Vietnam Manufacturing and Export Processing (Holdings) Limited
越南製造加工出口(控股)有限公司
(Incorporated in the Cayman Islands with limited liability)
(Stock Code: 422)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

Financial Highlights :

（expressed in US$'million）

	2018	**2017**	**Change Amount**
• Total Revenue	91.5	93.7	(2.2)
• Gross (Loss)／Profit	(2.3)	6.1	(8.4)
• Net Loss after Tax	(41.8)	(9.3)	(32.5)
• Loss per share (US$)	(0.05)	(0.01)	(0.04)

The board of directors (the "**Board**") of Vietnam Manufacturing and Export Processing (Holdings) Limited (the "**Company**") hereby announces the consolidated financial results of the Company and its subsidiaries (collectively, the "**Group**") for the year ended 31 December 2018 together with the comparative figures for the immediately preceding financial year. The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

Consolidated Statement of Profit or Loss and Other Comprehensive Income for the year ended 31 December 2018

(Expressed in United States dollars)

	Note	**2018** *US$*	**2017** *US$*
Revenue	2	91,546,757	93,746,331
Cost of sales		(93,877,160)	(87,680,654)
Gross (loss)／profit		(2,330,403)	6,065,677
Other income		281,646	157,139
Distribution costs		(6,042,394)	(6,940,838)
Technology transfer fees		(1,513,924)	(934,865)
Administrative and other expenses		(13,710,438)	(9,322,146)
Impairment loss on property, plant and equipment	3(c)	(11,144,183)	(2,232,753)
Impairment loss on lease prepayments	3(c)	(9,089,794)	-
Results from operating activities		(43,549,490)	(13,207,786)
Finance income		3,852,117	4,156,691
Finance costs		(760,696)	(770,508)
Net finance income	3(a)	3,091,421	3,386,183
Share of (loss)／profit of an associate		(50,685)	44,766
Loss before taxation	3	(40,508,754)	(9,776,837)
Income tax (expense)／credit	4	(1,333,919)	444,619
Loss for the year		(41,842,673)	(9,332,218)
Other comprehensive income for the year (after tax):			
Item that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of overseas subsidiaries		(1,832,092)	567,637
Total comprehensive income for the year attributable to equity shareholders of the Company		(43,674,765)	(8,764,581)
Loss per share			
- Basic and diluted	5	(0.05)	(0.01)

Consolidated Statement of Financial Position at 31 December 2018

(Expressed in United States dollars)

	Note	2018	2017
		US$	*US$*
Non-current assets			
Property, plant and equipment	6	3,324,760	14,095,943
Intangible assets		-	9,011
Lease prepayments	7	-	4,732,658
Interest in an associate		482,437	544,336
Other non-current prepayments		628,727	-
Deferred tax assets		-	1,322,531
		4,435,924	20,704,479
Current assets			
Inventories	8	24,571,587	18,958,820
Trade receivables, other receivables and prepayments	9	22,446,972	19,828,211
Time deposits maturing after three months		35,154,347	88,805,816
Cash and cash equivalents		28,578,446	13,356,314
Current tax recoverable		23,938	25,504
		110,775,290	140,974,665
Current liabilities			
Trade and other payables	10	13,392,333	11,726,438
Bank loans		18,925,591	23,343,521
Current tax payable		22,763	-
Provisions		737,757	814,687
		33,078,444	35,884,646
Net current assets		77,696,846	105,090,019
Total assets less current liabilities		82,132,770	125,794,498
Non-current liability			
Deferred tax liabilities		13,037	-
Net assets		82,119,733	125,794,498
Capital and reserves			
Share capital		1,162,872	1,162,872
Reserves		80,956,861	124,631,626
Total equity attributable to equity shareholders of the Company		82,119,733	125,794,498

Notes:

1. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the Group's financial statements for the year ended 31 December 2018, but is derived from these financial statements.

(a) Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("**IFRSs**"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("**IASs**") and Interpretations issued by the International Accounting Standards Board ("**IASB**"). These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The IASB has issued certain new and revised IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 1(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the financial statements

The consolidated financial statements for the year ended 31 December 2018 comprise the Group and the Group's interest in an associate.

The measurement basis used in the preparation of the financial statements is the historical cost basis.

Items included in the financial statements of each of the Group entities are measured using the currency of the primary economic environment in which the entity operates. The Group has adopted United States dollars ("**US$**") as its presentation currency as the directors of the Company consider that presentation of the consolidated financial statements in US$ will facilitate analysis of the Group's financial information.

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

(c) Changes in accounting policies

The IASB has issued a number of new IFRSs and amendments to IFRSs that are first effective for the current accounting period of the Group. Of these, the following developments are relevant to the Group's financial statements:

- *IFRS 9, Financial instruments*
- *IFRS 15, Revenue from contracts with customers*
- *IFRIC 22, Foreign currency transactions and advance consideration*

Except for IFRS 15, *Revenue from contracts with customers*, none of these developments has had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period, except for the amendments to IFRS 9, *Prepayment features with negative compensation* which have been adopted at the same time as IFRS 9.

For IFRS9 and IFRS15, the Group has elected to use the cumulative effect transition method and has recognized the cumulative effect of initial application as an adjustment to open balance of equity at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under IAS39 and IAS18.

IFRS 15, Revenue from contracts with customers

Presentation of contract liabilities

Under HKFRS 15, contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. Such balances are recognised as contract liabilities rather than payables.

2. REVENUE AND SEGMENT REPORTING

(a) Disaggregation of revenue

The principal activities of the Group are manufacturing and sale of motorbikes, related spare parts and engines and provision of motorbike maintenance services.

Further details regarding the Group's principal activities are disclosed in Note 2(b).

Disaggregation of revenue from contracts with customers by major products or service lines and geographical location of customers is as follows:

	2018	**2017**
	US$	***US$***
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
Manufacture and sale of motorbikes	78,046,137	74,768,209
Manufacture and sale of spare parts and engines	13,414,316	18,897,902
Moulds and repair services	86,304	80,220
	91,546,757	93,746,331

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in Notes 2(b)(ii).

The Group's customer base is diversified and includes only two customers (2017: two customers) with whom transactions have respectively exceeded 10% of the Group's revenue. During the year ended 31 December 2018, revenue from sales of motorbikes to the customers was as follows:

	2018	2017
	US$	*US$*
Customer A	27,925,538	22,731,657
Customer B	11,657,120	14,860,468
	39,582,658	37,592,125

(b) Segment reporting

The Group manages its businesses by divisions, which are organised by a mixture of both business lines (products and services) and geography. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management for the purposes of resource allocation and performance assessment, the Group has presented the following three reportable segments.

— Manufacturing and sale of motorbikes: the Group's principal products are motorbikes manufactured for the Vietnamese market. The Group also exports motorbikes to other countries including Malaysia, the Philippines, Thailand, Brunei and Singapore.

— Manufacturing and sale of spare parts and engines: the Group manufactures engines for use in the Group's motorbikes, while the Group also exports engines to third parties. The Group manufactures parts for use in repair servicing and product assembly.

— Moulds and repair services: the Group manufactures and maintains moulds used for making metal parts, for example, by die-casting and pressing. The majority of the Group's moulds are specially made for internal use, producing parts for the Group's products. The Group also manufactures a small number of moulds for external sale to its domestic suppliers and to domestic manufacturers unrelated to the production of parts for the Group's products.

Segment results

For the purposes of assessing segment performance and allocating resources between segments, the Group's senior executive management monitors the results attributable to each reportable segment on the following bases:

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments.

The measure used for reporting segment profit is "adjusted EBIT" i.e. "adjusted earnings before interest and taxes", where "interest" is regarded as net finance income. To arrive at adjusted EBIT the Group's earnings are further adjusted for items not specifically attributed to individual segments, such as share of (loss)／profit of an associate, impairment losses on non-current assets and other head office or corporate administration costs.

In addition to receiving segment information concerning adjusted EBIT, management is provided with segment information concerning revenue (including inter segment sales), depreciation and amortisation. Inter-segment sales are priced with reference to prices charged to external parties for similar orders.

(i) Reconciliation of reportable segment revenues and profit or loss

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2018 and 2017 is set out below:

	2018			
	Manufacture and sale of motorbikes *US$*	**Manufacture and sale of spare parts and engines** *US$*	**Moulds and repair services** *US$*	**Total** *US$*
Revenue from external customers recognised at a point in time	78,046,137	13,414,316	86,304	91,546,757
Inter-segment revenue	-	27,529,686	695,787	28,225,473
Reportable segment revenue	78,046,137	40,944,002	782,091	119,772,230
Segment profit／(loss) before depreciation and amortisation	(18,897,974)	2,769,150	194,245	(15,934,579)
Depreciation and amortisation	(3,297,560)	(2,181,687)	(40,346)	(5,519,593)
Reportable segment profit／(loss) ("adjusted EBIT")	(22,195,534)	587,463	153,899	(21,454,172)
Share of loss of an associate				(50,685)
Interest income				3,852,117
Interest expenses				(760,696)
Impairment loss on property, plant and equipment				(11,144,183)
Impairment loss on lease prepayments				(9,089,794)
Unallocated corporate expenses				(1,861,341)
Loss before tax				(40,508,754)

	2017			
	Manufacture and sale of motorbikes *US$*	Manufacture and sale of spare parts and engines *US$*	Moulds and repair services *US$*	Total *US$*
Revenue from external customers	74,768,209	18,897,902	80,220	93,746,331
Inter-segment revenue	-	29,330,890	602,515	29,933,405
Reportable segment revenue	74,768,209	48,228,792	682,735	123,679,736
Segment profit／(loss) before depreciation and amortisation	(5,587,245)	370,129	1,737	(5,215,379)
Depreciation and amortisation	(2,032,493)	(1,831,551)	(44,089)	(3,908,133)
Reportable segment profit／(loss) ("adjusted EBIT")	(7,619,738)	(1,461,422)	(42,352)	(9,123,512)
Share of profit of an associate				44,766
Interest income				4,156,691
Interest expenses				(770,508)
Impairment loss on property, plant and equipment				(2,232,753)
Unallocated corporate expenses				(1,851,521)
Loss before tax				(9,776,837)

Note: The Group's senior executive management has determined to use segment revenues and profit or loss to make strategic decisions and assess performance since 1 January 2018. Comparative figures presented above have been adjusted to conform to current year's presentation.

(ii) Geographic information

The following table sets out information about the geographical location of (i) the Group's revenue from external customers and (ii) the Group's property, plant and equipment, intangible assets and lease prepayments ("**specified non-current assets**"). The geographical location of customers is based on the location at which the goods were delivered to or the services were provided. The geographical location of the specified non-current assets is based on the physical location of the asset.

	Revenues from external customers		Specified non-current assets	
	2018 *US$*	**2017** *US$*	**2018** *US$*	**2017** *US$*
Vietnam (place of domicile)	50,200,637	50,704,289	3,324,691	18,835,894
Malaysia	27,925,538	22,731,657	-	-
The Philippines	11,657,120	14,860,468	-	-
Singapore	825,943	2,692,827	-	-
Indonesia	211,931	310,186	-	-
Taiwan	649,617	2,406,327	69	1,718
Thailand	940	-	-	-
Other countries	75,031	40,577	-	-
	91,546,757	93,746,331	3,324,760	18,837,612

3. Loss before taxation

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

(a) Net finance income

	2018 *US$*	2017 *US$*
Interest income from banks	(3,852,117)	(4,156,691)
Finance income	(3,852,117)	(4,156,691)
Interest paid and payable to banks	684,050	517,297
Net foreign exchange loss	76,646	253,211
Finance costs	760,696	770,508
	(3,091,421)	(3,386,183)

(b) Staff costs

	2018 *US$*	2017 *US$*
Contributions to defined contribution retirement retirement plans	1,337,371	957,568
Severance pay allowance	20,009	66,376
Salaries, wages and other benefits	11,418,444	11,107,290
	12,775,824	12,131,234

(c) Other items

	2018 *US$*	2017 *US$*
Amortisation of lease prepayments and intangible assets	273,718	315,468
Depreciation of property, plant and equipment	5,245,875	3,592,665
Write-down of inventories	2,151,948	2,105,463
Impairment loss on property, plant and equipment (Note 6)	11,144,183	2,232,753
Impairment loss on lease prepayments (Note 7)	9,089,794	-
Operating lease charges: minimum lease payments in respect of property rentals	591,677	542,184
Auditors' remuneration	409,670	444,399
- Audit services	377,019	367,399
- Other services	32,651	41,030
Research and development expenses (i)	7,457,010	4,097,561
Cost of inventories (ii)	93,877,160	87,680,654

(i) Research and development expenses include amounts relating to technology transfer fee, staff costs, depreciation and amortisation expenses, rental expense of properties and other miscellaneous expenses, which are also included in the respective total amounts disclosed separately above or in Note 3(b) for each of these types of expenses. No development expenditure was capitalised during the years ended 31 December 2018 and 31 December 2017.

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

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

	2018	**2017**
	US$	***US$***
Current tax		
Provision for the year	29,703	-
Over-provision in respect of prior years	-	(22,731)
	29,703	(22,731)
Deferred tax		
Origination and reversal of temporary differences	1,304,216	(421,888)
Actual tax expense／(credit)	1,333,919	(444,619)

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax for the years ended 31 December 2018 and 2017.

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

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

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

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

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

In accordance with the Corporate Income Tax Law of Taiwan, as amended in 2018, the applicable tax rate for Chin Zong Trading Co., Ltd. ("**Chin Zong**") is 20% (2017: 17%) if the taxable profit is above New Taiwan Dollar ("**NT$**") 120,000. Income tax is exempted if the taxable profit is below NT$120,000.

5. Loss per share

(a) Basic loss per share

The calculation of basic loss per share is based on the loss for the year of US$ 41,842,673 (2017: US$9,332,218) and the weighted average of 907,680,000 (2017: 907,680,000) ordinary shares in issue during the year.

(b) Diluted loss per share

The amount of diluted loss per share is the same as the basic loss per share for the year ended 31 December 2018 (2017: same) as there were no dilutive potential ordinary shares during the years ended 31 December 2018 and 2017.

6. Property, plant and equipment

Impairment losses

The manufacturing and sales of motorbikes segment, manufacturing and sales of spare parts and engines segment and moulds and services segment ("**motorbike business**") in Vietnam are considered one cash generating unit ("**CGU**") of the Group.

The Group suffered significant operating losses before impairment losses on non-current assets during the second half of year ended 31 December 2018 due to the increase of manufacturing costs on newly launched products. Based on an impairment assessment conducted by management, impairment losses of US$11,144,183, and US$9,089,794 (see Note 7) were recognised on property, plant and equipment and lease prepayments respectively in profit or loss during the year ended 31 December 2018 to write down the carrying value of property, plant and equipment, and lease prepayments of the CGU to their recoverable amounts of US$3,324,760 and US$Nil (see Note 7) respectively.

The recoverable amount of the CGU is determined based on the higher of its value-in-use and the fair value less costs of disposal. The estimate of the recoverable amount of the non-current assets has been determined based on a value in use calculation. These calculations use cash flow forecast based on financial budgets approved by management covering a five-year period. Cash flows are discounted using pre-tax discount rate of 11% (2017: 12%).

During the year ended 31 December 2017, an impairment loss of US$2,232,753 was recognised on property, plant and equipment.

7. Lease prepayments

Lease prepayments represent prepaid land lease rental and related costs.

	2018	**2017**
	US$	***US$***
At 1 January	4,732,658	4,864,995
Addition	4,706,934	147,561
Less: amortisation for the year	(264,881)	(287,407)
Less: impairment loss (Note 6)	(9,089,794)	-
Exchange adjustments	(84,917)	7,509
At 31 December	-	4,732,658

8. Inventories

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

	2018	2017
	US$	*US$*
Raw materials	21,621,538	14,891,538
Tools and supplies	523,171	509,109
Work in progress	628,865	805,759
Finished goods	3,698,259	2,983,880
Merchandise inventories*	3,166,477	3,746,884
	29,638,310	22,937,170
Provision for write-down of inventories	(5,066,723)	(3,978,350)
Net realisable value	24,571,587	18,958,820

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

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	2018	2017
	US$	*US$*
Carrying amount of inventories sold	91,725,212	85,575,191
Write-down of inventories	2,151,948	2,105,463
	93,877,160	87,680,654

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

	2018	2017
	US$	*US$*
At 1 January	3,978,350	2,002,964
Additions	2,151,948	2,105,463
Acquisition of a subsidiary	373,159	-
Utilisation	(1,353,496)	(134,735)
Exchange adjustments	(83,238)	4,658
At 31 December	5,066,723	3,978,350

9. Trade receivables, other receivables and prepayments

	2018	2017
	US$	*US$*
Trade receivables	11,927,395	9,065,477
Non-trade receivables	9,742,519	8,672,581
Prepayments	717,809	1,927,395
Amounts due from related parties		
-Trade	55,473	154,534
-Non-trade	3,776	8,224
	22,446,972	19,828,211

(i) Trade receivables

All of the trade receivables (including trade receivables due from related parties) are expected to be recovered within one year.

As of the end of the reporting period, the aging analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	2018 *US$*	**2017** *US$*
Within 3 months	11,550,465	9,085,180
More than 3 months but within 1 year	431,620	134,831
More than 1 year but within 5 years	783	-
	11,982,868	9,220,011

10. Trade and other payables

	2018 *US$*	**2017** *US$*
Trade payables	5,842,998	3,739,769
Other payables and accrued operating expenses	5,058,688	4,658,868
Receipt in advance	-	162,633
Contract liabilities – billings in advance of performance	109,122	-
Amounts due to related parties		
-Trade	1,008,432	1,809,282
-Non-trade	1,373,093	1,355,886
	13,392,333	11,726,438

(i) Trade payables

As of the end of the reporting period, the aging analysis of trade payables of the Group (including trade payables due to related parties), based on the invoice date, is as follows:

	2018 *US$*	**2017** *US$*
Within 3 months	6,763,928	5,292,246
More than 3 months but within 1 year	87,450	250,648
More than 1 year but within 5 years	52	6,157
	6,851,430	5,549,051

11. Acquisition of a subsidiary

In March 2018, the Company entered into an agreement with SY International Ltd ("**SYI**"), the immediate parent of the Company, to acquire 100% of the capital contribution in Sanyang Motor Vietnam Company Limited ("**SMV**"), a limited liability company incorporated in Vietnam (the "**Acquisition**"), at a consideration of US$2,700,000, and assumed a shareholder's loan of US$2,000,000 from SYI. The total cash consideration was US$4,700,000.

In view of the accelerating urbanisation plans of government in Vietnam, the Board of Directors decided to acquire the existing production facilities owned by SMV which can then be revamped and integrated with the Group's production plants in Dong Nai province in Vietnam.

Since SMV ceased its principal activities of manufacturing and assembling automobile and small trucks since June 2015, the Board of Directors considered it an acquisition of assets instead of an acquisition of business.

The Acquisition was completed on 17 December 2018. On the same date, SMV was approved by Vietnam government to merge with VMEP, a subsidiary of the Group. In January 2019, the Board of Directors approved to relocate the Group's existing production facilities in Dong Nai province to SMV's production facilities in 2019.

The seller, SYI., is the immediate parent of the Company and the Acquisition constituted a connected transaction of the Company under Chapter 14A of the Listing Rules. The Acquisition is subject to the reporting and announcement requirements but exempt from the independent shareholders' approval requirement under Chapter 14A of the Listing Rules.

The acquired assets and liabilities of SMV recognised at the acquisition date based on the consideration paid are as follows:

	US$
Property, plant and equipment	3,273,299
Inventories	41,462
Trade and other receivables, other receivables and prepayments	469,400
Time deposit maturing after three months	739,537
Cash and cash equivalents	535,966
Trade and other payables	(355,510)
Provisions	(4,154)
Net identifiable assets and liabilities	4,700,000
Consideration paid for net assets	2,700,000
Consideration paid to assume shareholder's loan	2,000,000
Less: Cash and cash equivalents acquired	(535,966)
Net cash outflow	4,164,034

In addition, lease prepayment of US$4,682,349 was made by SMV under the instruction of the Group through funding from the Group before the acquisition date as part of the Group's plan for production plants in Dong Nai province in Vietnam. Such amount is included in the "Additions" in Note 7.

12. Dividends

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group is one of the leading manufacturers of scooters and cub motorbikes in Vietnam. Its manufacturing and assembly operations are located in Dong Nai Province (near Ho Chi Minh City) and Hanoi of Vietnam with an annual production capacity of 200,000 motorbikes. The Group's motorbikes are sold under the SYM brand name and offering a wide range of models and types. It also produces motorbike parts and engines for internal use and export to oversea customers as well as selling and providing services associated with moulds to make die-cast and forged metal parts.

Operation Environment

With the Sino-US trade conflict worsening, tightening of liquidity of US dollar, increasing debts of governments worldwide and geopolitical risks, the tensioning of situations in the Middle East and the effects of climate change, uncertainty again overshadowed the global economy. However, the emerging market economies continued to grow faster than developed counterparts in general. In Vietnam, economic sentiment continued to improve in 2018, with foreign investment increasing steadily, price index persistently low, and total import and export rose with trade surplus. In Vietnam, the gross domestic product (GDP) growth rate in 2018 was 7.08%, higher than its 6.7% target for the year and marked a record high over the past decade. These outstanding performances plus the relatively stable interest rate and exchange rate have combined to create a prosperous year for Vietnam's economy in 2018.

Vietnam is one of the biggest suppliers of motorbikes in the world. Over the past few years, many foreign direct investment ("**FDI**") manufacturers have continued to expand their investment in launching new models and enhancing marketing and promotion activities for a larger market share. As at the end of 2018, there were a total of more than 48 million motorbikes manufactured in Vietnam. However, with the Vietnamese government pay attention to air pollution control gradually and limiting vehicles to ease overloaded transport infrastructure, the business environment of motorbike industry in Vietnam continues to be challenging.

According to statistics from the Vietnam Association of Motorcycle Manufacturers, total sales of the 5 largest FDI motorbike manufacturers in Vietnam reached 3.36 million units in 2018, slightly increased by 2.8% compared to 2017. The Group ranked third in the Vietnam's motorbike market, after the Japanese brands Honda and Yamaha, reached a sale of approximately 57,300 units (comprising scooter and cub) in 2018, accounted for 1.7% of the total market share.

BUSINESS REVIEW

The invigoration of the Vietnamese economies was also accompanied by more intense competition and rises in raw material and energy prices. The overall motorbike industry in Vietnam is still highly competitive. The Group has therefore continued to prudently and proactively implement strategies aiming to strengthen the businesses, control production costs and develop new products and new markets in order to raise revenue and profitability. The Group saw both growth and decline in its main sale regions. For examples, sales in the Vietnamese market increased as result of the launch of new products; operating revenue and gross profit from ASEAN countries dropped due to market competition. The Group sold an aggregate of approximately 61,200 units (which comprised of approximately 6,700 units of scooters, 50,600 units of cubs and 3,900 units of electric motorbikes) in Vietnam for the year ended 31 December 2018, representing an increase of 6.3% from the previous year. The Group sold an aggregate of approximately 66,100 units of scooters and cubs and exported to ASEAN countries, representing a decrease of 7.2% from the previous year.

To cope with the rapidly evolving and competitive environment, the Group directed focus on developing market and accelerating product research and development. In 2018, the Group launched a number of new or modified motorbike models, among which, scooter Abela 110 is a model focusing on the metropolitan female market. Three new or modified models of cub motorbikes with engine capacity of 50 cubic centimeters ("**cc**"), namely Elegant 50, Angela 50 and Galaxy 50, were rolled out to the market. All of them are available in different colours, giving more choices to consumers. For engine capacity of 110cc, the Group launched Angel 110, which is a model designed to attract blue-collar class with its appearance and practical functionality. To accommodate the demand of those Vietnamese consumers who have expectation in speed, the Group launched Star SR 125 and Star SR170. Both of the models demonstrate the outstanding capability in research and development of the Group. In the ASEAN countries, the Group launched entry-level and advanced-level models of motorbikes namely Bonus 110 and VF 185, to simultaneously meet the demand of both the mass and top-end consumers.

The Group strived in building its product sales network, aiming to achieve customer loyalty by constant expansion across Vietnam and implementing flexible marketing strategies. As of 31 December 2018, the Group's extensive distribution network comprised over 213 SYM authorised stores owned by dealers, covering every province in Vietnam.

FINANCIAL REVIEW

The Group recorded a net loss of US$41.8 million for the year ended 31 December 2018 as compared to a net loss of US$9.3 million for the year ended 31 December 2017, which reflected the challenging operating environment for the motorbike industry. Further analysis on the operating results of the Group is set out below.

REVENUE

Revenue of the Group for the year ended 31 December 2018 decreased to US$91.5 million from US$93.7 million for the year ended 31 December 2017, representing a decrease of US$2.2 million or 2.3%. The reasons for the decrease were as follows: in respect of export sales, sales volume in Malaysia and Philippines, the major markets of the Group, declined slightly due to the import of low-priced motorbikes from China. In respect of domestic sales in Vietnam, the Group continued to confront with the low-priced competition in the market. Nevertheless, the Group was able to partially compensate the decrease in prices during the year of 2018, thanks to its established brand value and sales channels, and also the moderate growth spurred by the continuous development of its new products in the Vietnamese market.

In terms of geographical contribution, approximately 55% of total revenue was generated from the domestic market in Vietnam for the year ended 31 December 2018 as compared with approximately 54% for the year ended 31 December 2017. Domestic sales in Vietnam decreased by 1% from US$50.7 million for the year ended 31 December 2017 to US$50.2 million for the year ended 31 December 2018. Export sales decreased by 4% from US$43.0 million for the year ended 31 December 2017 to US$41.3 million for the year ended 31 December 2018. The number of engines exported decreased from approximately 11,900 units for the year ended 31 December 2017 to nil units for the year ended 31 December 2018.

COST OF SALES

The Group's cost of sales increased by 7.1%, from US$87.7 million for the year ended 31 December 2017 to US$93.9 million for the year ended 31 December 2018. The increase was mainly attributable to increasing pressure on costs of labour, raw materials and components and assemblies, which constitute components of cost of sales. Furthermore, in order to adapt to the current consumption trend in the market, the Group launched electric motorbikes that need more sophisticated imported components, adding pressure on overall costs. As a percentage of total revenue, the Group's cost of sales increased from 94% for the year ended 31 December 2017 to 103% for the year ended 31 December 2018. The Group strived to decrease the production cost per unit by developing new sourcing channels and reselecting suppliers.

GROSS (LOSS)/PROFIT AND GROSS (LOSS)/PROFIT MARGIN

For the year ended 31 December 2018, the Group recorded a gross loss and gross loss margin of approximately US$2.3 million and 2.5% respectively (the year ended 31 December 2017: gross profit and gross profit margin of approximately US$6.1 million and 6.5% respectively). It was mainly due to the keen competition in the business environment of the Vietnamese and ASEAN market, causing a decline in revenue and the continuingly increasing pressure on the cost of sales as discussed above.

DISTRIBUTION EXPENSES

The Group's distribution expenses decreased by 13%, from US$6.9 million for the year ended 31 December 2017 to US$6.0 million for the year ended 31 December 2018. Such decrease was mainly attributed to rectification of existing distribution network, a decrease of sales incentives and supporting fees to distributors.

TECHNOLOGY TRANSFER FEES

The technology transfer fees increased by 67% from US$0.9 million for the year ended 31 December 2017 to US$1.5 million for the year ended 31 December 2018, resulting from an increase in the sales of SYM-branded motorbikes in Vietnam.

ADMINISTRATIVE AND OTHER EXPENSES

The Group's administrative and other expenses increased by 47% from US$9.3 million for the year ended 31 December 2017 to US$13.7 million for the year ended 31 December 2018, which account for 15% of the Group's total revenue for the year ended 31 December 2018. The increase was principally due to increase in research and development expenses which were partly offset by reduced operating costs.

IMPAIRMENT LOSS ON PROPERTY, PLANT AND EQUIPMENT AND LEASE PREPAYMENTS

Due to the poor results of the Group's manufacturing and sales of motorbikes segment, manufacturing and sales of spare parts and engines segment and moulds and services segment during the year ended 31 December 2018, the Group considered it was an indication that the property, plant and equipment for the manufacturing and sales of motorbikes segment, manufacturing and sales of spare parts and engines segment and moulds and services segment (the "**Relevant PPE**") and lease prepayments may be impaired. Accordingly, the Group carry out an impairment testing on the Relevant PPE and lease prepayments and noted an impairment loss of approximately US$20.2 million on the property, plant and equipment and lease prepayments were required as at 31 December 2018. The recoverable amount of the Relevant PPE and lease prepayments were determined based on the higher of its value-in-use and the fair value less costs of disposal calculation. The estimate of the recoverable amount of the non-current assets has been determined based on a value in use calculation. These calculations are estimated based on (i) the estimated future cash flow to be generated from the continuing use of those assets; and (ii) an appropriate discount rate to such estimated future cash flow i.e. a pre-tax discount rates of 11% (2017:12%).

RESULTS FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's results from operating activities worsened by 230%, from a loss of US$13.2 million for the year ended 31 December 2017 to a loss of US$43.5 million for the year ended 31 December 2018.

NET FINANCE INCOME

The Group's net finance income decreased by 8.8%, from US$3.4 million for the year ended 31 December 2017 to US$3.1 million for the year ended 31 December 2018. Such decrease was mainly attributable to a decrease in interest income by US$0.3 million, increase in interest expense by US$0.2 million and decrease in foreign exchange losses of US$0.2 million arising from fluctuation of the Vietnamese Dong against the US dollar for the year.

LOSS FOR THE YEAR AND MARGIN

As a result of the factors discussed above, the Group's net loss for the year ended 31 December 2018 amounted to US$41.8 million, an increase of 349% as compared to a loss of US$9.3 million for the year ended 31 December 2017. The Group's net loss margin worsened from 10% for the year ended 31 December 2017 to 46% for the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group's net current assets amounted to US$77.7 million (31 December 2017: US$105.1 million) which consisted of current assets of US$110.8 million (31 December 2017: US$141.0 million) and current liabilities of US$33.1 million (31 December 2017: US$35.9 million).

As at 31 December 2018, the Group's interest-bearing loans repayable within one year was US$18.9 million, including US$15.8 million denominated in US$ and US$3.1 million denominated in Vietnamese Dong (31 December 2017: US$23.3 million, including US$17.5 million denominated in US$ and US$5.8 million denominated in Vietnamese Dong). As at 31 December 2018, the Group had no interest-bearing loans repayable beyond one year (31 December 2017: Nil). As at 31 December 2018, the gearing ratio was 23.0% (31 December 2017: 18.6%) calculated by dividing total bank loans by total shareholders' equity.

As at 31 December 2018, the Group's cash and bank balances (including bank deposits), amounted to US$63.7 million, which mainly included US$34.7 million denominated in Vietnamese Dong and US$29.0 million denominated in US$ (31 December 2017: US$102.2 million, which mainly included US$61.1 million denominated in Vietnamese Dong and US$41.1 million denominated in US$).

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

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

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group currently offers competitive remuneration packages to its staff in Vietnam, Taiwan and Hong Kong, and regularly reviews its remuneration packages in light of the overall development of the Group. The Group's remuneration packages include basic salaries, bonuses, quality staff living quarters, training and development opportunities, medical benefits, an insurance plan and retirement benefits. As at 31 December 2018, the Group had 1,575 employees (2017: 1,578). The total amount of salaries and related costs for the year ended 31 December 2018 amounted to approximately US$12.8 million (2017: US$12.1 million).

PROSPECTS

Looking ahead for 2019, the Group optimistically forecasts that the Vietnamese economy will achieve a steady growth. However, due to the fact that the industrial production system in Vietnam is incomplete and provides weak support for industries, it is still necessary to import a massive amount of materials for production. It foresees there will remain uncertainties and risks associated with the supply of production materials. In addition, in light of the challenging business environment in the Vietnamese motorbike industry, price volatility and competition are expected to persist. As the policies of the world's major countries are uncertain and the trade tensions and disputes between leading economies are becoming increasingly intense, the economic landscape will be more complicated in the future.

Looking ahead, amid the tough business environment, the Group will adhere to its operating approach of focusing on its primary business, product quality and customers' satisfaction. The Group will adopt product innovation as its key strategy to further strengthen its capabilities in product design and core technology development. In 2019, the Group plans to roll out a number of new or modified motorbike models in the Vietnamese market, including scooter, cub and electric motorbikes, so as to achieve product diversification and greater profitability, and offer consumers with environmentally-friendly and convenient products at reasonable prices and restructure the product lines to raise the proportion of high value-added products. The number of low gross profit items will be reduced to maintain reasonable profitability of products and, in turn, operations. As for market promotion and sales channels, the Group will introduce a new Corporate Identity System, under which the Group will change the logo under the brand of SYM and implement a holistic sales strategy, so as to establish a more distinguished brand image of the Group. The Group will also improve its "distributor licensing system" and extend the geographical coverage of its sales and services centres in order to provide its customers with better product repair and maintenance services. In ASEAN markets, the Group will step up further to engage in marketing and promotional activities, and to provide better after-sales services overseas. The Group will launch more motorbike models with higher unit prices to boost and stimulate the profitability of export sales. Apart from the ongoing deepening of market channels, the Group will make use of its resources for further market expansion together with industry peers and players from other industries. The Group will also introduce a range of Original Equipment Manufacturer products to increase its production scale, thereby maintaining and maximising its brand benefits to achieve an overall and enhanced expansion of the Group's businesses.

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

APPLICATION OF IPO PROCEEDS

The proceeds from the issuance of new shares in the initial public offering by the Company in December 2007, net of listing expenses, were approximately US$76.7 million. As at 31 December 2018, the net proceeds were utilised in the following manner:

	Per Prospectus US$' million	Amount utilised US$' million	Balances as at 31 December 2018 US$' million
Construction of research and development centre in Vietnam	15.0	11.7	3.3
Expanding distribution channels in Vietnam			
– Upgrading of existing facilities	4.0	4.0	–
– Establishing of new facilities	46.0	14.0	32.0
Mergers and acquisitions	9.0	9.0	–
General working capital	2.7	2.7	–
Total	76.7	41.4	35.3

The remaining balance was placed as deposits (including bank deposits) with several reputable financial institutions. For further details, please see the paragraph above headed "**Liquidity and Financial Resources**".

CORPORATE GOVERNANCE PRACTICES

During the year ended 31 December 2018, the Company has complied with the code provisions as set out in the Corporate Governance Code (the "**Code**") contained in Appendix 14 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), except for the following deviation:

Paragraph A.5 of the Code provides that an issuer should establish a nomination committee with specific written terms of reference for the following duties: (i) review the structure, size and composition of the Board, (ii) select and nominate individuals to be appointed as directors, (iii) assess the independence of independent non-executive directors, and (iv) make recommendation to the Board on the appointment or reappointment of directors and succession planning for directors. The Company has not set up a nomination committee as all major decisions regarding the Board composition and its members are made in consultation with the Board in which all directors of the Company will participate in the process and perform the duties of a nomination committee as contemplated in the Code. The Board considers that it is not necessary to establish a nomination committee given that the current arrangements meet the objective of the Code.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the directors of the Company. Having made specific enquiry of all the directors of the Company, the Company confirms that the directors of the Company have complied with the required standard set out in the Model Code for the year ended 31 December 2018.

REVIEW OF ANNUAL RESULTS BY AUDIT COMMITTEE

The annual results for the year ended 31 December 2018 have been reviewed by the audit committee of the Company which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements.

SCOPE OF WORK OF KPMG

The financial figures in respect of the Group's consolidated statement of financial position, consolidated statement of profit or loss and other comprehensive income, and the related notes thereto for the year ended 31 December 2018 as set out in the preliminary announcement have been compared by the Group's auditor, KPMG, Certified Public Accountants, to the amounts set out in the Group's draft consolidated financial statements for the year and the amounts were found to be in agreement. The work performed by KPMG in this respect did not constitute an audit, review or other assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by the auditor.

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

The forthcoming annual general meeting of the Company will be held on 25 June 2019. Notice of the annual general meeting will be published and issued to the shareholders of the Company in due course. For determining the entitlement to attend and vote in the annual general meeting, the register of members of the Company will be closed from 20 June 2019 to 25 June 2019 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the attendance of the annual general meeting, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 19 June 2019.

FINAL DIVIDEND

The Board does not recommend the payment of a final dividend for the year ended 31 December 2018.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the year ended 31 December 2018, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

PUBLICATION OF FINAL RESULTS ANNOUNCEMENT AND ANNUAL REPORT

This annual results announcement is published on the HKEXnews website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.com.hk and on the Company's website at www.vmeph.com. The annual report 2018 of the Company will also be published on the aforesaid websites in due course.

OUR APPRECIATION

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

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

Hong Kong, 27 March 2019

As at the date of this announcement, the Board comprised four executive directors, namely Mr. Liu Wu Hsiung, Mr. Lin Chih Ming, Mr. Lin Chun Yu and Mr. Chiang Chin Yung, two non-executive directors, namely Mr. Chiu Ying Feng and Ms. Wu Li Chu and three independent non-executive directors, namely Ms. Lin Ching Ching, Mr. Shen Hwa Rong and Ms. Wu Kwei Mei.