

# BUSINESS

## OVERVIEW

The Group is one of the leading manufacturers of scooter and cub motorbikes in Vietnam, which the Directors believe currently ranks third among the principal foreign-owned motorbike manufacturers in terms of sales volume. The Group also produces motorbike engines and parts for use in its own motorbikes and for sale, and it sells and services moulds for making die-cast and forged metal parts. The Group's manufacturing and assembly operations are conducted principally in two factories located near the two largest cities in Vietnam, namely Ho Chi Minh City and Hanoi. A dealership network of approximately 230 authorised SYM stores in both urban and rural areas enables the Group's motorbikes to be marketed throughout Vietnam. In the first half of 2007, the Group sold on average 17,661 motorbikes per month. The Group's motorbikes are retailed under the SYM and SANDA brand names. The principal operations of the Group are undertaken through VMEP.

Soon after commencing operations in Vietnam in 1992, the Group established the first of its motorbike manufacturing plants in the country. By 2001, the Group had acquired the equipment, skills and expertise needed to begin mass producing motorbikes, from parts and engines through to final assembly. Since then, the Group has been performing competitively in the Vietnamese scooter and cub market. The Group began exporting its motorbikes and parts through Sanyang in 2003, and has sold its products principally in Malaysia, the Philippines and Singapore, in addition to a number of countries in Europe.

The Group's revenue for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007 was US\$261.0 million, US\$183.8 million, US\$184.3 million and US\$115.0 million, respectively. For the same periods, the Group's net profit was US\$43.0 million, US\$16.5 million, US\$23.3 million and US\$14.0 million, respectively. Most of the Group's revenue is derived from the manufacture and sale of motorbikes. For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, sales of motorbike engines and parts to third parties accounted for approximately 6.0%, 14.0%, 12.0% and 10.2% of the Group's revenue, respectively.

## COMPETITIVE STRENGTHS

The Directors believe that the Group has the following key strengths:

- **The Group designs and produces its motorbikes specifically for the Vietnamese market**

The Group's principal focus is the Vietnamese motorbike market, for which the Group's motorbikes are specifically designed and produced. The Directors believe that this local focus, coupled with the Group's long history in the country and its local presence, helps the Group to produce and market products particularly well suited to the local market, and to do so in a timely manner.

By affording the Group a high degree of insight into local tastes and trends, the Group's local base of operations, including its research and design department in Vietnam, enhances the Group's responsiveness to customer demands and market changes. The Group's local presence and focus also improve the Group's ability to

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devise and deploy marketing campaigns that are effective with local consumers, enhance quality by enabling the Group to quickly devise and deploy design modifications addressing concerns that arise post-production, and contribute to profitability by reducing labour and transportation costs of finished products.

The Group's local base of operations also helps to raise the profile of the Group among Vietnamese consumers. The Group is regularly involved in local charity work, which the Directors believe deepens the Group's presence in the local community and enhances its reputation among consumers.

- **The Group's wide range of products and dual-branding strategy position the Group to participate in the growth of different sectors of the motorbike market**

The Group benefits from its wide range of scooters and cubs that are targeted at distinct segments of the domestic Vietnamese market. The Attila series, for instance, is marketed principally to urban female consumers, whereas the Excel is targeted at a male audience. The Group's broad product range positions it to benefit from the growth of different segments of the motorbike market and helps to make the Group more resilient in the face of possible adverse developments in any particular segment. The Group's strategic focus on high-end scooters positions the Group for what the Directors expect will be a marked expansion of the scooter market at the expense of cubs as income levels rise in Vietnam. However, the cub market remains large, and the Group's cub range helps ensure that the Group is not overly dependent on growth in one market segment.

The Directors believe, in addition, that the Group's dual-branding strategy, whereby the Group markets its products under both the SYM and SANDA brand names, allows for increased penetration of the consumer market. SYM scooters are high-end products that use many custom-designed components and are marketed as stylish and technologically modern. SANDA products are aimed at lower-income consumers and are positioned as practical, functional transport. With the SANDA brand, the Directors believe that the Group can more effectively target lower income groups without diminishing the high-end image of the SYM brand.

- **The Group has substantial market access via an extensive and committed dealership network**

The Group benefits from an extensive dealership network of approximately 230 authorised SYM stores throughout Vietnam. The Group has cultivated this dealership network carefully, in many cases building what the Directors consider to be close, long-term relationships. The Group has offered its dealers generous support over the years and assisted them in formulating, financing and executing expansion plans. The dealers in the Group's network have also benefited from training relating to the Group's products and from sales-based incentive payments that the Directors believe are superior to those of the Group's principal competitors. The Directors believe that the Group's extensive dealership network, coupled with a high degree of commitment on the part of the Group's dealers, is a key factor in the Group's competitiveness in the scooter and cub market. For further details on the Group's dealership network, see "— Sales and Marketing", below.

- **The Group benefits from a strong supplier network**

The Group has worked to develop a strong supplier network consisting of both local and overseas suppliers. To increase the reliability of its supply, to create a more integrated supplier network and to strengthen the Group's cost competitiveness, the Group has assisted a number of its key suppliers in Vietnam to improve their production operations. The Group has also worked to forge strong relationships with its overseas suppliers and, as part of the Group's strategy of seeking lower-cost reliable suppliers, has encouraged a number of its Taiwan-based suppliers to commence operations in Vietnam. The Directors consider that with many of the Group's suppliers, particularly those that are based in or have relocated to Vietnam, the Group benefits from a strategic relationship, with the suppliers' fortunes linked to those of the Group. The Directors believe that the supplier network that the Group has developed will continue to be integral to the success of the Group.

- **The Group benefits from the strong reputation of the SYM brand and the Attila model name**

The Directors believe that "SYM" has become one of the most recognisable brands in the Vietnamese scooter and cub market, with the Attila model name associated in consumers' minds with style, quality and reliability. The Directors believe that the strength of the SYM brand and the Attila model name facilitates the sale of the Group's motorbikes and contributes to its market share.

Part of the strength of the SYM brand lies in the aesthetic appeal of the SYM motorbikes, particularly the Attila series of scooters; the quality of the Group's products, which the Group has worked diligently to improve over the past two years; the value-for-money proposition of the motorbikes; and the comprehensive warranty and after-sales service offered to consumers, which the Directors believe is among the best in the Vietnamese scooter and cub market.

The Directors believe the Attila model name also benefits from a strong reputation and substantial consumer loyalty, particularly among urban females. The Group has for years marketed the Attila series to a female audience and has retained this model name when designing variants aimed at subsets of the same market. The Directors believe that the Attila name is a key factor in the success of its models aimed at urban female consumers.

- **The Group has a highly qualified management team with extensive experience in Vietnam**

The Group's management team has extensive management and operational experience in the motorbike industry, in some cases, over 20 years. Each member of the Group's senior management team is based in Vietnam and has had, on average, nearly eight years of experience in the domestic Vietnamese market. The Directors recognise that this expertise and experience are crucial to the continued growth and development of the Group. The Directors believe that the management's long-term local presence has helped the managers to develop lasting client relationships, to more effectively manage the Group's domestic supply chain, to maintain good relations with the government and to deploy advertising and public relations campaigns with particular resonance among local consumers.

## STRATEGIES

The Group intends to consolidate its position as a leading manufacturer of motorbikes in Vietnam and, in the process, to focus on achieving sustainable growth and creating long-term shareholder value by improving profitability.

To achieve these objectives, the Group plans to pursue the following key business strategies:

- **Increase the Group's investment in its research and development capabilities**

The Group intends to strengthen its research and development capabilities in order to develop its product range independently. To that end, the Group intends to expand its research and development team and construct a new full-service research and development centre, which will include emissions testing equipment and a test-driving circuit.

In addition to the existing research and development activities undertaken by the Group, the Directors anticipate that the new centre will be capable of carrying out large-scale market research and advanced technical projects, such as designing motorbikes in their entirety and developing fundamental engine-related technology. They expect that the large capacity of the new research and development centre will facilitate more frequent innovation, enabling the Group to make more model changes and product enhancements and shortening the timetable for developing new models. The new dedicated research and development centre will assist the Group in its efforts to migrate to lower-cost suppliers by more quickly testing parts produced by potential suppliers located in Vietnam and elsewhere in AFTA.

- **Accelerate the Group's move to lower-cost reliable suppliers**

To strengthen the Group's cost competitiveness and reduce the lead time for the supply of parts, the Group intends to continue its efforts to seek lower-cost suppliers in Vietnam and other countries within AFTA where it can be confident of the prospective suppliers' ability to meet the Group's quality standards. On average, approximately 53.0% of the parts and raw materials used to manufacture the Group's products, as measured by value, were sourced domestically in 2004. By 30 June 2007, this figure had increased to 60.0%. This process of migrating to lower cost suppliers generally has been specific to each model of motorbike, with local and AFTA content increasing after the initial period of production.

The Group intends to accelerate its efforts to localise its supply chain further. The Directors have found that purchasing parts and raw materials within Vietnam is often the most cost-effective option. Where suitable local suppliers are not available, the Group plans to seek overseas suppliers within AFTA. The Group has in the past successfully encouraged Taiwanese suppliers to set up factories in Vietnam by offering to help support their new operations through continued orders. The Group intends to continue this practice of encouraging its significant overseas suppliers to commence operations in Vietnam and to continue its practice of assisting its major local suppliers to strengthen their production operations. By building its supply chain in Vietnam in this way, the Directors believe that the Group will continue to improve the reliability of its suppliers, create a more integrated network whose fortunes are tied to the Group's, and strengthen the Group's cost competitiveness.

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- **Consolidate the Group's strong position in the scooter market in Vietnam by continuing to introduce new models to broaden its product range, thereby allowing it to pursue additional target markets**

The Directors believe that scooters represent the future of the motorbike market in Vietnam. As roads improve and disposable income increases, the Directors believe that transport in Vietnam will evolve in line with the pattern seen in other societies in the region, such as Taiwan, with scooters replacing cubs, which in turn replaced bicycles before them. To capitalise on this trend, the Group intends to concentrate its long-term efforts on consolidating and strengthening its position in the Vietnamese scooter market.

The Directors believe the Group currently occupies a strong position in the domestic scooter market in Vietnam, in large part owing to the success of the Attila, a market-leading series of scooters that is particularly popular among urban female riders. The Group has recently introduced the Attila Elizabeth, a further variant of the original Attila model, which targets a subset of the female market, specifically women from 25 to 45 years of age. The Group plans to increase sales among male consumers with the introduction of a scooter with larger wheels and body styling evocative of a cub (which is sometimes perceived as a more masculine machine). Provided this, or another of the Group's products, resonates with men in the way the Attila series resonates with women, the Group intends to implement a market segmentation strategy similar to its approach to the female consumer market, leveraging its experience in the marketing of the Attila series and creating variants of the original product to target increasingly specific segments of the male market.

- **Regain market share in the cub market by focusing on quality while maintaining price competitiveness**

The Directors intend to use the Group's cub models to broaden the Group's customer base and add to the Group's profitability. To this end, the Group plans to continue gradually regaining market share lost during the Track Record Period by stabilising product quality and bolstering consumer confidence. The Group intends to use its local research and development expertise and its licensed and proprietary technology to design and manufacture cubs of higher quality than similarly-priced products of competitors. The Group's SYM cubs will continue to compete against offerings by its principal Japanese competitors and be marketed to higher-end consumers, while its SANDA cubs will compete against lower-priced products made by local manufacturers. In developing new cub models, the Group intends to focus on aesthetics, improved drivability, lower noise levels, enhanced fuel economy and greater durability.

The Group's management monitors the cub market in Vietnam primarily through informal feedback from the Group's sales network, as well as by interacting with government authorities regarding industry developments, observing consumer behaviour and evidence of consumer taste first hand, and attending trade fairs and exhibitions of new products. The Group has released two new cub models in the first half of 2007 and intends to introduce one more by the end of the year. The Group also plans to release further models in 2008. As the cub market is strong in a number of countries in the region, the Group expects that its new SYM cubs will also be sold elsewhere in the ASEAN region.

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Through low-margin but high-volume sales, the Directors expect the Group's cubs to remain an important part of the Group's operations. Furthermore, by increasing the Group's production of cubs, the Directors anticipate increased profitability for all of the Group's motorbikes through greater economies of scale.

- **Continue to enhance the SYM brand image**

The Group has formulated three key initiatives to enhance the contemporary image of the SYM brand. These comprise:

- (i) **Renovating existing SYM stores.** The Group intends to continue funding comprehensive renovations of the premises of existing authorised SYM stores, prioritising those that currently have the strongest sales volume. In addition to attracting additional customers to the stores, this modernisation of the facilities forms part of the Group's broader corporate branding exercise, as the Group's corporate logo is prominently displayed at all renovated stores.
- (ii) **Constructing SYM flagship stores and larger-scale SYM showrooms.** In November 2006, the Group, with one of its principal dealers, completed the construction of the Group's first flagship store, a large two-storey showroom with contemporary interior design and a stage for the introduction of new models, where much of the Group's product range is displayed. This initial flagship store was opened in Ho Chi Minh City and is owned by the Group's dealer. In October 2007, the Group opened the second flagship store, in Can Tho, a city located in the southern part of Vietnam. The Directors intend to expand the flagship store concept to other cities in Vietnam and anticipate that each new flagship store will be visually impressive and staffed with experienced sales persons and will display a broad range of products appropriate for the corresponding market.

The Group also intends to help fund the expansion of its dealers' SYM showrooms. The new larger-scale authorised SYM stores will have wider frontages than most existing showrooms, usually at least 12 metres across, and will boast improved product layout and decor.

- (iii) **Launching significant marketing campaigns and engaging in other profile-raising activities.** To further raise the profile of the SYM brand name, the Group intends to launch significant marketing campaigns involving television, radio and billboard advertising. These campaigns will be intensified in connection with the launch of new models. The Directors also intend to continue to undertake less traditional marketing efforts to further promote the SYM name and the Group's products, such as the series of Attila fashion shows sponsored by the Group in 2006 and the concert sponsored in 2007 to coincide with the introduction of the Attila Elizabeth.

In addition, the Directors intend to continue the Group's charity work, which they feel raises the profile of the Group and enhances the Group's image, even while the work is carried out for altruistic reasons. The Group is nearly halfway to its goal of building 100 bridges in various areas of Vietnam, and it is considering sponsorship of various social programmes, such as educational development.

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For further details on the number of stores participating in the Group's marketing campaign and the Group's budget for the campaign, please refer to the section entitled "Use of Proceeds – Future Plans".

- **Expand the Group's distribution network in Vietnam and develop networks in other ASEAN countries**

The Group plans to expand the number of authorised SYM stores in the Group's dealership network, first, by opening stores through joint ventures with existing or new dealers who will operate the stores; second, by opening new stores itself, often in premium locations, which will serve as regional sales management centres with responsibility for increasing the number of, and managing, the individual dealers in the district and for being those dealers' initial point of contact with the Group; and third, by assisting small or start-up dealerships, encouraging dealers to take initiatives in opening new shops within their designated sales areas, continuing with a permissive attitude toward dealers' proposals to open further authorised SYM stores in new sales areas, and making competitive sales-based incentive payments. For further details of the Group's plans to expand its domestic distribution network, see "Use of Proceeds – Future Plans".

To capitalise on the significant market potential of other countries in the region, the Directors anticipate developing sales networks in other ASEAN countries, focusing first on Cambodia and Laos. After opening sales offices in one or more of these countries for trading and to better understand the local markets, the Group anticipates using its experience in Vietnam to develop local sales networks in the region through which to sell its motorbikes.

## HISTORY AND DEVELOPMENT

### Corporate history and development

The business of the Group was founded when the Huang Family established VMEP in 1992 to capitalise on opportunities in the motorbike industry in Vietnam. VMEP obtained its investment licence from the Vietnam State Committee for Corporation and Investment in March 1992.

In March 1993, VMEP established its first production plant in Dong Nai Province, Vietnam, to manufacture motorbikes. A second production plant was established by VMEP in Ha Tay Province in 1993.

In 2000, the entire equity interest in VMEP was transferred by the Huang Family to Sanyang, which was a listed company in Taiwan with the necessary corporate power and authority to invest in Vietnam.

In 2002, VCFP and CQS were established to manufacture motorbike engines, and moulds and jigs, respectively, for supply to VMEP. VMEP holds a 100% and 70% interest in VCFP and CQS, respectively. All registered capital of the Company's subsidiaries which are incorporated in Vietnam has been fully paid up.

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In 2002, as part of its efforts to reduce its purchasing costs and to shorten the delivery time for the supply of certain of the parts required for its production operations, the Group encouraged Three Brothers, one of its suppliers in Taiwan, to establish a manufacturing plant in Vietnam. Three Brothers founded VTBM on 5 September 2002. In recognition of VTBM as one of its key suppliers and to consolidate the Group's relationship with VTBM, VMEP acquired a 31% equity interest in VTBM from Three Brothers in April 2003 for a cash consideration of US\$310,000. This consideration was determined on the basis of arm's-length negotiations with reference to the operational scale and net asset value of VTBM. Three Brothers is 50% owned by Chinda (a subsidiary in which Sanyang holds 88.16%), and 50% owned by the Chen Family and Chen Family Companies. Despite the fact that Three Brothers is treated as a subsidiary of Sanyang because Chinda has the right to appoint the general manager, which under the relevant Taiwan accounting principles require the results of Three Brothers to be consolidated into the accounts of Sanyang, Sanyang does not have majority control or veto power over the board or shareholders' meetings of Three Brothers. Thus, Sanyang, on its own, is not in a position to direct or procure the injection of Three Brothers' 69% shareholding in VTBM into the Group. As Sanyang does not have control of Three Brothers at shareholder or board level, the Group would not be able to acquire majority control of Three Brothers (and hence VTBM) even if Sanyang were to contribute its 50% shareholding in Three Brothers to the Group. Consequently, neither Three Brothers' 69% shareholding in VTBM nor Sanyang's 50% shareholding in Three Brothers has been included in the Group. The Group does not have any current intention to acquire the remaining interest in VTBM and, so far as the Directors are aware, Sanyang does not have any current intention to transfer its indirect shareholding in VTBM to the Group.

The Company was established by Sanyang as the new holding company of the Group in June 2005. On 1 November 2005, 57,560,000 shares in the Company of US\$1.00 each were allotted to Sanyang. On 7 November 2005, Sanyang transferred its entire equity interest in VMEP to the Company in consideration of the issue of new shares by the Company to SYI, which is a wholly-owned subsidiary of Sanyang, based on the net book value of VMEP as at 30 September 2005. No cash consideration was paid by the Company.

As advised by Chien Yeh Law Offices, the Company's Taiwan legal advisers, when a company makes an investment in any country other than the PRC, it is not required to obtain an approval from the Investment Commission of the Ministry of Economic Affairs of Taiwan (the "IC") prior to the investment and can report the investment to the IC after the investment has been made. Although Sanyang did not obtain approval from the IC or report to the IC in relation to its investment in VMEP in 2004 and its investment in the Company in 2005, Chien Yeh Law Offices have advised that the non-observance of such reporting requirement by Sanyang in relation to its investments in VMEP and the Company will not impact the validity of these investments and will not result in any penalty or fine or any other legal liability being imposed on Sanyang.

In May 2006, Indopark, an indirect wholly-owned subsidiary of Merrill Lynch, acquired a 10% shareholding in the Company from SYI. Further details of the acquisition of such shareholding by Indopark are set out in the section headed "Information on Indopark".

In June 2005, VMEP obtained an investment licence to manufacture light trucks under 3.5 tonnes and six- to nine-seat MPVs, as well as related parts and engines, and the Group established SMV in Vietnam with the intention of carrying on this business. However, the Board has decided that, at the current stage, it would be in the interest of the Group to continue focusing on the manufacture of motorbikes and related parts and engines and not to divert its



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resources into the manufacture of light trucks and MPVs. Hence, on 3 August 2007, the Group transferred SMV, together with the investment licence to carry on the light truck and MPV manufacturing business, to SYI for a cash consideration of US\$5 million. SYI has granted the Group the right of first refusal to acquire SMV or its business of manufacturing light trucks and MPVs if, at any time during which it remains a controlling shareholder of the Company, it should decide to dispose of SMV or the business. In determining whether to exercise this right, the Directors expect that the Group will take into consideration factors such as the business performance, operating results, financial condition and prospects of SMV and its business, the financial condition of the Group and the synergies and growth potential that SMV or its business might bring to the Group. If the Group should decide to exercise this right, SYI and the Group will have to agree on the pricing basis and valuation methodology as, given that SMV has yet to start its operations, it is not possible for SYI and the Group to reach any agreement on pricing or valuation at this stage.

On 6 July 2007, the Group founded Chin Zong in Taiwan, with its registered capital fully paid up. Chin Zong has been established for the primary purpose of selling the Group's products outside Vietnam.

On 13 September 2007, the Company changed its name from Gold Way Holdings Corporation to Vietnam Manufacturing and Export Processing (Holdings) Limited.

### **Production history**

In 1998, VMEP launched the Attila series of scooters in Vietnam under the SYM brand name, which became the Group's best-selling motorbike, particularly among urban female consumers.

In 2001, VMEP commenced the mass production of engines and began manufacturing motorbikes entirely in Vietnam. In that same year, VMEP launched its own brand, SANDA, in the Vietnamese market, under which it released several cub models over the years, including the popular Boss.

In 2003, VMEP introduced its top-of-the-range SYM scooter, the Excel, directed at the male consumer market in Vietnam. 2003 also marked the release of the Group's best-selling SYM cub, the Angel.

The Group now manufactures a range of scooter and cub motorbikes, as well as engines and spare parts.

### **Export operations**

In 2003, the Group began to sell its products to the Sanyang Group for on-sale to customers, primarily distributors, located outside Vietnam. Through this sales arrangement with the Sanyang Group, the Group's products have been exported to markets such as Belgium, France, Germany, Greece, Indonesia, Italy, the Philippines, Malaysia, Singapore, Spain, Switzerland and the United Kingdom.

**Legal proceedings concerning Mr. Huang Shi Hui**

Mr. Huang Shi Hui resigned as a director of VMEP in November 2007 and as a director of the Company in August 2007. He will not be a director of any member of the Group upon Listing, nor will he hold any executive position in any member of the Group.

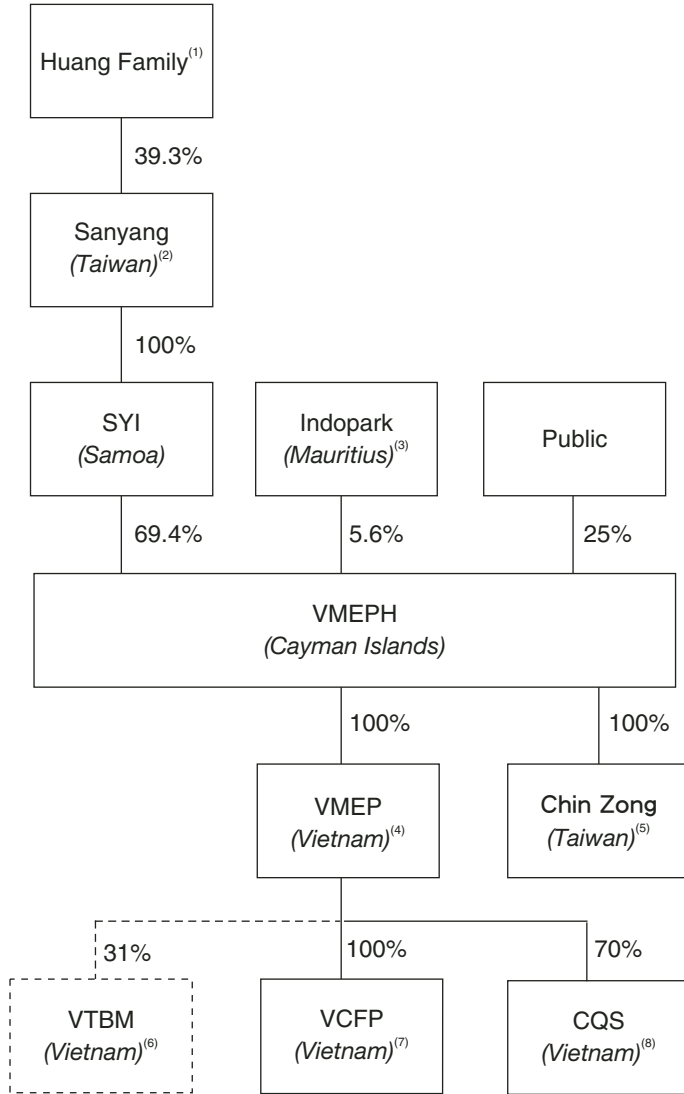
Legal proceedings were brought by the Prosecutor of Taipei District in 2000 against Mr. Huang Shi Hui in his capacity as the chairman and a director of Sanyang in relation to the acquisition of VMEP by Sanyang at a consideration which was alleged to be excessive and without the support of a proper valuation. Both the Taipei District Court and Taipei High Court have dismissed the action against Mr. Huang Shi Hui. The case is now pending a further appeal at the Taiwan High Court. As at the Latest Practicable Date, no date had yet been fixed for the appeal hearing.

The Taiwan legal advisers of the Company, Chien Yeh Law Offices, have issued a legal opinion confirming that the above legal action, irrespective of whether the judgment is given in favour of or against Mr. Huang Shi Hui in the pending appeal, will not affect any company of which he has at any time been a director or the chairman (including Sanyang) and will not affect the legality or effectiveness of the acquisition of VMEP by Sanyang or the subsequent transfer of VMEP to the Company, on the basis that a Taiwan court would not invalidate or annul the legally binding agreement which Sanyang had entered into in connection with the acquisition or the due authorisation by the board of Sanyang to proceed with the acquisition or the transfer. Chien Yeh Law Offices have thus confirmed that the shareholding structure of the Group, and in particular, the shareholding in VMEP, would not be affected by the above legal proceedings. Based on the advice from Chien Yeh Law Offices, the Directors are of the view that the legal action will not affect the Group by virtue of Mr. Huang Shi Hui's former position as director or chairman of VMEP and that, because the action will not affect the legality or effectiveness of the acquisition of VMEP by Sanyang or the subsequent transfer of VMEP to the Company or divestment of VMEP as the principal operating subsidiary of the Company, there will be no risk of it resulting in a change in the ultimate controlling shareholder of the Company. Furthermore, the Directors do not believe the legal proceedings will result in any material impact on the Group's reputation, operations or business.

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## SHAREHOLDING AND CORPORATE STRUCTURE

The following diagram illustrates the shareholding and corporate structure of the Company, its subsidiaries and an associated company immediately following completion of the Global Offering, assuming there is no exercise of the Over-allotment Option:



——— subsidiaries  
 - - - - - associated company

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- (1) The Huang Family's shareholding interests in Sanyang amounted to approximately 39.3% as at 30 September 2007.
- (2) The shares of Sanyang are listed on the Taiwan Stock Exchange. Mr. Chang Kwang Hsiung, Mr. Chen Pang Hsiung, Mr. Lee Hsi Chun, Mr. Huang Kwang Wu and Mr. Liu Wu Hsiung Harrison (being current Directors) and Mr. Huang Shi Hui and Mr. Chiang Chin Yung (being former Directors who resigned within the preceding 12 months), each of whom is a connected person of the Company, held approximately 0.0006%, 0.0074%, 0.0002%, 0.0283%, 0.0140%, 2.3086% and 0.0222% of the issued share capital of Sanyang, respectively, as at 30 September 2007.
- (3) Indopark is the vehicle through which Merrill Lynch acquired a 10% shareholding in the Company from SYI in May 2006. The shares held by Indopark in the Company will form part of the public float of the Company after the completion of the Listing.
- (4) VMEP is a wholly foreign-invested enterprise established in Vietnam on 25 March 1992 and is principally engaged in the manufacture and sale of motorbikes and related parts.
- (5) Chin Zong was incorporated in Taiwan on 6 July 2007 and is principally engaged in the sale of the Group's products in markets outside Vietnam but within the Exclusive Territory and the sale of motorbikes and related parts produced by the Sanyang Group outside Vietnam but within the Exclusive Territory pursuant to the VMEP Holdings Distributorship Agreement.
- (6) VMEP acquired a 31% equity interest in VTBM in April 2003. VTBM is principally engaged in the manufacture of motorbike parts, including fuel tanks, frames, rear shafts, moulds, jigs and starters. VTBM is 31% owned by VMEP and 69% owned by Three Brothers. Three Brothers is 50% owned by the Chen Family and the Chen Family Companies collectively and 50% owned by Chinda. The Chen Family Companies are ultimately controlled by the Chen Family, whose members are Independent Third Parties. Save for their shareholding in Three Brothers, neither the Chen Family nor the Chen Family Companies have any other shareholding or business relationship directly with any member of the Group. Chinda is a non-wholly-owned subsidiary of Sanyang, in which Sanyang has an 88.16% shareholding.
- (7) VCFP was established in Vietnam on 12 April 2002 and is principally engaged in the manufacture of motorbike engine parts.
- (8) CQS was established in Vietnam on 14 June 2002 and is principally engaged in the manufacture of die casting machines and forging moulds. CQS is 70% owned by VMEP and 30% owned by C.Q.S. May's. C.Q.S. May's is principally engaged in the manufacture of motor cars and, as at the Latest Practicable Date, was 83.2% owned by Mrs. Chang Hsiu Mei, 10% owned by Mr. Lawrence Dale Thompson and 6.8% owned by Mr. Tai Sheng Yu, all of whom are Independent Third Parties. In 2002, VMEP and C.Q.S. May's both required moulds for their respective production operations and CQS was established as a joint venture between them with the intention of supplying moulds to both companies. However, CQS currently supplies moulds only to VMEP. C.Q.S. May's does not have any active role in the management of CQS. Save for C.Q.S. May's 30% shareholding in CQS, neither C.Q.S. May's nor its shareholders have any other shareholding in, or any business relationship directly with, any member of the Group.

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## PRODUCTS

### Scooters and Cubs

The Group's principal products are motorbikes manufactured primarily for the domestic Vietnamese market. In addition, the Group manufactures parts, engines and moulds used in the motorbike production process.

The Group's motorbikes can be separated into two main classes: scooters and cubs. The principal models manufactured by the Group are:

Brand and type*	Model name	Engine capacity (c.c.)	Commercial launch	Suggested	Targeted market	
				retail price (VND in millions as at the Latest Practicable Date)	Targeted income range	Targeted consumers
SYM Scooter	Attila Victoria	125	January 2005	27.9–29.9	middle to high income	females, 18–25
SYM Scooter	Attila Elizabeth	125	August 2007	28.9–30.9	middle to high income	females, 25–45
SYM Scooter	Excel II	150	October 2005	42.0	middle to high income	males, 30–40
SYM Cub	Angel II	100	September 2005	11.6	middle income	–
SYM Cub	EZ 110	110	Expected December 2007	–	middle income	–
SYM Cub	New Moto Star	110	October 2006	14.3	middle income	–
SYM Cub	Elegant	100	June 2007	10.4	middle income	students and first-time purchasers
SANDA Cub	Boss	100	November 2006	7.9	low income	–
SANDA Cub	RS II	100	North: Nov. 2006 South: Jan. 2007	8.5	low income	–
SANDA Cub	Galaxy	110	November 2007	9.5	low income	–

\* Over the Track Record Period, the Group launched, in aggregate, more than 40 models of motorbikes. The Group regularly carries out product refinements to existing models. Usually, a new model or a new generation of an existing model (which is also treated as a new model, e.g., the Angel II as opposed to the Angel) is introduced after the refinements.

The variety of distinct brand names and models is key to the Group's market segmentation strategy, whereby particular motorbikes or classes of motorbikes are targeted at discrete classes of consumers.

## *The SYM range*

### *Scooters*

#### Attila Victoria and Attila Elizabeth



The original Attila was introduced to the Vietnamese market in 1998 and marketed as a medium- to high-end product with broad urban appeal, particularly for style-conscious females. In 2001, the Attila became the first scooter manufactured entirely in Vietnam by a foreign-owned company and enjoyed considerable success among female consumers. To capitalise on consumer loyalty to the Attila, the Group preserved the Attila name when it introduced the scooter's successor, the Attila Victoria, in 2005. In 2007, to more specifically target a subset of the Attila's market, namely more mature female consumers, the Attila Elizabeth, an aesthetically distinct variant of the Attila, was released and marketed to the 25-to-45 age group.

#### Excel II



The Excel II was released to the domestic Vietnamese market in 2005 and followed its predecessor, the Excel. The Excel II is marketed in Vietnam as a stylish, well-designed, well-built product for urban male consumers.

### *Cubs*

#### Angel II



The Angel series of cubs was introduced in 2003 and exported to other countries in Southeast Asia beginning in the same year. The Angel II, which is more fuel efficient than the original Angel, made its debut in September 2005 and is marketed as an inexpensive leisure and goods motorbike for middle-income consumers in large cities and small towns. Over the Track Record Period, the Angel series of cubs was, taken together, the most successful of the Group's cubs by sales volume.

### EZ110



The EZ110 cub will be added to the Group's product line-up by the end of 2007. The EZ110 is designed with an emphasis on style and will be marketed as a fashionable passenger motorbike for people of mid-range income in large cities and small towns.

### New Moto Star



The New Moto Star was introduced to the domestic Vietnamese market in 2006 as a successor to the Star, which was first sold in 2000, and is marketed as a reliable passenger motorbike for middle-income individuals. In comparison with its predecessor, as well as the Angel II and the EZ110, the New Moto Star incorporates a more advanced engine that has advantages in terms of transmission function, noise levels and durability. The Group's marketing of the New Moto Star seeks to emphasise the leisure appeal of this model.

### Elegant



The Elegant made its debut in June 2007 and is marketed to young consumers as a trendy, quality product. As the lowest priced SYM model, the Elegant is targeted primarily at students and first-time purchasers of cubs.

### **The SANDA range**

#### *Cubs*

#### Boss, RSII, Galaxy



The Boss and RSII were introduced to the Vietnamese market in 2001 and 2006, respectively, while the Galaxy was released in November 2007. All are practical, functional machines, marketed as mainstream, traditional motorbikes for lower-income consumers outside urban areas. The Boss is the lowest priced cub offered by the Group and is the best selling model among the SANDA motorbikes. The RSII has a higher specification than the Boss, and the Galaxy has a more powerful engine and more amenities, such as a helmet storage compartment. Each of these cub models is aesthetically distinctive in a way that the Directors believe will appeal to diverse consumers.

# BUSINESS

## Parts

The Group manufactures motorbike parts for use in repair, servicing and product assembly. Sales of parts to third parties accounted for approximately 4.5%, 7.6%, 8.2% and 8.2% of the Group's total revenue for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively. The majority of the parts sold to third parties are sold domestically to authorised SYM stores, stand alone SYM-branded service and repair centres and retail parts outlets. For details of the Group's sales arrangements, please refer to "— Sales and Marketing — Sales Channels — Domestic sales", below. Of the sales to third parties, some parts are sold to Sanyang. For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, approximately 26.6%, 28.6%, 26.5% and 34.0%, respectively, of the Group's external sales of parts were made to other motorbike manufacturers, including approximately 7.2%, 9.3%, 10.8% and 12.0% that were sold to the Sanyang Group and Teamworld. The parts manufactured by the Group can be classified into common parts, which are standardised across most models of the Group's motorbikes, and specialised parts, the design of which is tailored to specific models.

To further the Group's goal of providing market-leading after-sales service, all of the SYM-branded service and repair centres are encouraged to use only the Group's products to repair and service the Group's motorbikes. One incentive to use the Group's parts is that the Group's standard dealer agreement places liability on dealers, and the standard service and repair centre agreement places liability on service providers, for accidents caused by any third-party parts they use.

## Engines

Most of the Group's engines are manufactured for use in the Group's scooters and cubs, but the Group also exports engines to third parties. During the Track Record Period, the Group manufactured the VN7, a 100cc engine compatible with manual transmission motorbikes, which was specially designed for the Group's overseas markets and exported predominantly to Malaysia. In September 2007, the Group introduced an upgraded engine, the A0 series, and stopped producing the VN7. The A0 series has been designed to use less expensive raw materials and parts and to incorporate parts from the Group's lower-cost suppliers. With its lower cost structure, the Directors expect the A0 series to enhance the profitability of the Group's business of manufacturing and selling engines.

Sales of engines to third parties accounted for approximately 1.2%, 5.6%, 2.9% and 0.9% of the Group's total revenue for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively.

## Moulds

Through its subsidiary CQS, the Group manufactures and maintains moulds used for making metal parts, for example, by die casting or pressing. The majority of the Group's moulds are specially made for internal use, producing parts for the Group's products. However, the Group also manufactures a small number of moulds for external sale to its domestic suppliers and to domestic manufacturers unrelated to the production of parts for the Group's products. As after-sales servicing is essential to maintain the precision of moulds, the Group's technicians make regular site visits to service both its own moulds and those sold to third parties.



## BUSINESS

### Awards and Recognition

The Directors are committed to developing a good corporate image and reputation for the Group, which they hope will attract and secure more customers and enhance recognition of the Group's brand names. In this regard, VMEP has received a number of awards and honours, including the following:

Date	Title of award or honor	Granted by
April 2000	Vietnamese High Quality Product <sup>(1)</sup>	Saigon Marketing News <sup>(2)</sup>
April 2001	Vietnamese High Quality Product	Saigon Marketing News
2001	Golden Dragon Prize for the Best Servicing Style <sup>(3)</sup>	Vietnam Economic Times <sup>(4)</sup>
2001	Golden Globe Award <sup>(5)</sup>	Vietnam Union of Science and Technology Association through the Centre for Support and Talent Development <sup>(6)</sup>
April 2002	Vietnamese High Quality Product	Saigon Marketing News
February 2004	Top-40 FDI Award <sup>(7)</sup>	Saigon Times <sup>(8)</sup>
January 2006	Golden Dragon Prize for the Best Business Style in 2005	Vietnam Economic Times
June 2006	The Outstanding Brand (Industry Sector) Award in Vietnam <sup>(9)</sup>	Ministry of Industry and Trade <sup>(10)</sup>
February 2007	Golden Dragon Award for Excellent Export Performance in 2006 <sup>(11)</sup>	Vietnam Economic Times

- (1) This award was granted on the basis of market surveys of adult consumers in some of the central and southern regions of Vietnam.
- (2) Saigon Marketing News is a state-owned Vietnamese magazine publishing information mainly related to promoting trade in Vietnam.
- (3) Golden Dragon Prize is an award granted to foreign-invested enterprises with strong growth in revenue. Other criteria include reader polls and a consumer trust index.
- (4) Vietnam Economic Times is an online and hard copy newspaper published in both Vietnamese and English. Vietnam Economic Times publishes information reflecting foreign and local enterprise activities in Vietnam and analyses various sectors, including finance, securities and human resources.
- (5) The Golden Globe Award was granted based on the business entity's (i) economic effectiveness and social contribution, (ii) quality and design of its products and (iii) measures for environmental protection in place.
- (6) Vietnam Union of Science and Technology Association ("**VUSTA**") is a governmental authority that was established in 1983 by the government of the Socialist Republic of Vietnam with a focus on protecting rights and interests of Vietnamese scientific and technological member associations and acting as a liaison between member associations and various organs of the government.

The Centre for Support and Talent Development is an organisation under VUSTA established in 1996. Its main functions include supporting and organising exhibitions, fairs, events and awards within the trade and commercial sectors. In addition, it also supports the development of talent within the information technology sector.

## BUSINESS

- (7) Only foreign-invested enterprises are eligible for this award. In addition to the main award criterion selected annually, the criteria applicable each year include social contribution and efforts towards environmental protection. In 2004, the main criterion for this award was effective operation.
- (8) Saigon Times is an English-language newspaper focusing on business activities in various sectors in Vietnam.
- (9) This award is granted on the basis of the following criteria: enjoying a prestigious brand name nationwide for consecutive years, showing community interest and involvement in social activities, and continuous expansion and development of business operations.
- (10) The Ministry of Industry and Trade is a government agency in charge of the management and organisation of various industrial sectors in Vietnam.
- (11) Similar to the Golden Dragon Prize, the Golden Dragon Award is granted to foreign-invested enterprises with strong growth in revenue. Other criteria include polls and a consumer trust index.

## PRODUCTION

The Group has production facilities in both the south and the north of Vietnam. The following table sets out the key details relating to each production facility as at 30 June 2007:

Location of production facility	Site area ( <i>m</i> <sup>2</sup> )	Licence date	No. of employees on production line	Products
Dong Nai Province (Bien Hoa City)	54,390	1992	544	Scooters and cubs
Ha Tay Province (Van Khe Ha Dong)	44,015	1993	233	Scooters and cubs
Dong Nai Province (Trang Bom) (VCFP)	12,638	2002	170	Parts
Dong Nai Province (Trang Bom) (CQS)	4,483	2002	47	Moulds
Dong Nai Province (Trang Bom)	28,784	2003	206	Engine parts
Dong Nai Province (Trang Bom)	4,000	2004	41	Engine parts
Total	<u>148,310</u>		<u>1,241</u>	

During the six-month period ended 30 June 2007, the Group produced an average of 13,427 motorbikes per month in Dong Nai Province in the South (approximately 68.2% of which were scooters) and 5,679 motorbikes per month in Ha Tay Province in the North (largely composed of cubs).

## BUSINESS

The following table summarises the production volume of the Group's motorbike production facilities, together with the theoretical production capacity of the facilities and their approximate utilisation rate for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007:

	Year ended 31 December			Six months ended 30 June
	2004	2005	2006	2007
Actual production volume (A)				
<i>(motorbikes)</i> <sup>(1)</sup>	268,720	175,588	163,693	114,638
Dong Nai Factory	193,117	111,861	116,474	80,564
Ha Tay Factory	75,603	63,727	47,219	34,074
Theoretical production capacity (B)				
<i>(motorbikes)</i> <sup>(2)</sup>	338,992	312,603	312,625	157,470
Dong Nai Factory	210,953	192,394	188,270	94,832
Ha Tay Factory	128,039	120,209	124,354	62,638
Utilisation rate (A/B) <sup>(3)</sup>	79.3%	56.2%	52.4%	72.8%
Dong Nai Factory	91.5%	58.1%	61.9%	85.0%
Ha Tay Factory	59.0%	53.0%	38.0%	54.4%

<sup>(1)</sup> The average time required for the assembly of a motorbike at the Dong Nai factory and Ha Tay factory is approximately 20 minutes and 13.5 minutes, respectively.

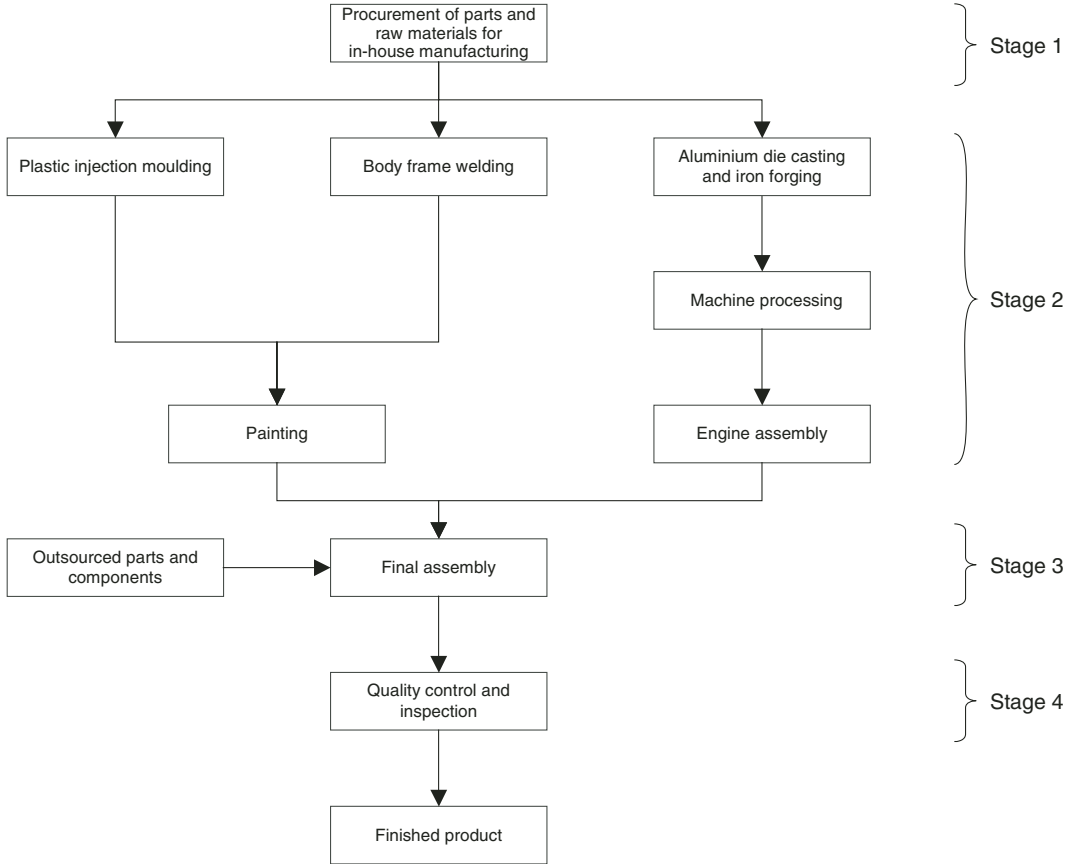
<sup>(2)</sup> Each of the motorbike production lines of the Group can be adjusted to manufacture either scooters or cubs. The theoretical production capacity of the Group's production facilities for the Track Record Period is calculated by aggregating the maximum output per day of the bottleneck process for each of the motorbike production lines based on a number of assumptions, including two shifts per day, the product type being produced and the actual number of working days without overtime for each of 2004, 2005 and 2006 and for the six-month period ended 30 June 2007. The theoretical production capacity varied over the Track Record Period as the actual product type produced and the actual numbers of working days without overtime varied over this period. To ease the bottleneck, the Group is in the process of building a new painting line at the Dong Nai Factory, which is expected to be operational by the end of 2007.

<sup>(3)</sup> The fluctuations in utilisation rate throughout the Track Record Period were due to changes in theoretical production capacity and in the actual production volume of motorbikes. The latter was primarily driven by the sales plan or actual sales of the Group for the corresponding period.

# BUSINESS

## Production Process

The flowchart below illustrates the principal stages of the Group's motorbike production process:



The production processes are largely the same for all the models of cubs and scooters manufactured by the Group. As illustrated by the flowchart above, the production of motorbikes generally involves the following four key stages:

1. *Procurement of parts and raw materials*

Principal parts and raw materials include aluminium ingots, plastic resin pellets, paint, and semi-processed metal parts, some with electroplating.
2. *Manufacturing of components*

Raw materials and parts are processed to form specific components. Key processes at this stage include injection moulding, die casting and forging, machine processing, welding, painting, and the assembly of engines.
3. *Final assembly*

Components, including those sourced from third parties such as lighting systems and shock absorbers, are assembled on flow-shop production lines to form finished scooters and cubs.
4. *Quality control and inspection*

All scooters and cubs are tested for compliance with the Group's internal standards, taking into account applicable governmental rules and regulations, such as safety requirements and emissions controls.

## **BUSINESS**

Some steps within these four stages of the production process are outsourced either occasionally or routinely, provided that the management is confident the outsourced services will meet the quality standards prescribed by the Group. Electroplating of parts is typically outsourced as part of Stage 1, whereas die casting and machine processing for engine manufacture, and pressing and welding for body frame construction, generally are carried out by the Company's subsidiaries or VTBM as part of Stage 2 and are only outsourced occasionally. Painting is carried out in-house because consistency of colour and appearance are essential to the consumer appeal of the finished motorbikes. In selecting providers to which to outsource portions of the production process, the Group focuses on the quality of the suppliers' services, the cost (including the level of import duty of the finished components, where applicable) and the suppliers' ability to deliver the finished components on time. For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, the outsourcing expenses incurred by the Group were approximately US\$1,219, US\$1.2 million, US\$2.9 million and US\$2.6 million, respectively.

To help ensure consistently high quality standards for the motorbikes produced by the Group, all finished products, including engines and parts, are subject to quality testing before delivery. See “— Quality Control”, below.

### **Inventory Control**

The Group has a dedicated department monitoring sales and stock movements at each of its production facilities. VMEP, in addition, has an enterprise resource planning (ERP) system, which effectively monitors its total stock. The managers at both of the Group's motorbike factories are required to report to the Group's general manager on a monthly basis with information on sales and stock levels. The Group aims to adjust stock levels rapidly in response to significant discrepancies between forecast and actual sales volumes. The Group aims to maintain a reasonable, but not excessive, amount of stock to sustain uninterrupted production based on its rolling forecast of sales.

Because of the variety of parts and raw materials required by motorbike manufacturing, the Group maintains a wide range of inventory levels of parts and raw materials. Inventory levels of particular parts depend on the supply lead time for such parts; if a certain part has a long lead time, the Group will keep more of that part in stock to reduce the chances of a shortage causing production delays. In general, the Group tends to increase inventory levels in the period prior to high season. The Group's average inventory turnover in 2006 was approximately 96 days. See “Financial information — Liquidity and Capital Resources — Inventories” for further details relating to the Group's inventory turnover days.

### **QUALITY CONTROL**

The Group has implemented a sophisticated quality control system that strives to ensure that its products and manufacturing practices are consistent with international standards. The Group has received several awards in recognition of the quality of its products, and VMEP has been certified to ISO quality management standards.

## **BUSINESS**

The Group's quality control standards are formulated by the research and development department in conjunction with the engineering department. The quality control department formulates the procedures to achieve these standards and is responsible for ensuring that the relevant employees at each stage of the production process carry out their portion of the quality-control procedures. These procedures are disseminated to the quality-control personnel within the Group through training and detailed operations manuals, which are periodically revised and updated to take account of any special requirements related to any given product. As at the Latest Practicable Date, the Group had 58 full-time employees in the quality control department, each with an average of six years of experience in the quality control area. Among these employees, 13 held university-level degrees or above.

VMEP's ISO 9001:2000 Quality Management Certificate is valid until September 2009. The Group has established and implemented a quality assurance management system which conforms to ISO requirements, and the Group's quality control staff performs annual checks on all production lines and facilities to ensure on-going compliance with these requirements, including reviewing quality control systems and policies and inspecting inventory control and delivery procedures. The Group is, in addition, in the process of applying for the ISO 14001 Environmental Management Certificate.

The Group's quality control procedures are applied throughout its operations in all stages of production, from the sourcing of raw materials and parts through each step of the manufacturing process to the delivery of products to dealers. The Group's quality control procedures at the three principal stages of production comprise the following:

### **Sourcing Stage**

The Group regularly monitors the quality of the parts and raw materials sourced from its suppliers to ensure that they meet the quality standards specified by the Group. Most deliveries of raw materials and parts are inspected on a random sampling basis before acceptance, although some deliveries are not regularly inspected if they originate from long-term trusted suppliers or contain only electrical items or parts with broad manufacturing tolerances. For some safety-critical parts or in some cases where the Group has particular concerns regarding a supplier's quality control, all of the parts in each delivery are inspected prior to formal acceptance. The quality control procedures for parts sourced from or through Sanyang and members of the Sanyang Group are the same as for other third-party suppliers. Defective raw materials and parts supplied to any Group company are subject to return or repair in accordance with the terms of the relevant purchase agreements.

### **Manufacturing Stage**

On-site quality inspections are carried out during, and upon completion of, each stage of the manufacturing process. At a specific point in each stage of the manufacturing process, one or more designated employees carry out inspections with reference to checklists tailored to the relevant part at that particular stage of the process. Parts are reprocessed, to the extent possible, if they fail to meet the standards of the Group. The frequency of these inspections helps to reduce the time and resources spent by each Group company in dealing with production flaws and defective products later in the production process.

## **Finished Products**

Further inspections, including engine performance tests, are carried out by members of the quality control department, in accordance with the Group's specifications, on every finished motorbike prior to delivery to customers. These specifications take into account applicable governmental rules and regulations, such as safety requirements and emissions controls.

In 2004 and early 2005, some of the Group's SYM cubs, particularly the Angel, suffered from quality defects, most notably poor electroplating and defective muffler linings. These defects were primarily the result of parts purchased from third-party suppliers not meeting the Group's specifications and the Group failing to identify the defects in its quality control process. None of the defective parts was purchased from the Sanyang Group. The Group did not conduct a product recall or offer an exchange for money or new products, but it repaired the affected motorbikes when they were presented to the Group within the warranty period. The repairs related to these problems were made under the standard warranties and were not recorded separately from the repairs related to other kinds of problems identified in the warranty period. Since these incidents, the Group has taken measures to strengthen its quality control systems, specifically the more rigorous implementation of its quality control procedures and the involvement of its procurement staff in the process of selecting certain subcontractors engaged by the Group's suppliers, particularly those carrying out electroplating. The criteria used in selecting subcontractors emphasise factors such as the quality of the subcontractors' services and their production flow management. The Group has not taken any disciplinary action against management in relation to the quality defects problems. Since 2006, the Group has not experienced any significant series of complaints alleging quality defects.

## **SOURCING OF PARTS AND RAW MATERIALS**

A reliable supply of quality parts and raw materials at a reasonable price is essential to the success of the Group's operations. On several occasions, the Group has experienced delays in production as a consequence of disruption in the supply of parts and raw materials and has taken measures to avoid recurrences, such as keeping sufficient levels of stock on hand, selecting more reliable suppliers, and diversifying its supplier base in particular cases. The Group has not experienced any material fluctuation in the cost of raw materials during the Track Record Period. The Directors believe that appropriate quality procedures have been implemented to ensure that the quality of the parts and raw materials sourced from its suppliers and incorporated into its products meet the standards specified by the Group.

For the six-month period ended 30 June 2007, parts and raw materials together accounted for approximately 90.8% of the Group's cost of sales.

### **Parts and Raw Materials**

#### ***Parts***

Parts are sourced both locally and from overseas suppliers and are assembled in the Group's production facilities to form engine, frame and body sub-assemblies, and electrical systems. Parts purchased from or through the Sanyang Group constituted approximately 32.4%, 32.4%, 26.5% and 20.4% of the Group's total purchases in the years ended 31 December 2004, 2005, and 2006 and the six-month period ended 30 June 2007, respectively. Where parts are sourced from third-party suppliers through Sanyang, the Group sometimes benefits from the better terms negotiated by Sanyang. See "— Suppliers", below.

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### **Raw Materials**

The Group sources its raw materials both locally and from overseas suppliers. During the Track Record Period, the key raw materials used by the Group were aluminium ingots, plastic resin pellets and paint. Because paint purchased from foreign suppliers and foreign-invested suppliers in Vietnam is generally of a higher quality than paint from locally-owned suppliers, the Group currently sources all of its paint from two foreign-invested companies in Vietnam. Aluminium ingots and plastic resin pellets are sourced from overseas.

### **Suppliers**

The Group sources its parts from both Independent Third Parties and the Sanyang Group, and its raw materials exclusively from Independent Third Party suppliers. The Group generally chooses its suppliers based on criteria that emphasise the quality of the suppliers' products, the cost of the products (including the level of import duty, where applicable) and the suppliers' ability to deliver the products on time. A potential supplier's ability to offer a back-to-back warranty on its products matching the warranty given by the Group to consumers is an additional factor considered by the Group when selecting its suppliers. The Group has not entered into any long-term contracts with its current suppliers, who are free to sell to other motorbike manufacturers. The Group's current suppliers have had, on average, more than an eight-year commercial relationship with the Group.

On parts sourced through Sanyang, the Group sometimes benefits from the better terms negotiated by Sanyang when it consolidates its own orders with those of the Group. On purchases of parts sourced through Sanyang, Sanyang also provides, for a fee, additional services in connection with the supply of the parts, including quality testing, packaging, customs clearance and logistics. The benefits of these arrangements are taken into consideration by the Group in selecting its suppliers. Where the mould to make a particular part is owned by the Sanyang Group, this is taken into consideration in the selection process as well.

To help maintain a stable supply of essential parts, the Group has established two subsidiaries in Vietnam: VCFP, which produces forged and die-cast parts (principally for engines), and CQS, which produces moulds. The Group has also established a joint venture in Vietnam, VTBM, which produces processed metal parts, including body frames. All three of these entities sell their products to Independent Third Parties, including other motorbike manufacturers, as well as to the Group.

The Group continually seeks opportunities to source its parts and raw materials from suppliers in lower-cost countries, provided the Group's criteria relating to quality and reliability of delivery can be met by such suppliers. One result of this effort to migrate to lower-cost suppliers has been the increasing localisation of the Group's supply chain. For further details, see "— Strategies — Accelerate the Group's move to lower-cost reliable suppliers", above.

The Group normally pays for its purchases of parts by telegraphic transfer on credit terms of 45 days, counting from the end of the month in which the relevant purchase is made. Purchases of raw materials are generally paid for on 30-day credit terms. In some instances, the Group is required to place a deposit for the procurement of raw materials at the time of signing the purchase agreements. Individual purchase orders of small value are often settled by cash upon delivery and quality inspection. Local purchases are generally denominated in Vietnamese dong, and purchases from overseas are mostly denominated in U.S. dollars. For



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the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively, the Group's purchases denominated in U.S. dollars represented approximately 44.1%, 42.7%, 36.8% and 37.9%, and its purchases in Vietnamese dong represented approximately 53.0%, 53.9%, 60.5% and 59.7%, of its total purchases.

During the Track Record Period, when the Group sourced parts from Sanyang, 30- to 60-day credit terms were generally granted to the Group. The Group was not committed to purchase a specified quantity of parts from Sanyang. For further details relating to the pricing for the purchase of parts by the Group from Sanyang, see "Connected Transactions".

For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, the Group's five largest suppliers (including the supply of parts from members of the Sanyang Group) together accounted for approximately 52.9%, 53.6%, 46.2% and 39.2%, respectively, of the Group's total purchases. The supply of parts from the Sanyang Group, the Group's single largest supplier taken as a whole, accounted for approximately 32.4%, 32.4%, 26.5% and 20.4% of the total purchases of the Group for each of these periods.

As at 30 September 2007, the Directors in the aggregate held 0.0505% of Sayang's shares. None of the Directors or their associate or the Shareholders who hold more than 5% of the issued share capital of the Company had any interest in any of the other four largest suppliers of the Group during the Track Record Period.

### ***Suppliers of Parts***

The Group typically enters into short-term contracts with parts suppliers with an effective term of one year or less. To help ensure that the parts supplied to the Group are consistent in quality and are in accordance with the Group's specifications, the Group carries out regular assessments of its suppliers. The Group has also built into its supply contracts an incentive scheme to encourage suppliers to produce high quality products and to deliver the products in a timely manner. Good quality suppliers on which the Group has bestowed an A-grade ranking enjoy more favourable credit terms of 30 days, as distinguished from the standard terms of 45 days.

### ***Suppliers of Raw Materials***

During the Track Record Period, the Group purchased aluminium ingots from suppliers in both Taiwan and Thailand in order to help stabilise costs and maintain a consistent supply of these materials. The Group made these purchases using both purchase orders and supply agreements.

The Group purchases two types of plastic resin pellets predominantly from two independent suppliers in Taiwan and also uses purchase orders with these suppliers.

To better ensure consistency in the quality of its products, the Group sources its paint from a small number of suppliers, purchasing predominantly from two foreign-invested companies in Vietnam. The Group normally enters into short-term contracts with paint suppliers with an effective term of one year or less.

# BUSINESS

## SALES AND MARKETING

### Sales

For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively:

- sales of scooters accounted for approximately 41.3%, 44.6%, 63.1% and 67.1% of the Group's revenue;
- sales of cubs accounted for approximately 52.6%, 41.3%, 24.6% and 22.5% of the Group's revenue;
- sales of parts and engines accounted for approximately 6.0%, 14.0%, 12.0% and 10.2% of the Group's revenue; and
- sales and servicing of moulds accounted for approximately 0.1%, 0.1%, 0.3% and 0.2% of the Group's revenue.

For these periods, the number of scooters sold by the Group was 70,960, 55,999, 79,905 and 54,181, and the number of cubs sold was 193,915, 122,040, 85,463 and 51,787, respectively.

The Group sells its products principally in Vietnam and exports a portion overseas.

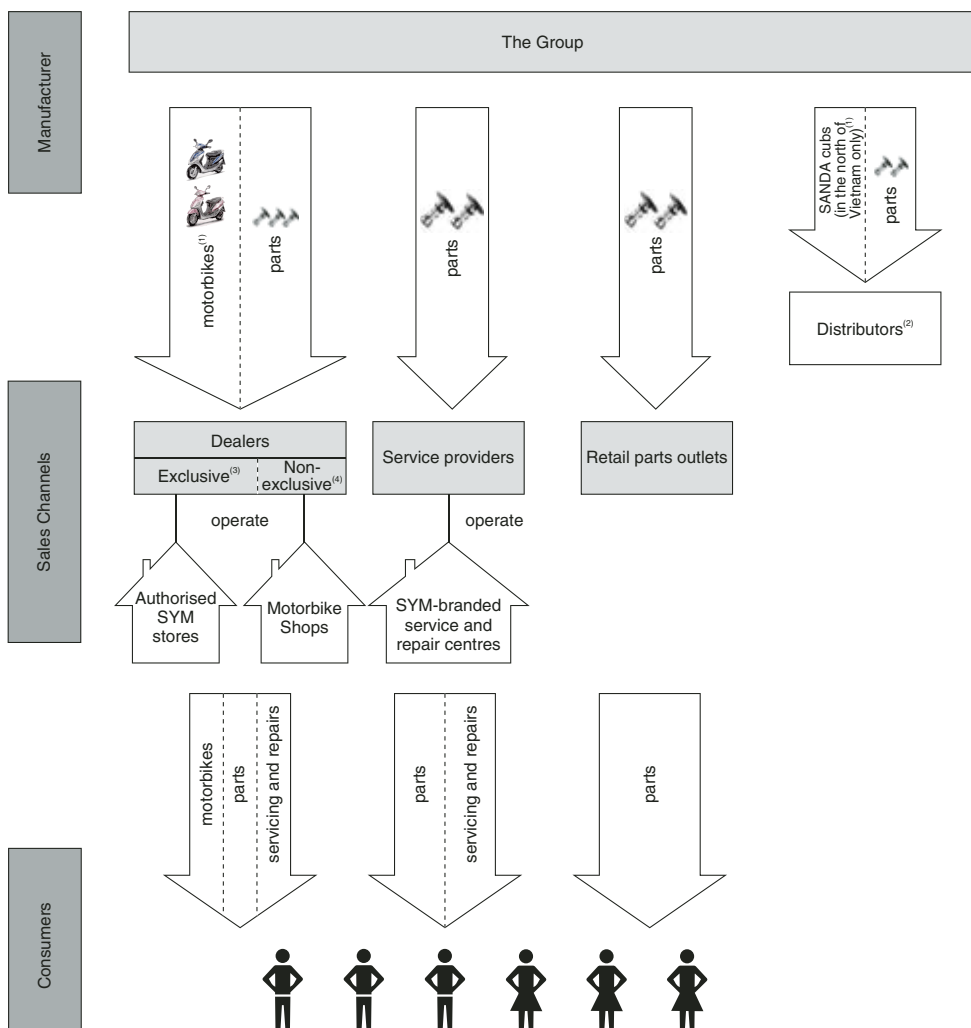
### **Sales Channels**

#### *Domestic sales*

The Group's sales network in Vietnam consists of dealers, service providers and retail parts outlets. The Group's dealers are primarily exclusive dealers, which enter into dealer agreements with the Group, but include a small number of non-exclusive dealers, which purchase motorbikes and parts from the Group using sales and purchase agreements. Exclusive dealers own one or more authorised SYM stores, which sell only SYM and SANDA motorbikes in their showrooms, service the motorbikes, and sell spare parts in connection with their repair services. The Group's service providers run SYM-branded service and repair centres that service and repair SYM and SANDA motorbikes and sell spare parts. The retail parts outlets to which the Group sells spare parts supply independent garages and individual consumers. None of the Group's current dealers, service providers and retail parts outlets is connected with the Group.

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The following chart shows the sales flow of the Group's products to end customers:



- (1) The Group sells motorbikes domestically to dealers and distributors only.
- (2) The wholesale distributor arrangement only exists in the north of Vietnam from time to time for certain models of SANDA cubs.
- (3) Each exclusive dealer enters into a dealer agreement containing an exclusivity clause. Most of the Group's dealers are exclusive dealers.
- (4) Each non-exclusive dealer enters into a sales and purchase agreement with the Group. There are less than 10 non-exclusive dealers.

Dealers, service providers and retail parts outlets in Vietnam are required to possess certificates of business registration to provide services under sales or service arrangements. Dealers and service providers are contractually required to obtain the necessary certificates for their businesses and are responsible for the regulatory compliance of their operations. To the best of the Directors' knowledge, none of the Group's dealers, service providers or retail parts outlets is in violation of the licensing requirements under Vietnamese law.

The Group had various brand management policies in place with dealers and service providers to ensure that the SYM brand conveys a consistent image. The Group encourages all exclusive dealers and service providers to maintain consistent decoration and product layout in the stores selling or servicing the Group's motorbikes. The decoration of the authorised SYM stores operated by exclusive dealers is contractually required to conform to the Group's standards in terms of signs, lighting and logos.

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Exclusive dealers and service providers are required under the Group's agreements to ensure the quality of the repair services provided to consumers. Technicians engaged by exclusive dealers and service providers to provide maintenance and repair services to consumers must attend training courses offered by the Group. When servicing the Group's motorbikes, these businesses must use the spare parts and engine oil supplied by the Group. Under an enforceable clause in their agreements with the Group, exclusive dealers and service providers are liable for any problems caused by the use of third-party parts or engine oil.

The Group requires its dealers and service providers to submit at least monthly sales, inventory or maintenance and service reports in order for the Group to monitor the sales performance of, and the services provided through, its sales network.

### Dealers

Each exclusive dealer in the Group's network has a designated sales area in which the dealer is permitted to establish authorised SYM stores. These designated sales areas, which range in size from an area within a city to an entire province, are typically determined by the Group by reference to factors such as market demand within the area and the expected size and sales volume of a dealer's authorised SYM stores. The Directors believe that the "zonal" business model it runs, where dealers are not permitted to operate authorised SYM stores in close proximity to each other, helps to stabilise the retail sales prices of the Group's motorbikes and gives each dealer a better chance to make a profit. None of the authorised SYM stores is owned by the Group.

The Group typically enters into annual dealer agreements, which generally impose exclusivity upon each authorised SYM store operated by a dealer, although the Group may exercise its discretion and decline to enforce this provision taking into consideration factors such as a dealer's performance. The Group's dealer agreements do not prohibit dealers from operating non-SYM-branded stores selling other manufacturers' products. In selecting dealers, the Group considers factors such as the size, location and selling capability of the potential dealer. The Group places great emphasis on establishing long-term relationships with its dealers and has had, on average, an approximately 8-year commercial relationship with its top twenty dealers (sales to which accounted for approximately 45.8% of the Group's revenue for the six-month period ended 30 June 2007). As one means of cultivating such relationships, the Group has hosted a dealers' conference each year during the Track Record Period to discuss the Group's products and distribution strategies, to present prizes to the Group's top dealers, to encourage a spirit of collective enterprise and to communicate with dealers regarding their particular needs.

The Group's dealers purchase motorbikes and parts directly from the Group and on-sell the products to consumers as well as local sales points. Motorbikes and parts are purchased by dealers at a fixed price for onward sale to consumers and motorbike shops. The sales price to dealers will take into consideration general market conditions, as well as competitors' products and prices. The Group's payment terms require that all payments by dealers be made up-front prior to the delivery of motorbikes or parts. The retail price at which motorbikes and parts should be sold to consumers is set by the Group, taking into account factors such as market supply and demand, competitors' prices and product positioning. Dealers have discretion to adjust the recommended prices of motorbikes in light of local market considerations. In contrast with the price of motorbikes, dealers do not have any discretion regarding the price at which they may sell parts to consumers. The Group is entitled to reduce the discounts offered to a dealer or terminate the agreement with the dealer after issuing a warning if the dealer sells parts at a different price. The Group's dealer agreements contain no provisions in relation to product liability or product returns.

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The Group suggests that each dealer maintain a sufficient inventory of finished motorbikes to meet its monthly sales demand. Excess inventory is generally the responsibility of the dealer, but, for relationship reasons, the Group will sometimes assist a dealer by funding a promotion.

The Group sets sales targets for dealers to meet. Under the Group's standard dealer agreement, if a dealer fails for three consecutive months to achieve the target for its stores within a particular sales area, the Group is entitled to change dealers for that area. Bonuses are offered to all exclusive dealers in relation to the number of products sold by them in a given period based on a bonus policy issued by the Group every year. Depending on their financial conditions, locations of their stores and their selling potential, the Group occasionally provides funding to exclusive dealers to subsidise certain selling-related activities, such as shop renovation or product promotion. The Group is entitled to terminate dealer agreements upon any material breach by dealers. If a dealership terminates within two years, the Group is entitled to compensation for damages and losses relating to the advertising materials and decoration subsidised by the Group, up to the original cost. The expenses incurred for the subsidies and bonuses provided to dealers, service providers and retail parts outlets as part of the Group's distribution expenses were US\$0.9 million, US\$0.7 million, US\$1.3 million and US\$1.5 million for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively.

The group has a small number of non-exclusive dealers, currently numbering less than 10, who do not sign exclusive dealer agreements with the Group. Instead, these dealers purchase their motorbikes using sales and purchase agreements. These agreements differ from the standard dealer agreement in that the non-exclusive dealers are not required to implement the decoration and product layout suggestions of the Group and are not entitled to financial support for advertising and decoration. In addition, these dealers are not obliged to provide warranty services for the Group's motorbikes.

In the north of Vietnam, the Group sometimes sells certain SANDA cub models through a dealer acting as a sole distributor when the management team believes that this will enhance the sales of these models. Such a distributor will sometimes play a role in designing the models in question by advising on consumer tastes and collaborating with the Group on sourcing suitable parts. No intellectual property rights related to the design of motorbikes vests in any such distributor.

### Service providers

The Group normally enters into a standard service and repair centre agreement with service providers with a two-year term. Pursuant to this agreement, each SYM-branded service and repair centre is authorised to service and repair the Group's motorbikes and sell parts supplied by the Group. Parts are sold to service providers at fixed prices representing a discount to the retail prices set by the Group. Under the agreement, the Group must deliver parts ordered by the service providers within three days after confirming that full payment has been made. The Group is entitled to reduce the discounts offered to a service provider or terminate the agreement with the service provider after issuing a warning if the service provider sells the Group's parts at a price different from the one set by the Group. The Group is obliged to notify service providers in writing from time to time of the discounts that it is offering its service providers. The standard service and repair centre agreements contain no provisions in relation to product liability or product returns.

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Each service provider is obliged to repair or service the Group's motorbikes for free on the warranty terms offered by the Group. If services are provided on the Group's motorbikes under the warranty, a service provider is entitled to reimbursement for the costs of parts and engine oil used in the service and for its labour costs by reference to the time spent on the servicing. A service provider's claim, like that of a dealer, will be made using a form identifying the motorbike by serial number and, to assist the Group in verifying the legitimacy of the claim, will be accompanied by all parts that were replaced. The agreement requires each service provider to employ at least four technicians who have obtained an SYM training certificate from the Group, and it places liability on the service providers for any problems caused by any inappropriate services provided by them. The agreement does not prohibit the service and repair centres from servicing and repairing other brands of motorbikes; however, the Directors believe that the chances of an SYM-branded service and repair centre doing so are low, given that each manufacturer maintains its own service and repair centre network and an unauthorised service and repair centre is unable to obtain discounts for the parts required for such servicing. In addition, the consumers who own other brands of motorbikes are unlikely to visit SYM-branded repair centres for servicing or repairs, as they would lose the benefit of the warranty to which they are entitled when using the stores associated with their brand. The Group is entitled to terminate the service and repair centre agreements upon material breach by the service providers.

### Retail parts outlets

Generally, retail parts outlets purchase parts from the Group under one-year parts supply contracts, which authorise retail parts outlets to sell the Group's parts at the retail price set by the Group from time to time. Parts are sold to retail parts outlets at fixed prices representing a discount to the retail prices set by the Group. Retail parts outlets must pay for the parts in cash in advance of delivery, and the Group must deliver the parts to the locations designated by the retail parts outlets promptly upon confirmation of payment. The Group has sole discretion in deciding discounts or bonuses offered to retail parts outlets. The annual parts supply contracts do not oblige the retail parts outlets to make a minimum level of purchases. The standard agreements contain no provisions in relation to product liability, the return policy or the termination events.

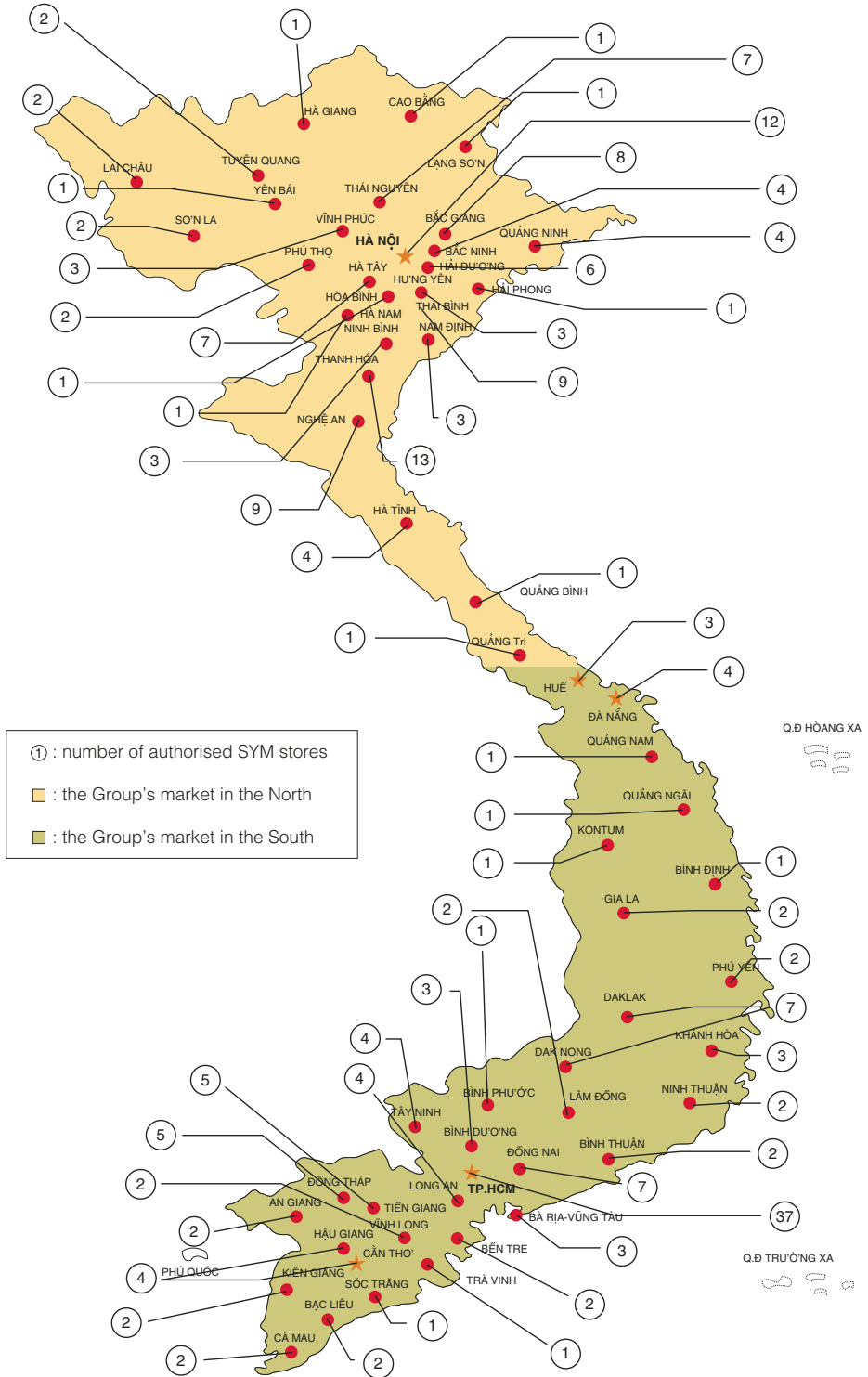
### Domestic network

On the dates below, the Group had approximately the following number of exclusive dealers, authorised SYM stores, non-exclusive dealers, service providers and retail parts outlets:

Sales channel	At 31 December			At 30 June
	2004	2005	2006	2007
Exclusive dealers	171	163	165	152
Authorised SYM stores	195	200	203	215
Non-exclusive dealers	3	6	8	7
Service providers	208	180	228	264
Retail parts outlets	30	32	36	31

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As at the Latest Practicable Date, the Group's sales network consisted of 230 authorised SYM stores owned by 159 exclusive dealers (with 83 of the stores in the North and 76 in the South). The following map illustrates the geographical spread of the Group's authorised SYM stores throughout Vietnam.



As at the Latest Practicable Date, the Group had contractual arrangements with 262 service providers and 31 retail parts outlets.

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### *Overseas sales*

For the six-month period ended 30 June 2007, the Group exported about 9.2% of its products as measured by value, principally to Malaysia and the Philippines. The Group in the past has also sold a small number of motorbikes in Indonesia, Singapore and Europe. During the Track Record Period, the Group's products were marketed and sold overseas through Sanyang's international distribution network, with Sanyang purchasing the products as principal and marking them up on resale overseas.

The Group has recently established its own ASEAN distribution network and, following the Listing, will market and sell its products in the ASEAN region through Chin Zong, a recently established wholly-owned subsidiary of the Group, rather than through Sanyang. Three of the five employees who were previously employed by Sanyang on its ASEAN sales and marketing team have joined the Company.

During the Track Record Period, customers outside Vietnam in the ASEAN region purchased the Group's products through Sanyang under sales agreements or purchase orders. With those customers which will continue purchasing the Group's products using sales agreements, Chin Zong has entered into new agreements to replace their existing sales agreements with Sanyang. The new agreements are on substantially identical terms as those in the previous agreements with Sanyang. These terms include: generally a one- to three-year term; a requirement that a customer only sell the Group's products within a designated country; payment for the products by cash or irrevocable letter of credit in advance of shipment; an obligation on the part of customers to use their best endeavours, without any subsidy provided by the Group, to promote SYM products in their respective country at all times during the term of the agreements and to be fully responsible for servicing the Group's motorbikes during the warranty period; and a right on the part of the Group to terminate the agreement if the customer fails to meet the sales target set by the Group from time to time. There has not been any transfer of assets, liabilities, rights or obligations between any member of the Group and any member of the Sanyang Group involved in this arrangement. For details of Chin Zong's role in selling Sanyang's products in the Exclusive Territory, see "— International Trading" below.

Following the Listing the Trade Marks Licence Agreement will entitle the Group to sell SYM products only in the ASEAN region. Outside the ASEAN region, the only sales of SYM products that the Group will be entitled to make will be sales of motorbike parts to Sanyang pursuant to the VMEP Holdings Parts Sales Agreement. For further details and implications of these restrictions, see "Connected Transactions" and "Risk Factors — Risks relating to the Group — The Group has been reliant on Sanyang".

### **Customers**

For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, the Group's five largest customers, including the Sanyang Group, together accounted for approximately 17.5%, 25.1%, 29.9% and 27.2% of the Group's revenue, respectively. The Sanyang Group, as a whole, was the Group's third-largest customer for the year ended 31 December 2004 and the Group's largest customer for the years ended 31 December 2005 and 2006 and the six-month period ended 30 June 2007. Sales to the Sanyang Group accounted for approximately 3.5%, 9.0%, 9.2% and 9.1% of the Group's revenue during these respective periods.



### ***After-Sales Service***

The Group provides what the Directors believe is one of the most comprehensive after-sales service packages for scooters and cubs in Vietnam. Consumers who have purchased an SYM scooter or cub are offered a warranty valid for two years or 30,000 km, whichever comes earlier, and three oil changes and six free repairs within the first two years, as well as a consumer hotline in urban areas for queries, complaints or comments. Consumers who have purchased a SANDA motorbike are offered a warranty valid for one year or 12,000 km, whichever comes earlier, three free oil changes within the first year, three free repairs within the first two years, and a consumer hotline in urban areas for queries, complaints or comments.

The Group's after-sales service is provided by authorised SYM stores and by SYM-branded repair shops. For the benefit of those consumers who prefer to carry out their own repairs or to have their motorbikes serviced by independent garages, the Group also supplies spare parts to retail parts outlets.

Technicians in the Group's authorised SYM stores and SYM-branded service and repair centres are trained by the Group and are presented with approval certificates following successful completion of the training programme. Further training courses are held for the technicians upon the release of new models. No up-front or recurring fees are charged by the Group in return for the provision of training and other support.

As part of the Group's strategy to provide exceptionally high quality after-sales service to the Vietnamese market, the Group will continue to increase the number of SYM-branded repair centres and plans to extend the opening hours of the service and repair centres, in some cases to 24 hours, and to introduce complementary services, such as pick-up of motorbikes to be serviced and the temporary use of a replacement motorbike.

### **Marketing**

The Directors place great emphasis on promoting consumer awareness of both the SYM and SANDA brand names and the products of the Group. To this end, the Group employs a range of marketing techniques, including television, newspaper and radio advertisements, billboard advertisements, and sponsorships, as well as product displays in showrooms and authorised SYM stores, test drives and trade fairs.

The Group's marketing strategy is regularly monitored internally and through market surveys. The Directors anticipate that the current marketing strategies of the Group will be continued, with additional marketing efforts to accompany the release of new models and to promote new aspects of the Group's after-sales service. The Directors also intend to undertake less traditional marketing efforts to further promote the Group's products and brand names. In 2006, for example, the Group sponsored a series of "Attila fashion shows", promoting the Attila as the product of choice for fashion-conscious females. In 2007, the Group held a high-profile concert to coincide with the introduction of the Attila Elizabeth.

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To contribute to society while raising its corporate profile, the Group is regularly involved in local charity work. The Group is in the midst of a campaign to construct 100 bridges in various areas of Vietnam, using contractors hired by the Group. The Group also sponsors a number of additional community projects, such as educational development, and is considering further opportunities to deepen the Group's presence in the local community while enhancing its reputation among consumers.

The Group monitors and controls its marketing expenses by regularly comparing actual spending against the annual budgets prepared by the management team. For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively, the Group's advertising and marketing expenses amounted to approximately US\$3.0 million, US\$3.6 million, US\$4.1 million and US\$2.8 million, representing approximately 1.2%, 2.0%, 2.2% and 2.5% of the Group's revenue. As part of the Group's long-term marketing strategy, the Directors intend to continue strengthening the Group's advertising marketing efforts.

### **INTERNATIONAL TRADING**

The Group markets and sells not only its own products outside Vietnam in the ASEAN region but also those of Sanyang. In November 2007, Sanyang entered into the VMEP Holdings Distributorship Agreement with the Company granting Chin Zong, a Group company, the exclusive right to market and sell Sanyang's products in the ASEAN region. Three of the five employees of Sanyang who at the time of signing the agreement worked on the ASEAN sales and marketing team have joined the Company.

Under the VMEP Holdings Distributorship Agreement, the Group will serve within the ASEAN region, except in Vietnam, as the exclusive distributor of Sanyang's and its associates' motorbikes and related parts, purchasing the motorbikes and related parts as principal. In Vietnam itself, Sanyang will not be permitted to sell any motorbikes or parts, through the Group or otherwise, except for a small number of motorbikes to be sold to or via the Group for display in exhibitions. The Group has no obligation to purchase products from Sanyang or its associates under the distributorship agreement.

### **RESEARCH AND DEVELOPMENT**

The Directors believe that the research and development capabilities of the Group are indispensable to its future growth. The Group undertakes research and development projects on its own and benefits, to a large extent, from the extensive research and development expertise, experience and technologies of Sanyang.

Currently, the research and development related to entirely new motorbike models (as distinguished from the redesign of existing models) is provided by Sanyang at the request of the Group. VMEP has entered into the Technology Licence Agreement with Sanyang in relation to the licensing of certain technologies and know-how. In addition, the Company and Sanyang have entered into the Research and Development and Technical Support Services Agreement, under which Sanyang has agreed, for a fee based on time spent, to provide the Group with ad hoc research and development services at the request of the Group and to make available to the Group research and development improvements undertaken by Sanyang for its own product lines. Sanyang maintains ownership of the technologies developed from the research and development services provided to the Group. The key individuals who had assisted and overseen

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the Group's research and development and production processes as employees of Sanyang during the Track Record Period have entered into new employment contracts with the Company. The Directors believe that the Group has benefited in recent years, and will continue to benefit, by drawing on the experience and technologies of Sanyang.

For further details in relation to the Group's technology licence and research and development arrangements with Sanyang during the Track Record Period, see "Connected Transactions".

The Directors believe that the Group's research and development capabilities are extensive in comparison with locally owned manufacturers. The Group's research and development operations are principally located at the Dong Nai motorbike factory and include more than 160 full-time employees dedicated to developing products specifically for the Vietnamese market. The research and development activities undertaken by the Group have involved engine modification and verification of durability, product design and modifications to the appearance of the Group's finished products, parts specification, performance modifications and quality testing of parts from potential suppliers. Examples of projects on which the Group's research and development department has worked include the following:

- lowering fuel consumption through refinements to the Group's engines;
- for cubs, reducing noise levels and improving drivability, reliability and durability to reinforce the image of the Group's cubs as economical and reliable vehicles; and
- for scooters, adding functionality, such as LED running lights and brake lights as well as remote controls, and creating a trendy, stylish and upscale look to reinforce the Group's image as a leading manufacturer of scooters.

During the Track Record Period, the Group developed and launched 41 new models, 29 of which were cubs and 12 of which were scooters.

A new research and development centre in Dong Nai Province has been under construction since August 2007, and the Directors expect the new facilities to commence operations in March 2009. This new site will occupy an area of approximately 300,000 square metres, with a team planned to number more than 200 within five years. The new research and development centre will include a test driving circuit for motorbikes and other motor vehicles, emissions testing equipment and a staff dormitory. In addition to the existing research and development activities undertaken by the Group, the Directors anticipate that the new centre will be capable of carrying out advanced research projects, such as the design and development of new motorbikes in their entirety and the development of fundamental engine-related technology; will enable the Group to innovate, make more model changes and produce more new models more rapidly than previously; and will assist the Group in its efforts to rationalise its supply chain by testing parts produced by potential suppliers based in Vietnam and elsewhere in AFTA. The total capital expenditure budget for the construction of the new research and development centre, which will be funded by the proceeds from the Global Offering and the Group's cash from operations, is expected to be approximately US\$14.8 million, of which US\$0.5 million was committed but unpaid as at the Latest Practicable Date. The Group monitors and controls its research and development expenses by regularly comparing actual spending against the annual budgets prepared by the management team. After the new research and development centre has commenced operations, the Group expects to incur additional expenses on employees and software in relation to research and development activities.

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## INTELLECTUAL PROPERTY RIGHTS

The Group's products are promoted, marketed and sold under the SYM and SANDA brand names. The Group owns the SANDA brand name and licenses the SYM brand name and the product names of certain motorbike models, such as Attila Victoria, from Sanyang under the Trade Marks Licence Agreement. Sanyang has registered or applied for the registration of certain trade marks and product names in some of the ASEAN countries.

As at the Latest Practicable Date, the Group had registered 26 trade marks in Vietnam and the Philippines. During the Track Record Period, the Group was not involved in, and did not pursue, any proceedings in relation to the infringement of the intellectual property rights of any third party or of the Group.

In November 2007, VMEP and Sanyang entered into the Technology Licence Agreement granting VMEP an exclusive licence to use the Sanyang Licensed Technology in connection with the manufacture and sale of SYM motorbikes and parts in the Exclusive Territory. For further details see "Connected Transactions".

Further details relating to the Group's intellectual property rights are set out in Section B, "Further Information about the Business — Intellectual property rights", in Appendix VI to this prospectus.

## COMPETITION

Competition in Vietnam among motorbike manufacturers is intensifying. Foreign-invested motorbike manufacturers have increased, and are expected to continue to increase, the level of competition in the market by boosting imports and reducing prices in an effort to capture market share. Locally owned manufacturers are expected to improve their technology incrementally and maintain relatively low prices. The Directors expect the Group will face increasing competition across its product lines.

The Directors consider the principal competitors of the Group's SYM motorbikes in Vietnam to be Honda, Yamaha and Suzuki. The Group's SANDA cubs compete against local manufacturers, whose quality is generally poor but whose prices are low. For more information on the Vietnamese motorbike market, see "Industry Overview — The Motorbike Industry in Vietnam".

In sales both within and outside the ASEAN region, the Group's motorbikes compete against those of the Sanyang Group. Within the ASEAN region, competition is limited by the fact that the Group has been appointed by Sanyang as the exclusive distributor of the Sanyang Group's motorbikes and related parts in this region. Furthermore, the Sanyang Group has agreed not to sell any motorbikes or related parts in Vietnam itself, even through the Group (with the exception of a small number of motorbikes to be sold via the Group to customers in Vietnam for use in exhibitions). In addition, both Sanyang and Mr. Huang Shi Hui, as well as the executive Directors and non-executive Directors, have executed the Deed of Non-competition prohibiting them from competing directly or indirectly with the Group in the ASEAN region, including in Vietnam. For further information on the Group's sales outside the ASEAN region and the relationship with Sanyang in this regard, see "Risk Factors — Risks relating to the Group — The Group has been reliant on Sanyang".

To a limited extent, the Group's SYM and SANDA brands compete against each other at the retail level. The level of competition between the brands is tempered by the distinct geographic and demographic markets on which each brand focuses, with SANDA concentrating on the north of the country and targeting lower-income consumers who might otherwise purchase a model produced by a locally owned manufacturer. However, consumers may still consider one brand as an alternative to the other. The Directors believe that the benefits of the Group's dual-brand strategy outweigh whatever drawbacks there might be of pursuing this strategy.

## ENVIRONMENTAL AND SOCIAL RESPONSIBILITY

The production facilities of the Group are subject to various Vietnamese environmental laws and regulations, which apply to the use of water, discharge of wastewater into rivers, fire prevention and the management of toxic waste. To ensure compliance with statutory standards, the Group has obtained a wastewater discharge permit, registered the handling of toxic waste generated from production processes such as painting, put various internal measures in place, and contracted with local independent environmental companies to deal with pollutants and toxic waste released in connection with its production operations. The Directors do not believe that the Group's operations have had a significant impact on the environment.

The Group has adopted the following specific measures to ensure that the Group's operations comply with environmental laws and regulations:

- implementing an environmental protection inspection system and internal rules for all employees to follow, particularly those involved in production;
- setting up internal environmental training programmes; and
- checking safety and environmental protection compliance periodically.

The Group's environmental and work place safety department is responsible for the implementation and formulation of environmental protection measures. The department consists of three employees with one to two years of experience in the area.

The Group is in compliance, in all material respects, with applicable environmental laws and regulations currently in force, including the requirement to submit third-party environmental audits. The Group did not receive any notice of material environmental non-compliance during the Track Record Period. The Group intends to continue to invest in the equipment and operational measures required for environmental protection and regulatory compliance.

During the Track Record Period, the annual cost of compliance with applicable rules and regulations related to environmental protection was relatively insubstantial. The Directors do not currently foresee any significant increase in the annual cost of compliance.

## WORKPLACE SAFETY AND HYGIENE

The Group is subject to Vietnamese labour safety and hygiene laws and regulations. To promote a safe and healthy working environment, the Group provides workplace safety education to its employees. The Group has obtained various certificates of registration and verification from the government for the use of machinery and equipment subject to strict occupational safety requirements, such as pressure tanks, safety valves and bridge cranes. Employees of the Group who are in charge of operating such machinery and equipment are trained and are required to obtain permits before they operate the machinery and equipment. The Group also arranges for its employees to undergo annual health checks. Environmental and health and safety inspections of the Group's production facilities are conducted regularly to ensure compliance with relevant regulatory standards.

The Group is in material compliance with all applicable workplace safety and hygiene laws and regulations currently in force. As at the Latest Practicable Date, the Directors were not aware of any accidents which had occurred in the Group's production facilities likely to give rise to material liability on the part of the Group.

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## INSURANCE AND PRODUCT LIABILITY

The Group maintains various insurance policies in respect of its operations, including fire and special perils insurance, inland and marine cargo insurance and insurance for vehicles used in its business operations. In common with practice in the Vietnamese motorbike industry, the Group does not maintain insurance covering business interruptions and product liability. During the Track Record Period, the Group did not file any material insurance claims. Liability for loss or damage to motorbikes shifts to the transport company when the motorbikes leave the factory and becomes the responsibility of the dealer upon arrival of the motorbikes at the dealer's authorised SYM store. The Directors believe that the Group's insurance coverage is typical in the motorbike manufacturing industry in Vietnam and is adequate for the Group.

## LAND AND PROPERTY

There is no private ownership of land in Vietnam. Land use rights, rather than ownership rights, are granted over land, and holders of land use rights are referred to under Vietnamese law as "land users". Under Vietnamese law, a foreign-invested entity may generally only lease land in the form of land use rights on a long-term basis. The land use rights are constituted and evidenced by a land use rights certificate issued to the entity as land user.

As at the Latest Practicable Date, the Group leased nine parcels of land on which it had constructed its production facilities, warehouses, offices and dormitories and one parcel of land for the construction of the research and development centre. These parcels, located both inside and outside industrial zones, have an aggregate site area of approximately 450,000 square metres, and are held on a long-term basis under land lease agreements.

The Group has obtained land use rights with respect to all the land parcels leased by it, except for two parcels located in the Ho Nai Industrial Zone in Dong Nai Province, on which a gear manufacturing factory of VMEP (property no. 3 in the Property Valuation report) and the head office and storage warehouse of VCFP (property no. 6 in the Property Valuation report) are situated. Although the gear manufacturing factory of VMEP is one of the production premises of the Group, the Directors are of the view that it is not crucial to the Group's operations because the aggregate site area of the factory is approximately 4,000 square metres, which represented less than 0.9% of the total site area of the Group as at 30 September 2007. In addition, the gear manufacturing factory is not location-specific. If the Group were required to relocate the factory, the Directors do not believe that the Group would encounter any significant difficulty in doing so or that such relocation would cause any material disruption to its operations. The Directors expect that any such relocation would take approximately two to three months to complete. During the relocation period, the Directors believe that the Group will be able to outsource the gear manufacturing function undertaken by the factory to, or purchase the gear parts from, independent suppliers. The Directors also expect that the costs of any such relocation would not be material as the factory is a relatively small-scale operation. The head office and storage warehouse of VCFP are unrelated to the production activities of the Group and are not crucial to the Group's operations. If the Group were required to relocate the office and warehouse, the Directors do not envisage that the Group would encounter any significant difficulty in doing so or that such relocation would cause any material disruption to its operations. The Group's land in the Ho Nai Industrial Zone is leased by the Ho Nai Industrial Zone Investment & Development Company ("**IZIDC**"). IZIDC has acknowledged the delay in the issue of the land use rights certificates and confirmed that the failure to obtain the certificates is due to the fact that IZIDC itself has not been issued a master land use right certificate for the Ho Nai Industrial Zone. IZIDC has confirmed that it is in the process of obtaining its own land use right certificate and subsequently will obtain VMEP's and VCFP's land use right certificates. As at the Latest Practicable Date, the Ho Nai Industrial Zone authority had not indicated when it expected VMEP's and VCFP's land use right certificates to be issued.

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The Group has obtained proper certificates of ownership of construction works in respect of all of its major production and ancillary facilities, except for its An Binh Dormitory in Dong Nai Province (property no. 8 in the Property Valuation report) which is not related to the production activities of the Group and is not crucial to its operations. If the Group were required to relocate the dormitory, the Directors do not envisage that the Group would encounter any significant difficulty in doing so or that such relocation would cause any material disruption to its operations. The Group is taking steps to obtain the certificate of ownership of construction works for the dormitory. As at the Latest Practicable Date, the Bien Hoa City authority had not indicated when it expected the certificate to be issued.

Besides the land lease agreements, the Group has entered into four house lease agreements for use as offices and dormitories. Vietnamese law generally requires that real property lease agreements, including land lease agreements and house lease agreements with a term of more than six months be either notarised by a notary public or certified by a competent authority. If a dispute arises on an agreement that has not been notarised or certified, the agreement could be declared ineffective. Eight lease agreements entered into by the Group have not been properly notarised or certified. Vietnamese legal counsel has confirmed that the defect is curable, and the Directors have confirmed that the Company has taken steps to cure the defect. Details of all of the Group's land and properties are set out in Appendix IV to this prospectus entitled "Property Valuation".

No provision for the defects in the Group's property title has been made during the Track Record Period. However, Sanyang and Mr. Huang Shi Hui have undertaken to indemnify the Group in respect of any costs, expenses, operating and business losses and damages that it may incur or suffer as a consequence of the Group failing to obtain the proper land use right certificates or certificates of ownership, or the proper notarisation or certification of land lease agreements and property lease agreements, in respect of the land or properties described above.

### **LITIGATION AND COMPLIANCE**

As at the Latest Practicable Date, no member of the Group was engaged in any material litigation, claim or arbitration and, to the best knowledge of the Group, save as disclosed below, no such litigation, claim or arbitration is pending or threatened against any member of the Group. As more fully described under "Other Information – Litigation" in Appendix VI to this prospectus, the Group recently received a letter sent on behalf of a European motorbike manufacturer alleging unfair competitive practices in the design and advertising of the Attila Elizabeth. Based principally on the advice of its Vietnam counsel, the Directors believe that these allegations are unfounded and they are satisfied that any legal claims brought by the European motorbike manufacturer would fail.

During the Track Record Period, the Group was in compliance in all material respects with the laws related to the Group's business in all jurisdictions where it had operations. The Group's Vietnam counsel, Russin & Vecchi, and Taiwan counsel, Chien Yeh Law Offices, have confirmed that the Group has obtained all the licenses and permits required by law to operate its business and, where applicable, has made all required announcements in each of the relevant jurisdictions. In order to ensure its continuous compliance with these requirements, the Group regularly monitors all of the required licenses and certificates. The Group has in place a variety of measures to ensure compliance with the requirements imposed by licences as well as compliance with applicable laws. The Group has an internal audit unit which carried out inspections related to the Group's compliance on a regular basis during the Track Record Period.