come into effect on the Listing Date and will continue in force (a) for so long as Sanyang remains as a controlling shareholder of the Company; and, (b) if Sanyang ceases to be a controlling shareholder of the Company, then for a further period from the date on which Sanyang ceases to be a controlling shareholder of the Company up to and including the date falling immediately before the 20th anniversary of the date on which Sanyang ceases to be such controlling shareholder. Pursuant to the Trade Marks Licence Agreement, Sanyang has granted an exclusive licence to the Company to continue to use the "SYM" trade mark in the Exclusive Territory and the trade marks of certain product names of motorbikes, such as Attila Victoria and Magic II, in Vietnam in connection with the manufacture and sale of SYM motorbikes and/or related parts for a royalty fee of US\$1.00 per

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annum. The Directors believe that the long-term nature of the Trade Marks Licence Agreement is appropriate and in the best interests of the Group and the Shareholders as a whole because (i) it enables the Group to continue manufacturing and selling SYM motorbikes and related parts (the sales of which contributed to a significant portion of the Group's total revenue during the Track Record Period), (ii) it prevents Sanyang from discontinuing the licence under the Trade Marks Licence Agreement for so long as it remains a controlling shareholder of the Company, and if Sanyang ceases to be a controlling shareholder of the Company, for a further period of 20 years thereafter, provided that no competitor has become a controlling shareholder of the Company and whose shareholding in the Company exceeds that of Sanyang and (iii) it provides the Group with sufficient time to develop its own research and development capabilities and its own brand names which will further reduce its dependence on the Sanyang Licensed Technology and the "SYM" trade mark. The Company will comply with the then applicable requirements under Chapter 14A of the Listing Rules in respect of the Trade Marks Licence Agreement upon the expiry of the three-year period ending 31 December 2009. The Company has a right to grant non-exclusive sub-licences to any of its subsidiaries to use such trade marks in accordance with the terms of the Trade Marks Licence Agreement.

*Connected person:* Sanyang. As described in Category 1A above, Sanyang is a connected person of the Company.

*Connected transactions:* The licensing of the "SYM" trade mark by Sanyang to the Company pursuant to the Trade Marks Licence Agreement following the completion of the Global Offering will constitute a continuing connected transaction under Rule 14A.14 of the Listing Rules.

*Pricing:* Sanyang has licensed the use of the "SYM" trade mark and the trade marks of certain product names of motorbikes to the Company for a royalty fee of US\$1.00 per annum.

*Caps:* As the royalty fee to be paid by the Company for the grant of the abovementioned licence is US\$1.00 per annum, transactions entered into pursuant to the Trade Marks Licence Agreement are considered de minimis transactions under Rule 14A.33(3) of the Listing Rules, and therefore, no annual caps have been set for such transactions for the years ending 31 December 2007, 2008 and 2009, respectively.

*Reasons for such transactions:* Sanyang is the registered owner of the "SYM" trade mark and the trade marks of certain product names of motorbikes. During the Track Record Period and in the future, both Sanyang and the Group were and will be using the "SYM" trade mark in connection with the manufacture and sale of SYM motorbikes and related parts. The grant of an exclusive licence by Sanyang to the Company to continue to use the "SYM" trade mark in the Exclusive Territory and the trade marks of certain product names of motorbikes in Vietnam and the sub-licensing arrangements between the Company and its subsidiaries allows the Group to continue manufacturing and selling SYM motorbikes and/or related parts in the Exclusive Territory which utilise the Sanyang Licensed Technology. The exclusive nature of such licence means Sanyang or any of its associates cannot itself use or license any other party to use the "SYM" trade mark in connection with the manufacture and sale of motorbikes and related parts in the Exclusive Territory. As the "SYM" trade mark is a familiar trade mark in the Exclusive Territory, the ability of the Group to continue producing motorbikes with the "SYM" trade mark imprinted thereon is beneficial to the Group for the further development of its motorbike business in the Exclusive Territory.

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### **Provision of research and development and technical support services by Sanyang and its associates to the Group (Category 3C)**

*Background:* For further details of the background of this transaction, please refer to the description in Category 3A above.

*Future services arrangements:* The Company and Sanyang entered into the Research and Development and Technical Support Services Agreement on 26 November 2007, which will come into effect on the Listing Date and expire on 31 December 2009. Pursuant to the Research and Development and Technical Support Services Agreement, Sanyang and its associates will provide technical support and research and development services to the Group.

*Connected persons:*

- Sanyang. As described in Category 1A above, Sanyang is a connected person of the Company.
- Sanyang's associates. Any associate of Sanyang is also a connected person of the Company.

*Connected transactions:* The provision of technical support or research and development services by Sanyang or any of its associates to the Company and/or its subsidiaries pursuant to the Research and Development and Technical Support Services Agreement following the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

*Pricing:* Sanyang and its associates will provide technical support or research and development services to the Group at a fixed rate of US\$250 per staff per working day spent on the provision of such support services in accordance with comparable market rates at which Independent Third Parties supply similar support services of not less favourable quality. The Directors are of the view that such pricing basis is fair and reasonable.

*Caps:* The Directors estimate that the annual caps for the amounts payable by the Group under the Research and Development and Technical Support Services Agreement shall be approximately US\$200,000, US\$450,000 and US\$450,000 for the years ending 31 December 2007, 2008 and 2009, respectively. Such annual caps have been determined by reference to (i) the aggregate historical transaction amounts paid by the Group which is attributable to the use of such technical support and research and development services during the Track Record Period as estimated by the Directors (based on the amount of technical support and research and development services which the Group required from Sanyang and its associates during the Track Record Period) and (ii) the estimated amount of fees payable by the Group under the Research and Development and Technical Support Services Agreement in the years ending 31 December 2007, 2008 and 2009 with reference to such factors as the number of employees of Sanyang and its associates who were involved in and the number of working days which were spent on the provision of such support services in the years ended 31 December 2005 and 2006 and the pricing basis under the Research and Development and Technical Support Services Agreement (being a fixed rate of US\$250 per employee per working day spent on the provision of such support services). For the years ended 31 December 2005 and 2006, approximately 190 and 110 employees of Sanyang and its associates were engaged for approximately 2,000 working days and approximately 1,600 working days, respectively, in providing such support services to the Group. The increase in annual cap from US\$200,000 for the year ending 31 December 2007 to US\$450,000 for the years ending 31 December 2008 and

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2009 is mainly due to the projected increase in the Group's requirement for such support services on an ad hoc basis in the years ending 31 December 2008 and 2009 which will be of assistance to the Group as it intends to undertake research and development projects in relation to the development of new models of motorbikes.

*Reasons for such transactions:* The Group requires technical support and research and development services from Sanyang and its associates as Sanyang's and its associates' employees have the required expertise and skills and are well-acquainted with the technical specifications of the motorbikes manufactured by the Group given the long history of the Sanyang Group's involvement in motorbike production since the 1960s.

### DISTRIBUTION

**The Company being engaged as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates in the Exclusive Territory (excluding Vietnam, unless the motorbikes are re-sold in Vietnam for exhibition purposes) (Category 4)**

*Background:* During the Track Record Period, there was no written agreement in place between Sanyang and the Company which governed or restricted competition between Sanyang and the Company, or governed or restricted the distribution of motorbikes and related parts manufactured by Sanyang and its associates in the Exclusive Territory.

*Future distribution arrangements:* The Company and Sanyang entered into the VMEP Holdings Distributorship Agreement on 26 November 2007, which will come into effect on the Listing Date and expire on 31 December 2009. Pursuant to the VMEP Holdings Distributorship Agreement, Sanyang appointed the Company as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates in the Exclusive Territory (except in the case of Vietnam, the Company will only be entitled to re-sell such motorbikes to customers in Vietnam solely for use in exhibitions). The Company has the right to appoint any of its subsidiaries as sub-distributors in accordance with the terms of the VMEP Holdings Distributorship Agreement. Sanyang or any of its associates will sell products to the Company or any of its subsidiaries on a principal to principal basis and the Company and its subsidiaries will not be subject to any obligation to purchase any products from Sanyang or any of its associates under the VMEP Holdings Distributorship Agreement and will only purchase from Sanyang or any of its associates when confirmed customer orders are received. The models of motorbikes to be sold by Sanyang or any of its associates pursuant to the VMEP Holdings Distributorship Agreement are restricted to those models of motorbikes which are not produced by the Group at the relevant time.

#### *Connected persons:*

- Sanyang. As described in Category 1A above, Sanyang is a connected person of the Company.
- Sanyang's associates. Any associate of Sanyang is also a connected person of the Company.

*Connected transactions:* Any purchase of products by the Company or any of its subsidiaries from Sanyang or any of its associates pursuant to the VMEP Holdings Distributorship Agreement following the completion of the Global Offering will constitute continuing connected transactions under Rule 14A.14 of the Listing Rules.

## **CONNECTED TRANSACTIONS**

*Pricing:* If the Company or any of its subsidiaries chooses to purchase any products from Sanyang or any of its associates, then Sanyang or (as the case may be) such associate will sell such products at a price that is at least 3.5% lower than the indicative purchase price for such products offered by the Independent Third Party customer to whom the Company or (as the case may be) such subsidiary proposes to re-sell such products. Such pricing basis ensures that the Group will have the benefit of a margin of at least 3.5% as a minimum guaranteed profit on each product manufactured by Sanyang or any of its associates which it re-sell to end-customers in the Exclusive Territory. The Directors believe that such margin will sufficiently cover the Group's costs of selling such products, including its administrative expenses and selling expenses. On this basis, the Directors consider that such pricing basis is fair and reasonable.

*Caps:* The Directors estimate that the annual caps for the amounts payable by the Group under the VMEP Holdings Distributorship Agreement shall be US\$7,700,000, US\$7,700,000 and US\$7,700,000 for the years ending 31 December 2007, 2008 and 2009, respectively. Such annual caps have been determined by reference to (i) the historical transaction amounts of sales made by the Sanyang Group (excluding the sales of the Group's products) in the Exclusive Territory (other than Vietnam) of NT\$127.5 million (equivalent to approximately US\$3.9 million) during the six-month period ended 30 June 2007, (ii) the estimated sales for the six-month period ending 31 December 2007 which are expected to be at a similar level as those for the six-month period ended 30 June 2007 and (iii) the estimated sales volume of the Sanyang Group's products in the Exclusive Territory (other than Vietnam) in the six-month period ending 31 December 2007 and the years ending 31 December 2008 and 2009, respectively, which the Company expects will decline gradually over the three years ending 31 December 2007, 2008 and 2009, as the Group further develops sales of its own products to customers in the Exclusive Territory.

*Reasons for such transactions:* The main commercial justifications for entering into the VMEP Holdings Distributorship Agreement are to enable the Group to retain as many of the customers in the Exclusive Territory (other than Vietnam) to whom the Sanyang Group had been selling its products over the Track Record Period as possible and to utilise the existing customer base of the Sanyang Group as a gateway for expanding its own customer base within the Exclusive Territory (other than Vietnam) and developing sales of the Group's products to replace those of the Sanyang Group.

### **WAIVERS**

#### **Continuing connected transactions after the Global Offering**

The Directors, including the independent non-executive Directors, are of the opinion that the transactions described in the section above headed "Continuing Connected Transactions", have been entered into, and will be carried out following the completion of the Global Offering, in the ordinary and usual course of business and on normal commercial terms, as the case may be, and that the terms of the transactions and annual caps of such transactions, where applicable, are fair and reasonable and in the interests of the Shareholders as a whole.

#### **No waiver applied for in respect of certain connected transactions**

For the continuing connected transactions described under Category 3B above, each of the percentage ratios (other than the profit ratio), where applicable, calculated by reference to Rule 14.07 of the Listing Rules, is expected on an annual basis to be less than 0.1%. Accordingly, these transactions qualify under Rule 14A.33(3) of the Listing Rules as de minimis transactions that are exempt from the reporting, announcement and independent shareholders' approval requirements under the Listing Rules.

## CONNECTED TRANSACTIONS

### WAIVERS FROM COMPLIANCE WITH ANNOUNCEMENT AND INDEPENDENT SHAREHOLDERS' APPROVAL REQUIREMENTS

The transactions under Categories 2 and 3C as described above (the “**Continuing Connected Transactions Subject to Reporting and Announcement Requirement**”) constitute continuing connected transactions of the Company under Rule 14A.34 of the Listing Rules and are subject to the reporting and announcement requirements set out in Rules 14A.45 to 14A.47 of the Listing Rules on each occasion on which they arise following the completion of the Global Offering.

The transactions under Categories 1A, 1B, 3A and 4 as described above (the “**Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirement**”) constitute continuing connected transactions of the Company and are subject to the reporting and announcement requirements set out in Rule 14A.45 to 14A.47 of the Listing Rules and the independent shareholders' approval requirement set out in Rule 14A.48 of the Listing Rules on each occasion on which they arise following the completion of the Global Offering.

The Continuing Connected Transactions Subject to Reporting and Announcement Requirement and Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirement will be entered into and conducted in the ordinary and usual course of business of the Group on normal commercial terms and on an arm's length basis in accordance with the pricing basis as set out in the relevant written agreements between the connected parties as mentioned above.

Pursuant to Rule 14A.42(3) of the Listing Rules, the Company has applied for, and the Stock Exchange has agreed to grant a waiver to exempt the Continuing Connected Transactions Subject to Reporting and Announcement Requirement and Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirement from compliance with the announcement and/or independent shareholders' approval requirements under the Listing Rules. In addition, the Company confirms that it will comply with Rules 14A.35(1), 14A.35(2), 14A.36, 14A.37, 14A.38, 14A.39 and 14A.40 of the Listing Rules.

The maximum aggregate annual value, if any, for the Continuing Connected Transactions Subject to Reporting and Announcement Requirement and Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirement for the years ending 31 December 2007, 2008 and 2009, respectively, shall not exceed the following caps as set out below:

Category	Nature of Transaction	2007	Annual Cap For the year ending 31 December	
			2008 <i>(in US\$)</i>	2009
<b>Continuing Connected Transactions Subject to Reporting and Announcement Requirement</b>				
2	Sales of motorbike parts to Sanyang and its associates	2,970,000	2,970,000	2,970,000
3C	Provision of technical support and research and development services by Sanyang and its associates to the Group	200,000	450,000	450,000

## CONNECTED TRANSACTIONS

Category	Nature of Transaction	2007	Annual Cap For the year ending 31 December 2008 <i>(in US\$)</i>	2009
<b>Continuing Connected Transactions Subject to Reporting, Announcement and Independent Shareholders' Approval Requirement</b>				
1A	Purchase of motorbike parts from Sanyang	32,200,000	29,700,000	27,300,000
1B	Purchase of motorbike parts manufactured in Vietnam from VTBM	4,400,000	5,200,000	6,200,000
3A	Licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP	6,000,000	6,900,000	7,900,000
4	The Company being engaged as the exclusive distributor of motorbikes and related parts manufactured by Sanyang and its associates in the Exclusive Territory (excluding Vietnam, unless the motorbikes are re-sold in Vietnam for exhibition purposes)	7,700,000	7,700,000	7,700,000

As advised by the Company's Taiwan and Vietnam legal advisers, the applicable Taiwan and Vietnam laws and regulations to which the subsidiaries of the Company are subject to as at the Latest Practicable Date, would not render the Company legally restricted from complying with its continuing obligations under Chapters 13, 14 and 14A of the Listing Rules applicable to the Company as a listed issuer.

### Confirmation from the Sponsor

The Sponsor is of the view that (1) the continuing connected transactions described in Category 1A, 1B, 2, 3A, 3C and 4 are in the ordinary and usual course of the business of the Group, are on normal commercial terms, are fair and reasonable and are in the interests of the Shareholders as a whole, and (2) the annual caps for such continuing connected transactions are fair and reasonable as far as the Shareholders as a whole are concerned.

The effective term of each of the Technology Licence Agreement and the Trade Marks Licence Agreement, as described above in Categories 3A and 3B, exceeds the three-year period set out under Rule 14A.35(1) of the Listing Rules. The Directors and the Sponsor have confirmed that they consider that these long-term exclusive licensing arrangements are appropriate and in the best interests of the Group and the Shareholders as a whole because:

- (i) they enable the Group to continue manufacturing and selling SYM motorbikes and related parts (the sales of which contributed to a significant portion of the Group's total revenue during the Track Record Period);
- (ii) they prevent Sanyang from discontinuing the licences under the Technology Licence Agreement and Trade Marks Licence Agreement for so long as it remains a controlling shareholder of the Company, and if Sanyang ceases to be a controlling shareholder of the Company, for a further period of 20 years thereafter, provided that no competitor has become a controlling shareholder of the Company and whose shareholding in the Company exceeds that of Sanyang; and
- (iii) they provide the Group with sufficient time to develop its own research and development capabilities and its own brand names which will further reduce its dependence on the Sanyang Licensed Technology and the "SYM" trade mark.