*The following is the full text of a report, prepared for the purposes of incorporation in this prospectus, received from the independent reporting accountants of the Company, KPMG, Certified Public Accountants, Hong Kong. As described under "Documents available for inspection" in Appendix VII to this prospectus, a copy of the following accountants' report is available for inspection.*

8th Floor
Prince's Building
10 Chater Road
Central
Hong Kong

6 December 2007

The Directors
**Vietnam Manufacturing and Export Processing (Holdings) Limited**
**BNP Paribas Capital (Asia Pacific) Limited**

Dear Sirs,

**INTRODUCTION**

We set out below our report on the financial information relating to Vietnam Manufacturing and Export Processing (Holdings) Limited (the "Company") and its subsidiaries (hereinafter collectively referred to as the "Group") including the consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group for each of the three years ended 31 December 2004, 2005, 2006 and the six months ended 30 June 2007 (the "Relevant Periods") and the consolidated balance sheets of the Group as at 31 December 2004, 2005, 2006 and 30 June 2007, together with the notes thereto (the "Financial Information") for inclusion in the prospectus of the Company dated 6 December 2007 (the "Prospectus").

The Company was incorporated in the Cayman Islands on 20 June 2005 as an exempted company with limited liability under the Companies Law, Cap 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. Pursuant to a group reorganisation ("the Reorganisation") involving certain business combination transactions between companies under common control as detailed in the sub-section A4 headed "Corporate Reorganisation" in Appendix VI to the Prospectus, on 9 November 2005 the Company became the holding company of the subsidiaries now comprising the Group, details of which are set out below. The Company has not carried on any business since the date of its incorporation except for the Reorganisation.

At the date of this report, or up to the date of disposal of the relevant subsidiary if earlier, the Company had direct and indirect interests in the following subsidiaries, particulars of which are set out below:

| Name of company | Place and date of incorporation/ establishment and operation | Issued and fully paid share capital/registered capital | Attributable equity interest held by the Company Direct % | Indirect % | Principal activities |
|---|---|---|---|---|---|
| Vietnam Manufacturing and Export Processing Co., Limited *(i)* | Vietnam 5 March 1992 | US$58,560,000/ US$58,560,000 | 100 | – | Manufacturing and sale of motorbikes and related spare parts |
| Sanyang Motor Vietnam Co., Limited *(i)(iv)* | Vietnam 29 June 2007 | US$20,000,000/ US$70,230,000 | 100 | – | Manufacturing of light trucks under 3.5 tonnes and six to nine-seat multipurpose vehicles and related parts and engines |
| Chin Zong Trading Co., Limited *(ii)* | Taiwan 6 July 2007 | US$4,528,712/ US$9,057,424 | 100 | – | Sale of motor vehicles and motorbikes and related spare parts |
| Vietnam Casting Forge Precision Limited *(iii)* | Vietnam 12 April 2002 | US$4,500,000/ US$4,500,000 | – | 100 | Manufacturing spare parts for motorbikes and motor vehicles |
| C.Q.S. Molds Inc. *(iii)* | Vietnam 14 June 2002 | US$1,200,000/ US$1,200,000 | – | 70 | Manufacturing and processing moulds and jigs |

(i) The entity is a wholly foreign owned enterprise established in Vietnam.

(ii) The entity is a wholly foreign owned enterprise established in Taiwan.

(iii) The entities are domestic enterprises established in Vietnam.

(iv) Sanyang Motor Vietnam Co., Ltd. was disposed of by the Company and ceased to be a subsidiary on 3 August 2007.

## BASIS OF PREPARATION

The Financial Information has been prepared by the directors of the Company based on the audited financial statements or, where appropriate, unaudited management accounts of the companies now comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate. Adjustments have been made, for the purpose of this report, to restate these financial statements to conform with the accounting policies referred to in Section C2, which are in accordance with International Financial Reporting Standards ("IFRSs") promulgated by the International Accounting Standards Board, and the disclosure requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Stock Exchange"). IFRSs include International Accounting Standards ("IASs") and related interpretations, promulgated by the International Accounting Standards Board ("IASB").

No audited financial statements have been prepared for the Company as it is an investment holding company and has not carried on business since the date of its incorporation except for the Reorganisation. We have, however, reviewed all significant transactions of the Company from its date of incorporation to 31 December 2005, for the year ended 31 December 2006 and for the six months period ended 30 June 2007 for the purpose of this report. No audited financial statements have been prepared for Sanyang Motor Vietnam Co., Ltd. ("SMV") and Chin Zong Trading Co., Ltd. as they were incorporated on 29 June 2007 and 6 July 2007 respectively.

The financial statements of Vietnam Manufacturing and Export Processing Co., Limited ("VMEP"), Vietnam Casting Forge Precision Limited ("VCFP"), and C.Q.S Molds Inc ("C.Q.S.") as at and for each of the three years ended 31 December 2004, 2005, 2006 and the six months ended 30 June 2007 were prepared in accordance with the relevant accounting principles applicable to enterprises established in Vietnam and were audited during the Relevant Periods by KPMG Limited, a firm of certified public accountants registered in Vietnam.

## RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND REPORTING ACCOUNTANTS

The directors of the Company are responsible for the preparation of the Financial Information together with the notes thereto as set out in Section C to H below which give a true and fair view. The Financial Information and the notes thereto have been prepared based on the audited financial statements, or where appropriate, unaudited management accounts of the companies comprising the Group, on the basis set out in Section A below, after making such adjustments as are appropriate.

The directors of the respective companies are responsible for the preparation of the respective financial statements which give a true and fair view. In preparing the Financial Information and financial statements which give a true and fair view, it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on the Financial Information.

## BASIS OF OPINION

As a basis for forming an opinion on the Financial Information, for the purpose of this report, we have carried out appropriate audit procedures in respect of the audited financial statements or, where appropriate, the unaudited management accounts of the companies comprising the Group for the Relevant Period (or where the companies were incorporated/established at a date later than 1 January 2004, for the period from their respective dates of incorporation/establishment to 30 June 2007) in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and carried out such additional procedures as we considered necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" (Statement 3.340) issued by the HKICPA.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Financial Information. It also includes an assessment of the significant estimates and judgements made by the directors of the Company in the preparation of the Financial Information, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the Financial Information is free from material misstatement. In forming our opinion, we also evaluated the overall adequacy of the presentation of the Financial Information. We believe that our audit provides a reasonable basis for our opinion.

We have not audited any financial statements of the companies now comprising the Group in respect of any period subsequent to 30 June 2007.

## OPINION

In our opinion, for the purpose of this report, all adjustments considered necessary have been made and the Financial Information set out below together with the notes thereto, on the basis of presentation set out in Section A below, gives a true and fair view of the consolidated results and cash flows of the Group for each of the years ended 31 December 2004, 2005, 2006 and for the six months ended 30 June 2007 and of the consolidated state of affairs of the Group as at 31 December 2004, 2005, 2006 and 30 June 2007.

## COMPARATIVE FINANCIAL INFORMATION

### Respective responsibilities of directors and reporting accountants

The directors of the Company are responsible for the preparation of the unaudited financial information of the Group including the consolidated income statement, consolidated statement of changes in equity and consolidated cash flow statement for the six months ended 30 June 2006, together with the notes thereto (the "Comparative Financial Information").

It is our responsibility to form an independent conclusion, based on our review, on the Comparative Financial Information.

### Review work performed

For the purpose of this report, we have reviewed the Comparative Financial Information of the Group, for which the directors are responsible, in accordance with Statement of Auditing Standards 700 "Engagements to review interim financial reports" issued by the HKICPA. A review consists principally of making enquiries of the Group management and applying analytical procedures to the Comparative Financial Information and based thereon, assessing whether the accounting policies and basis of presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly we do not express an audit opinion on the Comparative Financial Information.

**Review conclusion**

On the basis of our review, which does not constitute an audit, for the purpose of this report and on the basis of presentation set out in Section A below, we are not aware of any material modifications that should be made to the Comparative Financial Information presented for the six months ended 30 June 2006.

## A. BASIS OF PRESENTATION

Because the same ultimate equity holders controlled the Group before and after the Reorganisation and, consequently there was continuation of the risks and benefits to the ultimate equity holders, the Group's financial statements have been prepared as a reorganisation of business under common control. Accordingly, the relevant assets and liabilities of the companies comprising the Group have been recognised at the carrying amounts recognised previously in the Group's controlling equity holder's consolidated financial statements.

The consolidated income statements, consolidated statements of changes in equity and consolidated cash flow statements of the Group as set out in Sections B(1), B(3) and B(4) respectively include the results of operations of the companies now comprising the Group for the Relevant Periods (or where the companies were incorporated/established at a date later than 1 January 2004, for the period from the date of incorporation/establishment to 30 June 2007) as if the current group structure had been in existence throughout the entire Relevant Periods. The consolidated balance sheets of the Group as at 31 December 2004, 2005, 2006 and 30 June 2007 as set out in Section B(2) have been prepared to present the state of affairs of the companies now comprising the Group as at the respective dates as if the current group structure had been in existence as at the respective dates.

During the Relevant Periods, there has been no acquisition or disposal of a subsidiary.

All material inter-company transactions and balances have been eliminated on consolidation.

## B. CONSOLIDATED FINANCIAL STATEMENTS

### 1. Consolidated income statements

| | Section C Note | For the year ended 31 December 2004 US$ | 2005 US$ | 2006 US$ | For the six months ended 30 June 2006 US$ (unaudited) | 2007 US$ |
|---|---|---|---|---|---|---|
| Revenue | 3 | 260,956,003 | 183,793,637 | 184,308,268 | 91,832,228 | 114,964,647 |
| Cost of sales | | (191,288,166) | (143,204,825) | (140,076,287) | (66,180,349) | (87,288,531) |
| **Gross profit** | | 69,667,837 | 40,588,812 | 44,231,981 | 25,651,879 | 27,676,116 |
| Other income | | 243,779 | 170,433 | 203,059 | 61,860 | 274,385 |
| Distribution expenses | | (11,423,531) | (11,530,419) | (11,456,332) | (5,361,596) | (7,691,823) |
| Technology transfer fees | 22(a) | (7,844,119) | (4,933,528) | (3,052,690) | (1,617,568) | (2,530,870) |
| Administrative expenses | | (6,580,609) | (8,608,986) | (7,623,331) | (4,015,365) | (4,560,210) |
| Other expenses | | (21,010) | (53,171) | (140,328) | (94,108) | (10,034) |
| **Profit from operating activities** | | 44,042,347 | 15,633,141 | 22,162,359 | 14,625,102 | 13,157,564 |
| Finance income | | 4,435,793 | 3,622,150 | 5,313,723 | 3,061,486 | 2,939,208 |
| Finance expenses | | (839,196) | (1,091,227) | (1,646,860) | (906,930) | (662,449) |
| **Net finance income** | 4(c) | 3,596,597 | 2,530,923 | 3,666,863 | 2,154,556 | 2,276,759 |
| Share of profits of an equity accounted investee | 11(b) | 271,356 | 71,262 | 57,074 | 35,636 | 53,192 |
| **Profit before income tax** | 4 | 47,910,300 | 18,235,326 | 25,886,296 | 16,815,294 | 15,487,515 |
| Income tax expense | 5(a) | (4,926,064) | (1,758,921) | (2,565,095) | (1,665,153) | (1,484,148) |
| **Profit for the year/period** | | 42,984,236 | 16,476,405 | 23,321,201 | 15,150,141 | 14,003,367 |
| **Attributable to:** | | | | | | |
| Equity holders of the Company | | 42,889,869 | 16,456,736 | 23,309,018 | 15,146,983 | 13,995,715 |
| Minority interest | | 94,367 | 19,669 | 12,183 | 3,158 | 7,652 |
| **Profit for the year/period** | | 42,984,236 | 16,476,405 | 23,321,201 | 15,150,141 | 14,003,367 |
| **Dividends declared during the year/period** | 6 | 25,000,000 | 10,000,000 | 22,000,000 | 22,000,000 | 6,000,000 |
| **Earnings per share** – basic | 7 | 0.73 | 0.28 | 0.40 | 0.26 | 0.24 |

The accompanying notes form part of this Financial Information.

## 2. Consolidated balance sheets

| | Section C Note | At 31 December 2004 US$ | 2005 US$ | 2006 US$ | At 30 June 2007 US$ |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Property, plant and equipment | *8* | 40,810,832 | 42,104,738 | 40,888,581 | 42,909,929 |
| Intangible assets | *9* | – | 721,911 | 468,648 | 514,662 |
| Lease prepayments | *10* | 3,786,807 | 3,880,542 | 3,725,658 | 3,626,128 |
| Investment in an equity accounted investee | *11* | 496,050 | 567,312 | 624,386 | 677,578 |
| Other non-current assets | | 168,647 | 137,687 | 379,703 | 359,973 |
| Deferred tax assets | *19(b)* | 74,744 | 108,967 | 133,946 | 185,077 |
| **Total non-current assets** | | 45,337,080 | 47,521,157 | 46,220,922 | 48,273,347 |
| Inventories | *12* | 46,860,819 | 39,226,800 | 34,839,431 | 39,767,846 |
| Trade receivables, other receivables and prepayments | *13* | 14,331,598 | 18,544,241 | 16,764,099 | 23,399,050 |
| Income tax recoverable | *19(a)* | – | 873,125 | 383,497 | 103,213 |
| Pledged bank deposits | *14* | 15,056,719 | 28,106,460 | 16,347,106 | 17,776,562 |
| Time deposits maturing after three months | *15* | 15,093,651 | 13,550,338 | 9,369,945 | 2,178,474 |
| Cash and cash equivalents | *16* | 42,634,510 | 23,671,827 | 47,434,924 | 46,991,251 |
| **Total current assets** | | 133,977,297 | 123,972,791 | 125,139,002 | 130,216,396 |
| **Total assets** | | 179,314,377 | 171,493,948 | 171,359,924 | 178,489,743 |
| **Liabilities** | | | | | |
| Trade and other payables | *17* | 47,214,376 | 28,768,284 | 29,344,565 | 28,895,979 |
| Interest-bearing borrowings | *18(a)* | 11,556,225 | 19,015,112 | 17,250,830 | 16,809,129 |
| Income tax payables | *19(a)* | 2,067,886 | – | 20,291 | 22,650 |
| Provisions | *20* | 1,494,435 | 1,420,196 | 1,483,367 | 1,749,286 |
| **Total current liabilities** | | 62,332,922 | 49,203,592 | 48,099,053 | 47,477,044 |
| **Net current assets** | | 71,644,375 | 74,769,199 | 77,039,949 | 82,739,352 |
| **Total assets less current liabilities** | | 116,981,455 | 122,290,356 | 123,260,871 | 131,012,699 |
| Interest-bearing borrowings | *18(b)* | 677,112 | – | 39,835 | 31,536 |
| **Total non-current liabilities** | | 677,112 | – | 39,835 | 31,536 |
| **Total liabilities** | | 63,010,034 | 49,203,592 | 48,138,888 | 47,508,580 |
| **Net assets** | | 116,304,343 | 122,290,356 | 123,221,036 | 130,981,163 |
| **Equity** | | | | | |
| Paid-in capital | *21* | 58,560,000 | 58,560,000 | 58,560,000 | 58,560,000 |
| Retained profits | | 57,354,430 | 63,811,166 | 65,120,184 | 73,115,899 |
| Exchange reserve | | – | (490,392) | (880,913) | (1,124,153) |
| **Total equity attributable to equity holders of the Company** | | 115,914,430 | 121,880,774 | 122,799,271 | 130,551,746 |
| **Minority interest** | | 389,913 | 409,582 | 421,765 | 429,417 |
| **Total equity** | | 116,304,343 | 122,290,356 | 123,221,036 | 130,981,163 |
| **Total liabilities and equity** | | 179,314,377 | 171,493,948 | 171,359,924 | 178,489,743 |

The accompanying notes form part of this Financial Information.

## 3. Consolidated statements of changes in equity

| | Paid-in capital | Retained Profits | Exchange Reserve | Total | Minority Interest | Total equity |
|---|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* |
| | *(Note 21)* | | | | | |
| At 1 January 2004 | 58,560,000 | 39,464,561 | – | 98,024,561 | 295,546 | 98,320,107 |
| Profit for the year | – | 42,889,869 | – | 42,889,869 | 94,367 | 42,984,236 |
| Dividends | – | (25,000,000) | – | (25,000,000) | – | (25,000,000) |
| At 31 December 2004 | 58,560,000 | 57,354,430 | – | 115,914,430 | 389,913 | 116,304,343 |
| Profit for the year | – | 16,456,736 | – | 16,456,736 | 19,669 | 16,476,405 |
| Dividends | – | (10,000,000) | – | (10,000,000) | – | (10,000,000) |
| Exchange difference | – | – | (490,392) | (490,392) | – | (490,392) |
| At 31 December 2005 | 58,560,000 | 63,811,166 | (490,392) | 121,880,774 | 409,582 | 122,290,356 |
| Profit for the year | – | 23,309,018 | – | 23,309,018 | 12,183 | 23,321,201 |
| Dividends | – | (22,000,000) | – | (22,000,000) | – | (22,000,000) |
| Exchange difference | – | – | (390,521) | (390,521) | – | (390,521) |
| At 31 December 2006 | 58,560,000 | 65,120,184 | (880,913) | 122,799,271 | 421,765 | 123,221,036 |
| Profit for the period | – | 13,995,715 | – | 13,995,715 | 7,652 | 14,003,367 |
| Dividends | – | (6,000,000) | – | (6,000,000) | – | (6,000,000) |
| Exchange difference | – | – | (243,240) | (243,240) | – | (243,240) |
| At 30 June 2007 | 58,560,000 | 73,115,899 | (1,124,153) | 130,551,746 | 429,417 | 130,981,163 |
| At 31 December 2005 | 58,560,000 | 63,811,166 | (490,392) | 121,880,774 | 409,582 | 122,290,356 |
| **Unaudited** | | | | | | |
| Profit for the period | – | 15,146,983 | – | 15,146,983 | 3,158 | 15,150,141 |
| Dividends | – | (22,000,000) | – | (22,000,000) | – | (22,000,000) |
| Exchange difference | – | – | (243,252) | (243,252) | – | (243,252) |
| At 30 June 2006 | 58,560,000 | 56,958,149 | (733,644) | 114,784,505 | 412,740 | 115,197,245 |

The accompanying notes form part of this Financial Information.

## 4. Consolidated cash flow statements

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| | | | | (unaudited) | |
| **Cash flows from operating activities** | | | | | |
| Profit for the year/period | 42,984,236 | 16,476,405 | 23,321,201 | 15,150,141 | 14,003,367 |
| **Adjustments for:** | | | | | |
| Share of profits of an equity accounted investee | (271,356) | (71,262) | (57,074) | (35,636) | (53,192) |
| Depreciation | 6,830,655 | 7,004,287 | 7,884,040 | 3,705,471 | 4,031,410 |
| Net interest income | (4,148,908) | (2,958,083) | (4,150,036) | (2,429,268) | (2,523,545) |
| Amortisation | 117,788 | 202,358 | 440,251 | 218,642 | 261,299 |
| Allowance for inventory impairments (net) | 22,740 | 312,723 | 353,224 | – | 383,739 |
| Loss on disposal/write off of property, plant and equipment (net) | 297,398 | 411,186 | 126,937 | 66,387 | 6,024 |
| Income tax expense | 4,926,064 | 1,758,921 | 2,565,095 | 1,665,153 | 1,484,148 |
| **Operating profit before changes in working capital** | 50,758,617 | 23,136,535 | 30,483,638 | 18,340,890 | 17,593,250 |
| **Changes in working capital** | | | | | |
| (Increase)/decrease in inventories | (13,143,718) | 7,321,296 | 4,034,145 | 761,912 | (5,312,154) |
| (Increase)/decrease in gross trade receivables, other receivables and prepayments | (2,369,127) | (4,181,683) | 2,167,823 | 2,559,386 | (6,795,074) |
| (Decrease)/increase in trade and other payables | (23,480,023) | (18,460,973) | 549,256 | (5,143,361) | (465,779) |
| Increase/(decrease) in provisions | 23,328 | (74,239) | 63,171 | (248,306) | 265,919 |
| | 11,789,077 | 7,740,936 | 37,298,033 | 16,270,521 | 5,286,162 |
| Interest paid | (279,607) | (649,186) | (1,156,434) | (564,056) | (429,712) |
| Corporate income tax paid | (6,182,534) | (4,734,155) | (2,080,155) | (246,197) | (1,252,636) |
| **Net cash from operating activities** | 5,326,936 | 2,357,595 | 34,061,444 | 15,460,268 | 3,603,814 |
| **Cash flows from investing activities** | | | | | |
| Acquisition of property, plant and equipment, intangible assets and lease prepayments | (9,721,382) | (10,227,885) | (7,315,956) | (5,496,326) | (6,542,759) |
| Proceeds from disposals of property, plant and equipment | 29,385 | 10,110 | 98,511 | 9,489 | 32,954 |
| Interest received | 4,435,793 | 3,622,150 | 4,673,798 | 2,198,681 | 3,150,303 |
| Decrease in time deposits maturing after three months | 8,583,039 | 1,543,313 | 4,180,393 | 9,299,536 | 7,191,471 |
| **Net cash from/(used in) investing activities** | 3,326,835 | (5,052,312) | 1,636,746 | 6,011,380 | 3,831,969 |

## 4. Consolidated cash flow statements (Continued)

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| | | | | (unaudited) | |
| **Cash flows from financing activities** | | | | | |
| (Increase)/decrease in pledged bank deposits | (9,917,174) | (13,049,741) | 11,759,354 | (18,107,475) | (1,429,456) |
| Proceeds from borrowings | 1,016,935 | 7,458,887 | 9,570,665 | 9,530,000 | – |
| Repayment of borrowings | (938,225) | (677,112) | (11,295,112) | (645,112) | (450,000) |
| Dividends paid | (25,000,000) | (10,000,000) | (21,970,000) | (12,970,000) | (6,000,000) |
| **Net cash used in financing activities** | (34,838,464) | (16,267,966) | (11,935,093) | (22,192,587) | (7,879,456) |
| **Net (decrease)/increase in cash and cash equivalents** | (26,184,693) | (18,962,683) | 23,763,097 | (720,939) | (443,673) |
| Cash and cash equivalents at beginning of the year/period | 68,819,203 | 42,634,510 | 23,671,827 | 23,671,827 | 47,434,924 |
| **Cash and cash equivalents at the end of the year/period** | 42,634,510 | 23,671,827 | 47,434,924 | 22,950,888 | 46,991,251 |

The accompanying notes form part of this Financial Information.

## C. NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

### 1. PRINCIPAL ACTIVITIES AND ORGANISATION

The Company was incorporated in the Cayman Islands on 20 June 2005 and is an investment holding company. The principal activities of the Company's subsidiaries and the equity accounted investee are the manufacture and sale of motorbikes and related spare parts, processing moulds and jigs and provision of motorbike maintenance services in Vietnam.

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following significant accounting policies have been adopted by the Group in the preparation of these financial statements.

#### (a) Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs"), which include International Accounting Standards ("IAS") and related interpretations, promulgated by the International Accounting Standards Board ("IASB").

The Group has early adopted all of the new and revised IFRSs and interpretations issued by the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2007 for the preparation of the Financial Information throughout the Relevant Periods.

At the date of this report, the IASB has issued the following IFRSs and interpretations which are not yet effective in respect of the financial periods included in the Relevant Periods. The Group has not early adopted these IFRSs and interpretations in the preparation of the Financial Information for the Relevant Periods.

| | **Effective for accounting periods beginning on or after** |
|---|---|
| IFRIC 11, *IFRS2-Group and treasury share transactions* | 1 March 2007 |
| IFRIC 12, *Service concession arrangements* | 1 January 2008 |
| IFRIC 14, *IAS 19-The limit on a defined benefit asset, minimum funding requirements and their interaction* | 1 January 2008 |
| IFRIC 13, *Customer loyalty programmes* | 1 July 2008 |
| IFRS 8, *Operating segments* | 1 January 2009 |
| Amendment to IAS 23, *Borrowing costs* | 1 January 2009 |
| Amendment to IAS 1, *Presentation of financial statements* | 1 January 2009 |

The directors have confirmed that the above IFRSs and interpretations do not have a significant impact on how the results of operations and financial position for the Relevant Periods are prepared and presented. These IFRSs and interpretations may result in changes in the future as to how the results and financial position of the Group are prepared and presented.

These consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited as applicable to Accountants' Reports included in Listing Documents.

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

These financial statements are prepared on the historical cost basis.

The preparation of consolidated 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.

Information about significant areas of estimation uncertainty and critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Information are described in Note 25.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

**(c) Subsidiaries**

Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that presently are exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Minority interests at the balance sheet date, being the portion of the net assets of a subsidiary attributable to equity interests that are not owned by the Company, whether directly or indirectly through a subsidiary, are presented in the consolidated balance sheet and consolidated statement of changes in equity, separately from equity attributable to the equity holders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity holders of the Company.

Where losses applicable to the minority exceed the minority's interest in the equity of a subsidiary, the excess, and any further losses applicable to the minority, are charged against the Group's interest except to the extent that the minority has a binding obligation to, and is able to, make additional investment to cover the losses. If the subsidiary subsequently reports profits, the Group's interest is allocated all such profits until the minority's share of losses previously absorbed by the Group has been recovered.

Intra-group balances, transactions and any unrealised gains arising from intra-group transactions are eliminated in full in preparing the Financial Information. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

**(d) Associates (equity accounted investees)**

Associates are those enterprises in which the Group has significant influence but not control, over the financial and operating policies. Associates are accounted for using the equity method (equity accounted investees). The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that significant influence commences until the date that significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued except to the extent that the Group has an obligation or has made payments on behalf of the investee.

**(e) Foreign currency**

*(i) Functional currency*

Prior to 1 January 2005, the Group used United States Dollars ("US$") as its functional currency. On 1 January 2005, management re-assessed the Group's functional currency and determined that the Vietnam Dong ("VND") is the Group's functional currency from 1 January 2005 onwards. This determination took into account the acceptance of VND as the currency in trade in Vietnam and the gradual change in the currency in which the Group's sale and purchase prices are determined. At the date of change, the Group translated all items into VND using the exchange rate at that date. The resulting translated amounts for non-monetary items are recognised as their historical cost. The effect of this change in functional currency has been accounted for prospectively by the Group.

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at the exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between the amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on retranslation are recognised in profit or loss.

*(ii) Presentational currency*

For the purpose of presenting the consolidated financial statements, assets and liabilities are translated into US$ at the rates of exchange ruling at the balance sheet date. Revenues, expenses and capital transactions are translated to US$ at rates approximating the rates of exchange ruling at the dates of the transactions. Foreign exchange differences arising on translation, if any, are recognised directly as a separate component of equity.

The directors of the Company consider that presentation of the consolidated financial statements in US$ will facilitate analysis of financial information.

**(f) Financial instruments**

*(i) Non-derivative financial instruments*

Non-derivative financial instruments comprise trade receivables, other receivables and prepayments, cash and cash equivalents, restricted cash, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition, non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses.

A financial instrument is recognised if the Group becomes a party to the contractual provisions of the instrument. Financial assets are derecognised if the Group's contractual rights to the cash flows from the financial asset expire or if the Group transfers the financial asset to another party without retaining control or substantially all risks and rewards of the asset. Regular way purchases and sales of financial assets are accounted for at trade date, i.e., the date that the Group commits itself to purchase or sell the asset. Financial liabilities are derecognised if the Group's obligations specified in the contract expire or are discharged or cancelled.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the cash flow statement.

*(ii) Share capital*

Incremental costs directly attributable to the issue of ordinary shares are recognised as a deduction from equity.

**(g) Property, plant and equipment**

*(i) Recognition and measurement*

Items of property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)). The initial cost of a tangible fixed asset comprises its purchase price, including import duties and non-refundable purchase taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

*(ii) Subsequent costs*

Expenditures incurred after property, plant and equipment have been put into intended use, such as repairs and maintenance and overhaul costs, are normally charged to the consolidated income statement in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of property, plant and equipment beyond their originally assessed standard of performance, the expenditures are capitalised as an additional cost of property, plant and equipment.

*(iii) Depreciation*

Depreciation is charged to the consolidated income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

| | |
|---|---|
| • buildings | 10–30 years |
| • machinery, moulds and equipment | 2–12 years |
| • office equipment, furniture and fittings | 5–10 years |
| • electrical, water and utility systems | 5–10 years |
| • motor vehicles | 5–7 years |

Depreciation methods, useful lives and residual values are reassessed at the reporting date.

*(iv) Construction work in progress*

Construction work in progress is stated at cost less impairment losses (see note 2(k)). Cost comprises direct costs of construction during the period of construction and installation. The asset concerned is transferred to property, plant and equipment when substantially all the activities necessary to prepare the asset for its intended use are completed, at which time it commences to be depreciated in accordance with the Group's policy.

**(h) Intangible assets**

The cost of acquisition of software, which is not an integral part of related hardware, is capitalised and accounted for as an intangible asset. Software is amortised on a straight-line basis over 3 years from the date when it is ready for use.

**(i) Lease prepayments**

Lease prepayments represent prepaid land lease rentals and related costs. Lease prepayments are carried at cost less amortisation and impairment losses (see note 2(k)). Amortisation is charged to the consolidated income statement on a straight-line basis over the lease periods of 2 to 50 years.

**(j) Inventories**

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

The cost of inventories is calculated using the weighted average cost formula and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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

**(k) Impairment**

*(i) Financial assets*

A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its current fair value.

Individually significant financial assets are tested for impairment on a individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the consolidated income statement whenever the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount.

An impairment loss is reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

*(ii) Non-financial assets*

The carrying amounts of the Group's non-financial assets, other than inventories (see note 2(j)) and deferred tax assets (see note 2(l)), are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, the recoverable amount is estimated at each reporting date.

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. A cash-generating unit is the smallest identifiable asset group that generates cash flows that largely are independent from other assets and groups. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a *pro rata* basis.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

**(l) Corporate income tax**

Corporate income tax (the "CIT") on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

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

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognised for the following temporary differences: the initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that they probably will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

**(m) Dividends**

Dividends are recognised as a liability in the period in which they are declared.

**(n) Provisions**

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

**(o) Revenue**

Revenue excludes value added taxes, and is net of any sales discounts and rebates.

*(i) Goods sold*

Revenue from the sale of goods is recognised in the consolidated income statement when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, associated costs or the possible return of goods, also continuing management involvement with the goods.

*(ii) Services rendered*

Revenue from mould and repair services is recognised in the consolidated income statement when services are rendered.

**(p) Lease payments**

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

**(q) Finance income and expenses**

Finance income comprises interest income on funds invested. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses comprise interest expense on borrowings and foreign currency losses. All borrowing costs are recognised in profit or loss using the effective interest method.

**(r) Employee benefits**

*(i) Short term employee benefits*

Salaries, annual bonuses, paid annual leave and staff welfare are accrued in the year in which the associated services are rendered by employees of the Group.

*(ii) Defined contribution plans*

Obligations for contributions to defined contribution pension plans are recognised as an expense in the consolidated income statement as incurred.

(iii) *Severance pay allowance*

Obligations in respect of severance pay allowance are calculated by estimating the amount of benefits that employees have earned in return for their service in the current and prior periods. A provision is made for the estimated liability for severance pay allowance as a result of services rendered by employees up to the balance sheet date. The impact of discounting is immaterial.

**(s) Government grants**

A government grant is not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to it, and that the grant will be received. Government grants relating to costs are deferred and recognised in the consolidated income statement over the period necessary to match them with the costs that they are intended to compensate.

**(t) Research and development expenses**

Expenditure on research activities is recognised in profit or loss when incurred. Development activities involve a plan or design for the production of new or substantially improved products and processes.

Development expenditure is capitalised only if development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the assets for their intended use. Other development expenditure is recognised in profit or loss when incurred.

Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

**(u) Segment reporting**

A segment is a distinguishable component of the Group that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Group's internal financial reporting, the Group determined that business segments be presented as the primary reporting format.

No geographical segment information is separately presented as the Group's business segments are mainly engaged and operated in Vietnam. The major market of the Group's business segments is Vietnam. There is no other geographical segment with segment revenue and assets equal to or greater than 10 percent of the Group's total revenue and assets respectively.

## 3. SEGMENT REPORTING

### Business segments

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The principal activities of the Group are those relating to manufacture and sales of motorbikes, related spare parts and engines and provision of motorbike maintenance services. Revenue excludes value added taxes and sales rebates.

| | Manufacture and sales of motorbikes | Manufacture and sales of spare parts and engines | Moulds and repair services | Manufacture and sales of light trucks and motor vehicles* | Inter-segment elimination | Group |
|---|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* |
| **For the year ended 31 December 2004** | | | | | | |
| Revenue from external customers | 244,825,334 | 15,673,308 | 457,361 | – | – | 260,956,003 |
| Inter-segment revenue | – | 110,100,755 | 1,077,161 | – | (111,177,916) | – |
| **Total revenue** | 244,825,334 | 125,774,063 | 1,534,522 | – | (111,177,916) | 260,956,003 |
| **Segment result** | 42,683,683 | 21,762,693 | 329,008 | – | (20,733,037) | 44,042,347 |
| **Net finance income** | | | | | | 3,596,597 |
| Share of profits of an equity accounted investee | | | | | | 271,356 |
| **Profit before income tax** | | | | | | 47,910,300 |
| Income tax expense | | | | | | (4,926,064) |
| **Profit for the year** | | | | | | 42,984,236 |
| Segment assets | 65,932,181 | 38,674,677 | 1,351,845 | – | – | 105,958,703 |
| Investment in an equity accounted investee | | | | | | 496,050 |
| Unallocated assets# | | | | | | 72,859,624 |
| **Total assets** | | | | | | 179,314,377 |
| Segment liabilities | 31,720,736 | 16,825,426 | 162,649 | – | – | 48,708,811 |
| Unallocated liabilities | | | | | | 14,301,223 |
| **Total liabilities** | | | | | | 63,010,034 |
| Depreciation | 3,985,466 | 2,729,155 | 116,034 | – | – | 6,830,655 |
| Non-cash expense other than depreciation | 247,057 | 184,678 | 6,191 | – | – | 437,926 |

# *Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and cash and cash equivalents of US$15,056,719, US$15,093,651 and US$42,634,510, respectively.*

* *VMEP obtained the investment license to carry on the business of manufacturing light trucks under 3.5 tonnes and six to nine-seat multipurpose vehicles and related parts and engines in 2005. The Group established Sanyang Motor Vietnam Co., Ltd. ("SMV") in Vietnam on 29 June 2007. On 3 August 2007, the Group disposed of SMV together with the investment license to carry on the light trucks and multipurpose vehicles business, to SY International Limited, an equity holder of the Company (see section G).*

| | Manufacture and sales of motorbikes | Manufacture and sales of spare parts and engines | Moulds and repair services | Manufacture and sales of light trucks and motor vehicles | Inter-segment elimination | Group |
|---|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* |
| **For the year ended 31 December 2005** | | | | | | |
| Revenue from external customers | 157,774,580 | 25,699,538 | 319,519 | – | – | 183,793,637 |
| Inter-segment revenue | – | 66,480,275 | 916,804 | – | (67,397,079) | – |
| **Total revenue** | 157,774,580 | 92,179,813 | 1,236,323 | – | (67,397,079) | 183,793,637 |
| **Segment result** | 16,405,575 | 8,065,432 | 79,144 | – | (8,917,010) | 15,633,141 |
| **Net finance income** | | | | | | 2,530,923 |
| Share of profits of an equity accounted investee | | | | | | 71,262 |
| **Profit before income tax** | | | | | | 18,235,326 |
| Income tax expense | | | | | | (1,758,921) |
| **Profit for the year** | | | | | | 16,476,405 |
| Segment assets | 62,891,729 | 40,289,261 | 1,434,929 | – | – | 104,615,919 |
| Investment in an equity accounted investee | | | | | | 567,312 |
| Unallocated assets# | | | | | | 66,310,717 |
| **Total assets** | | | | | | 171,493,948 |
| Segment liabilities | 18,711,320 | 11,183,658 | 293,502 | – | – | 30,188,480 |
| Unallocated liabilities | | | | | | 19,015,112 |
| **Total liabilities** | | | | | | 49,203,592 |
| Depreciation | 3,948,413 | 2,938,072 | 117,802 | – | – | 7,004,287 |
| Non-cash expense other than depreciation | 603,699 | 322,568 | – | – | – | 926,267 |

# *Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and cash and cash equivalents of US$28,106,460, US$13,550,338 and US$23,671,827, respectively.*

| | Manufacture and sales of motorbikes | Manufacture and sales of spare parts and engines | Moulds and repair services | Manufacture and sales of light trucks and motor vehicles | Inter-segment elimination | Group |
|---|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* |
| **For the year ended 31 December 2006** | | | | | | |
| Revenue from external customers | 161,664,395 | 22,186,746 | 457,127 | – | – | 184,308,268 |
| Inter-segment revenue | – | 69,290,591 | 777,074 | – | (70,067,665) | – |
| **Total revenue** | 161,664,395 | 91,477,337 | 1,234,201 | – | (70,067,665) | 184,308,268 |
| **Segment result** | 22,042,912 | 11,365,470 | 43,673 | – | (11,272,981) | 22,179,074 |
| Unallocated expense | | | | | | (16,715) |
| **Net finance income** | | | | | | 3,666,863 |
| Share of profits of an equity accounted investee | | | | | | 57,074 |
| **Profit before income tax** | | | | | | 25,886,296 |
| Income tax expense | | | | | | (2,565,095) |
| **Profit for the year** | | | | | | 23,321,201 |
| Segment assets | 56,944,866 | 37,294,847 | 1,421,163 | – | – | 95,660,876 |
| Investment in an equity accounted investee | | | | | | 624,386 |
| Unallocated assets# | | | | | | 75,074,662 |
| **Total assets** | | | | | | 171,359,924 |
| Segment liabilities | 19,370,516 | 9,382,902 | 263,111 | – | – | 29,016,529 |
| Unallocated liabilities | | | | | | 19,122,359 |
| **Total liabilities** | | | | | | 48,138,888 |
| Depreciation | 4,848,704 | 2,903,952 | 131,384 | – | – | 7,884,040 |
| Non-cash expense other than depreciation | 527,696 | 392,716 | – | – | – | 920,412 |

\# *Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and cash and cash equivalents of US$16,347,106, US$9,369,945 and US$47,434,924, respectively.*

| | Manufacture and sales of motorbikes | Manufacture and sales of spare parts and engines | Moulds and repair services | Manufacture and sales of light trucks and motor vehicles | Inter-segment elimination | Group |
|---|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* |
| **For the six months period ended 30 June 2007** | | | | | | |
| Revenue from external customers | 102,996,167 | 11,693,312 | 275,168 | – | – | 114,964,647 |
| Inter-segment revenue | – | 41,601,415 | 368,856 | – | (41,970,271) | – |
| **Total revenue** | 102,996,167 | 53,294,727 | 644,024 | – | (41,970,271) | 114,964,647 |
| **Segment result** | 12,756,307 | 5,869,600 | 26,288 | – | (5,492,780) | 13,159,415 |
| Unallocated expense | | | | | | (1,851) |
| **Net finance income** | | | | | | 2,276,759 |
| Share of profits of an equity accounted investee | | | | | | 53,192 |
| **Profit before income tax** | | | | | | 15,487,515 |
| Income tax expense | | | | | | (1,484,148) |
| **Profit for the period** | | | | | | 14,003,367 |
| Segment assets | 61,511,131 | 37,355,980 | 1,513,526 | 3,883,988 | – | 104,264,625 |
| Investment in an equity accounted investee | | | | | | 677,578 |
| Unallocated assets# | | | | | | 73,547,540 |
| **Total assets** | | | | | | 178,489,743 |
| Segment liabilities | 18,938,511 | 10,085,993 | 423,555 | 2,101 | – | 29,450,160 |
| Unallocated liabilities | | | | | | 18,058,420 |
| **Total liabilities** | | | | | | 47,508,580 |
| Depreciation | 2,534,049 | 1,430,635 | 66,726 | – | – | 4,031,410 |
| Non-cash expense other than depreciation | 379,379 | 271,683 | – | – | – | 651,062 |

# *Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and cash and cash equivalents of US$17,776,562, US$2,178,474 and US$46,991,251, respectively.*

| | Manufacture and sales of motorbikes | Manufacture and sales of spare parts and engines | Moulds and repair services | Manufacture and sales of light trucks and motor vehicles | Inter-segment elimination | Group |
|---|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* |
| **For the six months period ended 30 June 2006 (unaudited)** | | | | | | |
| Revenue from external customers | 81,330,668 | 10,277,262 | 224,298 | – | – | 91,832,228 |
| Inter-segment revenue | – | 35,770,590 | 401,958 | – | (36,172,548) | – |
| **Total revenue** | 81,330,668 | 46,047,852 | 626,256 | – | (36,172,548) | 91,832,228 |
| **Segment result** | 14,569,856 | 7,579,651 | 13,631 | – | (7,538,004) | 14,625,134 |
| Unallocated expenses | | | | | | (32) |
| **Net finance income** | | | | | | 2,154,556 |
| Share of profits of an equity accounted investee | | | | | | 35,636 |
| **Profit before income tax** | | | | | | 16,815,294 |
| Income tax expense | | | | | | (1,665,153) |
| **Profit for the period** | | | | | | 15,150,141 |
| Segment assets | 63,046,204 | 39,000,925 | 1,363,382 | – | – | 103,410,511 |
| Investment in an equity accounted investee | | | | | | 602,948 |
| Unallocated assets# | | | | | | 73,475,010 |
| **Total assets** | | | | | | 177,488,469 |
| Segment liabilities | 21,215,069 | 12,331,229 | 318,677 | – | – | 33,864,975 |
| Unallocated liabilities | | | | | | 28,426,249 |
| **Total liabilities** | | | | | | 62,291,224 |
| Depreciation | 2,208,119 | 1,432,007 | 65,345 | – | – | 3,705,471 |
| Non-cash expense other than depreciation | 179,811 | 105,218 | – | – | – | 285,029 |

# *Included in unallocated assets are pledged bank deposits, time deposits maturing after three months and cash and cash equivalents of US$46,213,935, US$4,250,802 and US$22,950,888, respectively.*

## 4. PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

### (a) Staff costs (including management's emoluments)

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| | | | | (unaudited) | |
| Wages and salaries | 4,646,537 | 4,073,189 | 4,003,888 | 1,975,061 | 2,337,029 |
| Staff welfare | 2,028,907 | 1,653,810 | 2,072,478 | 996,416 | 1,552,685 |
| Contributions to defined contribution plan | 251,165 | 300,504 | 302,998 | 148,556 | 179,982 |
| Severance pay allowance | 115,872 | 86,367 | 104,236 | 45,103 | 153,558 |
| | 7,042,481 | 6,113,870 | 6,483,600 | 3,165,136 | 4,223,254 |
| Number of employees as at year/period end | 2,074 | 1,797 | 1,904 | 1,714 | 1,799 |

*Description of the defined contribution plan*

The Group participates in a defined contribution plan managed by the Vietnam government whereby the Group is required to contribute to the plan, representing the employer's portion of social and health insurances. The applicable rates of contribution are 15% and 2% of total contractual salary, respectively. The Group has no obligation for the payment of retirement benefits other than the contributions described above.

*Directors' emoluments*

The Group did not pay any emoluments to directors of the Group for the Relevant Periods and no emoluments were paid to directors as an inducement fee to join or as compensation for loss of office. None of the persons who are board directors of the Group waived or agreed to waive any emoluments or remuneration during the Relevant Periods.

*Five highest paid employees*

The details of the aggregate emoluments of the five highest paid employees of the Group for the Relevant Periods are as follows:

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| | | | | (unaudited) | |
| Salary, allowance and benefits | 150,895 | 127,358 | 153,106 | 76,752 | 80,578 |
| Bonus | 183,797 | 85,441 | 27,676 | 13,830 | 13,038 |
| **Total** | 334,692 | 212,799 | 180,782 | 90,582 | 93,616 |

During the Relevant Periods, no emoluments were paid by the Group to any of the five highest paid employees as an inducement to join or upon joining the Group or as compensation for loss of office.

The number of these highest paid employees whose remuneration fell within the following bands is as follows:

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | | | | (unaudited) | |
| HK$Nil to HK$500,000 | 3 | 5 | 5 | 5 | 5 |
| HK$500,001 to HK$1,000,000 | 2 | – | – | – | – |

**(b) Other items**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| | | | | (unaudited) | |
| Cost of inventories recognised as expenses *(i) (Note 12)* | 188,103,510 | 142,984,733 | 139,437,140 | 65,817,556 | 86,995,730 |
| Depreciation of property, plant and equipment | 6,830,655 | 7,004,287 | 7,884,040 | 3,705,471 | 4,031,410 |
| Research and development expenses *(ii)* | 3,789,521 | 5,024,994 | 3,784,120 | 2,322,352 | 2,254,837 |
| Amortisation of lease prepayments/intangible assets | 117,788 | 202,358 | 440,251 | 218,642 | 261,299 |
| Loss on disposal/write off of property, plant and equipment (net) | 297,398 | 411,186 | 126,937 | 66,387 | 6,024 |
| Rental of properties | 555,697 | 629,275 | 632,345 | 292,667 | 273,312 |
| Technical consultancy fee *(Note 22(a))* | 345,826 | 384,669 | 394,533 | 163,317 | 184,632 |
| Auditors' remuneration | 58,000 | 51,500 | 84,000 | 42,000 | 40,500 |
| Government grants | (84,100) | (1,089,215) | (2,221,221) | (1,512,532) | (683,300) |
| Warranty expenses *(Note 20)* | 4,616,337 | 3,635,787 | 3,746,024 | 1,697,488 | 2,379,570 |

(i) Cost of inventories recognised as expenses 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 4(a) for each of these types of expenses.

(ii) Research and development expenses include amounts relating to 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 4(a) for each of these types of expenses. No development expenditure was capitalised during the Relevant Periods.

**(c) Finance income and expense**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* (unaudited) | *US$* |
| Finance income | | | | | |
| – Interest income from banks | 4,435,793 | 3,622,150 | 5,313,723 | 3,061,486 | 2,939,208 |
| Interest paid and payable to banks | (286,885) | (664,067) | (1,163,687) | (632,218) | (415,663) |
| Net foreign exchange losses | (552,311) | (427,160) | (483,173) | (274,712) | (246,786) |
| Finance expense | (839,196) | (1,091,227) | (1,646,860) | (906,930) | (662,449) |
| Net finance income | 3,596,597 | 2,530,923 | 3,666,863 | 2,154,556 | 2,276,759 |

## 5. INCOME TAX EXPENSE

**(a) Recognised in the income statement**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* (unaudited) | *US$* |
| **Current tax expenses** | | | | | |
| – current tax | 4,639,677 | 1,793,144 | 2,537,737 | 1,615,571 | 1,501,826 |
| – under provision in prior year | – | – | 52,337 | – | 33,453 |
| **Deferred tax expense** | | | | | |
| – origination and reversal of temporary differences | 286,387 | (34,223) | (24,979) | 49,582 | (51,131) |
| | 4,926,064 | 1,758,921 | 2,565,095 | 1,665,153 | 1,484,148 |

No provision for Hong Kong Profits Tax has been made, as the Group did not earn any income subject to Hong Kong Profits Tax during the Relevant Periods.

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

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax ("CIT") for Vietnam Manufacturing and Export Processing Co., Limited ("VMEP") is calculated at 18% of the profits from manufacturing and sales of motorbikes, spare parts and services rendered. Although the applicable tax rate for profits from assembling and sales of engines is 10%, pursuant to the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, such business is entitled to a tax holiday of a tax free period for 8 years from 2001 to 2008.

In 2005, VMEP obtained a license for truck business from local government authorities. As VMEP has not commenced the truck business since obtaining its business license, there were no profits/losses arising from this business during the Relevant Periods. Profits from assembly and production of trucks, engines, components and spare parts for trucks are subject to corporate income tax of 15% for 12 years from the commencement of such activities and 28% for subsequent years. In addition, VMEP is entitled to a tax holiday on profits from such activities of a tax-free period for 3 years from the first profit making year and a 50% reduction of the applicable income tax rate for the following 7 years.

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%. VCFP is entitled to a tax holiday of a tax-free period for 3 years from 2003 to 2005. Thereafter, it is subject to CIT at 50% of the applicable income tax rate for the following 7 years.

In accordance with the Law on 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 C.Q.S Molds Inc. ("C.Q.S.") is 15% for the first 5 years starting from the first year of operation, 20% for the next 6 years (2007 to 2012) and 28% for subsequent years. C.Q.S. is entitled to a tax holiday of a tax-free period for 2 years from 2004 to 2005 and is subject to corporate income tax at 50% of the applicable income tax rate for 2006.

The Law of Foreign Investment of 1987, as amended in 1990 and 1992 and the Law of Foreign Investment of 1996, as amended in 2000 have been repealed, however VMEP, VCFP and C.Q.S. are entitled to retain the tax incentives by virtue of the provisions on protection of foreign investments under the Investment Law in 2006.

**(b) Reconciliation between tax expense and accounting profit at applicable tax rates**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* (unaudited) | *US$* |
| Profit before income tax | 47,910,300 | 18,235,326 | 25,886,296 | 16,815,294 | 15,487,515 |
| Notional income tax using the CIT rate of 18% | 8,623,854 | 3,282,359 | 4,659,533 | 3,026,753 | 2,787,753 |
| Effects of non-taxable income | – | (56,038) | (22,193) | – | (36,697) |
| Effects of differences in tax rates and tax holidays of subsidiaries | (3,697,790) | (1,467,400) | (2,124,582) | (1,361,600) | (1,300,361) |
| Under provision for CIT in prior years | – | – | 52,337 | – | 33,453 |
| Actual tax expenses | 4,926,064 | 1,758,921 | 2,565,095 | 1,665,153 | 1,484,148 |
| The Group's effective income tax rate | 10.28% | 9.65% | 9.91% | 9.90% | 9.58% |

## 6. DIVIDENDS

Dividends attributable to each year/period are as follows:

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* (unaudited) | *US$* |
| Dividends declared during the year/period | 25,000,000 | 10,000,000 | 22,000,000 | 22,000,000 | 6,000,000 |

Dividends of US$25 million were distributed to Sanyang Industry Co., Ltd. in respect of the year ended 31 December 2003. Such dividends were declared and paid in 2004.

Dividends of US$10 million were declared and distributed in 2005 to Sanyang Industry Co, Ltd. in respect of the year ended 31 December 2004.

Dividends of US$12 million were declared, of which US$11,970,000 was paid in 2006 to SY International Limited in respect of the year ended 31 December 2004. In addition, dividends of US$10 million in respect of the year ended 31 December 2004 were declared during 2006 subsequent to the disposal of 10% interest in the Company by SY International Limited to Indopark Holdings Limited. US$9 million and US$1 million of the total dividends were paid to SY International Limited and Indopark Holdings Limited respectively in 2006.

Dividends of US$5.4 million and US$0.6 million were declared during the first half of 2007 to SY International Limited and Indopark Holdings Limited, respectively, in respect of the year ended 31 December 2006.

The dividend rates are not presented as such information is not meaningful for the purpose of this report. The above dividends are not indicative of the Group's future dividend policy.

## 7. EARNINGS PER SHARE

The calculation of basic earnings per share for the Relevant Periods is based on the profit attributable to equity holders of the Company for the Relevant Periods and assuming 58,560,000 shares of the Company in issue and issuable as at the date of the Prospectus, as if these shares were outstanding throughout the Relevant Periods.

There were no dilutive potential shares during the Relevant Periods, and therefore, diluted earnings per share are not presented.

## 8. PROPERTY, PLANT AND EQUIPMENT

| | Buildings<br>*US$* | Machinery, moulds and equipment<br>*US$* | Office equipment, furniture and fittings<br>*US$* | Electrical, water and utility system<br>*US$* | Motor vehicles<br>*US$* | Assets under construction<br>*US$* | Total<br>*US$* |
|---|---|---|---|---|---|---|---|
| **Cost** | | | | | | | |
| At 1 January 2004 | 9,593,962 | 51,912,553 | 1,741,448 | 5,091,804 | 1,156,032 | 251,986 | 69,747,785 |
| Additions | 336,801 | 4,744,528 | 166,853 | 365,723 | 217,087 | 1,704,691 | 7,535,683 |
| Transfer from assets under construction | 295,857 | 13,064 | – | 54,734 | – | (363,655) | – |
| Disposals | (7,752) | (546,381) | (860,361) | (14,686) | (104,205) | – | (1,533,385) |
| At 31 December 2004 | 10,218,868 | 56,123,764 | 1,047,940 | 5,497,575 | 1,268,914 | 1,593,022 | 75,750,083 |
| Additions | 1,603,265 | 6,424,626 | 197,073 | 544,128 | 73,220 | 325,930 | 9,168,242 |
| Transfer from assets under construction | 174,294 | 608 | 206,779 | 54 | – | (381,735) | – |
| Disposals | – | (644,976) | (9,250) | (2,255) | (55,078) | (387,569) | (1,099,128) |
| Effect of movements in exchange rate | (112,366) | (617,132) | (11,523) | (60,451) | (13,953) | (17,517) | (832,942) |
| At 31 December 2005 | 11,884,061 | 61,286,890 | 1,431,019 | 5,979,051 | 1,273,103 | 1,132,131 | 82,986,255 |
| Additions | 141,571 | 5,166,293 | 241,866 | – | 82,629 | 1,614,067 | 7,246,426 |
| Transfer from assets under construction | 76,808 | 789,421 | – | – | – | (866,229) | – |
| Disposals | (177,118) | (1,104,831) | (126,955) | (32,876) | (43,181) | – | (1,484,961) |
| Effect of movements in exchange rate | (100,868) | (539,834) | (12,612) | (50,521) | (10,954) | (12,760) | (727,549) |
| At 31 December 2006 | 11,824,454 | 65,597,939 | 1,533,318 | 5,895,654 | 1,301,597 | 1,867,209 | 88,020,171 |
| Additions | 962,608 | 795,622 | 124,293 | – | 13,541 | 4,416,900 | 6,312,964 |
| Disposals | – | (320,561) | (62,989) | (104,681) | (61,545) | – | (549,776) |
| Effect of movements in exchange rate | (64,794) | (346,789) | (8,237) | (30,784) | (6,731) | (21,333) | (478,668) |
| At 30 June 2007 | 12,722,268 | 65,726,211 | 1,586,385 | 5,760,189 | 1,246,862 | 6,262,776 | 93,304,691 |

| | Buildings | Machinery, moulds and equipment | Office equipment, furniture and fittings | Electrical, water and utility system | Motor vehicles | Assets under construction | Total |
|---|---|---|---|---|---|---|---|
| | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* | *US$* |
| **Accumulated Depreciation** | | | | | | | |
| At 1 January 2004 | 2,189,871 | 21,936,245 | 1,178,305 | 3,470,236 | 540,541 | – | 29,315,198 |
| Depreciation charge for the year | 312,852 | 5,772,641 | 120,546 | 507,819 | 116,797 | – | 6,830,655 |
| Disposals | (2,227) | (422,614) | (683,971) | (13,359) | (84,431) | – | (1,206,602) |
| At 31 December 2004 | 2,500,496 | 27,286,272 | 614,880 | 3,964,696 | 572,907 | – | 34,939,251 |
| Depreciation charge for the year | 353,379 | 6,038,557 | 142,520 | 334,094 | 135,737 | – | 7,004,287 |
| Disposals | – | (615,164) | (8,683) | (2,255) | (51,730) | – | (677,832) |
| Effect of movements in exchange rate | (27,495) | (300,038) | (6,761) | (43,595) | (6,300) | – | (384,189) |
| At 31 December 2005 | 2,826,380 | 32,409,627 | 741,956 | 4,252,940 | 650,614 | – | 40,881,517 |
| Depreciation charge for the year | 412,799 | 6,863,149 | 208,741 | 256,917 | 142,434 | – | 7,884,040 |
| Disposals | (123,953) | (966,890) | (124,830) | (23,764) | (20,076) | – | (1,259,513) |
| Effect of movements in exchange rate | (25,172) | (299,586) | (6,642) | (37,023) | (6,031) | – | (374,454) |
| At 31 December 2006 | 3,090,054 | 38,006,300 | 819,225 | 4,449,070 | 766,941 | – | 47,131,590 |
| Depreciation charge for the year | 218,007 | 3,531,161 | 117,705 | 94,692 | 69,845 | – | 4,031,410 |
| Disposals | – | (315,093) | (60,562) | (104,681) | (30,462) | – | (510,798) |
| Effect of movements in exchange rate | (16,844) | (208,577) | (4,464) | (23,411) | (4,144) | – | (257,440) |
| At 30 June 2007 | 3,291,217 | 41,013,791 | 871,904 | 4,415,670 | 802,180 | – | 50,394,762 |
| **Carrying amount** | | | | | | | |
| At 31 December 2004 | 7,718,372 | 28,837,492 | 433,060 | 1,532,879 | 696,007 | 1,593,022 | 40,810,832 |
| At 31 December 2005 | 9,057,681 | 28,877,263 | 689,063 | 1,726,111 | 622,489 | 1,132,131 | 42,104,738 |
| At 31 December 2006 | 8,734,400 | 27,591,639 | 714,093 | 1,446,584 | 534,656 | 1,867,209 | 40,888,581 |
| At 30 June 2007 | 9,431,051 | 24,712,420 | 714,481 | 1,344,519 | 444,682 | 6,262,776 | 42,909,929 |

As at 31 December 2004, 2005, 2006 and 30 June 2007, property, plant and equipment with a carrying amount of US$12,162,715, US$9,487,198, nil and nil respectively was pledged to banks for certain loans (Note 18).

## 9. INTANGIBLE ASSETS

Intangible assets represent computer software.

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| **Cost** | | | | |
| At 1 January | – | – | 744,594 | 738,285 |
| Additions | – | 744,594 | – | 207,250 |
| Effect of movements in exchange rate | – | – | (6,309) | (4,428) |
| At 31 December/30 June | – | 744,594 | 738,285 | 941,107 |
| **Accumulated amortisation** | | | | |
| At 1 January | – | – | 22,683 | 269,637 |
| Charge for the year | – | 22,683 | 248,198 | 158,641 |
| Effect of movements in exchange rate | – | – | (1,244) | (1,833) |
| At 31 December/30 June | – | 22,683 | 269,637 | 426,445 |
| **Carrying amount** | | | | |
| At 31 December/30 June | – | 721,911 | 468,648 | 514,662 |

## 10. LEASE PREPAYMENTS

Lease prepayments represent prepaid land lease rental and related costs.

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| At 1 January | 1,718,896 | 3,786,807 | 3,880,542 | 3,725,658 |
| Additions | 2,185,699 | 315,049 | 69,530 | 22,545 |
| *Less:* amortization | (117,788) | (179,675) | (192,053) | (102,658) |
| Effect of movements in exchange rate | – | (41,639) | (32,361) | (19,417) |
| At 31 December/30 June | 3,786,807 | 3,880,542 | 3,725,658 | 3,626,128 |

## 11. INVESTMENT IN AN EQUITY ACCOUNTED INVESTEE

The Group's investment in an equity accounted investee represents its share of the net assets of the associate.

**Description of investment in an equity accounted investee**

Vietnam Three Brothers Machinery Industry Co., Limited ("VTBM") was originally a wholly foreign-owned enterprise established on 5 September 2002 with a registered capital of US$1,000,000 by Three Brothers Machinery Industry Co., Ltd. (registered in Taiwan), a subsidiary of Sanyang Industry Co., Ltd., the Company's ultimate holding company. VTBM's period of operation is 50 years and its principal activities are the manufacture and sale of motorbike-related spare parts.

On 7 April 2003 the Group acquired 31% of the contributed capital of Vietnam Three Brothers Machinery Industry Co., Limited, which was satisfied in cash.

During the first half year of 2006, VTBM increased its paid up capital by US$500,000 through the capitalisation of its retained earnings. The Group's cost of investment in associate therefore increased by US$155,000 to US$465,000 as at 31 December 2006.

(a) The Group's investment in VTBM is analysed as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| Unlisted investments, at cost | 310,000 | 310,000 | 465,000 | 465,000 |
| Share of post-acquisition profits | 186,050 | 257,312 | 159,386 | 212,578 |
| Share of net assets | 496,050 | 567,312 | 624,386 | 677,578 |

(b) Summary financial information on VTBM, not adjusted for the percentage ownership held by the Group:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| Non-current assets | 802,835 | 1,253,217 | 2,008,197 | 2,114,155 |
| Current assets | 1,278,732 | 1,804,345 | 1,114,326 | 1,464,962 |
| Non-current liabilities | – | (490,300) | (598,426) | (515,544) |
| Current liabilities | (481,406) | (737,223) | (509,948) | (877,839) |
| Net assets | 1,600,161 | 1,830,039 | 2,014,149 | 2,185,734 |

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| Revenue | 3,875,958 | 2,904,984 | 3,768,661 | 1,998,095 |
| Profits | 875,342 | 229,877 | 184,110 | 171,587 |

## 12. INVENTORIES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Raw materials | 31,699,723 | 27,198,852 | 24,850,513 | 24,821,314 |
| Tools and supplies | 1,066,729 | 871,740 | 668,246 | 672,252 |
| Work in progress | 5,350,383 | 3,436,049 | 3,062,223 | 3,304,874 |
| Finished goods | 5,382,533 | 4,693,769 | 3,019,201 | 8,151,744 |
| Merchandise inventories* | 3,738,052 | 3,638,758 | 3,990,388 | 3,952,541 |
| | 47,237,420 | 39,839,168 | 35,590,571 | 40,902,725 |
| Allowance for inventory impairment | (376,601) | (612,368) | (751,140) | (1,134,879) |
| Net realisable value | 46,860,819 | 39,226,800 | 34,839,431 | 39,767,846 |

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

The analysis of the amount of inventories recognised as expenses is as follows:

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Carrying amount of inventories sold | 188,080,770 | 142,672,010 | 139,083,916 | 86,611,991 |
| Write down of inventories | 68,028 | 312,723 | 353,224 | 383,739 |
| Reversal of write down of inventories * | (45,288) | – | – | – |
| | 188,103,510 | 142,984,733 | 139,437,140 | 86,995,730 |

Movements in allowance for inventory impairment during the Relevant Periods were as follows:

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| At beginning of the year/period | 1,747,607 | 376,601 | 612,368 | 751,140 |
| Additions | 68,028 | 312,723 | 353,224 | 383,739 |
| Reversal | (45,288) | – | – | – |
| Utilisation | (1,393,746) | (76,956) | (214,452) | – |
| At the end of the year/period | 376,601 | 612,368 | 751,140 | 1,134,879 |

* *The reversal of write down of inventories made during the Relevant Periods was due to such inventories being subsequently sold.*

## 13. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Trade receivables *(Note 13(i))* | 549,727 | 634,323 | 1,396,223 | 1,561,372 |
| Non-trade receivables *(Note 13(ii))* | 1,672,555 | 3,610,092 | 4,078,672 | 4,576,977 |
| Prepayments *(Note 13(iii))* | 7,853,232 | 8,485,048 | 7,360,947 | 12,437,082 |
| Amounts due from related parties *(Note 22(c))* | 4,256,084 | 5,814,778 | 3,928,257 | 4,823,619 |
| | 14,331,598 | 18,544,241 | 16,764,099 | 23,399,050 |

### (i) Trade receivables

All of the trade receivables are expected to be recovered within one year. The Group's credit policy is set out in note 24(a).

An aging analysis of the trade receivables of the Group is as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Within three months | 540,395 | 592,489 | 1,374,091 | 1,508,741 |
| More than three months but within one year | 47,978 | 41,834 | 17,622 | 44,220 |
| More than one year | – | – | 4,510 | 8,411 |
| | 588,373 | 634,323 | 1,396,223 | 1,561,372 |
| *Less:* allowance for doubtful debts | (38,646) | – | – | – |
| | 549,727 | 634,323 | 1,396,223 | 1,561,372 |

Movements in allowance for doubtful debts during the Relevant Periods were as follows:

| | For the year ended 31 December | | | For the six months ended 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| At beginning of the year/period | 258,678 | 38,646 | – | – |
| Utilisation | (220,032) | (38,646) | – | – |
| At the end of the year/period | 38,646 | – | – | – |

**(ii) Non-trade receivables**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| Import tax refundable | 785,622 | 1,460,357 | 1,789,080 | 2,383,293 |
| Interest receivable | – | – | 639,925 | 428,830 |
| Discount on spare parts purchased | – | 512,290 | 171,821 | 1,818 |
| Compensation of material losses-in-transit | – | – | 551,550 | – |
| Deductible VAT | 174,830 | 372,262 | 402,803 | 1,267,776 |
| Others | 712,103 | 1,265,183 | 523,493 | 495,260 |
| | 1,672,555 | 3,610,092 | 4,078,672 | 4,576,977 |

The above balances are unsecured, interest-free and have no fixed terms of repayment. They are expected to be recovered or utilised within one year.

**(iii) Prepayments**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| Prepayments | 131,868 | 1,134,753 | 2,030,455 | 6,776,397 |
| Advances to suppliers | 7,721,364 | 7,350,295 | 5,330,492 | 5,660,685 |
| | 7,853,232 | 8,485,048 | 7,360,947 | 12,437,082 |

## 14. PLEDGED BANK DEPOSITS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| Pledged bank deposits-denominated in VND | 15,056,719 | 28,106,460 | 16,347,106 | 17,776,562 |

Bank deposits have been pledged to banks as security for certain banking facilities (Note 18).

Included in the pledged bank deposits as at 31 December 2004, 2005, 2006 and 30 June 2007 are time deposits amounting to US$7,297,206, US$7,264,110, nil and nil, respectively, pledged with banks as security for loans granted to a related company, Xiamen Xia Shing Motorcycle Co., Ltd.

Included in pledged bank deposits as at 31 December 2005 and 2006 are time deposits amounting to US$2,419,101 and US$1,173,596, respectively, placed with Chinfon Commercial Bank which is effectively controlled by the Huang Family, the single largest equity holder of Sanyang Industry Co., Ltd. ("Sanyang").

The effective interest rates relating to pledged bank deposits per annum for the Relevant Periods are as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| Effective interest rates-VND | 4.40% to 7.56% | 5.40% to 8.16% | 6.48% to 8.58% | 3.70% to 8.64% |

## 15. TIME DEPOSITS MATURING AFTER THREE MONTHS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Denominated in US$ | 1,900,000 | – | – | – |
| Denominated in VND | 13,193,651 | 13,550,338 | 9,369,945 | 2,178,474 |
| Total time deposits maturing after three months | 15,093,651 | 13,550,338 | 9,369,945 | 2,178,474 |

Included in time deposits maturing after three months as at 31 December 2004 is a time deposit of US$1,900,000 placed with Chinfon Commercial Bank which is effectively controlled by the Huang Family, the single largest equity holder of Sanyang.

The effective interest rates relating to time deposits maturing after three months denominated in US$ and in VND per annum for the Relevant Periods are as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| Effective interest rates-US$ | 1.50% to 1.80% | N/A | N/A | N/A |
| Effective interest rates-VND | 5.25% to 7.92% | 5.25% to 8.52% | 6.10% to 8.82% | 3.00% to 8.82% |

## 16. CASH AND CASH EQUIVALENTS

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Denominated in US$ | 6,094,948 | 7,402,914 | 6,135,471 | 17,550,908 |
| Denominated in VND | 36,539,562 | 16,268,913 | 41,299,453 | 29,440,343 |
| Total cash and cash equivalents | 42,634,510 | 23,671,827 | 47,434,924 | 46,991,251 |

Included in cash and cash equivalents as at 31 December 2004, 2005 and 2006 and 30 June 2007 are deposits of US$15,086,606, US$10,542,424, US$10,556,919 and US$7,977,454, respectively, placed with Chinfon Commercial Bank which is effectively controlled by the Huang Family, the single largest equity holder of Sanyang.

The effective interest rates relating to cash and cash equivalents denominated in US$ and in VND per annum for the Relevant Periods are set out as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| Effective interest rates-US$ | 1.25% to 2.00% | 1.20% to 4.50% | 4.40% to 5.00% | 4.00% to 6.55% |
| Effective interest rates-VND | 3.50% to 6.96% | 5.00% to 7.80% | 6.32% to 8.63% | 4.00% to 8.64% |

## 17. TRADE AND OTHER PAYABLES

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Trade payables *(Note 17(i))* | 14,460,239 | 9,844,486 | 12,104,699 | 11,743,224 |
| Other payables and accrued operating expenses *(Note 17(ii))* | 10,150,928 | 9,183,198 | 7,684,387 | 7,864,352 |
| Advances from customers | 11,172,810 | 2,212,491 | 2,386,719 | 2,342,857 |
| Amounts due to related parties *(Note 22(d))* | 11,430,399 | 7,528,109 | 7,168,760 | 6,945,546 |
| | 47,214,376 | 28,768,284 | 29,344,565 | 28,895,979 |

### (i) Trade payables

An aging analysis of trade payables is as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Within three months | 14,226,807 | 8,887,181 | 10,213,468 | 11,174,913 |
| More than three months but within one year | 110,883 | 867,793 | 1,755,574 | 447,294 |
| More than one year but within five years | 122,549 | 89,512 | 135,657 | 121,017 |
| | 14,460,239 | 9,844,486 | 12,104,699 | 11,743,224 |

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

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Other tax payables | 2,744,427 | 2,193,510 | 1,304,049 | 1,177,648 |
| Commission and bonuses payable to dealers | 3,364,272 | 3,358,205 | 2,428,461 | 2,931,284 |
| Accrued expenses | 2,354,593 | 2,113,068 | 2,237,820 | 1,916,725 |
| Other payables | 1,687,636 | 1,518,415 | 1,714,057 | 1,838,695 |
| | 10,150,928 | 9,183,198 | 7,684,387 | 7,864,352 |

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

## 18. INTEREST-BEARING BORROWINGS

### (a) Current

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Bank borrowings – secured | 9,500,000 | 13,760,000 | 14,150,000 | 16,500,000 |
| Bank borrowings – unsecured | 1,150,000 | 2,410,000 | 2,300,000 | 300,000 |
| Borrowings from Chinfon Commercial Bank – secured *(Note 22(d))* | – | 2,200,000 | 800,000 | – |
| Current portion of long-term borrowings – secured | 906,225 | 645,112 | 830 | 9,129 |
| | 11,556,225 | 19,015,112 | 17,250,830 | 16,809,129 |

The above secured borrowings were all denominated in US$ and were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Time deposits and bank balances | 7,059,513 | 20,129,928 | 15,599,489 | 17,032,883 |

Interest rates per annum on the above borrowings were:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| Short-term interest-bearing borrowings | 2.03% to 4.52% | 2.76% to 4.83% | 4.47% to 6.63% | 2.38% to 6.76% |

### (b) Non-current

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Bank borrowings – secured | 503,337 | 93,112 | 40,665 | 40,665 |
| Borrowings from Chinfon Commercial Bank – secured *(Note 22(d))* | 1,080,000 | 552,000 | – | – |
| *Less:* Amount due within one year | (906,225) | (645,112) | (830) | (9,129) |
| | 677,112 | – | 39,835 | 31,536 |

The above secured borrowings were all denominated in US$ and were secured by certain assets of the Group. An analysis of the carrying value of these assets is as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Property, plant and equipment | 12,162,715 | 9,487,198 | – | – |
| Time deposits and bank balances | 700,000 | 712,422 | 747,617 | 743,679 |
| | 12,862,715 | 10,199,620 | 747,617 | 743,679 |

Interest rates per annum on the above non-current borrowings were:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| Long-term interest-bearing borrowings | 3.69% to 4.17% | 4.35% to 5.04% | 6.79% | 6.33% |

**(c) Maturity of borrowings**

The maturity profile of the interest-bearing borrowings of the Group as at each of the balance sheet dates during the Relevant Periods is as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Within one year | 11,556,225 | 19,015,112 | 17,250,830 | 16,809,129 |
| More than one year and within three years | 677,112 | – | 39,835 | 31,536 |
| | 12,233,337 | 19,015,112 | 17,290,665 | 16,840,665 |
| *Less:* borrowings classified as current liabilities | (11,556,225) | (19,015,112) | (17,250,830) | (16,809,129) |
| Non-current borrowings | 677,112 | – | 39,835 | 31,536 |

**19. INCOME TAX PAYABLES/(RECOVERABLE)**

(a) Current taxation in the balance sheet represents:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| At beginning of the year/period | 3,610,743 | 2,067,886 | (873,125) | (363,206) |
| Provision for tax for the year/period | 4,639,677 | 1,793,144 | 2,537,737 | 1,501,826 |
| Under provided in prior year/period | – | – | 52,337 | 33,453 |
| Income tax paid | (6,182,534) | (4,734,155) | (2,080,155) | (1,252,636) |
| At end of the year/period | 2,067,886 | (873,125) | (363,206) | (80,563) |
| **Represented by:** | | | | |
| Income tax recoverable | – | (873,125) | (383,497) | (103,213) |
| Income tax payables | 2,067,886 | – | 20,291 | 22,650 |
| | 2,067,886 | (873,125) | (363,206) | (80,563) |

(b) Recognised deferred tax assets:

| | Allowance for doubtful debts | Allowance for inventories | Total |
|---|---|---|---|
| | *US$* | *US$* | *US$* |
| **Deferred tax arising from:** | | | |
| At 1 January 2004 | 46,562 | 314,569 | 361,131 |
| Charged to income statements | (39,606) | (246,781) | (286,387) |
| At 31 December 2004 | 6,956 | 67,788 | 74,744 |
| (Charged)/credited to income statements | (6,956) | 41,179 | 34,223 |
| At 31 December 2005 | – | 108,967 | 108,967 |
| Credited to income statements | – | 24,979 | 24,979 |
| At 31 December 2006 | – | 133,946 | 133,946 |
| Credited to income statements | – | 51,131 | 51,131 |
| At 30 June 2007 | – | 185,077 | 185,077 |

## 20. PROVISIONS

| | Warranties | Severance pay allowances | Total |
|---|---|---|---|
| | *US$* | *US$* | *US$* |
| At 1 January 2004 | 1,209,609 | 261,498 | 1,471,107 |
| Additions | 4,616,337 | 115,872 | 4,732,209 |
| Utilisation during the year | (4,687,186) | (21,695) | (4,708,881) |
| At 31 December 2004 | 1,138,760 | 355,675 | 1,494,435 |
| Additions | 3,635,787 | 86,367 | 3,722,154 |
| Utilisation during the year | (3,752,272) | (44,121) | (3,796,393) |
| At 31 December 2005 | 1,022,275 | 397,921 | 1,420,196 |
| Additions | 3,746,024 | 104,236 | 3,850,260 |
| Utilisation during the year | (3,713,314) | (73,775) | (3,787,089) |
| At 31 December 2006 | 1,054,985 | 428,382 | 1,483,367 |
| Additions | 2,379,570 | 153,558 | 2,533,128 |
| Utilisation during the period | (2,252,985) | (14,224) | (2,267,209) |
| At 30 June 2007 | 1,181,570 | 567,716 | 1,749,286 |

The provision for warranties relates mainly to motorbikes sold during the Relevant Periods. The provision is based on estimates made from historical warranty data associated with similar products and services. Further details in respect of the severance pay allowances are set out in note 25(e).

## 21. PAID-IN CAPITAL

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Registered and paid-in capital | 58,560,000 | 58,560,000 | 58,560,000 | 58,560,000 |

The paid-in capital as at 31 December 2004 represented the capital of VMEP.

On 20 June 2005, one subscriber share of the Company was acquired by Sanyang Industry Co., Ltd. which further subscribed for 999,999 shares in the Company. On 1 November 2005, Sanyang Industry Co., Ltd. subscribed for a further 57,560,000 shares in the Company. The par value per share of the Company is US$1. On 7 November 2005, Sanyang Industry Co., Ltd. transferred its entire shareholding in the Company to SY International Ltd., a new intermediate holding company incorporated in Samoa with limited liability.

On 4 May 2006, SY International Ltd. and Sanyang Industry Co., Ltd. entered into an agreement pursuant to which Indopark Holdings Limited acquired a 10% shareholding in the Company from SY International Ltd.

## 22. RELATED PARTY TRANSACTIONS

During the Relevant Periods, transactions with the following parties are considered as related party transactions:

| **Name of party** | **Relationship** |
| --- | --- |
| Sanyang Industry Co., Ltd. ("Sanyang") | The ultimate holding company |
| SY International Ltd. | Equity holder of the Company |
| Indopark Holdings Limited | Minority equity holder of the Company |
| Xia Shing Xiamen Motorcycle Co., Ltd. | Effectively controlled by Sanyang, the controlling equity holder of the Group |
| Teamworld Industries Corporation | Effectively controlled by the Huang Family, the single largest equity holder of Sanyang |
| PT Sanyang Industry Indonesia | Effectively controlled by Sanyang, the controlling equity holder of the Group |
| Plassen International Ltd. | Effectively controlled by Sanyang, the controlling equity holder of the Group |
| Chinlead International Corporation | Effectively controlled by the Huang Family, the single largest equity holder of Sanyang |
| Quingzhou Engineering Industry Co., Ltd. | Effectively controlled by Sanyang, the controlling equity holder of the Group |
| Chinfon Commercial Bank | Effectively controlled by the Huang Family, the single largest equity holder of Sanyang |
| Vietnam Three Brothers Machinery Industry Co., Limited | The associate of the Company and a non-wholly owned subsidiary of Sanyang |

**(a) Recurring transactions**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| | | | | (unaudited) | |
| ***Sales of finished goods and spare parts: (i)*** | | | | | |
| Sanyang Industry Co., Ltd. | 9,054,418 | 16,226,270 | 16,322,415 | 6,693,433 | 10,450,077 |
| Xia Shing Xiamen Motorcycle Co., Ltd. | 15,314 | 215,589 | 67,516 | 39,805 | 27,818 |
| Teamworld Industries Corporation | – | – | 38,835 | 17,989 | 6,293 |
| PT Sanyang Industry Indonesia | – | 27,422 | 643,946 | 408,128 | 3,373 |
| | 9,069,732 | 16,469,281 | 17,072,712 | 7,159,355 | 10,487,561 |
| ***Purchases of raw materials: (ii)*** | | | | | |
| Plassen International Ltd. | 45,095,641 | 15,583,038 | – | – | – |
| Sanyang Industry Co., Ltd. | 5,196,786 | 13,135,000 | 24,826,803 | 13,531,508 | 13,287,439 |
| Teamworld Industries Corporation | 7,492,192 | 5,750,094 | 3,387,337 | 1,625,450 | 1,284,225 |
| Vietnam Three Brothers Machinery Industry Co., Limited | 2,975,361 | 3,263,779 | 3,665,048 | 2,035,613 | 1,922,574 |
| Xia Shing Xiamen Motorcycle Co., Ltd. | 2,645,658 | 3,125,170 | 375,200 | 54,102 | 28,352 |
| Chinlead International Corporation | 33,121 | 22,993 | 6,001 | 6,001 | – |
| Quingzhou Engineering Industry Co., Ltd. | 30,554 | 353,772 | 607,544 | 566,294 | – |
| | 63,469,313 | 41,233,846 | 32,867,933 | 17,818,968 | 16,522,590 |
| ***Technology transfer fees: (iii)*** | | | | | |
| Sanyang Industry Co., Ltd. | 7,844,119 | 4,933,528 | 3,052,690 | 1,617,568 | 2,530,870 |
| ***Technical consultancy fee: (iv)*** | | | | | |
| Sanyang Industry Co., Ltd. | 345,826 | 384,669 | 394,533 | 163,317 | 184,632 |

(i) Sales of finished goods and spare parts are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and on normal commercial terms in the ordinary course of business.

(ii) Purchases of raw materials are carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and on normal commercial terms in the ordinary course of business.

(iii) Effective from 1 January 2007 technology transfer fees are calculated based on 4% (2004, 2005: 5%; 2006: 3%) of the net sales, as defined in the technology transfer agreements between VMEP and Sanyang Industry Co., Ltd..

(iv) Technical consultancy fees charged by Sanyang Industry Co., Ltd. are staff costs and other related expenses, as defined in the technical consultancy fee agreement between VCFP, C.Q.S. and Sanyang Industry Co., Ltd..

**(b) Non-recurring transactions**

| | For the year ended 31 December | | | For the six months ended 30 June | |
|---|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* | *US$* |
| | | | | (unaudited) | |
| ***Purchases of property, plant and equipment: (i)*** | | | | | |
| Sanyang Industry Co., Ltd. | 4,089,492 | 992,452 | 117,941 | 116,852 | 32,871 |
| Quingzhou Engineering Industry Co., Ltd. | 971,010 | 13,229 | – | – | – |
| Teamworld Industries Corporation | – | – | 40,420 | 40,420 | – |
| Xia Shing Xiamen Motorcycle Co., Ltd. | – | – | 47,820 | 47,820 | – |
| Vietnam Three Brothers Machinery Industry Co., Limited | – | 79,673 | 90,097 | 31,377 | – |
| ***Advances: (ii)*** | | | | | |
| Quingzhou Engineering Industry Co., Ltd. | 13,229 | – | – | – | – |
| ***Design fee: (iii)*** | | | | | |
| Xia Shing Xiamen Motorcycle Co., Ltd. | 546,205 | – | – | – | – |
| ***Bank loans: (iv)*** | | | | | |
| Chinfon Commercial Bank | – | 2,200,000 | 1,300,000 | 500,000 | – |
| ***Interest income: (v)*** | | | | | |
| Chinfon Commercial Bank | 229,523 | 376,623 | 681,124 | 338,950 | 371,670 |
| ***Interest expenses: (vi)*** | | | | | |
| Chinfon Commercial Bank | 46,450 | 67,366 | 117,114 | 81,161 | 17,870 |

(i) Purchases of property, plant and equipment were carried out based on mutually agreed terms with reference to comparable market prices, where applicable, and on normal commercial terms in the ordinary course of business.

(ii) Advances to Quingzhou Engineering Industry Co., Ltd. were primarily for the purchase of moulds and were conducted on mutually agreed terms with reference to comparable market prices, where applicable, and on normal commercial terms in the ordinary course of business.

(iii) Design fee was determined with reference to actual time cost and expenses incurred by Xia Shing Xiamen Motorcycle Co., Ltd. in the provision of such design services to the Group.

(iv) Bank loans were obtained on mutually agreed terms with reference to comparable market prices, where applicable, and on normal commercial terms.

(v) The applicable interest rates on bank deposits with Chinfon Commercial Bank are based on the prevailing market deposit rates.

(vi) The applicable interest rates on bank loans from Chinfon Commercial Bank are based on the prevailing market borrowing rates.

**(c) Amount due from related companies**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| **Trade** | | | | |
| Sanyang Industry Co., Ltd. | 2,815,988 | 2,867,165 | 3,092,034 | 3,263,416 |
| Teamworld Industries Corporation | 1,414,889 | 2,268,665 | 85,716 | – |
| Xia Shing Xiamen Motorcycle Co., Ltd. | 8,255 | 112,420 | 15,505 | 15,518 |
| Chinlead International Corporation | – | – | – | 35,522 |
| Vietnam Three Brothers Machinery Industry Co., Limited | 3,723 | 27,177 | 2,320 | 11,779 |
| PT Sanyang Industry Indonesia | – | – | 2,105 | 5,478 |
| **Sub-total** | 4,242,855 | 5,275,427 | 3,197,680 | 3,331,713 |
| **Non-trade** | | | | |
| Sanyang Industry Co., Ltd. | – | 539,351 | 720,094 | 516,616 |
| Xia Shing Xiamen Motorcycle Co., Ltd. | – | – | – | 961,482 |
| Vietnam Three Brothers Machinery Industry Co., Limited | – | – | – | 3,325 |
| Quingzhou Engineering Industry Co., Ltd. | 13,229 | – | 10,483 | 10,483 |
| **Sub-total** | 13,229 | 539,351 | 730,577 | 1,491,906 |
| **Total** | 4,256,084 | 5,814,778 | 3,928,257 | 4,823,619 |
| **Pledged bank deposits** *(Note 14)* | | | | |
| Chinfon Commercial Bank | – | 2,419,101 | 1,173,596 | – |
| **Time deposits maturing after three months** *(Note 15)* | | | | |
| Chinfon Commercial Bank | 1,900,000 | – | – | – |
| **Cash and cash equivalents** *(Note 16)* | | | | |
| Chinfon Commercial Bank | 15,086,606 | 10,542,424 | 10,556,919 | 7,977,454 |

Trade balances due from related companies are unsecured, interest-free and are expected to be recovered within 60 days.

Non-trade balances due from related companies are expected to be recovered within one year.

The non-trade receivables from Sanyang relate to prepayments made for purchase of inventories.

The non-trade receivables from Xia Shing Xiamen Motorcycle Co., Ltd. represent advances in relation to the purchase of moulds.

The non-trade receivables from Vietnam Three Brothers Machinery Industry Co., Limited mainly represent purchase discounts and refund of defective products supplied.

The non-trade receivables from Quingzhou Engineering Industry Co., Ltd. represent prepayments made for purchase of machineries.

The transactions between the Group and Chinfon Commercial Bank have been discontinued prior to the Listing.

**(d) Amount due to related parties**

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | **2004** | **2005** | **2006** | **2007** |
| | *US$* | *US$* | *US$* | *US$* |
| **Trade** | | | | |
| Sanyang Industry Co., Ltd. | 4,774,636 | 4,746,170 | 4,632,048 | 5,072,375 |
| Plassen International Ltd. | 5,844,892 | – | – | – |
| Teamworld Industries Corporation | 465,089 | 1,407,884 | 270,774 | 282,594 |
| Xia Shing Xiamen Motorcycle Co., Ltd. | 8,405 | 2,560 | 87,638 | 31,575 |
| Quingzhou Engineering Industry Co., Ltd. | – | 119,520 | – | – |
| Vietnam Three Brothers Machinery Industry Co., Limited | 251,825 | 493,228 | 334,190 | 330,551 |
| **Sub-total** | 11,344,847 | 6,769,362 | 5,324,650 | 5,717,095 |
| **Non-trade** | | | | |
| SY International Limited | – | – | 30,000 | 30,000 |
| Sanyang Industry Co., Ltd. | 85,552 | 758,747 | 1,814,110 | 1,198,451 |
| **Sub-total** | 85,552 | 758,747 | 1,844,110 | 1,228,451 |
| **Total** | 11,430,399 | 7,528,109 | 7,168,760 | 6,945,546 |
| **Bank borrowings – secured** | | | | |
| Chinfon Commercial Bank | 1,080,000 | 2,752,000 | 800,000 | – |

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

Non-trade payables due to related companies are expected to settled within six months.

The non-trade payables to SY International Limited relate to dividend payables. The dividend payables have been settled prior to the Listing.

The non-trade payables to Sanyang as at 31 December 2006 and 30 June 2007 include government grants of US$1,776,894 and US$1,165,104 respectively, received on behalf of Sanyang. These government grants have been fully settled with Sanyang before the Listing. In addition, the non-trade payables to Sanyang as at 31 December 2004 and 2005 relate to the purchase of property, plant and equipment.

The transactions between the Group and Chinfon Commercial Bank have been discontinued prior to the Listing.

## 23. COMMITMENTS

### (a) Capital commitments

Capital commitments outstanding at the respective year/period end not provided for in the Financial Information were as follows:

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Contracted for | – | – | 1,396,112 | 7,696,634 |
| Authorised but not contracted for | 1,432,059 | 1,432,059 | 13,900,095 | 12,861,011 |
| | 1,432,059 | 1,432,059 | 15,296,207 | 20,557,645 |

Capital commitments as at 31 December 2004 and 2005 were for the construction of a new office building. As at 31 December 2006, capital commitment authorised but not contracted for was in respect of the construction of a new research and development centre. As at 30 June 2007, amount of US$6,032,838 and US$1,145,988 was contracted for the construction of a factory for the manufacturing of light trucks and a new research and development centre respectively. In addition, an amount of US$12,309,672 was authorised but not contracted for in respect of the construction of a new research and development centre.

Upon the disposal of SMV on 3 August 2007, the contracted capital commitment for the construction of a factory for the manufacturing of light trucks has been taken up by SY International Limited.

### (b) Operating lease commitments

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

| | At 31 December | | | At 30 June |
|---|---|---|---|---|
| | 2004 | 2005 | 2006 | 2007 |
| | *US$* | *US$* | *US$* | *US$* |
| Within 1 year | 200,988 | 198,228 | 158,308 | 159,884 |
| After 1 year but within 5 years | 577,287 | 591,785 | 677,676 | 742,486 |
| After 5 years | 3,768,187 | 3,750,453 | 3,316,780 | 3,363,807 |
| | 4,546,462 | 4,540,466 | 4,152,764 | 4,266,177 |

The leases run for an initial period of one to fifty years.

## 24. FINANCIAL INSTRUMENTS

The Group's business strategies, tolerance of risk and general risk management philosophy are determined by management in accordance with prevailing economic and operating conditions. In the opinion of the directors, the Group has taken appropriate quality control measures to mitigate the effect from any claims caused by products, which may affect adversely its financial results.

The Group's financial assets comprise mainly cash and cash equivalents, pledged bank deposits, trade receivables, deposits, other receivables, prepayments, time deposits maturing after three months and amounts due from related companies. The Group's financial liabilities comprise interest-bearing borrowings, trade and other payables, and amounts due to related companies.

The Group had no derivative instruments that are designated and qualified as hedging instruments during the Relevant Periods. Exposure to credit, interest rate and currency risk arises in the normal course of the Group's business.

**(a) Credit risk**

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

*(i) Trade receivables, other receivables and prepayments*

The Group's exposure to credit risk is minimal as the Group generally offers no credit terms to domestic customers, which accounted for approximately 90% of total customers. Overseas customers are generally granted credit terms ranging from 30 days to 60 days. The Group does not have any significant exposure to any individual customer or counter party.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

Based on past experience, the Group believes that no impairment allowance is necessary in respect of trade receivables not past due; 68% of the trade receivables as at 30 June 2007 are due from related parties which have a good trading and settlement record with the Group.

The Group does not collect collateral in respect of trade receivables, other receivables and prepayments.

The maximum exposure to credit risk is represented by the carrying amounts of each financial asset in the consolidated balance sheets.

*(ii) Deposits with bank*

All the bank deposits are deposited with high quality financial institutions with no significant credit risk. The management does not expect any losses arising from non-performance of these financial institutions.

**(b) Interest rate risk**

The Group's exposure to interest rate risk relates to interest bearing financial assets and liabilities.

*(i) Interest bearing financial assets*

Pledged bank deposits and time deposits maturing after three months are not held for speculative purposes but are placed to satisfy conditions for borrowing facilities granted to the Group and for higher yield returns than cash at banks.

The Group manages its interest rate yield by prudently balancing the placement of deposits with varying maturity periods.

*(ii) Interest bearing financial liabilities*

Interest bearing financial liabilities include bank borrowings. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes of interest rates. The interest rates and terms of repayment of the interest-bearing bank loans of the Group are disclosed in Note 18.

**(c) Foreign exchange risk**

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US$.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

**(d) Liquidity risk**

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The individual subsidiaries within the Group are responsible for their own cash management, including raising loans to cover the expected cash demands, subject to approval by the Company's board of directors. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term. The contractual maturities of financial liabilities are disclosed in notes 17 and 18.

**(e) Business risk**

The Group has certain concentration risk of raw material sourcing from related parties, as a single supplier in relating to raw materials sourcing. The Group's total purchases of raw materials from the related parties amounted to approximately US$63,469,313, US$41,233,846, US$32,867,933 and US$16,522,590 which accounted for approximately 36.8%, 37.7%, 29.5% and 22.1% of the Group's total purchases for the years ended 31 December 2004, 2005 and 2006 and period ended 30 June 2007 respectively. However, the Group has reduced the reliance on related parties over the Relevant Periods by localising its supply chain.

**(f) Fair value**

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 31 December 2004, 2005, 2006 and 30 June 2007. The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

*(i) Cash and cash equivalents, pledged bank deposits, trade receivables, deposits, other receivables, prepayments, trade and other payables, amounts due from/to related companies*

The carrying amounts approximate their respective fair values due to the short-term maturity of these instruments.

*(ii) Bank loans*

The carrying amount of bank loans approximate their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

**(g) Capital Management**

The Group's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of business.

The gearing ratio during the Relevant Periods was 20.9%, 32.5%, 29.5% and 28.7% for the years ended 31 December 2004, 2005 and 2006 and for the six months ended 30 June 2007 respectively. The gearing ratio is calculated by dividing total borrowings with paid-in capital.

There were no changes in the Group's approach to capital management during the year.

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

## 25. ACCOUNTING ESTIMATES AND JUDGEMENTS

Key sources of estimation uncertainty are as follows:

**(a) Impairment losses on trade receivables, other receivables and prepayments**

Impairment losses on trade receivables, other receivables and prepayments are assessed and provided based on the directors' regular review of aging analysis and evaluation of collectibility. A considerable level of judgment is exercised by the directors when assessing the credit worthiness and past collection history of each individual customer. Any increase or decrease in the impairment losses for bad and doubtful debts would affect the consolidated income statements in future years.

**(b) Depreciation**

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

**(c) Net realizable value of inventories**

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

**(d) Income taxes**

Determining income tax provisions involves judgement on the future tax treatment of certain transactions. The Group carefully evaluates the tax implications of transactions and tax provisions are set up accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation. Deferred tax assets are recognised for tax losses not yet used and temporary deductible differences. As those deferred tax assets can only be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax credits can be utilised, management's judgement is required to assess the probability of future taxable profits. Management's assessment is constantly reviewed and additional deferred tax assets are recognised if it becomes probable that future taxable profits will allow the deferred tax asset to be recovered.

**(e) Provisions**

*(i) Warranties*

The provision for warranties relates mainly to motorbikes sold during the Relevant Periods. The provision calculated by management is based on estimates extracted from historical warranty data associated with similar products and services. The calculation requires the use of judgement and estimation.

*(ii) Severance pay allowance*

Pursuant to the labour regulation in Vietnam, employers are required to pay severance allowance to local employees (half month of salary for every one completed year of service) when the employee leaves the company. The obligation vests and is payable regardless of the reasons for departing the company. The obligation in respect of severance pay allowance is calculated by estimating the amount of benefits that employees have earned in return for their service in the current and prior periods. The calculation requires the use of judgement and estimation. A provision is made for the estimated liability for severance pay allowance as a result of services rendered by employees up to the balance sheet date.

## D. ULTIMATE HOLDING COMPANY

The directors of the Company consider the ultimate holding company of the Company to be Sanyang Industry Co., Ltd., an enterprise established in Taiwan.

## E. BALANCE SHEETS OF THE COMPANY

The balance sheets of the Company at 31 December 2005 and 2006 and 30 June 2007 were as follows:

| | | At 31 December 2005 | At 31 December 2006 | At 30 June 2007 |
|---|---|---|---|---|
| | | *US$* | *US$* | *US$* |
| **Non-current assets** | | | | |
| Long term investment | | 58,560,000 | 58,560,000 | 58,560,000 |
| **Total non-current asset** | | 58,560,000 | 58,560,000 | 58,560,000 |
| **Current assets** | | | | |
| Trade receivables, other receivables and prepayments | *(a)* | – | – | 9,528,712 |
| Other current asset | *(b)* | – | 1,820,000 | 1,820,000 |
| Cash and cash equivalents | | – | 7,172 | 13,878,365 |
| **Total current assets** | | – | 1,827,172 | 25,227,077 |
| **Total assets** | | 58,560,000 | 60,387,172 | 83,787,077 |
| **Current liabilities** | | | | |
| Accrued expenses | | – | 4,508 | – |
| Trade and other payables | *(c)* | – | 1,838,136 | 1,230,854 |
| **Total current liabilities** | | – | 1,842,644 | 1,230,854 |
| **Equity** | | | | |
| Share capital | *(d)* | 58,560,000 | 58,560,000 | 58,560,000 |
| (Accumulated losses)/ Retained profits | *(e)* | – | (15,472) | 23,996,223 |
| **Total equity** | | 58,560,000 | 58,544,528 | 82,556,223 |
| **Total liabilities and equity** | | 58,560,000 | 60,387,172 | 83,787,077 |

**(a) Trade receivables, other receivables and prepayments**

Included in trade receivables, other receivables and prepayments as at 30 June 2007 are US$5,000,000 dividend receivable from VMEP as well as US$4,528,712 prepayment for establishment of a new subsidiary of the Company, namely Chin Zong Trading Co., Ltd..

**(b) Other current asset**

This is in respect of listing expenses to be written off against share premium upon share listing.

**(c) Trade and other payables**

Included in trade and other payables as at 31 December 2006 and 30 June 2007 is a government grant of US$1,776,894 and US$1,165,104 respectively received on behalf of the ultimate holding company, Sanyang Industry Co., Ltd..

Trade and other payables are unsecured, interest free and repayable on demand.

**(d) Share capital**

The Company was incorporated on 20 June 2005 with an authorized share capital of US$1,000,000 divided into 1,000,000 shares of US$1 each, with 1 share issued at US$1. At the same date, the one subscriber share of the Company was acquired by Sanyang Industry Co., Ltd. which further subscribed for 999,999 shares in the Company. On 1 November 2005, the Company issued an additional 57,560,000 shares at US$1 per share to its investor, Sanyang Industry Co., Ltd. In exchange, Sanyang Industry Co., Ltd. transferred its 100% equity interest in VMEP to the Company.

**(e) (Accumulated losses)/Retained profits**

Retained profits for the six-month period ended 30 June 2007 was mainly attributable to the dividend received from VMEP amounting to US$30,000,000 offset by the dividends totalling US$6,000,000 paid to SY International Limited and Indopark Holdings Limited.

## F. DIRECTORS' REMUNERATION

Save as disclosed in this report, no remuneration was paid or is payable by the Company or any of its subsidiaries to the Company's directors in respect of the Relevant Periods.

Details of the aggregate remuneration of the Company's directors for the year ending 31 December 2007 under the arrangement presently in force are set out in the paragraph headed "Particular of service agreements" in Appendix VI to the Prospectus.

## G. SUBSEQUENT EVENTS

The following significant transactions took place subsequent to 30 June 2007:

- On 3 August 2007, the Group disposed of Sanyang Motor Vietnam Co., Ltd., together with the investment license to carry on the light trucks and multipurpose vehicles business at a cash consideration of US$5 million which is equivalent to the net book value of SMV as at 31 July 2007, to SY International Limited, an equity holder of the Company.

- According to the Board resolutions dated 20 August 2007, 12 September 2007 and 19 November 2007, the Company declared an aggregate of US$33,000,000 of dividends to the Shareholders in respect of the retained profits as at 31 July 2007. Such dividends were fully distributed before the Listing.

- Pursuant to a Shareholders' resolution passed on 24 November 2007, the authorised share capital of the Company was changed. The details of the change are set out in paragraphs 3(a) to 3(d) under "Written resolutions of the Shareholders passed on 24 November 2007" in Appendix VI to the Prospectus.

## H. SUBSEQUENT FINANCIAL STATEMENTS

No audited financial statements have been prepared by the Company or any of the companies now comprising the Group in respect of any period subsequent to 30 June 2007.