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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 2017**

Financial Highlights :

(expressed in US\$'million)

	2017	2016	Change Amount
• Total Revenue	93.7	133.2	(39.5)
• Gross Profit	6.1	15.7	(9.6)
• Net Loss after Tax	(9.3)	(0.7)	(8.6)
• Loss per share (US\$)	(0.01)	(0.001)	(0.009)

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 2017 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 2017.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2017

(Expressed in United States dollars)

		2017	2016
	Note	US\$	US\$
Revenue	2	93,746,331	133,202,011
Cost of sales		<u>(87,680,654)</u>	<u>(117,469,298)</u>
Gross profit		6,065,677	15,732,713
Other income		157,139	1,000,260
Distribution costs		(6,940,838)	(6,959,150)
Technology transfer fees		(934,865)	(3,224,785)
Administrative expenses		(9,299,828)	(9,707,052)
Impairment loss on property, plant and equipment	3(c)	(2,232,753)	-
Other expenses		<u>(22,318)</u>	<u>(116,759)</u>
Results from operating activities	(13,207,786)(3,274,773)
Finance income		4,156,691	4,054,987
Finance costs		<u>(770,508)</u>	<u>(1,702,530)</u>
Net finance income	3(a)3,386,1832,352,457
Share of profit of an associate		<u>44,766</u>	<u>85,314</u>
Loss before taxation	3	(9,776,837)	(837,002)
Income tax credit	4	<u>444,619</u>	<u>89,880</u>
Loss for the year		(9,332,218)	(747,122)
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		<u>567,637</u>	<u>(985,116)</u>
Total comprehensive income for the year attributable to equity shareholders of the Company		<u>(8,764,581)</u>	<u>(1,732,238)</u>
Loss per share			
- Basic and diluted	5	<u>(0.01)</u>	<u>(0.001)</u>

Consolidated Statement of Financial Position

at 31 December 2017

(Expressed in United States dollars)

	Note	2017 US\$	2016 US\$
Non-current assets			
Property, plant and equipment		14,095,943	18,077,947
Intangible assets		9,011	37,037
Lease prepayments		4,732,658	4,864,995
Interest in an associate		544,336	498,764
Deferred tax assets		<u>1,322,531</u>	<u>936,285</u>
		<u>20,704,479</u>	<u>24,415,028</u>
Current assets			
Inventories	6	18,958,820	24,810,273
Trade receivables, other receivables and prepayments	7	19,828,211	24,535,220
Time deposits maturing after three months		88,805,816	93,040,713
Cash and cash equivalents		13,356,314	11,106,900
Current tax recoverable		<u>25,504</u>	<u>73,490</u>
		<u>140,974,665</u>	<u>153,566,596</u>
Current liabilities			
Trade and other payables	8	11,726,438	16,371,490
Bank loans		23,343,521	26,166,074
Current tax payable		-	13,905
Provisions		<u>814,687</u>	<u>835,432</u>
		<u>35,884,646</u>	<u>43,386,901</u>
Net current assets		<u>105,090,019</u>	<u>110,179,695</u>
Total assets less current liabilities		<u>125,794,498</u>	<u>134,594,723</u>
Non-current liabilities			
Deferred tax liabilities		<u>-</u>	<u>35,644</u>
Net assets		<u>125,794,498</u>	<u>134,559,079</u>
Capital and reserves			
Share capital		1,162,872	1,162,872
Reserves		<u>124,631,626</u>	<u>133,396,207</u>
Total equity attributable to equity shareholders of the Company		<u>125,794,498</u>	<u>134,559,079</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 2017, but is derived from 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 2017 comprise 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 several amendments to IFRSs that are first effective for the current accounting period of the Group. However, additional disclosure has been included in notes to the consolidated financial statements to satisfy the new disclosure requirements introduced by the amendments to IAS 7, Statement of cash flows: Disclosure initiative, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes.

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

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:

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

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

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

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 2017 and 2016 is set out below:

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

	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	-	43,514,252	957,748	44,472,000
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)
Impairment loss on property, plant and equipment	-	-	-	-
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>10,621,748</u>	<u>6,022,972</u>	<u>80,246</u>	<u>16,724,966</u>

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

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

	2017	2016
	<i>US\$</i>	<i>US\$</i>
Assets		
Reportable segment assets	57,479,046	72,290,993
Elimination of inter-segment receivables	-	-
	<u>57,479,046</u>	<u>72,290,993</u>
Interest in an associate	544,336	498,764
Time deposits maturing after three months	88,805,816	93,040,713
Cash and cash equivalents	13,356,314	11,106,900
Deferred tax assets	1,322,531	936,285
Unallocated corporate assets	<u>171,101</u>	<u>107,969</u>
Consolidated total assets	<u><u>161,679,144</u></u>	<u><u>177,981,624</u></u>
Liabilities		
Reportable segment liabilities	11,896,066	16,724,966
Elimination of inter-segment payables	-	-
	<u>11,896,066</u>	<u>16,724,966</u>
Bank loans	23,343,521	26,166,074
Current tax payable	-	13,905
Deferred tax liabilities	-	35,644
Unallocated corporate liabilities	<u>645,059</u>	<u>481,956</u>
Consolidated total liabilities	<u><u>35,884,646</u></u>	<u><u>43,422,545</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	
	2017	2016	2017	2016
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Vietnam (place of domicile)	50,704,289	57,942,192	18,835,894	22,976,881
Malaysia	22,731,657	46,479,642	-	-
The Philippines	14,860,468	26,909,911	-	-
Singapore	2,692,827	547,951	-	-
Indonesia	310,186	593,912	-	-
Taiwan	2,406,327	508,181	-	-
Thailand	-	142,030	-	-
Other countries	<u>40,577</u>	<u>78,192</u>	<u>1,718</u>	<u>3,098</u>
	<u><u>93,746,331</u></u>	<u><u>133,202,011</u></u>	<u><u>18,837,612</u></u>	<u><u>22,979,979</u></u>

3. Loss before taxation

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

(a) Net finance income

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

(b) Staff costs

Contributions to defined contribution retirement retirement plans	957,568	1,009,314
Severance pay allowance	66,376	62,861
Salaries, wages and other benefits	11,107,290	11,120,840
	<u>12,131,234</u>	<u>12,193,015</u>

(c) Other items

Amortisation of lease prepayments and intangible assets	315,468	304,334
Depreciation of property, plant and equipment	3,592,665	3,696,717
Write-down of inventories	2,105,463	544,906
Impairment losses/ (reversal of impairment loss) on property, plant and equipment	2,232,753	(9,986)
Net loss on disposal and write off of property, plant and equipment	-	964
Operating lease charges: minimum lease payments in respect of property rentals	542,184	602,842
Auditors' remuneration	444,399	391,303
- Audit services	367,399	383,515
- Other services	41,030	7,788
Research and development expenses (i)	4,097,561	7,303,282
Cost of inventories (ii)	<u>76,497,450</u>	<u>106,958,234</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 2017 and 31 December 2016.

- (ii) Cost of inventories includes amounts relating to staff costs, depreciation and amortisation expenses and rental expense of properties, which are also included in the respective total amounts disclosed separately above or in Note 3(b) for each of these types of expenses.

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

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

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

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax (“CIT”) for Vietnam Manufacturing and Export Processing Limited (“VMEP”) is calculated at 18% of the taxable profits on motorbike assembling and manufacturing activities and at the rate of 10% of taxable profits on engine assembling and manufacturing activities. The applicable tax rate for profits from other operating activities is 20%.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000, the Investment Law of 2006, and the Law on Corporate Income Tax of 2003 in Vietnam, the applicable tax rate for Duc Phat Molds Inc. is 20% from 2016 onwards.

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

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

In accordance with the Corporate Income Tax Law of Taiwan, as amended in 2010, the applicable tax rate for Chin Zong Trading Co., Ltd. (“Chin Zong”) is 17% if the taxable profit is above New Taiwan Dollar (“NT\$”) 120,000. Income tax is 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\$9,332,218 (2016: US\$747,122) and the weighted average of 907,680,000 (2016: 907,680,000) ordinary shares in issue during the year.

(b) Diluted loss per share

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

6. Inventories

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

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

	2017	2016
	<i>US\$</i>	<i>US\$</i>
Carrying amount of inventories sold	74,391,987	106,958,234
Write-down of inventories	<u>2,105,463</u>	<u>544,906</u>
	<u><u>76,497,450</u></u>	<u><u>107,503,140</u></u>

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

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

7. Trade receivables, other receivables and prepayments

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

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

8. Trade and other payables

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

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

9. Dividends

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

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

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

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

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

BUSINESS REVIEW

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

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

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

FINANCIAL REVIEW

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

REVENUE

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

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

COST OF SALES

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

GROSS PROFIT AND GROSS PROFIT MARGIN

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

DISTRIBUTION EXPENSES

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

ADMINISTRATIVE EXPENSES

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

RESULTS FROM OPERATING ACTIVITIES

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

NET FINANCE INCOME

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

LOSS FOR THE YEAR AND MARGIN

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

LIQUIDITY AND FINANCIAL RESOURCES

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

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

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

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

There have been no significant changes in the Group's policy in terms of exchange rate exposure. Transactions of the Group are mainly denominated in Vietnamese Dong and US dollar. The Group was not exposed to material exchange rate risk and had not employed any financial instruments for hedging purposes. The Group adopts conservative treasury policies in cash and financial management, with its cash generally placed in short-term deposits mostly denominated in Vietnamese Dong and US dollar.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group currently offers competitive remuneration packages to its staff in Vietnam, Taiwan and Hong Kong, and regularly reviews its remuneration packages in light of the overall development of the Group. The Group's remuneration packages include basic salaries, bonuses, quality staff living quarters, training and development opportunities, medical benefits, an insurance plan and retirement benefits. As at 31 December 2017, the Group had 1,578 employees (2016: 1,696). The total amount of salaries and related costs for the year ended 31 December 2017 amounted to approximately US\$12.1 million (2016: US\$12.2 million).

PROSPECTS

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

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

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

APPLICATION OF IPO PROCEEDS

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

	Per Prospectus US\$' million	Amount utilised US\$' million	Balances as at December 2017 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	13.7	32.3
Mergers and acquisitions	9.0	1.7	7.3
General working capital	<u>2.7</u>	<u>2.7</u>	<u>-</u>
Total	<u>76.7</u>	<u>33.8</u>	<u>42.9</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 2017, the Company has complied with the applicable code provisions as set out in the Corporate Governance Code (the “**Code**”) contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**Listing Rules**”), except for the following deviation:

Paragraph A.5 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 of the Company. Having made specific enquiry of all the directors of the Company, the Company confirms that the directors of the Company have complied with the required standard set out in the Model Code for the year ended 31 December 2017.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2017 have been reviewed by the audit committee of the Company which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements.

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 2017 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 26 June 2018. Notice of the annual general meeting will be published and issued to the shareholders of the Company 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 21 June 2018 to 26 June 2018 (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 20 June 2018.

FINAL DIVIDEND

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

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

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the HKEXnews website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.com.hk and on the Company's website at www.vmeph.com. The annual report 2017 of the Company will also be published on the aforesaid websites in due course.

OUR APPRECIATION

Lastly, on behalf of the Board, I hereby express my sincere gratitude to the shareholders of the Company and the suppliers and customers of the Group for their unwavering support. We would also like to thank our dedicated staff for their hard work and contribution to the Group over last year.

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

Hong Kong, 26 March 2018

As at the date of this announcement, the Board comprised three executive directors, namely Mr. Liu Wu Hsiung, Mr. Lu Tien Fu and Mr. Lin Chun Yu, 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.