Prospective investors should read the following discussion and analysis in conjunction with the audited consolidated financial statements of the Group prepared in conformity with IFRS, together with the accompanying notes, set out in the Accountants' Report included as Appendix I to this prospectus. Information presented in this section that is not extracted or derived from the Accountants' Report has been extracted or derived from unaudited management accounts or other records. Investors should read the whole of the Accountants' Report and not rely merely on the information contained in this section.

The following discussion contains certain forward-looking statements that involve risks and uncertainties.

For the purpose of this section, unless the context otherwise requires, references to 2004, 2005 and 2006 refer to the Group's financial year ended 31 December of such year.

OVERVIEW

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

The Group's revenue for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007 was US$261.0 million, US$183.8 million, US$184.3 million and US$115.0 million, respectively. For the same periods, the net profit of the Group was US$43.0 million, US$16.5 million, US$23.3 million and US$14.0 million, respectively. Most of the Group's revenue is derived from the manufacture and sale of motorbikes. For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, sales of motorbike engines and parts to third parties accounted for approximately 6.0%, 14.0%, 12.0% and 10.2% of the Group's revenue. For each of these periods, the sale and servicing of moulds accounted for less than 1% of the Group's revenue.

BASIS OF PRESENTATION OF FINANCIAL INFORMATION

The Group's financial statements included in Appendix I to this prospectus and the related financial information included in this section present the results of operations of the companies comprising the Group as if the current group structure had been in existence and remained unchanged throughout the period from 1 January 2004 through 30 June 2007 (or since the date of such companies' incorporation, where shorter). The Group's consolidated balance sheets have been prepared to present the assets and liabilities of the Group as if the current group structure had been in existence as at the relevant dates. All material intra-group transactions and balances have been eliminated on consolidation.

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

SELECTED HISTORICAL FINANCIAL INFORMATION OF THE GROUP

The following consolidated income statements for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, and the selected consolidated balance sheet information as at 31 December 2004, 2005 and 2006 and 30 June 2007 set forth below, are derived from the Accountants' Report set out in Appendix I to this prospectus.

Consolidated income statements

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	(US$)	*(US$)*	*(US$)*	*(US$)* (unaudited)	*(US$)*
Revenue	260,956,003	183,793,637	184,308,268	91,832,228	114,964,647
Cost of sales	(191,288,166)	(143,204,825)	(140,076,287)	(66,180,349)	(87,288,531)
Gross profit	69,667,837	40,588,812	44,231,981	25,651,879	27,676,116
Other income	243,779	170,433	203,059	61,860	274,385
Distribution expenses	(11,423,531)	(11,530,419)	(11,456,332)	(5,361,596)	(7,691,823)
Technology transfer fees	(7,844,119)	(4,933,528)	(3,052,690)	(1,617,568)	(2,530,870)
Administrative expenses	(6,580,609)	(8,608,986)	(7,623,331)	(4,015,365)	(4,560,210)
Other expenses	(21,010)	(53,171)	(140,328)	(94,108)	(10,034)
Profit from operating activities	44,042,347	15,633,141	22,162,359	14,625,102	13,157,564
Finance income	4,435,793	3,622,150	5,313,723	3,061,486	2,939,208
Finance expenses	(839,196)	(1,091,227)	(1,646,860)	(906,930)	(662,449)
Net finance income	3,596,597	2,530,923	3,666,863	2,154,556	2,276,759
Share of profits of an equity accounted investee	271,356	71,262	57,074	35,636	53,192
Profit before income tax	47,910,300	18,235,326	25,886,296	16,815,294	15,487,515
Income tax expense	(4,926,064)	(1,758,921)	(2,565,095)	(1,665,153)	(1,484,148)
Profit for the year/period	42,984,236	16,476,405	23,321,201	15,150,141	14,003,367
Profit attributable to equity holders of the Company	42,889,869	16,456,736	23,309,018	15,146,983	13,995,715
Other financial data:					
Depreciation and amortisation	6,948,443	7,206,645	8,324,291	3,924,113	4,292,709
Capital expenditure	9,721,382	10,227,885	7,315,956	5,496,326	6,542,759
Cash flow from operating activities	5,326,936	2,357,595	34,061,444	15,460,268	3,603,814

Selected Consolidated Balance Sheet Information

	At 31 December			At 30 June	
	2004	2005	2006	2006	2007
	(US$)	*(US$)*	*(US$)*	*(US$)* (unaudited)	*(US$)*
Total assets	**179,314,377**	**171,493,948**	**171,359,924**	**177,488,469**	**178,489,743**
Cash and cash equivalents	42,634,510	23,671,827	47,434,924	22,950,888	46,991,251
Total liabilities	**63,010,034**	**49,203,592**	**48,138,888**	**62,291,224**	**47,508,580**
less current liabilities	(62,332,922)	(49,203,592)	(48,099,053)	(62,291,224)	(47,477,044)
non current liabilities	677,112	–	39,835	–	31,536
Total equity	**116,304,343**	**122,290,356**	**123,221,036**	**115,197,245**	**130,981,163**
Attributable to equity holders of the Company	115,914,430	121,880,774	122,799,271	114,784,505	130,551,746
Minority interest	389,913	409,582	421,765	412,740	429,417

FACTORS AFFECTING THE GROUP'S RESULTS OF OPERATIONS

Macro-economic conditions and overall demand for motorbikes in Vietnam

The Group's primary business is the manufacture and sale of scooter and cub motorbikes in Vietnam. The results of operations of the Group's primary business are closely related to the demand for motorbikes in Vietnam, which has been driven in recent years primarily by a number of significant macro-economic factors, including growth in Vietnam's gross domestic product and a substantial increase in the purchasing power of Vietnam's population. The Group's results have also been related to a rise in demand for scooters in particular, which has been driven by the increasing urbanisation of Vietnam's population, among other factors.

Any significant change in demand for motorbikes in Vietnam and, in particular, for scooters, will affect the Group's results of operations. See "Industry Overview" and "Risk Factors — Risks relating to the Industry" for further details of factors that could affect demand for motorbikes in Vietnam and the Vietnamese motorbike industry in general.

Consumer preferences

Sales of the Group's products, and consequently the Group's results of operations, are affected by shifting consumer taste and changing perceptions of quality with respect to particular brands. The Group seeks to address shifting consumer taste by making the Vietnamese market its primary focus, designing motorbikes in Vietnam specifically for the Vietnamese market, and marketing particular models at specific segments of the consumer market. Still, consumer taste and similar factors are largely outside the Group's control. The Group seeks to address perceptions of quality by producing high quality motorbikes manufactured with effective quality control processes, by offering what the Directors believe are among the longest and most comprehensive warranty packages in the market, and by deploying extensive marketing and image enhancement campaigns. As explained under "— Results of Operations", below, the perception of SYM motorbikes has suffered in the past in relation to quality, particularly in 2005, contributing to a decline in the number of SYM motorbikes sold. In this period, the decline in the number of SYM cubs sold was greater than the decline in sales of SYM scooters, resulting in a product mix more heavily weighted toward scooters. Shifting consumer demand is a significant though unquantifiable factor impacting how many motorbikes the Group sells and the proportion of scooters versus cubs and, in turn, the Group's results of operations.

Product mix

The Group generally realises higher margins on sales of scooters than on sales of cubs. The Group's revenue is therefore affected by the mix of products it sells, particularly the number of high-end scooters versus the number of lower-end cubs. The impact of product mix over the Track Record Period grew as the gross profit margin of cubs fell in relation to the margin of scooters, mainly due to steeper declines in the price of cubs in response to the more intense competition in the cub market and the greater decline in sales of cubs in comparison with scooters.

The table below illustrates the evolution of the gross profit margin of scooters and cubs over the Track Record Period:

	Year ended 31 December			Six months ended 30 June
	2004	**2005**	**2006**	**2007**
Scooters	39.3%	37.8%	37.4%	33.8%
Cubs	18.0%	11.3%	-3.2%	-1.0%

Over the Track Record Period, the decline in the gross profit margin of the Group's cubs was principally a consequence of more intense competition in the cub market and the quality problems suffered by the Group's SYM cubs. From 2004 to 2005 and from 2005 to 2006, these two factors led to a decline in sales of the Group's cubs and in the average sales price of its cubs, and thus to a decline in the Group's revenue. Contributing to this decline from 2005 to 2006 were losses the Group incurred as part of its programme of price decreases and promotions to sell slow-moving inventory of finished products, including a discontinued cub model. Over these two periods, the Group's cost of sales declined as a consequence of lower sales volumes and the Group's continuing efforts to rationalise its supply chain by sourcing parts from lower-cost suppliers. However, because of the lower economies of scale in these periods resulting from lower production volumes, the decline in the cost of sales was significantly smaller than the decline in revenue. In the first six months of 2007, with the quality problems behind it, the Group's sales volume improved substantially, leading to greater economies of scale and an improvement in the profit margin of its cubs.

The Group's scooters were not subject to the same level of price competition and did not suffer from the same quality problems as the Group's cubs during the Track Record Period. Consequently, from 2004 to 2005 and from 2005 to 2006, the profit margin of the Group's scooters declined only modestly. A steeper decline in the first half of 2007 was largely a consequence of product enhancements, particularly on the Attila, that added to the Group's cost of sales.

Price competition

Price competition has contributed to a general decline in the average sales prices of the Group's motorbikes, particularly in respect of cubs, and to pressure on the Group's gross profit margins. The Group has addressed this pressure on its profit margins by implementing a number of cost-saving measures, principally focusing on reducing the Group's cost of raw materials and parts. Nevertheless, as the level of price competition has increased over the

Track Record Period, the Group's profit margin of its motorbikes has declined, partly as a result of this competition. The Group faces continuing competition, both price-based and otherwise, particularly from foreign brands, which could lead to oversupply and further price cuts. For details regarding the decline in the average sales prices of the Group's motorbikes, see the second table under "— Description of Certain Income Statement Items — Revenue", below. For details of the Group's efforts to lower the cost of raw materials and parts, see "— Cost of raw materials and parts", below.

Cost of raw materials and parts

Fluctuations in the price of raw materials and parts have had, and will continue to have, an impact on the Group's results of operations. The prices of the raw materials and parts purchased by the Group are monitored by management with reference to purchase orders and production paperwork. The table under "— Description of Certain Income Statement Items — Cost of sales" illustrates the proportion of the Group's cost of sales attributable to raw materials and parts during the Track Record Period. The price of raw materials is largely dictated by market fluctuations, which are outside the Group's control and which it does not currently have measures in place to manage. The Group has not experienced any material fluctuation in the costs of raw materials during the Track Record Period. While the price of some parts, such as tyres, is strongly influenced by the market price of raw materials, the prices of most of the parts purchased by the Group are negotiated with individual suppliers, in some cases via Sanyang, and have, in the past, generally declined over the life of each model of motorbike in which the parts are used. This decline is largely attributable to the practice of price-down, to design enhancements and to the Group's efforts to rationalise its supply chain by seeking lower-cost suppliers.

Price-down is the practice of motorbike manufacturers paying more for parts at the start of a model's production run, partly in recognition of the up-front investment in tooling, and pressing for cuts to be made to those prices over time as greater economies of scale are achieved. Design enhancements carried out by the Group's research and development team often utilise less expensive raw materials and parts in place of the existing raw materials and parts. Rationalisation of the supply chain involves the Group migrating, over the life of a particular model of motorbike, from higher-cost offshore suppliers to lower-cost suppliers, often in Vietnam and other AFTA members. For further details on the Group's rationalisation efforts, see "Business — Strategies — Accelerate the Group's move to lower-cost reliable suppliers".

Regulatory environment

Changes in government policy have impacted and will continue to impact, directly and indirectly, the Group's business and results of operations. From 2003 to late 2005, the Government imposed a regulation known as "one person, one motorbike", which limited each person in Vietnam to one motorbike and had a negative impact on sales of motorbikes generally. Looking forward, new or enhanced regulations, whether aimed at motorbikes, factories, or consumers, could reduce the Group's operating results. The implementation of more stringent emissions regulations and safety requirements by the Vietnamese government will likely increase the Group's cost base, necessitating higher expenditure to develop compliant products and leading to higher prices for compliant parts. A government requirement that all motorbike factories meet higher safety and quality standards would likely raise the Group's cost base. An increase in the licensing fee payable by consumers for motorbikes could have a dampening effect on retail sales of motorbikes, leading to a reduction in the Group's sales volume.

Taxation

The government's tax policies have a direct impact on the Group's results of operations.

In accordance with its obligations as a member of AFTA, Vietnam has reduced import duty on motorbike parts. This general reduction in import duty has enabled the Group to source parts more cheaply from member nations than it could have sourced them previously. The Directors expect that the Group's recent accession to the WTO will result in further changes to the government's tax policies, particularly in respect of import duty, possibly with the effect of increasing competition in the longer run.

Changes in the rate of tax to which members of the Group are subject have also impacted, and will continue to impact, the Group's financial results.

The Group sets a provision for VMEP's corporate income tax based on 18% of the profit from the manufacture and sale of motorbikes and parts and from services rendered. Although the tax rate applicable to profit from the assembly and sale of engines is 10%, VMEP is entitled to a tax holiday in respect of this amount until the end of 2008.

The corporate income tax rate normally applicable to VCFP is 15%. VCFP, however, is entitled to a 50% reduction in this tax rate through 2012.

Before 1 January 2007, CQS was subject to a corporate income tax rate of 15%. CQS is now subject to a corporate income tax rate of 20% for the period from 1 January 2007 to 31 December 2012. After that date, the corporate income tax rate applicable to CQS will be adjusted to 28%.

The Directors estimate that, without these tax concessions, the Group's profit would have been 9.1%, 8.5%, 8.8% and 7.6% lower in the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively. The Directors therefore expect that the expiry of the tax concessions that the Group has enjoyed will lead to an overall increase in the effective tax rate of the Group and will have an impact on the Group's financial results.

Seasonality

The Group typically experiences increased revenue and operating income from the Mid-Autumn Festival in September through Lunar New Year in January or February. Conversely, the Group's revenue and operating income are generally lower during the rainy season, from March through August.

Inflation

Inflation affects the Group's operating results by increasing the cost of parts and raw materials, as well as the Group's labour and other costs. From 2004 through 2006, inflation in Vietnam averaged 7.0% per year. In many cases, the Group has limited ability to pass along inflation-related cost increases to dealers because of the competitive nature of the Vietnamese motorbike market.

DESCRIPTION OF CERTAIN INCOME STATEMENT ITEMS

Revenue

The Group generates revenue from (i) the manufacture and sale of motorbikes, (ii) the manufacture and sale of engines and parts and (iii) the manufacture, sale and servicing of moulds. The approximate amount and percentage of revenue that each of these business segments contributes (including sales to Sanyang), as well as the amount of revenue attributable to domestic sales and exports and the amount contributed by sales of scooters and cubs respectively, are set out in the following table:

	Year ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	(US$)	*(%)*	*(US$)*	*(%)*	*(US$)*	*(%)*	*(US$)*	*(%)*	*(US$)*	*(%)*
Manufacture and sales of motorbikes										
Domestic	239,692,849	91.9	153,059,950	83.3	151,820,252	82.4	77,323,656	84.2	94,925,362	82.6
– Scooters	107,624,410	41.2	81,956,032	44.6	112,405,845	61.0	57,074,737	62.2	71,974,215	62.6
– Cubs	132,068,439	50.6	71,103,918	38.7	39,414,407	21.4	20,248,919	22.1	22,951,147	20.0
Export	5,132,485	2.0	4,714,630	2.6	9,844,143	5.3	4,007,012	4.4	8,070,805	7.0
– Scooters	46,380	0.0	–	–	3,843,025	2.1	1,630,975	1.8	5,221,405	4.5
– Cubs	5,086,105	1.9	4,714,630	2.6	6,001,118	3.2	2,376,037	2.6	2,849,400	2.5
Total scooters	107,670,790	41.3	81,956,032	44.6	116,248,870	63.1	58,705,712	64.0	77,195,620	67.1
Total cubs	137,154,544	52.6	75,818,548	41.3	45,415,525	24.6	22,624,956	24.6	25,800,547	22.5
Manufacture and sales of spare parts and engines*										
Domestic	11,552,094	4.4	13,734,220	7.5	14,900,498	8.1	7,122,873	7.8	9,355,254	8.1
Export	4,121,214	1.6	11,965,318	6.5	7,286,248	3.9	3,154,389	3.4	2,338,058	2.1
Moulds and repair services										
Domestic	457,361	0.2	299,201	0.2	351,288	0.2	198,168	0.2	159,002	0.1
Export	–		20,318	0.0	105,839	0.1	26,130	0.0	116,166	0.1
Total	**260,956,003**	**100.0**	**183,793,637**	**100.0**	**184,308,268**	**100.0**	**91,832,228**	**100.0**	**114,964,647**	**100.0**

* Substantially all of the Group's domestically generated revenue in this business segment relates to parts. Engines comprised the bulk of export sales, totalling US$3,015,128, US$10,331,040 and US$5,299,680 for the years ended 31 December 2004, 2005 and 2006, respectively, and US$2,010,240 and US$1,020,960 for the six-month periods ended 30 June 2006 and 2007, respectively.

Revenue excludes value added taxes and is net of sales discounts and rebates. Revenue from the sale of goods is recognised in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. In the case of motorbikes and parts sold to dealers, service providers or retail parts outlets, revenue is generally recognised when the products are delivered to and accepted by the receiving parties. Revenue from repair services rendered is recognised when services are rendered. During the Track Record Period, the Group did not record any sales returns arising from product defects. The Group sales return policy requires it to recognise sales returns, if any, based on the selling prices of the returned products.

For details regarding changes in the Group's revenue and the factors contributing to these changes, see "— Results of Operations", below.

The sales volume and weighted average sales price of motorbikes and engines for the domestic and export markets are set out in the following table:

	Sales Volume					Weighted Average Sales Price				
	Year ended 31 December			Six months ended 30 June		Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007	2004	2005	2006	2006	2007
						(US$)	*(US$)*	*(US$)*	*(US$)*	*(US$)*
Sales of motorbikes										
Domestic	252,952	166,952	148,302	73,909	95,025	948	917	1,024	1,046	999
–Scooters	70,924	55,999	76,503	38,269	49,538	1,517	1,464	1,469	1,491	1,453
–Cubs	182,028	110,953	71,799	35,640	45,487	726	641	549	568	505
Export	11,923	11,087	17,066	6,747	10,943	430	425	577	594	738
–Scooters	36	–	3,402	1,411	4,643	1,288	–	1,130	1,156	1,125
–Cubs	11,887	11,087	13,664	5,336	6,300	428	425	439	445	452
Total Scooters	70,960	55,999	79,905	39,680	54,181	1,517	1,464	1,455	1,479	1,425
Total Cubs	193,915	122,040	85,463	40,976	51,787	707	621	531	552	498
Sales of engines										
Export	17,670	60,000	29,760	11,520	5,760	171	172	178	175	177

From 2004 to 2005, the Group experienced a significant decline in the sales volume of motorbikes, by 32.8% on average, driven mainly by a 39.0% drop in domestic sales of cubs, and a 21.0% decline in domestic sales of scooters. From 2005 to 2006, a 42.7% improvement in the sales volume of scooters largely offset a 30.0% decline in the quantity of cubs sold. In the six-month period ended 30 June 2007, the sales volume of cubs improved by 26.4% in comparison with the six-month period ended 30 June 2006, contributing, together with stronger sales of scooters, to a 31.4% increase in the Group's overall motorbike sales volume between these two periods.

Over the Track Record Period, the weighted average sales price of scooters sold domestically decreased slightly, by 4.2%, from the year ended 31 December 2004 to the six-month period ended 30 June 2007, whereas the weighted average sales price of cubs sold domestically decreased by 30.4% as a consequence of the Group's pricing policy to respond to the more intense competition in the cub market and the greater decline in sales of cubs in 2005 in comparison with scooters. In the export market, the trend was inverted, with scooters declining in price and cubs rising by 5.6% over the Track Record Period. The decline in the price of exported scooters from 2006, when the Group began exporting scooters in meaningful numbers, formed part of the management's plan to increase the Group's share of the overseas scooter market, while the rise in the price of exported cubs after 2005 reflected the management's decision to improve its negative profit margin on exported cubs, while still concentrating on growing the Group's share of the overseas cub market. Meanwhile, the modest rise in the weighted average sales price of engines, particularly after 2005, reflected the management's decision to reduce the loss on its exports of the VN7 engine.

For further details regarding changes in the Group's sales volume and average sales prices and the principal factors contributing to these changes, see "— Results of Operations", below.

Cost of sales

The Group's cost of sales includes the cost of raw materials, such as aluminium ingots, plastic resin pellets and paint, as well as the cost of certain parts, for example, carburettors, headlights and brake systems, that the Group purchases from third-party suppliers or manufactures itself.

Over the Track Record Period, fluctuations in the Group's cost of sales have been driven principally by changes in the Group's production volume. Among the other important factors, those tending to increase the Group's cost of sales include increases in the market price of certain raw materials, such as aluminium ingots and rubber, and increases in energy costs and greater outsourcing in the form of increased purchases of partially assembled components from third-party suppliers. Such increases have been partly offset by regular price-down efforts, whereby the Group presses its suppliers to reduce the price of parts over the production life of a particular model, and the Group's efforts to rationalise its supply chain by securing lower-cost suppliers, often ones based in Vietnam. The degree of rationalisation usually increases over the production life of the Group's models and involves the Group sourcing parts from cheaper companies operating in Vietnam and elsewhere in ASEAN rather than more expensive companies typically operating in Taiwan. Where the Group's suppliers remain in Taiwan, the Group sometimes benefits from better terms negotiated by Sanyang when it consolidates its orders with those of the Group and benefits further from Sanyang's practice of consolidating disparate deliveries into fewer large shipments to the Group.

The Group's cost of sales also includes fixed and variable labour costs directly related to the manufacture of the Group's products.

The table below sets forth the principal elements of the Group's cost of sales and shows that while the Group's cost of sales fluctuated over the Track Record Period, the proportion of such cost attributable to each principal element remained relatively constant:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
Cost of sales (in U.S. dollars)	191,288,166	143,204,825	140,076,287	66,180,349	87,288,531
Parts and raw materials	91.6%	89.5%	88.6%	89.3%	90.8%
Direct labour	1.0%	1.2%	1.0%	1.1%	1.0%
Overhead	7.4%	9.3%	10.4%	9.6%	8.2%

The cost of sales attributable to the Group's scooters was US$65.4 million, US$51.0 million, US$72.7 million and US$51.1 million for the years ended 31 December 2004, 2005 and 2006 and for the six-month period ended 30 June 2007, respectively, while the cost of sales attributable to the Group's cubs was US$112.5 million, US$67.2 million, US$46.9 million and US$26.1 million for the same periods. For a description of the factors driving these changes in the Group's cost of sales, see "— Cost of sales" in the period comparisons under "— Results of Operations", below.

Distribution expenses

Distribution expenses consist principally of personnel-related expenses that include salary and bonuses of employees directly related to the sale and marketing of the Group's motorbikes; travel expenses that include delivery and export-related expenses; advertising and marketing expenses that include advertising expenses and the costs contributed to dealers in connection with the decoration of authorised SYM stores; and warranty expenses. Other distribution expenses include market research expenses and overhead costs, such as utilities, office supplies and depreciation charges.

The table below sets forth the principal categories of the Group's distribution expenses:

	Year ended 31 December			Six months ended 30 June	
	2004	**2005**	**2006**	**2006**	**2007**
	(US$)	*(US$)*	*(US$)*	*(US$)*	*(US$)*
Personnel related	1,166,237	963,049	969,642	510,781	606,505
Travel	1,114,141	1,101,366	1,231,284	600,212	853,764
Advertising and marketing	3,079,761	3,616,918	4,055,778	1,964,793	2,839,881
Warranty	4,616,337	3,635,787	3,746,024	1,697,488	2,379,570
Others	1,447,054	2,213,329	1,453,605	588,321	1,012,104
Total	**11,423,531**	**11,530,419**	**11,456,332**	**5,361,596**	**7,691,823**

For details regarding changes in the Group's distribution expenses over the Track Record Period, see "— Distribution expenses" in the relevant period comparisons under "— Results of operations", below.

Technology transfer fees

Under certain technology transfer agreements, the Company is obliged to pay technology transfer fees to Sanyang based on the value of the Group's sales of SYM motorbikes and related parts (which amounted to US$232.4 million, US$139.9 million, US$152.2 million and US$94.6 million for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively), after deducting certain amounts including payments already made to Sanyang for motorbike parts. Until 1 January 2006, these fees were calculated as 5.0% of such net sales. In 2006, they were lowered to 3.0% in acknowledgment of the challenging period through which the Group was passing, with the decline in its unit sales and revenue as detailed below under "— Results of Operations". Since 1 January 2007, these fees have been set by mutual consent at 4.0% of these net sales, a rate determined by reference to comparable arrangements in Vietnam and fixed for at least the next two years under technology transfer agreements. For further details relating to the Group's technology transfer fees, please see "Connected Transactions — Continuing Connected Transactions — Licensing of Trade Marks and Technology and Provision of Research and Development and Technical Support Services Licensing of technology, know-how, trade secrets and production information by Sanyang to VMEP".

Administrative expenses

Administrative expenses include largely similar items to distribution expenses but are not as directly related to the production and sale of motorbikes. Administrative expenses include salary and bonuses, research and development-related costs, taxes and licences, overseas travel, and depreciation charges.

Finance income

Finance income consists of interest income on funds invested, including cash held in interest-bearing bank accounts. Interest income is recognised as it accrues, using the effective interest method.

Finance expenses

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

Share of profits of an equity accounted investee

The Group's equity accounted investee is VTBM, an associate over whose financial and operating policies the Group has significant influence but not control. VTBM's results are accounted for using the equity method. The Accountants' Report and this analysis include the Group's share of the income and expenses of VTBM, after adjustments to align the accounting policies of VTBM with those of the Group.

Income tax expenses

Substantially all of the Group's revenue is subject to corporate income tax in Vietnam. During the Track Record Period, the Group's effective rate of income tax was relatively constant, ranging narrowly between 9.6% and 10.3%. For further details regarding the Group's income tax exposure, including the various tax concessions granted to the Group, see "— Factors Affecting the Group's Results of Operations — Taxation", above, and "— Income tax expenses" in the period comparisons under "— Results of Operations", below.

Profit attributable to equity holders of the Company

One member of the Group, CQS, is 30% owned by third parties unaffiliated with the Group. Profit attributable to equity holders of the Company is calculated after subtracting from the Group's profit the portion of CQS's profits attributable to such third parties.

CRITICAL ACCOUNTING POLICIES

The discussion and analysis of the Group's financial condition and results of operations are based upon the Group's consolidated financial statements for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, which have been prepared in accordance with IFRS. The Group's reported financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases its estimates on historical experience and on various other factors that management believes to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The selection of critical accounting policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the Group's financial statements. The Group believes the following critical accounting policies are among those that involve the most significant judgments and estimates used in the preparation of its consolidated financial statements.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over their estimated useful lives, after taking into account the estimated residual value. Determining the appropriate level of depreciation requires judgment and estimation regarding the useful life of the asset and its residual value. Because depreciation expenses for future periods are adjusted if there are significant changes from earlier estimates, the determination of factors relating to depreciation can have a significant impact on future results of operations.

Management reviews the useful lives and residual values of property, plant and equipment on an annual basis. Due to the need to regularly introduce new models of motorbikes to respond to changes in market demand, management places particular attention on the useful lives of moulds and equipment that may be impaired if the models that they are used to produce are discontinued or are selling at a loss. Management takes into consideration the estimated useful physical lives of the moulds and equipment based on its collective experience and historically has also taken into consideration the experience of Sanyang. In addition, management considers these assets' useful commercial lives based on sales data and the Group's product strategy. Changes to useful lives and write-offs of assets based on this process are applied prospectively.

Net realisable value of inventories

Inventories are stated at the lower of cost and net realisable value. Net realisable value of inventories is the estimated sales price of inventory in the ordinary course of business, less estimated costs of completion and selling expenses. The net realisable value of the Group's inventories could change significantly as a result of competitors' actions or in response to severe industry cycles or other sharp changes in market conditions.

Management performs specific obsolescence assessments based on current market conditions and the historical experience of distributing and selling products of a similar nature. This assessment includes estimating when inventories will be used or sold and their sales price in accordance with the sales and marketing strategies formulated with reference to the market and weather conditions as well as customer taste and purchasing power. Such estimates could change significantly as a result of competitor actions in response to industry cycles or other changes in market conditions.

The estimated allowance is reviewed on each balance sheet date and whenever there are changes in market conditions or product strategies that affect stock obsolescence and pricing. The effect of a change in estimation, if any, is included in the period of the change.

Research and development expenses

While expenditure on research activities is recognised in profit or loss when incurred, development expenditure is capitalised when the development costs can be measured reliably, the product or process is technically and commercially feasible, future economic benefits are probable, and the Group intends to and has sufficient resources to complete development and to use or sell the asset. Research and development expenses are a critical accounting policy because each of these factors requires the Group either to make judgments about the reliability of cost measurements or to make assumptions in forecasting future events related to the development.

Development activities involve a plan or design for the production of new or substantially improved products and processes. The expenditure capitalised includes the cost of materials, direct labour and overhead costs that are directly attributable to preparing the assets for their intended use. Other development expenditure is recognised in profit or loss when incurred. Capitalised development expenditure is measured at cost less accumulated amortisation and accumulated impairment losses.

Provision for warranties

The Group's motorbikes are covered by standard warranty plans as described under "Business — Sales and Marketing — Sales — After-Sales Service". The provision for warranties relates mainly to motorbikes sold during the Track Record Period. A liability for the anticipated cost of warranty claims is established when products are sold and reflects the Group's best estimate of future obligations under the related warranties. In late 2005, to bolster consumer confidence in the Group's SYM motorbikes following quality problems with a number of SYM cubs, the Group extended the warranties it offered consumers on SYM motorbikes, doubling the time period and increasing the mileage by a third. This change tended to increase the Group's warranty provisions following that date. The balance of the Group's warranty provisions as at 31 December 2004, 2005 and 2006 and 30 June 2007 was US$1.1 million, US$1.0 million, US$1.1 million and US$1.2 million, respectively. Historically, the costs of fulfilling the Group's warranty obligations have principally related to replacement parts, with labour costs representing the remainder.

Changes in provision for warranties can materially affect net income. The provision for warranties is based on the weighted-average claim rate, which is determined by the claims historically paid out over the estimated sales to which those historical claims relate. This analysis requires the use of judgment and estimation and is updated semi-annually.

RESULTS OF OPERATIONS

The following table shows the line items of the Group's income statements expressed as a percentage of revenue for the years ended 31 December 2004, 2005 and 2006 and for the six-month periods ended 30 June 2006 and 2007:

	Year ended 31 December						Six months ended 30 June			
	2004		2005		2006		2006		2007	
	(US$)	*(%)*	*(US$)*	*(%)*	*(US$)*	*(%)*	*(US$)* (unaudited)	*(%)*	*(US$)*	*(%)*
Selected Income Statement Data										
Revenue	260,956,003	100.0	183,793,637	100.0	184,308,268	100.0	91,832,228	100.0	114,964,647	100.0
Cost of sales	(191,288,166)	73.3	(143,204,825)	77.9	(140,076,287)	76.0	(66,180,349)	72.1	(87,288,531)	75.9
Gross profit	69,667,837	26.7	40,588,812	22.1	44,231,981	24.0	25,651,879	27.9	27,676,116	24.1
Other income	243,779	0.1	170,433	0.1	203,059	0.1	61,860	0.1	274,385	0.2
Distribution expenses	(11,423,531)	4.4	(11,530,419)	6.3	(11,456,332)	6.2	(5,361,596)	5.8	(7,691,823)	6.7
Technology transfer fees	(7,844,119)	3.0	(4,933,528)	2.7	(3,052,690)	1.7	(1,617,568)	1.8	(2,530,870)	2.2
Administrative expenses	(6,580,609)	2.5	(8,608,986)	4.7	(7,623,331)	4.1	(4,015,365)	4.4	(4,560,210)	4.0
Other expenses	(21,010)	0.0	(53,171)	0.0	(140,328)	0.1	(94,108)	0.1	(10,034)	0.0
Profit from operating activities	44,042,347	16.9	15,633,141	8.5	22,162,359	12.0	14,625,102	15.9	13,157,564	11.4
Finance income	4,435,793	1.7	3,622,150	2.0	5,313,723	2.9	3,061,486	3.3	2,939,208	2.6
Finance expenses	(839,196)	0.3	(1,091,227)	0.6	(1,646,860)	0.9	(906,930)	1.0	(662,449)	0.6
Net finance income	3,596,597	1.4	2,530,923	1.4	3,666,863	2.0	2,154,556	2.3	2,276,759	2.0
Share of profits of an equity accounted investee	271,356	0.1	71,262	0.0	57,074	0.0	35,636	0.0	53,192	0.0
Profit before income tax	47,910,300	18.4	18,235,326	9.9	25,886,296	14.0	16,815,294	18.3	15,487,515	13.5
Income tax expense	(4,926,064)	1.9	(1,758,921)	1.0	(2,565,095)	1.4	(1,665,153)	1.8	(1,484,148)	1.3
Profit for the year/period	42,984,236	16.5	16,476,405	9.0	23,321,201	12.7	15,150,141	16.5	14,003,367	12.2
Profit attributable to equity holders of the Company	42,889,869	16.5	16,456,736	9.0	23,309,018	12.7	15,146,983	16.5	13,995,715	12.2
Profit attributable to minority interests	94,367	0.0	19,669	0.0	12,183	0.0	3,158	0.0	7,652	0.0
Profit for the year/period	42,984,236	16.5	16,476,405	9.0	23,321,201	12.7	15,150,141	16.5	14,003,367	12.2
Dividends declared during the year/period	25,000,000	9.6	10,000,000	5.4	22,000,000	11.9	22,000,000	24.0	6,000,000	5.2

Six-month period ended 30 June 2007 compared to six-month period ended 30 June 2006

Revenue

Revenue for the six-month period ended 30 June 2007 increased by US$23.1 million, or 25.2%, to US$115.0 million from US$91.8 million for the six-month period ended 30 June 2006. This improvement reflected increases in revenue in all of the business segments of the Group, most notably the manufacture and sale of motorbikes.

Revenue derived by the Group from the manufacture and sale of motorbikes increased by US$21.7 million, or 26.6%, from US$81.3 million for the six-month period ended 30 June 2006 to US$103.0 million for the six-month period ended 30 June 2007. This increase was the result of an improvement in domestic as well as overseas sales of both scooters and cubs. Domestic sales of scooters improved by US$14.9 million, reflecting an increase in unit sales of the Group's best selling products, the Attila Victoria and the Excel II, by 26.1% and 77.0%, respectively, as a result of an overall improvement in the Vietnamese motorbike market, the Group's continued efforts in product refinement, and ongoing efforts to enhance the image of the Group's products, including through the renovation of authorised SYM stores. Sales of the Attila were further assisted by a series of special promotional events carried out in the second half of 2006, while sales of the Excel were boosted by an approximately 11% reduction in the retail sales price of the motorbike in response to a market survey commissioned by the Group.

An increase in the domestic sales of cubs by US$2.7 million was principally attributable to a general reduction in the retail sales prices of the Group's SANDA models. Also contributing to this improvement was the introduction of a new model, the New Moto Star, at the end of 2006. The positive impact of these factors was partially offset by a significant decrease in domestic sales of the Angel II as the Group focused its marketing resources on the New Moto Star and the coming EZ110.

The Group's overseas sales increased by US$4.1 million in the first six months of 2007, representing a 101.4% rate of growth over the corresponding period in 2006 as the Group's scooters and cubs, particularly the Excel and Angel, which increased by 220.1% and 96.2%, respectively, grew in popularity in the Group's overseas markets.

Revenue from the manufacture and sale of parts and engines, excluding intra-group sales, increased by US$1.4 million, or 13.8%, in the first six months of 2007, driven by strong sales of replacement parts to service the increasing number of motorbikes in operation with each passing year. This improvement in sales of parts was partially offset by a decrease in sales of VN7 engines, which reflected the Group's strategy of running down production of the VN7 in anticipation of introducing the Group's new A0 series of engines.

Cost of sales

The Group's cost of sales increased by US$21.1 million, or 31.9%, from US$66.2 million for the six-month period ended 30 June 2006 to US$87.3 million for the six-month period ended 30 June 2007. This increase resulted primarily from higher sales volume, the effect of which was augmented by the cost of certain product enhancements, particularly those on the best-selling Attila series.

As a percentage of total revenue, the Group's cost of sales increased from 72.1% in the six-month period ended 30 June 2006 to 75.9% in the six-month period ended 30 June 2007 principally due to a general reduction in retail sales prices and the increase in unit costs arising from product enhancements.

Gross profit

As a result of the factors discussed above, the gross profit of the Group increased by US$2.0 million, or 7.9%, from US$25.7 million in the six-month period ended 30 June 2006 to US$27.7 million in the six-month period ended 30 June 2007. Between the same periods, however, the Group's gross profit margin decreased from 27.9% to 24.1%.

Distribution expenses

The Group's distribution expenses increased by US$2.3 million, or 43.5%, from US$5.4 million in the six-month period ended 30 June 2006 to US$7.7 million in the six-month period ended 30 June 2007. This increase was largely due to (i) higher warranty expenses, which increased by US$0.7 million as a result of greater sales volume and a higher proportion of sales being attributable to scooters, (ii) a US$0.2 million increase in packaging expenses resulting primarily from a significant rise in exports of completed motorbikes and (iii) a US$0.9 million increase in advertising and marketing fees including payments made to consumers to defray the cost of motorbike licenses, an incentive offered to purchasers of cubs for the first five months of 2007.

Technology transfer fees

The Group's technology transfer fees increased by US$0.9 million, or 56.5%, from US$1.6 million in the six-month period ended 30 June 2006 to US$2.5 million in the six-month period ended 30 June 2007. This rise was largely the result of an increase in the rate of the fees from 3.0% to 4.0% as of 1 January 2007, coupled with an increase in the sales volume of SYM motorbikes and related parts, which is the principal component of the fees calculation.

Administrative expenses

The Group's administrative expenses increased by US$0.5 million, or 13.6%, from US$4.0 million in the six-month period ended 30 June 2006 to US$4.6 million in the six-month period ended 30 June 2007, principally as a consequence of a US$0.3 million increase in salary expenses and bonus payments in part due to an increase in headcount. Also contributing to the rise in administrative expenses was a US$0.1 million increase in tax and licence expenses attributable to higher withholding taxes in connection with the technology transfer fees paid to Sanyang. These increases were partially offset by a US$0.6 million decrease in design and technology fees payable to third parties.

Profit from operating activities

As a result of the factors discussed above, the Group's profit from operating activities decreased by US$1.5 million, or 10.0%, from US$14.6 million in the six-month period ended 30 June 2006 to US$13.2 million in the six-month period ended 30 June 2007. The Group's operating margin (operating profit expressed as a percentage of total revenue) decreased from 15.9% in the six-month period ended 30 June 2006 to 11.4% in the six-month period ended 30 June 2007.

Net finance income

The Group's net finance income increased by US$0.1 million, or 5.7%, from US$2.2 million in the six-month period ended 30 June 2006 to US$2.3 million in the six-month period ended 30 June 2007. This increase was mainly attributable to a decrease in finance expenses as the Group raised no new bank loans during the first six months of 2007 and continued repaying a portion of its borrowings, while the Group's finance income remained substantially unchanged. The Group's cash flow and bank balances are discussed in greater detail below under "— Liquidity and Capital Resources".

Profit before income tax

As a result of the factors discussed above, the Group's profit before income tax decreased by US$1.3 million, or 7.9%, from US$16.8 million in the six-month period ended 30 June 2006 to US$15.5 million in the six-month period ended 30 June 2007.

Income tax expense

The Group's income tax expense decreased by US$0.2 million, or 10.9%, from US$1.7 million in the six-month period ended 30 June 2006 to US$1.5 million in the six-month period ended 30 June 2007. This decrease in income tax expense was roughly in line with the decrease in profit before income tax between these periods, resulting in a decrease in the Group's effective income tax rate from 9.9% to 9.6%.

Profit for the period

As a result of the factors discussed above, the Group's profit for the period, after income tax, decreased by US$1.1 million, or 7.6%, from US$15.1 million in the six-month period ended 30 June 2006 to US$14.0 million in the six-month period ended 30 June 2007, and the Group's net profit margin decreased from 16.5% to 12.2%.

Year ended 31 December 2006 compared to year ended 31 December 2005

Revenue

In 2006, the Group's total annual revenue remained relatively steady, increasing by just US$0.5 million, or less than 1%, from US$183.8 million to US$184.3 million. Substantially higher sales of the Group's Attila and Excel scooters were largely offset by decreases in the quantity and the price of cubs sold, as well as in the number of engines exported.

The Group's revenue from the manufacture and sale of motorbikes improved by US$3.9 million, or just over 2.0%, from US$157.8 million to US$161.7 million. Revenue from the combined sales of the Group's cub models declined in 2006 by US$30.4 million, or 40.1%, from US$75.8 million to US$45.4 million. This sharp decrease in revenue from sales of cubs was due to lower unit sales and lower retail sales prices. The decrease in unit sales was the result of competition with other manufacturers and the cub models' lingering reputation for quality problems stemming from some of the Group's cubs sold in 2005. The decrease in retail sales prices was partly a measure taken by the Group to stimulate sales in the wake of its cubs' quality problems and partly due to price competition with other manufacturers, most notably Honda and Yamaha, whose motorbikes in Vietnam compete primarily with the Group's cubs rather than scooters. In 2006, the Group introduced a new, low-priced cub model, the Salut, which helped to lessen the impact on revenue of the sales slowdown among the existing cub models. Nevertheless, the overall decline in sales of the Group's cubs had a significant impact on revenue in 2006. The quality problems experienced by the Group's SYM cubs are discussed in more detail above, in the sections headed "Risk Factors" and "Business — Quality Control".

The US$30.4 million decrease in revenue from sales of cub models was offset by increased revenue from sales of scooters between these periods. The Attila series of scooters continued to be the Group's best selling product, selling more than 71,000 units domestically in 2006, an increase of approximately 33.6% over the prior year. Revenue derived from the combined sales of the Group's scooter models both domestically and overseas increased by approximately US$34.2 million in 2006, from US$82.0 million in 2005 to US$116.2 million in 2006. This increase was driven primarily by a US$25.2 million increase in revenue from sales of the Attila following a number of refinements to the model and the introduction of special promotional events, such as discount coupons and lucky draws for houses. Further contributing to higher sales of the Group's scooters was the abolition of the government's "one person, one motorbike" policy, which had limited purchases of motorbikes to one per person over 18 years of age. In addition to improved unit sales in 2006, the average sales price of the Group's scooters did not suffer a significant decline, as they were not subject to the intense competitive price pressure faced by the Group's cubs.

Revenue from the Group's business of manufacturing and selling parts and engines excluding intra-group sales declined by US$3.5 million, or 13.7%, from US$25.7 million to US$22.2 million, largely as a result of a 48.7% decline in exports of engines as the Group redirected its resources to the manufacture of more profitable products.

Cost of sales

The Group's cost of sales decreased slightly in 2006, declining by US$3.1 million, or 2.2%, from US$143.2 million to US$140.1 million. The substantial decrease in costs that would be expected to accompany the decline in the number of motorbikes sold was moderated by an increase in the percentage of sales attributable to scooters, which on average have unit costs approximately 1.7 times higher than cubs as they are more highly designed machines that use a greater number of specialised parts. Also contributing to the decrease in the cost of sales was the decline in the number of engines manufactured and subsequently sold to third parties.

As a percentage of total revenue, the Group's cost of sales decreased from 77.9% in 2005 to 76.0% in 2006 on account of a more favourable product mix with the Group selling a higher proportion of scooters in 2006.

Gross profit

As a result of the factors discussed above, the Group's gross profit increased by US$3.6 million, or 9.0%, from US$40.6 million in 2005 to US$44.2 million in 2006, and its gross profit margin increased from 22.1% to 24.0%.

Distribution expenses

The Group's distribution expenses remained largely constant in 2006 at US$11.5 million. A general reduction in distribution expenses resulting from the decrease in the number of units sold was accompanied by a US$1.1 million decrease in market research as the 2005 research exercise drew to a close. These decreases were offset by, among other things, a US$0.4 million increase in advertising and marketing fees, which formed part of the Group's ongoing efforts to counteract image problems arising from past quality control issues and to rebuild the Group's sales over the longer term in the face of continuing competition from Honda and Yamaha. Contributing to this increase was a US$0.3 million consultant fee paid by the Group in 2006 to identify suitable suppliers of parts and providers of design services in lower-cost countries around the region. Despite the decline in the number of motorbikes sold, warranty expenses rose by US$0.1 million, or 3.0%, as a result of the Group's decision to extend its warranties in terms of both years and mileage.

Technology transfer fees

The decline in the Group's technology transfer fees in 2006 was US$1.9 million, or 38.1%, from US$4.9 million in 2005 to US$3.0 million in 2006, driven principally by a reduction in the rate of the fees, from 5.0% of certain sales to 3.0% as of 1 January 2006.

Administrative expenses

The Group's administrative expenses decreased by US$1.0 million, or 11.5%, from US$8.6 million in 2005 to US$7.6 million in 2006, primarily due to a US$0.9 million decrease in design fees payable to third parties in connection with the development of new products and refinements to existing products. The Group's design fees had been higher in 2005 when the Group was actively working to overcome the Group's sales difficulties during that year. Contributing to the decrease in administrative expenses was a US$0.4 million reduction in tax and licence expenses, partially offset by a US$0.2 million increase in amortisation expenses.

Profit from operating activities

As a result of the factors discussed above, the Group's profit from operating activities increased by US$6.6 million, or 41.8%, from US$15.6 million in 2005 to US$22.2 million in 2006, and the Group's operating margin (operating profit expressed as a percentage of total revenue) increased from 8.5% in 2005 to 12.0% in 2006.

Net finance income

The Group's net finance income increased by US$1.1 million, or 44.9%, from US$2.5 million in 2005 to US$3.7 million in 2006, primarily because higher cash balances led to an increase in interest income from US$3.6 million to US$5.3 million. The Group's cash flow and bank balances are discussed in greater detail below under "— Liquidity and Capital Resources".

Profit before income tax

As a result of the factors discussed above, the Group's profit before income tax increased by US$7.7 million, or 42.0%, from US$18.2 million in 2005 to US$25.9 million in 2006.

Income tax expense

The Group's income tax expense increased by US$0.8 million, or 45.8%, from US$1.8 million in 2005 to US$2.6 million in 2006, as a result of the substantial improvement in the Group's profit before income tax, leading to a slight increase in the Group's effective tax rate, from 9.6% in 2005 to 9.9% in 2006.

Profit for the year

As a result of the factors discussed above, the Group's profit for the year, after income tax, increased by US$6.8 million, or 41.5%, from US$16.5 million in 2005 to US$23.3 million in 2006, and the Group's net profit margin increased from 9.0% in 2005 to 12.7% in 2006.

Year ended 31 December 2005 compared to year ended 31 December 2004

Revenue

From 2004 to 2005, the Group's total annual revenue decreased by US$77.2 million, or 29.6%, from US$261.0 million to US$183.8 million. This decrease was due in significant part to the fact that sales of its cub models, the Angel in particular, fell sharply between 2004 and 2005. Sales of the Attila scooter also fell between these years, though by a smaller amount.

The revenue that the Group derived from the combined sales of its cub models fell by US$61.3 million, or 44.7%, from US$137.2 million in 2004 to US$75.8 million in 2005. This decrease in revenue from sales of cubs was the result of decreasing unit sales and decreasing retail sales prices, both due in part to quality problems suffered by many of the Group's cubs sold in 2005, which made the Group's cubs less attractive to consumers. The decrease in unit sales and in sales prices was also the result of greater competition, particularly with large Japanese manufacturers.

From 2004 to 2005, sales of the Group's scooters fell by US$25.7 million, or 23.9%, in part due to the reputational damage caused by the quality problems with the Group's SYM cubs. In 2005, the impact of this reputational problem was exacerbated by government legislation in Vietnam, effective from 2003 until late 2005, that limited the number of motorbikes that could be purchased by consumers in Vietnam to one per person over 18 years of age. In combination with the reputational issues related to the quality problems of the Group's cub models, this statutory limit had a greater impact on the Group in 2005 than in 2004.

The decrease in revenue from the Group's manufacture and sale of motorbikes was partially offset by an increase of US$10.0 million in revenue from the Group's manufacture and sale of parts and engines excluding intra-group sales. The increase in this latter business was driven principally by the fact that, as a result of strong sales in prior years, more of the Group's motorbikes were in operations in 2005, which in turn increased demand for replacement parts. In addition, in 2005 the Group exported significantly more of its VN7 engines as customer demand increased and as the company sought to maintain its utilisation rate and its economies of scale by shifting underutilised resources to engine production following the slowdown in motorbike sales.

Cost of sales

The Group's cost of sales decreased by US$48.1 million, or 25.1%, from US$191.3 million in 2004 to US$143.2 million in 2005. This decrease was primarily a result of the Group manufacturing and selling fewer motorbikes in 2005 than in 2004.

As a percentage of total revenue, the Group's cost of sales increased from 73.3% in 2004 to 77.9% in 2005. Lower unit sales of motorbikes in 2005 diminished the Group's economies of scale, leaving the Group's overhead to be spread over fewer units and edging the Group's cost per unit higher. In addition, due to ongoing price competition with other manufacturers, these motorbikes were being sold at lower prices, further contributing to an increase in the Group's cost of sales as a percentage of total revenue. Also contributing to the increase in cost of sales as a percentage of revenue in 2005 was an expansion in sales to third parties of the Group's loss-making engines, sales of which amounted to US$10.3 million in value, contributing US$2.4 million to the loss for this period, in a bid to gain market share and to make better use of spare capacity in the Group's production facilities.

Gross profit

As a result of the factors discussed above, the Group's gross profit for 2005 decreased by US$29.1 million, or 41.8%, from US$69.7 million in 2004 to US$40.6 million, and the gross profit margin decreased from 26.7% to 22.1%.

Distribution expenses

The Group's distribution expenses increased slightly in 2005 by US$0.1 million, or less than 1%, from US$11.4 million to US$11.5 million. This increase was mostly attributable to a US$1.1 million rise in market research expenses as the Group embarked on an extensive market research exercise to turn around its declining sales volume, hiring an outside firm on a short-term contract to assess consumer preferences and marketing opportunities in Vietnam. The Group also increased its advertising and marketing budget by US$0.5 million, which included significantly more funds for the renovation of its dealers' premises to improve the SYM brand image. The increased costs of these measures were largely offset by a reduction of US$1.0 million in warranty expenses, which resulted from lower sales volume, as well as a reduction in salary and bonuses and the fact that the 2005 dealers' conference was pushed forward to the end of 2004.

Technology transfer fees

The Group's technology transfer fees decreased by US$2.9 million, or 37.1%, from US$7.8 million in 2004 to US$4.9 million in 2005. Because these fees are calculated as a percentage of sales of SYM motorbikes and related parts (after certain adjustments, such as for purchases of parts from Sanyang), the decline in these fees roughly tracked the decline in the Groups' revenue from SYM motorbike sales.

Administrative expenses

The Group's administrative expenses increased by US$2.0 million in 2005, or 30.8%, from US$6.6 million in 2004 to US$8.6 million, primarily because of an increase in design fees from US$1.1 million to US$2.4 million as the Group sought to turn around its sales decline by designing new products and redesigning existing models. This increase was partially offset by a US$0.2 million reduction in tax and licence expenses.

Profit from operating activities

As a result of the factors discussed above, the Group's profit from operating activities, which represents operating profit, decreased by US$28.4 million, or 64.5%, from US$44.0 million in 2004 to US$15.6 million in 2005, and the Group's operating margin (operating profit expressed as a percentage of total revenue) decreased from 16.9% in 2004 to 8.5% in 2005.

Net finance income

The Group's net finance income decreased by US$1.1 million, or 29.6%, from US$3.6 million in 2004 to US$2.5 million in 2005, primarily because interest income from banks fell by US$0.8 million in 2005 as a result of lower cash balances and because the Group's interest expenses increased in line with the greater proceeds from bank borrowing, the effect of which was augmented by less repayment of bank borrowings. Partially offsetting the reduction in interest income was an improvement in foreign exchange losses, which diminished from US$0.6 million in 2004 to US$0.4 million in 2005.

Profit before income tax

As a result of the factors discussed above, the Group's profit before income tax decreased by US$29.7 million, or 61.9%, from US$47.9 million in 2004 to US$18.2 million in 2005.

Income tax expense

The Group's income tax expense decreased in 2005 by US$3.2 million, or 64.3%, from US$4.9 million in 2004 to US$1.8 million, generally in proportion to the decrease in the Group's profit before income tax, bringing the Group's effective income tax rate from 10.3% in 2004 to 9.6% in 2005.

Profit for the year

As a result of the factors discussed above, the Group's profit for the year, which is net of income tax, decreased by US$26.5 million, or 61.7%, from US$43.0 million in 2004 to US$16.5 million in 2005, and the Group's net profit margin decreased from 16.5% in 2004 to 9.0% in 2005.

LIQUIDITY AND CAPITAL RESOURCES

Overview

The Group's principal sources of liquidity and capital resources have been, and are expected to continue to be, cash flow from operations, net current assets (particularly existing cash and cash-equivalent balances, as well as inventories and trade receivables, other receivables and prepayments) and debt financing from banks.

The Group operates in a competitive industry requiring continuous efforts in the areas of product refinement and brand enhancement. The manufacture and sale of its products also requires extensive investment in revenue-producing assets. The Group's short-term liquidity needs are principally to fund working capital requirements, maintain its production capabilities and meet its financial requirements, and its long-term liquidity needs relate primarily to the expansion of its production facilities and to its research and development operations.

To fund its short-term liquidity needs, including the repayment of borrowings from banks and related parties and the payment of dividends, the Group intends to rely principally on cash generated by operations and on existing cash and cash equivalents. To fund its long-term liquidity requirements, which comprise capital expenditure commitments, the Group intends to rely on cash generated by operations, existing cash and cash equivalents, debt financing from banks and the proceeds from the issue of new shares. As at 31 December 2004, 2005 and 2006 and 30 June 2007, the Group's cash and cash equivalents were US$42.6 million, US$23.7 million, US$47.4 million and US$47.0 million, respectively. Contributing to this net cash position were net cash generated by operating activities and net cash from investing activities, the latter of which was mainly attributable to a decrease in its time deposits over the period. For further details regarding the existence and timing of the Group's capital expenditure, see "— Expenditure and commitments", below, and for details regarding the Group's indebtedness, see "— Indebtedness".

Cash flow

Selected Cash Flow Statement data

	Year ended 31 December			Six months ended 30 June	
	2004	2005	2006	2006	2007
	(US$)	*(US$)*	*(US$)*	*(US$)* (unaudited)	*(US$)*
Net cash inflow from operating activities	5,326,936	2,357,595	34,061,444	15,460,268	3,603,814
Net cash inflow/(outflow) from investing activities	3,326,835	(5,052,312)	1,636,746	6,011,380	3,831,969
Net cash outflow from financing activities	(34,838,464)	(16,267,966)	(11,935,093)	(22,192,587)	(7,879,456)
Net (decrease)/increase in cash and cash equivalents	(26,184,693)	(18,962,683)	23,763,097	(720,939)	(443,673)

Cash flow from operating activities

The Group's cash flow from operating activities decreased by US$11.9 million for the six-month period ended 30 June 2007 in comparison with the six-month period ended 30 June 2006, from US$15.5 million to US$3.6 million. This decrease in cash flow from operations was largely due to (i) an increase in the Group's trade receivables, other receivables and prepayments, which rose by US$6.8 million in the first six months of 2007 in comparison with a decline of US$2.6 million in the first six months of 2006 and (ii) a build-up in inventories, which increased by US$5.3 million in the first six months of 2007 while decreasing by US$0.8 million in the first six months of 2006, both of which factors were offset in part by an improvement in the rate of change of trade and other payables, which declined by US$0.5 million in the first six months of 2007 in comparison with a US$5.1 million decline in the first six months of 2006.

Cash flow from operating activities increased by US$31.7 million for the year ended 31 December 2006, from US$2.4 million for 2005 to US$34.0 million for 2006. This substantial increase was principally due to a US$7.3 million increase in operating profit before changes in working capital, as sales improved, coupled with an improvement in trade receivables, other receivables and prepayments, which declined by US$2.2 million in 2006 after increasing by US$4.2 million in 2005, and an improvement in trade and other payables, which increased by US$0.5 million in 2006 after decreasing by US$18.5 million in 2005.

Cash flow from operating activities declined by US$3.0 million for the year ended 31 December 2005, from US$5.3 million for 2004 to US$2.4 million for 2005. This decline was principally due to lower sales volumes in 2005, leading to a US$27.6 million decrease in operating profit before changes in working capital, which was partially offset by an improvement in inventories, which declined by US$7.3 million in 2005 following an increase of US$13.1 million in 2004, and an improvement in trade and other payables, which decreased by a smaller amount in 2005 in comparison with 2004.

For a detailed explanation of the factors underlying these movements in inventories, trade receivables, other receivables and prepayments, and trade and other payables, see "— Inventories", "— Trade receivables, other receivables and prepayments" and "— Trade and other payables", below.

Cash flow from investing activities

Cash flow from investing activities relates primarily to investments in the Group's production facilities.

The Group's cash flow from investing activities was US$3.8 million in the first six months of 2007, a decline of US$2.2 million from the first six months of 2006, when the Group generated US$6.0 million from investing activities. This decrease in cash flow was largely the cumulative effect of a US$2.1 million smaller decline in time deposits as fewer deposits matured and a US$1.0 million increase in cash spent on the acquisition of property, plant and equipment, intangible assets and lease prepayments, relating primarily to the new branch office, research and development centre and Light Truck Business facilities under construction, which were partially offset by US$1.0 million of interest received.

For the year ended 31 December 2006, the Group's net cash generated by investing activities was US$1.6 million, compared with a net use of US$5.1 million in investing activities in 2005. This improvement in cash flow from investing activities was principally attributable to a US$1.5 million decrease in costs associated with the purchase of property and a US$1.5 million decline in purchases of machinery as the Group reigned in expenditure in response to a slow-down in sales volume, together with a US$2.6 million acceleration in the decrease of time deposits between these two periods, which was primarily attributable to a shift from these time deposits to more liquid interest-bearing deposits.

The Group's net cash used in investing activities was US$5.1 million for the year ended 31 December 2005, a deterioration of US$8.4 million from the year ended 31 December 2004, when the Group generated US$3.3 million from investing activities. This change was principally due to a US$7.0 million smaller decrease in time deposits, from an US$8.6 million decline in 2004 to a US$1.5 million decline in 2005. In 2004, the Group had shifted a large amount of cash from time deposits to pledged deposits to serve as collateral for a loan to a related party.

Cash flow from financing activities

For the first six months of 2007, the Group's cash used in financing activities totalled US$7.9 million, an improvement of US$14.3 million from the level for the first six months of 2006. This improvement was principally attributable to a substantially lower increase in pledged bank deposits, which rose by US$1.4 million in the first six months of 2007 compared with an US$18.1 million increase in the corresponding period in 2006 primarily because of a reduction in the collateral requirements for the Group's U.S. dollar-denominated loans. Also contributing to the decline in cash used in financing activities was a US$7.0 million reduction in dividends paid. The combined effect of these factors was partially offset by a US$9.5 million decrease in proceeds from borrowings.

For the year ended 31 December 2006, the Group's net cash used in financing activities was US$11.9 million, an improvement of US$4.3 million from the level for 2005. This improvement was principally the consequence of an US$11.8 million decrease in pledged bank deposits in 2006, which followed a US$13.0 million increase in 2005, as the collateral requirements for the Group's U.S. dollar-denominated loans were reduced by the Group's banks, as the Group's collateralised loans were reduced to free up cash and as one of the Group's related companies substituted, in respect of its bank loans, collateral from Sanyang for collateral previously provided by the Group. The combined effect of these three factors was partially offset by an increase of US$12.0 million in dividends paid and an increase of US$10.6 million in repayment of borrowings.

The Group recorded net cash used in financing activities in the amount of US$16.3 million for the year ended 31 December 2005, an improvement of US$18.6 million from the level for the year ended 31 December 2004. This improvement was due principally to a decrease in dividends paid, from US$25.0 million in 2004 to US$10.0 million in 2005, coupled with an increase of US$6.4 million in proceeds from bank borrowings used primarily to take advantage of the interest rate differential between Vietnamese dong and U.S. dollars, which were partially offset by higher pledged bank deposits, which increased by US$13.0 million in 2005 following a US$10.0 million rise in 2004 as the Group's collateral requirements rose in line with the increase in bank borrowings.

Net current assets

The table below sets out the Group's current assets, current liabilities and net current assets as at 31 October 2007:

	(US$)
Current assets	
Inventories	37,040,706
Trade receivables, other receivables and prepayments	20,764,781
Income tax recoverable	3,573
Pledged bank deposits	8,816,915
Time deposits maturing after three months	6,856,417
Cash and cash equivalents	47,651,317
Total	121,133,709
Current liabilities	
Trade and other payables	39,018,792
Interest-bearing borrowings	12,500,000
Income tax payables	160,029
Provisions	1,907,512
Total	53,586,333
Net current assets	67,547,376

Liquidity ratio

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
Liquidity ratio*	2.1	2.5	2.6	2.7

* The liquidity ratio is calculated by dividing current assets by current liabilities.

The liquidity ratio increased for each period during the Track Record Period, rising substantially from 2.1 for 2004 to 2.5 for 2005 and improving more moderately to 2.6 for 2006 and 2.7 for 2007.

From 2004 to 2005, the Group's current assets and current liabilities both decreased as its sales of motorbikes weakened and its purchases of parts and raw materials slowed. The liquidity ratio increased from 2.1 to 2.5 as the decline in current liabilities was steeper than the decline in current assets, principally because dealers were less confident of future sales in 2005 and consequently advanced less money to the Group to secure future deliveries of motorbikes.

As the Group's sales rebounded in 2006 and the first half of 2007, the Group's current assets rose through an inflow of cash and a build-up of cash equivalents, whereas the Group's current liabilities continued to decline modestly as the Group used cash to reduce its short-term loans, thus contributing to an improvement in the liquidity ratio between these two periods.

Inventories

In the first six months of 2007, the Group's inventories increased by US$5.3 million, as shown in the Group's cash flow statement, primarily driven by a US$5.1 million increase in the Group's finished goods inventory. In June 2007, the Group accelerated the production of certain models in advance of the new Euro II emissions standards that were due to take effect on 1 July 2007.

From 31 December 2005 to 31 December 2006, the Group's inventories, as shown on the Group's cash flow statement, decreased from US$39.8 million to US$35.6 million primarily driven by a decrease in stock levels of parts and raw materials as the Group improved its inventory management and by a series of price decreases and promotions to sell slow-moving inventory of finished products.

From 31 December 2004 to 31 December 2005, the Group's inventories decreased from US$47.2 million to US$39.8 million primarily because of a US$4.5 million decrease in parts and raw materials inventories between these two periods in response to lower sales and slower production, and consequently more conservative projections of production volume and purchase of fewer parts and raw materials in 2005.

The table below sets out an ageing analysis of inventories over the Track Record Period as at each of the balance sheet dates specified:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	(US$)	*(US$)*	*(US$)*	*(US$)*
Ageing analysis				
< 12 months	44,695,169	38,281,147	28,014,443	32,649,061
12 – 24 months	1,054,691	944,960	6,243,539	5,991,901
>24 months	1,487,560	613,061	1,332,589	2,261,763
Total Inventory	47,237,420	39,839,168	35,590,571	40,902,725
Less: Allowance for inventory impairment	(376,601)	(612,368)	(751,140)	(1,134,879)
Net Inventory	**46,860,819**	**39,226,800**	**34,839,431**	**39,767,846**

The Group's inventory aged more than 24 months consists principally of spare parts held for use in after-sales maintenance of motorbikes and spare parts used to produce certain motorbikes and engines which have been modified or are no longer manufactured by the Group. The figures in the ageing table above reflect the provisions that the Group made during the Track Record Period for slow-moving inventory based on management's assessment of inventory impairment.

The usage and sales of the Group's inventories subsequent to 30 June 2007 amounted to US$27.6 million as at 31 October 2007.

For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, the Group's inventory turnover days were 77, 110, 96 and 78 days, respectively. The turnover days increased significantly from 77 days for 2004 to 110 days for 2005, as the Group's cost of sales dropped significantly, in line with a decline in sales volume. Since early 2006, the Group has worked to improve its inventory management system by focusing on market demand, using more accurate predictions of such demand to plan its production process, and improving its supply chain management (principally the reliability of, and co-ordination with, its suppliers to align delivery times and order sizes with its projected production volumes and timing), all of which has tended to reduce the Group's inventory turnover days, as well as its inventory levels. Thus, the Group's turnover days decreased steadily from 110 days for 2005 to 96 days for 2006 and to 78 days for the six-month period ended 30 June 2007. Contributing to the decrease for the six-month period ended 30 June 2007 was a substantial improvement in sales volume, which outweighed the build-up in inventory levels in anticipation of steeper production prior to the implementation of more stringent emissions regulations.

Trade receivables, other receivables and prepayments

The Group's trade receivables are low in relation to its revenue because it generally sells its finished motorbikes to dealers in Vietnam for cash due on delivery. Only a small number of customers are offered credit. Overseas sales made directly by the Group are sold on credit, though these amounts are small in comparison with the revenue from domestic sales of the Group's motorbikes. The movements in the Group's trade receivables, other receivables and prepayments, therefore, are principally attributable to changes in amounts due from related parties, which include, among other things, parts sold to Sanyang and motorbikes sold abroad via Sanyang, and changes in non-trade receivables, which include, among other things, advances to suppliers, prepayments of rent, and tax-related amounts deductible or otherwise due from the government.

The Group's trade receivables, other receivables and prepayments, as shown on the Group's cash flow statement, increased by US$6.8 million in the first six months of 2007, as shown in the Group's cash flow statement, principally as a result of a US$4.5 million prepayment of the registered share capital of Chin Zong, the Group's international trading company, a US$0.9 million increase in amounts owed from related parties following a rise in sales of parts to Sanyang, and a US$0.6 million increase in the amount of import tax refundable to the Group.

In 2006, the Group's trade receivables, other receivables and prepayments, as shown on the Group's cash flow statement, decreased by US$2.2 million in 2006 principally because of (i) a US$2.0 million decrease in advances to suppliers as prepaid machinery was delivered and (ii) a US$1.9 million decrease in amounts due from related parties as exports via Sanyang decreased, the combined effect of which was offset in part by (i) an increase of US$0.8 million in trade receivables, which was the result of credit granted to one of the Group's existing dealers to fund a new SYM authorised store in the dealer's designated sales area and an increase in the export of maintenance parts directly to third-party customers, who pay on credit terms, and (ii) a net increase of US$0.9 million in prepayments largely relating to listing expenses.

In 2005, the Group's trade receivables, other receivables and prepayments, as shown on the Group's cash flow statement, increased by US$4.2 million largely as a result of (i) a US$1.0 million increase in prepayments relating largely to a new-product design fee, (ii) a US$0.7 million increase in refundable import tax paid as exports increased, (iii) a US$0.5 million discount on parts purchased as part of a joint effort with suppliers to gain market share abroad and (iv) a US$1.6 million increase in amounts due from related parties as exports via Sanyang increased.

The table sets out below an ageing analysis of trade receivables as at each balance sheet date:

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

The accounts receivable aged more than one year at 31 December 2006 and 30 June 2007 chiefly relate to installment loans offered to employees to purchase the Group's motorbikes.

The settlement of the Group's trade receivables subsequent to 30 June 2007 was US$1.1 million as at 31 October 2007.

For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 2007, the Group's debtor turnover days were 4, 11, 10 and 8 days, respectively. The Group's debtor turnover days more than doubled in 2005, from 4 days for 2004 to 11 days for 2005, as an increase in amounts due from a related party resulted in higher average accounts receivable following the Group's decision to pre-pay Teamworld for motorbike parts to guard against increases in the value of Renminbi and as weaker sales of motorbikes, particularly the Attila and Angel, led to a decline in revenue. This ratio remained substantially unchanged for 2006 as its revenue and average accounts receivable both varied slightly. During the six-month period ended 30 June 2007, the Group's debtor turnover days decreased from 10 days to 8 days, which was the result of an increase in the Group's sales in June 2007, reflecting an overall improvement in the Vietnamese motorbike market and the Group's continuing product refinements and image enhancement efforts, coupled with a small decrease in the average accounts receivable.

The Group generally offers no credit terms to domestic customers, which accounted for approximately 90.8% of the Group's total revenue for the six-month period ended 30 June 2007. Overseas customers are generally granted credit terms of one to two months, and related companies are granted credit terms of up to one year on non-trade receivables.

Details of the Group's non-trade receivables and amounts due from related parties are set out in Note 13 of the Accountants' Report included in Appendix I to this prospectus. Transactions giving rise to trade receivables due from related parties consisted of the Group's transactions with Sanyang and Teamworld, mainly in respect of the sale of engines and motorbikes outside Vietnam in ASEAN countries. Transactions giving rise to non-trade balances mainly comprised prepayments or advances relating to the purchase of moulds.

Trade and other payables

As at 30 June 2007, the Group's trade and other payables were largely unchanged from the level at 31 December 2006, with all components relatively stable.

Similarly, as at 31 December 2006, the amount of the Group's trade and other payables, as shown on the Group's cash flow statement, was not significantly changed from the amount a year earlier. In 2006, a US$2.3 million increase in trade payables occasioned by greater purchases of parts and raw materials at the end of the year, with payment due in the following financial year, was largely offset by (i) a decrease of US$0.9 million in commission and bonuses payable to dealers, roughly in line with the decrease in the number of motorbikes sold in 2006, and (ii) a decrease of US$0.9 million in other tax payables.

In 2005, the Group's trade and other payables, as shown on the Group's cash flow statement, decreased by US$18.5 million, principally as a result of (i) a US$4.6 million decrease in trade payables as a result of fewer parts being purchased in 2005 as sales slowed, (ii) a US$9 million decrease in advances from customers (essentially prepayments for motorbikes and parts) as dealers' confidence fell following poor sales in 2005 and (iii) a US$3.9 million decrease in amounts due to related parties resulting primarily from fewer parts being purchased from Sanyang in 2005.

The following is an ageing analysis of trade payables at the respective balance sheet dates, excluding amounts owing to related parties:

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

The settlement of the Group's trade payables subsequent to 30 June 2007 was US$11.2 million as at 31 October 2007.

For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, the Group's creditor turnover days settled at 62, 71, 57 and 43 days, respectively. From 2004 to 2005, the Group's purchases decreased sharply as a result of declining sales, which led to a significant, though slower, reduction in the average accounts payable. As a result, the turnover days increased from 62 days in 2004 to 71 days in 2005. This ratio then decreased to 57 days in 2006, as the Group's purchases increased in conjunction with higher production levels while the average accounts payable decreased primarily on account of a reduction in commission and bonuses payable to dealers following the decline in the number of motorbikes sold. For the six-month period ended 30 June 2007, the increase in the Group's purchases, driven chiefly by the increase in sales volume during this period, was greater than the increase in the average accounts payable, resulting in a decrease in creditor turnover days from 57 days in 2006 to 43 days in June 2007.

The Group was generally granted credit terms up to 45 days from third-party suppliers. For amounts due to related parties, the Group typically settled its payments in 30 to 60 days for trade payables and within six months for non-trade payables. For further details regarding the credit policy granted by suppliers, see "Business — Sourcing of Parts and Raw Materials — Suppliers".

Details of the Group's other trade payables and accrued operating expenses and amounts due to related parties are set out in Note 17 of the Accountant's Report included in Appendix I to this prospectus.

Transactions giving rise to trade payable balances consisted of the Group's purchasing of parts for the production of motorbikes from related parties during the Track Record Period. Transactions giving rise to non-trade payable balances represented government grants received on behalf of Sanyang.

Indebtedness

Borrowings

The Group's borrowings as at 31 December 2004, 2005 and 2006, and 30 June 2007, respectively, were:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	(US$)	*(US$)*	*(US$)*	*(US$)*
Current				
Bank borrowings – secured	9,500,000	13,760,000	14,150,000	16,500,000
Bank borrowings – unsecured	1,150,000	2,410,000	2,300,000	300,000
Borrowings from a related party* – secured	–	2,200,000	800,000	–
Current portion of non-current borrowings – secured	906,225	645,112	830	9,129
Current borrowings	11,556,225	19,015,112	17,250,830	16,809,129
Non-current				
Bank borrowings – secured	503,337	93,112	40,655	40,665
Borrowings from a related party* – secured	1,080,000	552,000	–	–
	1,583,337	645,112	40,655	40,665
Less: Current portion of non-current borrowings – secured	(906,225)	(645,112)	(830)	(9,129)
Non-Current borrowings	677,112	–	39,835	31,536
Total	**12,233,337**	**19,015,112**	**17,290,665**	**16,840,665**

* Borrowings from a related party refer to loans from Chinfon Commercial Bank, which have been fully repaid.

The effective interest rates applicable to the Group's bank borrowings during each of these periods were as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	(%)	*(%)*	*(%)*	*(%)*
Current borrowings	2.03 to 4.52	2.76 to 4.83	4.47 to 6.63	2.38 to 6.76
Non-current borrowings	3.69 to 4.17	4.35 to 5.04	6.79	6.33

The maturity profile of the bank borrowings of the Group as at each of the balance sheet dates during the Track Record Period is as follows:

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
	(US$)	*(US$)*	*(US$)*	*(US$)*
On demand or within one year	11,556,225	19,015,112	17,250,830	16,809,129
More than one year and within 3 years	677,112	–	39,835	31,536
More than 3 years and within 5 years	–	–	–	–
Total	**12,233,337**	**19,015,112**	**17,290,665**	**16,840,665**

As at 31 October 2007, we had total bank borrowings of US$13.1 million, consisting of current bank borrowings of US$13.0 million and non-current bank borrowings of US$0.1 million.

	Total
	(US$)
Current bank borrowings — secured	12,500,000
Current bank borrowings — unsecured	457,170
Non-current bank borrowings — secured	100,003
Total	13,057,173

As at 31 October 2007, we had approximately US$51.8 million of banking facilities available to the Group, approximately US$38.7 million of which were unutilised.

The Directors confirm that, as at the Latest Practicable Date, there had been no material changes in the indebtedness and contingent liabilities of the Group since 31 October 2007.

Gearing ratio

	At 31 December			At 30 June
	2004	**2005**	**2006**	**2007**
Gearing ratio*	20.9%	32.5%	29.5%	28.7%

* The gearing ratio is calculated by dividing total interest-bearing borrowings by paid-in capital.

The gearing ratio increased from 20.9% as at 31 December 2004 to 32.5% in 2005 as at 31 December 2005, as the Group's borrowings increased principally to take advantage of the interest rate differential between Vietnamese dong and U.S. dollars. The ratio then decreased continuously, to 29.5% as at 31 December 2006 and 28.7% as at 30 June 2007, as the Group reduced its long-term borrowings and borrowings from a related party and relied more substantially on internally generated resources.

Collateral

As at 31 October 2007, the Group's secured bank borrowings listed above were collateralised by the Group's time deposits and bank balances totalling US$8.8 million, of which US$7.9 million were denominated in Vietnamese dong.

Disclaimer

Save as disclosed in the paragraphs headed "Borrowings", as at 31 October 2007, the Group did not have any outstanding mortgages, charges, pledges, debentures, loan capital, bank loans and overdrafts, debt securities or other similar indebtedness, finance leases or hire purchase commitments, acceptance liabilities or acceptance credits, any guarantees or other material contingent liabilities.

Expenditure and commitments

Capital expenditure

During the Track Record Period, the Group incurred capital expenditure principally to improve production efficiencies, adopt new production methods, expand production capacity, develop research and development capabilities and upgrade information and management systems. For the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, the Group's capital expenditure totalled US$9.7 million, US$10.2 million, US$7.3 million and US$6.5 million, respectively. This capital expenditure was generally funded through cash flow from operations and long-term bank borrowings.

In the first six months of 2007, among other capital expenditure, the Group spent approximately US$0.8 million, US$0.5 million and US$3.9 million on the construction of its new branch office in Ho Chi Minh City, its future research and development centre and certain facilities for the Light Truck Business, respectively. The Light Truck Business was subsequently disposed of by the Group in August 2007. See "Business — History and Development" for further details related to the disposal of the Light Truck Business.

In 2006, in addition to purchases of machinery, moulds and equipment, the Group invested US$0.8 million in the construction of a dormitory near the Dong Nai production facility, US$0.6 million toward the future research and development centre and US$0.2 million toward a new branch office in Ho Chi Minh City, among other things.

In 2005, the Group invested in a US$0.4 million warehouse near the Dong Nai production facility, a US$0.9 million engine parts factory in Dong Nai, as well as in machinery, moulds and equipment.

Capital commitments

The Group has regularly made commitments to future capital expenditure since 2006, typically in connection with the expansion of its operations in Vietnam.

At 30 June 2007, the Group had US$7.7 million in capital commitments, which were not provided for in the Accountants' Report. These commitments consisted primarily of the Group's obligations in respect of its new branch office in Ho Chi Minh City, which were due by October 2007, its future research and development centre which were due by January 2009 and its Light Truck Business which were due by December 2007 and was disposed of by the Group on 3 August 2007.

The Directors have authorised additional capital commitments of US$12.9 million as at 30 June 2007, in respect of which no contracts have yet been entered into. These additional commitments would largely relate to the construction of a new research and development centre and are expected by the Directors to be largely due before the end of 2009. The Directors anticipate that the Group will meet its capital commitments in respect of the new branch office largely out of ongoing cash from operations and in respect of the research and development centre largely from the proceeds of the Global Offering.

Contracted obligations and commercial commitments

Under various agreements, the Group is obliged to make future cash payments in fixed amounts. These include payments under the Group's long-term debt and rent payments under lease agreements. The following table summarises the Group's fixed cash obligations over future periods as at 30 June 2007. There have been no material changes in the Group's contracted obligations and commercial commitments subsequent to 30 June 2007.

	Payments due by period				
	2007	**2008–09**	**2010–11**	**Thereafter**	**Total**
	(US$)	*(US$)*	*(US$)*	*(US$)*	*(US$)*
Long-term debt	–	31,536	–	–	31,536
Operating lease obligations	159,884	371,243	371,243	3,363,807	4,266,177
Total	**159,884**	**402,779**	**371,243**	**3,363,807**	**4,297,713**

WORKING CAPITAL

The Directors are of the opinion that, taking into account the present available banking facilities and internal resources of the Group and the estimated net proceeds of the Global Offering, the Group has sufficient working capital for its requirements in the next 12 months commencing from the date of this prospectus.

MARKET RISKS

Interest rate risk

The Group has limited exposure to interest rate risk, which it does not currently hedge. The Group's borrowings have largely been incurred to take advantage of the effective interest rate differential between deposits denominated in Vietnamese dong and borrowings in U.S. dollars, which differential ranged from 2.0% to 3.5% over the Track Record Period (calculated using the highest effective interest rates for each of the two currencies for each period). As at the Latest Practicable Date, the Group maintained a net cash position.

Regarding the dealers and consumers who borrow money from third parties to fund their purchases of motorbikes and parts, a rise in the interest rate could have a dampening effect on purchases. In these cases, an increase in interest rates would adversely affect the ability of buyers to obtain financing and could, as a consequence, lower overall demand for motorbikes.

Foreign currency exchange rate risk

The Group is subject to limited foreign currency exchange risk, which it does not currently hedge, arising from the fact that a portion of its transactions, cash and cash equivalents, and borrowings is, and is expected to continue to be, denominated in currencies other than Vietnamese dong.

The Group's U.S. dollar-denominated purchases generally exceed its U.S. dollar-denominated sales. During the six-month period ended 30 June 2007, sales denominated in U.S. dollars and in Vietnamese dong accounted for 9.2% and 90.8% of total sales, respectively, and purchases denominated in U.S. dollars and Vietnamese dong accounted for 37.9% and 59.7% of total purchases, respectively. The amount of the Group's U.S. dollar-denominated purchases that exceeded its U.S. dollar-denominated sales represented approximately 17.0% of the Group's Vietnamese dong-denominated revenue.

The Group's cash and cash equivalents are exposed to foreign currency exchange risk, as a portion typically is denominated in U.S. dollars. During the Track Record Period, between 12.9% and 37.3% of these cash and cash equivalents were denominated in U.S. dollars. The Group's borrowings are all denominated in U.S. dollars and thus are also subject to foreign currency exchange rate risk. As at 31 December 2004, 2005 and 2006 and 30 June 2007, the Group's total bank borrowings amounted to US$12.2 million, US$19.0 million, US$17.3 million and US$16.8 million, respectively.

The Group's time deposits are not generally subject to foreign currency exchange risk, as they were all denominated in Vietnamese dong during the Track Record Period, except in 2004, where 12.6% of its time deposits were denominated in U.S. dollars.

The Group's realised and unrealised losses arising from foreign currency fluctuations totalled US$0.6 million, US$0.4 million, US$0.5 million and US$0.2 million for the years ended 31 December 2004, 2005 and 2006 and the six-month period ended 30 June 2007, respectively.

Off-balance sheet arrangements

The Group does not have in place any financial guarantees or other commitments to guarantee the payment obligations of any third parties. The Group has not entered into any derivative contracts that are indexed to its Shares and classified as Shareholders' equity or that are not reflected in the Accountants' Report. The Group does not have a retained or contingent interest in assets transferred to an unconsolidated entity or similar arrangement that serves as credit, liquidity or market risk support to such entity for such assets. The Group does not have any variable interest in an unconsolidated entity providing financing, liquidity, market risk or credit support to the Group or engaging in leasing, hedging or research and development services with the Group.

PROPERTY INTERESTS

CB Richard Ellis, an independent property valuer, has valued the Group's property interests as at 30 September 2007 and is of the opinion that the aggregate value of the Group's property interests as at such date was US$30.3 million. The full text of the letter, summary of valuation and valuation certificates with regard to such property interests are set out in Appendix IV to this prospectus.

The statement below shows the reconciliation of aggregate amounts of certain properties and lease prepayments as reflected on the audited consolidated financial statements as at 30 June 2007 with the valuation of these properties and lease prepayments as at 30 September 2007 as set out in Appendix IV to this prospectus.

		US$ (million)	*US$ (million)*
Valuation of properties (including lease prepayments) owned by the Group as at 30 September 2007 as set out in the property valuation report in Appendix IV to this prospectus			30.3
Net book value of the following properties as at 30 June 2007 as set out in Appendix I to this prospectus:			
– Buildings and lease prepayments		13.1	
– Assets under construction		6.3	
Net book value as at 30 June 2007		19.4	
Add:	Additions of properties during the period from 1 July 2007 to 30 September 2007	0.5	
Less:	Depreciation of buildings and amortisation of lease prepayments for the three-month period ended 30 September 2007	(0.1)	
Less:	Disposals of assets under construction for the three-month period ended 30 September 2007	(3.9)	
Net book value as at 30 September 2007			15.9
Net valuation surplus			14.4

DISCLOSURE UNDER CHAPTER 13 OF THE LISTING RULES

The Directors have confirmed that as at the Latest Practicable Date, they are not aware of any circumstances that would give rise to a disclosure under Rule 13.13 to Rule 13.19 of the Listing Rules.

PROFIT FORECAST FOR THE YEAR ENDING 31 DECEMBER 2007

The Directors forecast that, in the absence of unforeseeable circumstances and on the bases and assumptions set out in Appendix III, the forecast of the consolidated profit for the year attributable to equity holders of the Company for the year ending 31 December 2007 will not be less than US$30.0 million (approximately HK$234.0 million).

On the basis of the above-mentioned consolidated profit forecast and on the assumption that the Company had been listed since since 1 January 2007 and that a total of 907,680,000 Shares had been in issue during the year (without taking into any account any Shares that may be issued pursuant to the Over-allotment Option), the forecast earnings per Share on a fully diluted basis will be HK$0.258 for the year ending 31 December 2007.

On the basis of the above-mentioned consolidated profit forecast and on the assumption that the weighted average number of 737,294,466 Shares were in issue during the year ended 31 December 2007 (without taking into any account any Shares that may be issued pursuant to the Over-allotment Option), the forecast earnings per Share on a weighted-average basis will be HK$0.317 for the year ending 31 December 2007.

The forecast of the consolidated profit for the year attributable to equity holders of the Company for the year ending 31 December 2007 prepared by the Directors is based on the audited accounts of the Group for the six-month period ended 30 June 2007, unaudited management accounts of the Group for the four months ended 31 October 2007 and a forecast of the results of the Group for the remaining two-month period to 31 December 2007. The forecast has been prepared on the basis of the accounting policies consistent in all material aspects with those currently adopted by the Group as summarised in the Accountants' Report, the text of which is set out in Appendix I to this prospectus, and is based on the following principal assumptions:

(a) there will be no material changes in existing government policies or political, legal (including changes in legislation or regulations or rules), fiscal, market or economic conditions in any of the countries, regions or industries in which the Group operates, where the Group's customers carry out business, to where the Group exports its products or from which it imports its raw materials;

(b) there will be no significant fluctuations in currency exchange rates, interest rates and tariffs and duties in the countries in which the Group operates;

(c) there will be no material changes in the bases or rates of taxation applicable to the Group in the jurisdictions in which it operates; and

(d) the Group's operations and business will not be severely interrupted by any force majeure events or unforeseeable factors or any unforeseeable reasons that are beyond the control of the Directors, including but not limited to the occurrence of natural disasters or catastrophes (such as floods and typhoons), epidemics or serious accidents.

The text of the letters from the Company's reporting accountants, KPMG, and from the Sponsor, BNP Paribas, in respect of the profit forecast, is set out in Appendix III to this prospectus.

DIVIDEND POLICY AND DISTRIBUTABLE RESERVES

The Directors may declare dividends after taking into account, among other things, the results of operations, cash flow and financial condition, operating and capital requirements, the amount of distributable profits based on IFRS, the Articles, the Companies Law, applicable laws and regulations and other factors that the Directors deem relevant.

Dividends of US$25.0 million and US$10.0 million were declared and distributed in 2004 and 2005, respectively. The Directors declared and distributed dividends of US$12.0 million in 2006 to SYI in respect of the year ended 31 December 2004. In addition, a total of US$10.0 million of dividends were paid in 2006 to SYI and Indopark following the transfer of a 10% interest in the Company to Indopark. In 2007, the Directors have declared and distributed a total of US$39.0 million dividends, which were paid out of the Group's cash flow from operations.

The Company's current dividend policy is that not less than 30% of the Group's profits available for distribution will be recommended for distribution in each financial year. The amount of dividend actually distributed to the Shareholders will depend upon the Group's earnings, financial condition, operating requirements and capital requirements, and any other conditions that the Directors may deem relevant, and will be subject to approval of the Shareholders. The future declaration of dividends may or may not reflect the Company's historical declarations of dividends and will be at the absolute discretion of the Board.

At 30 June 2007, the Company had US$73.1 million of distributable reserves, consisting of retained earnings only.

UNAUDITED PRO FORMA ADJUSTED NET TANGIBLE ASSETS

The following statement of unaudited pro forma adjusted net tangible assets of the Group is derived from the audited consolidated net assets of the Group as at 30 June 2007, as shown in the Accountants' Report, the text of which is set out in Appendix I to this prospectus and adjusted as follows:

	Adjusted net tangible assets as at 30 June 2007(1)	Estimated net proceeds from the Global Offering(2)	Unaudited pro forma adjusted net tangible assets of the Group	Unaudited pro forma adjusted net tangible asset value per Share(3)	
	US$'000	*US$'000*	*US$'000*	*US$*	*HK$*
Based on Offer Price of HK$3.61 per Offer Share	130,037	70,301	200,338	0.22	1.72
Based on Offer Price of HK$4.64 per Offer Share	130,037	92,920	222,957	0.25	1.95

(1) The consolidated net tangible assets attributable to the equity holders of the Company as at 30 June 2007 have been extracted from the Accountants' Report, the text of which is set out in Appendix I to this prospectus, after adjusting for the intangible assets of US$514,662 as at 30 June 2007.

(2) The estimated net proceeds from the Global Offering are based on the Offer Price of HK$3.61 and HK$4.64 per Share, respectively, after deduction of the underwriting fees and other related expenses payable by the Company. No account has been taken of the Shares that may be issued pursuant to any exercise of Over-allotment Option.

(3) The unaudited pro forma net tangible asset value per Share is arrived at after the adjustments referred to in the preceding paragraphs and on the basis of 907,680,000 Shares (being the number of Shares expected to be in issue immediately after completion of the Global Offering, without taking into account any Shares which may be issued upon the exercise of the Over-allotment Option).

(4) The Group's property interests were valued by CB Richard Ellis, the valuation in respect of which is set out in Appendix IV to this prospectus. The Group will not incorporate the revaluation surplus in its financial statements for the year ending 31 December 2007. It is the Group's accounting policy to state its lease prepayments at cost less accumulated amortisation and property, plant and equipment at cost less accumulated depreciation and any impairment loss in accordance with International Accounting Standard 17 and 16, respectively, rather than at revalued amounts. Pursuant to the valuation performed by CB Richard Ellis, the Group's property interests as at 30 September 2007 amounted to approximately US$30.3 million. Comparing the valuation amount as at 30 June 2007 to the unaudited net book value of the property interests as at 30 September 2007, there was a difference of approximately US$14.4 million which will not be included in the financial statements for the period ending 30 June 2007. If the revaluation surplus was recorded in the financial statements, the depreciation expenses would increase by approximately US$0.4 million per annum.

(5) The unaudited pro forma net tangible assets do not take into account the effect of the dividends paid after 30 June 2007.

NO MATERIAL ADVERSE CHANGE

There was no interruption in the Group's business that may have or has had a significant effect on the Group's financial condition in the last 12 months. The Directors confirm that there has not been any material adverse change in the Group's financial position since 30 June 2007 (being the date as of which the Group's latest audited consolidated financial statements were prepared as set out in the Accountants' Report in Appendix I to this prospectus).

FINANCIAL INFORMATION ON MONTHLY REVENUE OF VMEP

Under the rules and regulations of the Taiwan Stock Exchange, Sanyang is required to announce on the website of the Taiwan Stock Exchange the unaudited monthly revenue of each of its major operating subsidiaries (which is defined as any subsidiary making a substantial contribution to the revenue of Sanyang) within 10 days after the end of each calender month. As VMEP is one of the major operating subsidiaries indirectly owned by Sanyang, Sanyang has released announcements on the monthly revenue of VMEP.

From 30 June 2007 (being the date to which the latest audited consolidated financial statements of the Group have been prepared) to the Latest Practicable Date, Sanyang had published the following unaudited information on the monthly revenue of VMEP in Taiwan:

	Published revenue of VMEP	
	(NT$)	*(US$)*
July 2007	573.9 million	17.7 million
August 2007	743.2 million	22.9 million
September 2007	766.6 million	23.6 million
October 2007	779.9 million	24.0 million

Publication of monthly revenue of VMEP after the Listing

For so long as VMEP remains a major operating subsidiary of Sanyang within the meaning of the rules and regulations of the Taiwan Stock Exchange (and if any other member of the Group becomes one) after the Listing, Sanyang will be required to comply with the reporting requirement in relation to the monthly revenue of such entity as disclosed above. After the Listing, the Company will publish such information in accordance with the relevant regulations of the Listing Rules of the Stock Exchange at the same time as it is published on the website of the Taiwan Stock Exchange to ensure simultaneous and timely disclosure to the Shareholders and prospective investors in Hong Kong.