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

**ANNOUNCEMENT OF INTERIM RESULTS
FOR THE SIX MONTHS ENDED 30 JUNE 2020**

Financial Highlights :

	(expressed in US\$'million)		
	Six months ended 30 June		
	2020	2019	Change Amount
• Revenue	27.8	44.1	(16.3)
• Gross profit	2.4	1.8	0.6
• Net loss after tax	(4.2)	(8.4)	4.2
• Loss per share (US\$)	(0.005)	(0.009)	0.004

The board of directors (the “**Board**”) of Vietnam Manufacturing and Export Processing (Holdings) Limited (the “**Company**”) hereby announces the unaudited consolidated financial results of the Company and its subsidiaries (the “**Group**”) for the six months ended 30 June 2020 together with the comparative figures for the corresponding period in 2019.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020 – unaudited

		Six months ended 30 June	
	Note	2020 US\$	2019 US\$
Revenue	3	27,782,529	44,078,363
Cost of sales		<u>(25,379,930)</u>	<u>(42,265,863)</u>
Gross profit		2,402,599	1,812,500
Other income		437,639	266,383
Distribution costs		(2,085,125)	(2,691,264)
Technology transfer fees		(177,854)	(821,265)
Administrative and other operating expenses		<u>(3,418,334)</u>	<u>(4,096,132)</u>
Results from operating activities	(2,841,075)(5,529,778)
Finance income		1,143,861	1,432,147
Finance costs		<u>(511,176)</u>	<u>(343,954)</u>
Net finance income	4(a)632,6851,088,193
Impairment loss on other property, plant and equipment	4(c)	(2,018,855)	(1,206,954)
Impairment loss on prepayments for other property, plant and equipment	4(c)	-	(1,793,806)
Impairment loss on right-of-use assets	4(c)	-	(994,232)
Share of (loss)/profit of an associate		<u>(12,067)</u>	<u>7,886</u>
		<u>(2,030,922)</u>	<u>(3,987,106)</u>
Loss before taxation	4	(4,239,312)	(8,428,691)
Income tax (expense)/credit	5	<u>(435)</u>	<u>258</u>
Loss for the period		<u>(4,239,747)</u>	<u>(8,428,433)</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the six months ended 30 June 2020 – unaudited (continued)

		Six months ended 30 June	
	Note	2020	2019
		US\$	US\$
Other comprehensive income for the period (after tax)			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of overseas subsidiaries and an associate		<u>(239,646)</u>	<u>(221,432)</u>
Total comprehensive income for the period		<u>(4,479,393)</u>	<u>(8,649,865)</u>
Loss for the period attributable to:			
Equity shareholders of the Company		(4,239,745)	(8,428,433)
Non-controlling interests		<u>(2)</u>	<u>-</u>
		<u>(4,239,747)</u>	<u>(8,428,433)</u>
Total comprehensive income attributable to:			
Equity shareholders of the Company		(4,479,391)	(8,649,865)
Non-controlling interests		<u>(2)</u>	<u>-</u>
		<u>(4,479,393)</u>	<u>(8,649,865)</u>
Loss per share			
- Basic and diluted	6	<u>(0.005)</u>	<u>(0.009)</u>

Consolidated Statement of Financial Position

At 30 June 2020 – unaudited

		At 30 June 2020 US\$	At 31 December 2019 US\$
Non-current assets			
Investment properties		4,167,529	4,214,515
Other property, plant and equipment	8	3,098,805	3,199,305
Interest in an associate		528,568	544,900
Deferred tax assets		<u>30,339</u>	<u>29,864</u>
		----- 7,825,241	----- 7,988,584
Current assets			
Inventories		28,011,840	23,320,944
Trade receivables, other receivables and prepayments	9	18,245,805	25,883,043
Current tax recoverable		4,256	-
Cash and bank balances		<u>46,620,368</u>	<u>52,028,047</u>
		----- 92,882,269	----- 101,232,034
Current liabilities			
Trade and other payables	10	10,538,303	14,716,024
Bank loans		28,334,456	27,943,369
Lease liabilities		41,613	18,194
Current tax payable		3,794	40,102
Provisions		<u>986,417</u>	<u>1,012,190</u>
		----- 39,904,583	----- 43,729,879
Net current assets		----- 52,977,686	----- 57,502,155
Total assets less current liabilities		----- 60,802,927	----- 65,490,739
Non-current liability			
Lease liabilities		<u>717,217</u>	<u>925,636</u>
NET ASSETS		----- <u>60,085,710</u>	----- <u>64,565,103</u>

Consolidated Statement of Financial Position

At 30 June 2020 – unaudited (continued)

	At 30 June 2020	At 31 December 2019
	<i>US\$</i>	<i>US\$</i>
Capital and reserves		
Share capital	1,162,872	1,162,872
Reserves	<u>58,918,525</u>	<u>63,397,916</u>
Total equity attributable to equity shareholders of the Company	60,081,397	64,560,788
Non-controlling interests	<u>4,313</u>	<u>4,315</u>
TOTAL EQUITY	<u><u>60,085,710</u></u>	<u><u>64,565,103</u></u>

NOTES TO THE INTERIM RESULTS ANNOUNCEMENT

1. BASIS OF PREPARATION

The financial information set out in this announcement does not constitute the Group's interim financial report for the six months ended 30 June 2020, but is derived from the interim financial report.

The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard ("IAS") 34, *Interim financial reporting*, issued by the International Accounting Standards Board ("IASB").

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2019 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2020 annual financial statements. Details of any changes in accounting policies are set out in Note 2.

The preparation of an interim financial report in conformity with IAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

The interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2019 annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with International Financial Reporting Standards ("IFRSs").

The interim financial report is unaudited, but has been reviewed by the Company's auditor, KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of interim financial information performed by the independent auditor of the entity*, issued by the Hong Kong Institute of Certified Public Accountants.

The financial information relating to the financial year ended 31 December 2019 that is included in the interim financial report as comparative information does not constitute the Company's annual consolidated financial statements for that financial year but is derived from those financial statements. The Company's auditor has reported on those financial statements. The auditor's report was unqualified and did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report.

2. CHANGES IN ACCOUNTING POLICIES

The IASB has issued several amendments to IFRSs that are first effective for the current accounting period of the Group. 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 in this interim financial report.

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

3. REVENUE AND 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 identified three reportable segments. No operating segments have been aggregated to form the following reportable segments.

(a) Disaggregation of revenue

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

	Six months ended 30 June	
	2020	2019
	<i>US\$</i>	<i>US\$</i>
Revenue from contracts with customers within the scope of IFRS 15		
Disaggregated by major products or service lines		
- Manufacture and sale of motorbikes	22,569,854	37,118,869
- Manufacture and sale of spare parts and engines	5,129,208	6,939,860
- Moulds and repair services	<u>83,467</u>	<u>19,634</u>
	<u><u>27,782,529</u></u>	<u><u>44,078,363</u></u>
Disaggregated by geographical location of customers		
- Vietnam (place of domicile)	13,588,058	20,516,526
- Malaysia	5,899,272	12,721,711
- Thailand	2,932,629	1,914,497
- The Philippines	2,786,172	5,113,783
- Greece	1,059,461	2,050,085
- Taiwan	557,874	323,303
- Other countries	<u>959,063</u>	<u>1,438,458</u>
	<u><u>27,782,529</u></u>	<u><u>44,078,363</u></u>

(b) Information about reportable segment revenue and profit or loss

Information regarding the Group's reportable segments as provided to the Group's senior executive management for the purpose of resource allocation and assessment of segment performance for the period is set out below:

	Six months ended 30 June 2020			
	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 point in time	22,569,854	5,129,208	83,467	27,782,529
Inter-segment revenue	-	1,016,899	-	1,016,899
Reportable segment revenue	<u>22,569,854</u>	<u>6,146,107</u>	<u>83,467</u>	<u>28,799,428</u>
Segment (loss)/profit before depreciation	(908,789)	(1,036,927)	15,739	(1,929,977)
Depreciation	(75,435)	-	-	(75,435)
Reportable segment (loss) /profit (“adjusted EBIT”)	(984,224)	(1,036,927)	15,739	(2,005,412)
Share of loss of an associate				(12,067)
Net finance income				632,685
Impairment loss on other property, plant and equipment				(2,018,855)
Unallocated corporate expenses				(835,663)
Loss before taxation				<u>(4,239,312)</u>

	Six months ended 30 June 2019			
	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 point in time	37,118,869	6,939,860	19,634	44,078,363
Inter-segment revenue	-	12,176,085	38,704	12,214,789
Reportable segment revenue	<u>37,118,869</u>	<u>19,115,945</u>	<u>58,338</u>	<u>56,293,152</u>
Segment loss before depreciation	(3,972,368)	(644,008)	(3,226)	(4,619,602)
Depreciation	(65,171)	(37,057)	-	(102,228)
Reportable segment loss (“adjusted EBIT”)	(4,037,539)	(681,065)	(3,226)	(4,721,830)
Share of profit of an associate				7,886
Net finance income				1,088,193
Impairment loss on other property, plant and equipment				(1,206,954)
Impairment loss on prepayments for other property, plant and equipment				(1,793,806)
Impairment loss on right-of-use assets				(994,232)
Unallocated corporate expenses				(807,948)
Loss before taxation				<u>(8,428,691)</u>

The measure used for reporting segment result is “adjusted EBIT” i.e. “adjusted earnings or loss before interest and taxes”, where “interest” is regarded as net finance income. To arrive at adjusted EBIT the Group’s loss is further adjusted for items not specifically attributed to individual segments, such as share of (loss)/profit of an associate, impairment losses on other property, plant and equipment, right-of-use assets and prepayments for other property, plant and equipment (“**Motorbike non-current assets**”), directors’ and auditors’ remuneration and other head office or corporate administration costs.

4. LOSS BEFORE TAXATION

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

(a) Net finance income

	Six months ended 30 June	
	2020	2019
	<i>US\$</i>	<i>US\$</i>
Interest income from banks	(1,058,423)	(1,332,139)
Net foreign exchange gain	<u>(85,438)</u>	<u>(100,008)</u>
Finance income	<u><u>(1,143,861)</u></u>	<u><u>(1,432,147)</u></u>
Interest paid and payable to banks	484,756	309,603
Interest on lease liabilities	<u>26,420</u>	<u>34,351</u>
Finance costs	<u><u>511,176</u></u>	<u><u>343,954</u></u>
	<u><u>(632,685)</u></u>	<u><u>(1,088,193)</u></u>

(b) Staff costs

	Six months ended 30 June	
	2020	2019
	<i>US\$</i>	<i>US\$</i>
Salaries, wages and other benefits	4,676,091	5,822,092
Contributions to defined contribution retirement plans	645,920	672,354
Severance pay allowance	<u>31,401</u>	<u>513,761</u>
	<u><u>5,353,412</u></u>	<u><u>7,008,207</u></u>

(c) **Other items**

	Six months ended 30 June	
	2020	2019
	<i>US\$</i>	<i>US\$</i>
Depreciation of investment properties, other property, plant and equipment and right-of-use assets	89,795	102,228
Gain on disposal of other property, plant and equipment	(388)	(432)
Write-down of inventories	63,045	573,350
Research and development expenses	913,806	1,129,118
Impairment loss on other property, plant and equipment [#]	2,018,855	1,206,954
Impairment loss on prepayments for other property, plant and equipment [#]	-	1,793,806
Impairment loss on right-of-use assets [#]	-	994,232

The manufacturing and sale of motorbikes segment, manufacturing and sale of spare parts and engines segment and moulds and repair services segment in Vietnam are considered one cash generating unit (“CGU”) of the Group.

The Group suffered significant operating losses (before impairment losses on Motorbike non-current assets) over the past few years due to the fierce competition in the motorbike industry and increase of manufacturing cost on newly launched products. Based on an impairment assessment conducted by management, impairment losses totaling US\$2,018,855 (six months ended 30 June 2019: US\$3,994,992) was recognised in profit or loss during the period to write down the carrying value of other property, plant, and equipment, right-of-use assets and prepayments for other property, plant and equipment of the CGU to their recoverable amounts of US\$3,098,805 during the period (30 June 2019: US\$3,238,359).

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. During the period, management identified certain buildings included in the CGU which carrying values are likely to be recovered through a sales transaction. The recoverable amounts of these buildings are measured based on their fair value less costs of disposal. This valuation model considers recent sales prices of comparable properties on a price per square foot basis, adjusted for a premium or a discount specific to the quality of the Group’s buildings compared to the recent sales. Higher premium for higher quality buildings will result a higher fair value measurement. The fair value on which recoverable amount is based is categorised as a Level 3 measurement under the three-level fair value hierarchy as defined in IFRS 13, *Fair Value Measurement*. Key unobservable inputs include the premium on quality of the buildings of 4%. For assets which management considers are likely to recover through continuing use, the Group assessed the recoverable amount 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 15% (six months ended 30 June 2019: 13%).

5. INCOME TAX EXPENSE/(CREDIT)

	Six months ended 30 June	
	2020	2019
	US\$	US\$
Current tax		
Provision for the period	413	-
Under/(over)-provision in respect of prior periods	<u>22</u>	<u>(258)</u>
	<u>435</u>	<u>(258)</u>

No provision for Hong Kong Profits Tax has been made as the Group did not earn any income subject to Hong Kong Profits Tax for the six months ended 30 June 2020 and 2019.

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

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax (“CIT”) for Vietnam Manufacturing and Export Processing Co., Limited (“VMEP”) is calculated at 18% of the 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 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 2019, the applicable tax rate for Chin Zong Trading Co., Ltd. is 20% if the taxable profit for the year is above New Taiwan Dollar (“NT\$”) 120,000. Income tax is exempted if the taxable profit is below NT\$120,000.

6. LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to equity shareholders of the Company of US\$4,239,745 (six months ended 30 June 2019: US\$8,428,433) and the weighted average of 907,680,000 ordinary shares (2019: 907,680,000 ordinary shares) in issue during the interim period.

(b) Diluted loss per share

The amount of diluted loss per share is the same as the basic loss per share for the six months ended 30 June 2020 and 2019 as there were no potential dilutive ordinary shares in existence during the six months ended 30 June 2020 and 2019.

7. DIVIDEND

No dividend has been paid or declared by the Company for the six months ended 30 June 2020 (six months ended 30 June 2019: nil).

8. OTHER PROPERTY, PLANT AND EQUIPMENT

(a) Acquisitions of other property, plant and equipment

During the six months ended 30 June 2020, the Group acquired items of other property, plant and equipment with a cost of US\$2,018,855 (six months ended 30 June 2019: US\$1,217,793).

(b) Impairment losses

During the six months period ended 30 June 2020, an impairment loss of US\$2,018,855 (six months ended 30 June 2019: US\$2,201,186) was recognised in profit or loss for other property, plant and equipment and right-of-use assets (see note 4(c)).

9. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	At 30 June 2020	At 31 December 2019
	<i>US\$</i>	<i>US\$</i>
Trade receivables	6,201,509	12,702,561
Non-trade receivables	11,501,353	12,625,485
Prepayments	334,537	362,370
Amounts due from related parties		
Trade	207,292	190,978
Non-trade	<u>1,114</u>	<u>1,649</u>
	<u><u>18,245,805</u></u>	<u><u>25,883,043</u></u>

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

	At 30 June 2020	At 31 December 2019
	<i>US\$</i>	<i>US\$</i>
Within 3 months	5,555,760	11,708,352
More than 3 months but within 1 year	<u>853,041</u>	<u>1,185,187</u>
	<u><u>6,408,801</u></u>	<u><u>12,893,539</u></u>

10. TRADE AND OTHER PAYABLES

	At 30 June	At 31 December
	2020	2019
	<i>US\$</i>	<i>US\$</i>
Trade payables	3,448,245	6,942,145
Other payables and accrued operating expenses	4,235,642	5,579,143
Contract liabilities – billings in advance of performance	982,692	1,180,324
Amounts due to related parties		
Trade	1,161,161	542,456
Non-trade	<u>710,563</u>	<u>471,956</u>
	<u><u>10,538,303</u></u>	<u><u>14,716,024</u></u>

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

	At 30 June	At 31 December
	2020	2019
	<i>US\$</i>	<i>US\$</i>
Within 3 months	4,559,769	7,422,406
More than 3 months but within 1 year	41,730	62,195
More than 1 year but within 5 years	<u>7,907</u>	<u>-</u>
	<u><u>4,609,406</u></u>	<u><u>7,484,601</u></u>

11. COMMITMENTS

Capital commitments outstanding at 30 June 2020 not provided for in the interim financial report

	At 30 June	At 31 December
	2020	2019
	<i>US\$</i>	<i>US\$</i>
Contracted for	<u><u>2,027,947</u></u>	<u><u>5,029,080</u></u>

MANAGEMENT DISCUSSION AND ANALYSIS

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

Operation Environment

The outbreak of a novel coronavirus (“**COVID-19**”) in the first half of 2020 had negatively impacted the global economy. Supply chains were disrupted while business and trading activities came to a halt due to the pandemic and preventive quarantine arrangements, resulting in a decline in consumer confidence and an extremely volatile market. The operating performance of the Group was also restrained during the period.

The heightened external uncertainties mentioned above exerted considerable pressure on the Group's motorbike manufacturing business. According to the statistics from Vietnam Association of Motorcycle Manufacturers, the total sales volume of the top five foreign direct investment manufacturers in Vietnam reached 1,249,997 motorbikes in the first half of 2020, representing a decrease of 17% as compared to the first half of 2019.

The social isolation policies implemented by the Vietnamese government in March 2020 which lasted for around two months had affected the Group by causing a significant contraction in customers' orders. Malaysia, the Philippines and Thailand, the major export markets of the Group, were also under lockdown imposed by local governments, bringing production and sales activities to a complete halt. It was not until June 2020, when the bans were gradually lifted, that business and trading activities resumed.

In addition to the above-mentioned impacts of the COVID-19 pandemic, there is still keen competition in the business environment in Vietnam and ASEAN countries. Facing such operating pressure, the management of the Group will continue to devote its best efforts to proactively identify potential business opportunities and pursue sustainable development in order to ensure stability in production and keep its operation in order with a view to minimise the adverse impacts.

BUSINESS REVIEW

For the six months ended 30 June 2020, the Group sold about 15,000 units of motorbikes (including about 1,500 units of scooters, 13,200 units of cubs and 300 units of electric motorbikes) in Vietnam, representing a decrease of 34% as compared with the same period last year. The Group exported about 13,100 units of motorbikes to ASEAN countries, representing a decrease of 51% as compared with the same period last year. Such decrease was mainly attributed to the slowdown or suspension of sales as a result of the outbreak and spread of COVID-19 pandemic since early 2020.

Despite facing challenges in obtaining orders in Vietnam and ASEAN countries due to the negative impacts of the pandemic, in terms of export markets, the Group continues to focus on Malaysia and maintain close cooperation with its long-term partners. To expand its channels, the Group also works with its partners in Thailand to broaden its sales network.

In such difficult business environment, the Group implements various cost saving measures, which include cutting general and administrative expenses as well as other operating costs. Meanwhile, the Group focuses on monitoring its procurement and inventory levels to reduce cost of inventory. It is expected that the second half of 2020 will remain challenging to the Group. The Group will continue to improve cost efficiencies, not only to successfully overcome the imminent crisis, but also to ensure that the Group is well positioned for future economic and sales recovery.

FINANCIAL REVIEW

The Group's revenue decreased by 37% from US\$44.1 million for the six months ended 30 June 2019 to US\$27.8 million for the six months ended 30 June 2020. The Group's net loss for the six months ended 30 June 2020 decreased by US\$4.2 million, from a net loss of US\$8.4 million for the six months ended 30 June 2019 to a net loss of US\$4.2 million for the six months ended 30 June 2020.

REVENUE

The Group's revenue for the six months ended 30 June 2020 was US\$27.8 million, representing a decrease of US\$16.3 million or 37% as compared with US\$44.1 million for the six months ended 30 June 2019. Such decrease was mainly attributed to the drop in sales volume in Vietnam and ASEAN countries as a result of the negative impact brought by the outbreak of COVID-19.

The principal scooter models include ATTILA-V, ELIZABETH, ELITE and SHARK, and cub models of ELEGANT, GALAXY, START X, AMIGO and ANGELA.

COST OF SALES

The Group's cost of sales decreased by 40%, from US\$42.3 million for the six months ended 30 June 2019 to US\$25.4 million for the six months ended 30 June 2020. The decrease was mainly due to the decrease in sales. As a percentage of total revenue, the Group's cost of sales decreased from 96% for the six months ended 30 June 2019 to 91% for the six months ended 30 June 2020. The Group will continue to strive to decrease the production cost per unit and stabilise production costs by developing new sourcing channels and reselecting suppliers.

GROSS PROFIT AND GROSS PROFIT MARGIN

During the six months ended 30 June 2020, the Group recorded a gross profit and gross profit margin of approximately US\$2.4 million and 9% respectively (six months ended 30 June 2019: gross profit and gross profit margin of approximately US\$1.8 million and 4% respectively). For domestic sales, sales of less profitable models declined mainly due to a highly competitive business environment in Vietnam and ASEAN countries as well as the impact of the COVID-19 pandemic, resulting in a decrease in loss; for export sales, the Group continued to expand its channels in the Thai market and cooperated with strategic alliances to provide OEM services for the brand Lambretta with a view to increase its sources of profit by a small margin.

DISTRIBUTION EXPENSES

The Group's distribution expenses decreased by 22%, from US\$2.7 million for the six months ended 30 June 2019 to US\$2.1 million for the six months ended 30 June 2020. Such decrease was mainly attributed to rectification of existing distribution network, a decrease of sales incentives and supporting fees to the distributors. In addition, overall marketing and promotion expenses decreased alongside with the decline in sales due to the impact of the COVID-19 pandemic.

ADMINISTRATIVE AND OTHER OPERATING EXPENSES

The Group's administrative and other operating expenses decreased by 17%, from US\$4.1 million for the six months ended 30 June 2019 to US\$3.4 million for the six months ended 30 June 2020. The expenses accounted for 12% of the Group's total revenue for the six months ended 30 June 2020. The decrease was principally due to the decrease of research and development expenses, and efforts to boost the operation efficiency and strengthen the expense control.

RESULTS FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's results from operating activities improved by US\$2.7 million, from a loss of US\$5.5 million for the six months ended 30 June 2019 to a loss of US\$2.8 million for the six months ended 30 June 2020.

NET FINANCE INCOME

The Group's net finance income decreased by 45%, from US\$1.1 million for the six months ended 30 June 2019 to US\$0.6 million for the six months ended 30 June 2020. Such decrease was mainly attributable to a decrease in interest income by US\$0.3 million and an increase in finance cost by US\$0.2 million.

IMPAIRMENT LOSS ON OTHER PROPERTY, PLANT AND EQUIPMENT

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 six months ended 30 June 2020, the Group considered it was an indication that the other 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") may be impaired. Accordingly, the Group carry out an impairment testing on the Relevant PPE and noted an impairment loss of approximately US\$2.0 million on the other property, plant and equipment were required as at the six months ended 30 June 2020.

LOSS FOR THE PERIOD AND MARGIN

As a result of the factors discussed above, the Group's net loss for the six months ended 30 June 2020 decreased by US\$4.2 million, from a loss of US\$8.4 million for the six months ended 30 June 2019 to a loss of US\$4.2 million for the six months ended 30 June 2020. The Group's net loss margin improved from 19% for the six months ended 30 June 2019 to 15% for the six months ended 30 June 2020.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2020, the Group's net current assets amounted to US\$53.0 million (31 December 2019: US\$57.5 million) which consisted of current assets amounting to US\$92.9 million (31 December 2019: US\$101.2 million) and current liabilities amounting to US\$39.9 million (31 December 2019: US\$43.7 million).

As at 30 June 2020, the Group had bank loans repayable within one year of US\$28.3 million (31 December 2019: US\$27.9 million). As at 30 June 2020, the Group had no interest-bearing bank loans repayable beyond one year (31 December 2019: Nil). As at 30 June 2020, the gearing ratio was 47% (31 December 2019: 43%) calculated as the ratio of total bank loans over total equity.

As at 30 June 2020, the cash and bank balances (including bank deposits) amounted to US\$46.6 million, including US\$37.6 million denominated in Vietnamese Dong and US\$9.0 million denominated in US dollar (31 December 2019: US\$52.0 million, which mainly included US\$31.7 million denominated in Vietnamese Dong and US\$20.3 million denominated in US dollar).

The Group actively and regularly reviews and manages its capital structure to enhance its financial strength for the Group's long-term development. There was no change in the Group's approach to capital management during the six months ended 30 June 2020.

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 offers competitive remuneration packages to its staff in Vietnam and Taiwan, and regularly reviews its remuneration packages in light of the overall development of the Group. The Group's remuneration packages include basic salaries, bonuses, staff quarters, training and development opportunities, medical benefits, insurance plan and retirement benefits. As at 30 June 2020, the Group had 1,292 employees (30 June 2019: 1,618). The total amount of salaries and related costs for the employees for the six months ended 30 June 2020 amounted to approximately US\$5.4 million (six months ended 30 June 2019: US\$7.0 million).

CONTINGENT LIABILITIES

As at 30 June 2020, the Group did not have any contingent liabilities.

MERGER AND ACQUISITIONS OF SUBSIDIARIES

In March 2020, Vietnam Manufacturing and Export Processing Company Limited ("VMEP") made a contribution to the capital of Dinh Duong Joint Stock Company ("**Dinh Duong**", a company incorporated in Vietnam) in the amount of VND69,000,000,000. Upon the capital contribution, the registered capital of Dinh Duong increased to VND168,350,000,000 from VND99,350,000,000 and VMEP holds a total of approximately 99.94% of equity interest in Dinh Duong. The industrial and business registration of changes in relation to the above capital contribution has completed on 31 March 2020.

Save as disclosed above, for the six months ended 30 June 2020, the Group had no acquisition or disposal of subsidiaries and associated companies.

CHANGES SINCE 31 DECEMBER 2019

Save as disclosed in this announcement, since 31 December 2019, there were no other significant changes in the Group's financial position and there were no other significant changes in relation to the information disclosed under the section headed "Management Discussion and Analysis" in the annual report of the Company for the year ended 31 December 2019.

PROSPECTS

Looking ahead to the second half of 2020, it is expected that the Group's business will continue to encounter tough challenges for a while due to the risk of ongoing worldwide spread of the pandemic. Although the Group's sales in Vietnam and ASEAN countries have gradually improved since June 2020 as the situation in those markets has eased, efforts in cost control will continue and the Group will extend its cost control measures to every division at an even faster pace. At the same time, the Group exerts maximum efforts to adopt the highest standard of preventive measures to safeguard the health and safety of its employees, customers and business partners. The Group will closely monitor the market situation and adjust its business strategies accordingly.

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 the second half of 2020, the Group plans to roll out a number of new or modified motorbike models in the Vietnamese and ASEAN countries so as to achieve product diversification and greater profitability, and offer consumers with environmentally-friendly and convenient products at reasonable prices. 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 countries, the Group will

step up further to engage in marketing and promotional activities, and to provide better after-sales services overseas.

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 initial public offering of the Company in December 2007, net of related listing expenses, amounted to approximately US\$76.7 million, which will be used in accordance with the manners stated in the prospectus of the Company (the “**Prospectus**”) and the announcement headed “change in use of proceeds” of the Company dated 10 May 2019 (the “**Announcement**”).

The table below sets out the detailed items of the use of proceeds from the initial public offering as at 30 June 2020:

	Net proceeds from the initial public offering as stated in the Prospectus and the Announcement Approximately in US\$’ million	Amounts utilised as at 30 June 2020 Approximately in US\$’ million	Balance unutilised as at 30 June 2020 Approximately in US\$’ million
Construction of research and development centre in Vietnam	11.7	11.7	–
Expanding distribution channels in Vietnam			
– Upgrading of existing facilities	4.0	4.0	–
– Establishing of new facilities	15.0	15.0	–
Mergers and acquisitions	9.0	9.0	–
General working capital	2.7	2.7	–
Development of production sites as well as the relocation of existing production facilities	15.0	9.3	5.7
Land development	<u>19.3</u>	<u>4.2</u>	<u>15.1</u>
Total	<u><u>76.7</u></u>	<u><u>55.9</u></u>	<u><u>20.8</u></u>

The unutilised balance was placed with several reputable financial institutions as deposits. For further details, please see the paragraph headed “Liquidity and Financial Resources” above.

CORPORATE GOVERNANCE PRACTICES

During the six months ended 30 June 2020, 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.5.2 of the Code provides that an issuer should establish a nomination committee with specific written terms of reference for, among others, 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 recommendations 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 objectives 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**”) contained 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 directors of the Company, the Company confirms that the directors of the Company have complied with the required standards set out in the Model Code for the six months ended 30 June 2020.

PUBLIC FLOAT

Based on information that is publicly available to the Company and to the best knowledge of the Board, as at the date of this announcement, the Company has maintained the prescribed public float of no less than 25% under the Listing Rules.

A SCHEME OF ARRANGEMENT

On 5 June 2020, a joint announcement in relation to a proposal for the privatisation of the Company by SY International Ltd. (“**SYI**”, the controlling shareholder of the Company, held approximately 67.07% of the issued share capital of the Company) by way of a scheme of arrangement was issued. The Proposal comprises the privatisation of the Company in consideration of the scheme consideration of HK\$0.45 per scheme share, which will be payable by the SYI to scheme shareholders in cash. Details of the Proposal are set out in the Company’s announcement dated 5 June 2020.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in this announcement, there were no other material events after the reporting period as at the date of this announcement.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY’S LISTED SECURITIES

During the six months ended 30 June 2020, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company’s listed securities.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The unaudited interim results for the six months ended 30 June 2020 and the interim report 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.

INTERIM DIVIDEND

The Board has resolved not to recommend payment of interim dividend for the six months ended 30 June 2020 (2019: Nil). Accordingly, no closure of the register of members of the Company is proposed.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

This interim results announcement is published on the HKEXnews website of Hong Kong Exchanges and Clearing Limited at www.hkexnews.hk and on the Company’s website at www.vmeph.com. The 2020 interim report of the Company will also be published on the aforesaid websites in due course.

OUR APPRECIATION

Finally, we would like to express our 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.

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

Hong Kong, 30 July 2020

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.