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## THIS CIRCULAR IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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**If you are in any doubt** as to any aspect of this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or transferred all** your shares in Vietnam Manufacturing and Export Processing (Holdings) Limited, you should at once hand this circular together with the accompanying form of proxy to the purchaser or the transferee or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser or the transferee.

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### **Vietnam Manufacturing and Export Processing (Holdings) Limited** **越南製造加工出口(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 422)**

## CONTINUING CONNECTED TRANSACTIONS

**Independent financial adviser**  
**to the Independent Board Committee and the Independent Shareholders**



**CENTURION CORPORATE FINANCE LIMITED**

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A letter from the Board (as defined herein) is set out on pages 5 to 16 of this circular. A letter from the Independent Board Committee (as defined herein) containing its advice to the Independent Shareholders (as defined herein) is set out on page 17 of this circular. A letter from Centurion Corporate Finance Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 18 to 41 of this circular.

A notice convening the EGM (as defined herein) to be held at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10:30 a.m. on Thursday, 17 January 2013 is set out on pages 46 to 47 of this circular. A form of proxy for use by the Independent Shareholders at the EGM is enclosed with this circular.

Whether or not you are able to attend the EGM, please complete and return the accompanying form of proxy in accordance with the instructions printed thereon to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, as soon as possible and in any event not less than 48 hours before the time of the EGM. Completion and delivery of the form of proxy will not preclude you from attending the EGM and voting in person should you so wish.

17 December 2012

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## DEFINITIONS

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*In this circular, the following expressions shall have the meanings set out below unless the content requires otherwise:*

“Annual Caps”	the maximum aggregate annual value of each of the Continuing Connected Transactions for the three financial years ending 31 December 2015 proposed by the Board
“associates”	has the meaning ascribed to it under the Listing Rules
“Board”	the board of directors the Company
“Centurion”	Centurion Corporate Finance Limited, a licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders in relation to the Continuing Connected Transactions and the related Annual Caps
“Company” or “VMEPH”	Vietnam Manufacturing and Export Processing (Holdings) Limited (越南製造加工出口(控股)有限公司), a company incorporated in the Cayman Islands with limited liability, the shares of which are listed on the Stock Exchange
“connected person”	has the meaning ascribed to it under the Listing Rules
“Continuing Connected Transactions”	the transactions under the Master Purchase Agreement, Distributorship Agreement and Technology Licence Agreement, which are subject to the reporting, annual review, announcement and Independent Shareholders’ approval requirements under Chapter 14A of the Listing Rules
“controlling shareholder”	has the meaning ascribed to it under the Listing Rules

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## DEFINITIONS

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“Director(s)”	director(s) of the Company
“Distributorship Agreement”	the agreement dated 9 November 2012 entered into between the Company and the Sanyang Group in relation to the exclusive distribution by the Group of motorbikes and related parts manufactured by the Sanyang Group in the Exclusive Territory (excluding Vietnam, unless the motorbikes are resold in Vietnam for exhibition purposes)
“EGM”	the extraordinary general meeting of the Company to be held at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10:30 a.m. on Thursday, 17 January 2013 to approve the Continuing Connected Transactions and the related Annual Caps
“Exclusive Territory”	all of the member countries of the Association of South East Asian Nations (“ASEAN”), including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam
“Existing Purchase Agreements”	the purchase agreements entered into between the Group and members of the Sanyang Group in relation to the purchase of certain motorbike parts from Sanyang and members of the Sanyang Group, including the VMEPH Purchase Agreement, the VMEPH Sanyang Global Purchase Agreement, the VMEPH VTBM Purchase Agreement (each of which as defined in the announcement of the Company dated 9 November 2009) and the VMEPH Full Ta Purchase Agreement (as defined in the announcement of the Company dated 28 March 2011)
“Full Ta”	Hanoi Full Ta Precision Company Limited, an indirect non wholly-owned subsidiary of Sanyang incorporated in Vietnam
“Group”	the Company and its subsidiaries from time to time

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## DEFINITIONS

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“Hong Kong”	the Hong Kong Special Administrative Region of the People’s Republic of China
“Independent Board Committee”	the independent committee of the Board, comprising the independent non-executive Directors, namely Ms. Lin Ching Ching, Mr. Shen Hwa Rong and Mr. Wei Sheng Huang, established for the purpose of advising the Independent Shareholders in respect of the Continuing Connected Transactions and the related Annual Caps
“Independent Shareholders”	Shareholders who are not required to abstain from voting on the resolutions to be proposed at the EGM under the Listing Rules
“independent third parties”	persons or entities who/which are not connected persons within the meaning of the Listing Rules
“Latest Practicable Date”	13 December 2012, being the latest practicable date prior to the printing of this circular for ascertaining certain information referred to in this circular
“Listing Rules”	The Rules Governing the Listing of Securities on the Stock Exchange
“Master Purchase Agreement”	the agreement dated 9 November 2012 entered into between the Company (on behalf of other members of the Group) as the purchaser and Sanyang (for itself and on behalf of other members of the Sanyang Group) as the seller in relation to purchases of motorbike parts by the Group from the Sanyang Group
“PRC”	the People’s Republic of China and for the purpose of this circular, excludes Taiwan, the Macau Special Administrative Region and Hong Kong
“Qingzhou Machinery”	Zhangjiagang Qingzhou Machinery Industry Co., Limited (張家港慶洲機械工業有限公司), an indirect wholly-owned subsidiary of Sanyang incorporated in the PRC

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## DEFINITIONS

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“Sanyang”	Sanyang Industry Co., Limited (三陽工業股份有限公司), a company incorporated in Taiwan and listed on the Taiwan Stock Exchange Corporation, which is the ultimate controlling shareholder of the Company
“Sanyang Global”	Sanyang Global Co., Ltd. (三陽環宇(廈門)實業有限公司), an indirect wholly-owned subsidiary of Sanyang incorporated in the PRC
“Sanyang Group”	Sanyang and its subsidiaries from time to time (excluding the Group)
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Shareholders”	holder of Shares
“Shares”	ordinary shares in the share capital of the Company with a nominal value of HK\$0.01 each
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiaries”	has the meaning given that term under section 2(4) of the Companies Ordinance, Chapter 32 of the Laws of Hong Kong
“SYI”	SY International Limited, a company incorporated in Samoa with limited liability and a direct controlling shareholder of the Company
“Technology Licence Agreement”	the agreement dated 26 November 2007 entered into between VMEP and Sanyang in relation to the grant of an exclusive licence to VMEP to use the technology, know-how, trade secrets and production information owned by Sanyang
“US\$”	United States Dollar, the lawful currency of the United States of America
“VMEP”	Vietnam Manufacturing and Export Processing Co., Limited, a wholly-owned subsidiary of the Company
“VTBM”	Vietnam Three Brothers Machinery Industry Co., Limited, an indirect non wholly-owned subsidiary of Sanyang incorporated in Vietnam
“%”	per cent.

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## LETTER FROM THE BOARD

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### **Vietnam Manufacturing and Export Processing (Holdings) Limited** **越南製造加工出口(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 422)**

*Executive Directors:*

Mr. Chou Ken Yuan (*the Chairman*)  
Mr. Wang Ching Tung (*Chief Executive Officer*)  
Mr. Yu Wen Lung (*Chief Financial Officer*)  
Mr. Chen Chung Long

*Non-executive Directors:*

Mr. Chiang Shih Huang  
Mr. Chiu Ying Feng

*Independent non-executive Directors:*

Ms. Lin Ching Ching  
Mr. Shen Hwa Rong  
Mr. Wei Sheng Huang

*Registered Office:*

Cricket Square  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business*

*in Hong Kong:*  
Room 2106, 21/F  
Technology Plaza  
651 King's Road  
North Point  
Hong Kong

17 December 2012

*To the Shareholders*

Dear Sir or Madam,

## **CONTINUING CONNECTED TRANSACTIONS**

### **INTRODUCTION**

On 9 November 2012, the Company announced, among others, that as the existing agreements relating to the Continuing Connected Transactions (except for the Technology Licence Agreement) will expire on 31 December 2012, the Company had, on 9 November 2012, entered into new agreements in relation to the Continuing Connected Transactions (except for the Technology Licence Agreement) each with a term of three years ending on 31 December 2015. The Board also proposes Annual Caps for all Continuing Connected Transactions (including transactions under the Technology Licence Agreement) for the three years ending on 31 December 2015.

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## LETTER FROM THE BOARD

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The Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Continuing Connected Transactions and the related Annual Caps. Centurion has been appointed as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders on the same.

The purpose of this circular is to provide you with details of the Continuing Connected Transactions and the Annual Caps and to seek your approval of the ordinary resolutions set out in the notice of the EGM on pages 46 to 47 of this circular. The recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Continuing Connected Transactions and the Annual Caps is set out on page 17 of this circular. The letter from Centurion to the Independent Board Committee and the Independent Shareholders containing its advice in relation to the Continuing Connected Transactions and the Annual Caps is set out on pages 18 to 41 of this circular.

### PRINCIPAL TERMS OF THE CONTINUING CONNECTED TRANSACTIONS

#### (A) Master Purchase Agreement

- Date: 9 November 2012
- Parties: (a) the Company (on behalf of other members of the Group) as the purchaser; and  
(b) Sanyang (for itself and on behalf of other members of the Sanyang Group) as the seller
- Term: 1 January 2013 to 31 December 2015

#### ***Background***

The Group has been sourcing certain motorbike parts from Sanyang and other members of the Sanyang Group (including subsidiaries of Sanyang such as VTBM, Full Ta and Sanyang Global, which are engaged in manufacturing or sourcing of various motorbike parts in different countries and regions) for its production of motorbikes. In relation to sourcing of such motorbike parts, the Group entered into the Existing Purchase Agreements with members of the Sanyang Group including Sanyang, VTBM, Full Ta and Sanyang Global, for the purchase of motorbike parts from Sanyang and respective subsidiary of Sanyang.

As the Existing Purchase Agreements will expire on 31 December 2012, on 9 November 2012, the Company entered into the Master Purchase Agreement with Sanyang, to, among others, continue to engage the Sanyang Group to supply motorbike parts to the Group upon expiry of the Existing Purchase Agreements. The relevant suppliers of motorbike parts under the Master Purchase Agreement are members of the Sanyang Group (including direct or indirect, and wholly-owned or non-wholly owned subsidiaries) from time to time, which include but are not limited to Sanyang, VTBM, Full Ta, Sanyang Global and Qingzhou Machinery which are engaged in manufacturing or sourcing of various motorbike parts in different countries and regions.

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## LETTER FROM THE BOARD

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### *Major terms and pricing of the purchase of motorbike parts from the Sanyang Group*

Under the Master Purchase Agreement, the Group purchases certain motorbike parts from the Sanyang Group which are either manufactured by the Sanyang Group or sourced by it from independent third parties, for the Group's production of motorbikes. The motorbike parts to be sourced from Sanyang include electronic fuel injection components, carburetors and cylinder heads, while that to be sourced from other members of the Sanyang Group include fuel tanks, frames and rear shafts manufactured in Vietnam by VTBM and/or Full Ta, pistons, cylinders and gears from Sanyang Global and/or Qingzhou Machinery which are sourced by them from independent third parties in the PRC. The Group may also source other motorbike parts from other members of the Sanyang Group from time to time should it be required by its production process.

In relation to sourcing of motorbike parts such as electronic fuel injection components, carburetors and cylinder heads from Sanyang, the price of such purchases is at a cost plus basis. Sanyang charges the Group at the manufacturing cost or purchase cost (as the case may be) plus a margin of 10% (if Vietnam import duty is 20% or more) or of 15% (if Vietnam import duty is less than 20%). The manufacturing cost or purchase cost (as the case may be) will be determined on an annual basis subject to adjustments in any annual period with respect to fluctuations in foreign exchange rates and modifications to model of motorbikes in which the products to be purchased by the Group from Sanyang pursuant to the Master Purchaser Agreement is used.

In relation to sourcing of motorbike parts from members of the Sanyang Group other than Sanyang, the pricing at which motorbike parts are to be sold to the Group shall be determined by the relevant parties after negotiation by reference to the market price at the time an order is placed. The price of the motorbike parts offered by such member of the Sanyang Group shall not be higher than that offered by other independent suppliers offering the same products or substantially similar products in the same or substantially similar quantities to the Group from time to time. Pursuant to the Master Purchase Agreement, the Group shall, on a regular basis and before it places any purchase order with members of the Sanyang Group (other than Sanyang), obtain price quotations from two separate suppliers who are independent third parties for the supply of the same or similar motorbike parts and in the same or substantially similar quantities, as the reference market price of such motorbike parts. If the Group proceeds to place a purchase order for such motorbike parts with the Sanyang Group, the price at which such product is to be offered by the Sanyang Group shall not be higher than any of the price quotations, and all other terms and conditions offered by the Sanyang Group shall be no less favourable to the Group than those offered by such independent suppliers.

The Group shall settle the purchase costs under the Master Purchase Agreement in cash within 30 or 60 (as the case may be) days after the date of delivery unless the relevant parties determined otherwise in the individual purchase orders.

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## LETTER FROM THE BOARD

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The Master Purchase Agreement is a framework agreement which provides the principles, mechanism and terms and conditions for the Group's purchase of motorbike parts from the Sanyang Group. Individual purchase orders will be entered into between the relevant members of the Group and Sanyang Group from time to time which will specify the types of motorbike parts to be purchased, price, delivery arrangements and any other terms which may be relevant to the supply of the parts to the Group. The individual purchase orders may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions set out in the Master Purchase Agreement.

### ***Reasons and benefits for the sourcing of motorbike parts from the Sanyang Group***

The Group purchases motorbike parts from the Sanyang Group rather than directly from independent third party suppliers because, by centralising and aggregating the Sanyang Group's sourcing of such parts with those of the Group's, the Sanyang Group is in a position to negotiate better purchase price and terms with the suppliers and enjoy benefits of bulk purchase, which also benefits the Group as the Sanyang Group will be able to supply the parts to the Group at lower costs. For motorbike parts which are currently sourced from suppliers outside Vietnam as they are either unavailable or not of acceptable quality or pricing in Vietnam, the Sanyang Group also provides quality testing, packaging, customs clearance and logistics services on the motorbike parts sold to the Group at a lower cost than that for the Group to engage an independent third parties outside Vietnam to provide similar services.

Apart from sourcing from Sanyang, the Group also sources certain motorbike parts from the Sanyang Group (such as Sanyang Global and Qingzhou Machinery) in the PRC. It enables to the Group to secure a cost effective and stable source of supply of motorbike parts as motorbike parts are supplied at a lower cost in the PRC than in other countries due to lower labour costs and production costs in the PRC. Whilst the rising costs of sourcing from the PRC are primarily attributed to the constant appreciation of Renminbi, by centralising purchase from/with the Sanyang Group instead of making separate purchase orders to independent suppliers, the Group is able to mitigate and minimise the impact of the increasing sourcing costs. In sourcing the relevant motorbike parts from the Sanyang Group, the Sanyang Group also assists the Group to conduct surveys and perform quality checks on suppliers which are based in the PRC to ensure that the parts supplied by them meet the requirement and standards of the Group.

Certain production plants of the Sanyang Group are located in the southern and northern parts of Vietnam. The Group also sources motorbike parts from the Sanyang Group (such as VTBM and Full Ta) locally in Vietnam for production in its production plant located near the Group's plants. This will reduce transportation costs and delivery time due to the proximity between the manufacturing plants of the Sanyang Group and those of the Group's, as compared to sourcing from other suppliers. Sourcing motorbike parts from the Sanyang Group in Vietnam will also bring flexibility to the Group and allows it to meet unexpected increase of orders or other market contingencies.

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## LETTER FROM THE BOARD

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Due to the rapid growth in the economy of Vietnam and the expansion of the Group's business in the Exclusive Territory, an increasing number and types of motorbike parts manufactured by the Sanyang Group or sourced by it from independent third parties are used for the manufacture of motorbikes by the Group. Taking into account the Sanyang Group's production capacity and relevant experience in supplying motorbike parts to motorbike manufacturers, quality of the motorbike parts supplied, and the established business relationship with the Group from which the Sanyang Group gained profound understanding of the Group's product specification and production need, the Directors consider the Sanyang Group a long term business partner and reliable supplier of motorbike parts.

### **(B) Distributorship Agreement**

Date: 9 November 2012  
Parties: (a) the Group as the distributor; and  
(b) the Sanyang Group as the supplier  
Term: 1 January 2013 to 31 December 2015

Under the Distributorship Agreement, the Group acts as the exclusive distributor of certain motorbikes and related parts manufactured by the Sanyang Group in the Exclusive Territory (except in the case of Vietnam, the Company will only be entitled to re-sell such motorbikes to customers in Vietnam solely for use in exhibitions). The Group only purchases products from the Sanyang Group when confirmed customer orders are received and the motorbike to be distributed are restricted to those models which the Group does not produce. The Sanyang Group sells such products to the Group at a price that is at least 3.5% lower than the indicative sales price of such products proposed to be sold by the Group to independent end-customers. The Group shall pay for all purchases made under the Distributorship Agreement in cash within 30 days after the date of delivery.

Through distribution of specific models of motorbikes and related parts manufactured by the Sanyang Group (which model the Group does not produce) in the Exclusive Territory, the Group can retain the end-customers in the Exclusive Territory who purchase specific models of motorbike manufactured by the Sanyang Group. The Group may leverage on the customer base of the Sanyang Group as a gateway for expanding its own customer base within the Exclusive Territory and increasing its market shares and promoting its corporate and brand recognition. The pricing basis as agreed under the Distributorship Agreement also ensures that the Group will have a minimum guaranteed profit of at least 3.5% of the sales price on each product the Group distributes or re-sells to end-customers in the Exclusive Territory.

### **(C) Technology Licence Agreement**

Date: 26 November 2007  
Parties: (a) VMEP as the licensee; and  
(b) Sanyang as the supplier

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## LETTER FROM THE BOARD

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The Technology Licence Agreement was entered into between VMEP and Sanyang on 26 November 2007, and will continue in force for so long as Sanyang is a controlling shareholder and for a further period of 20 years after Sanyang ceases to be a controlling shareholder of the Company, subject to certain termination events as set out in the Technology Licence Agreement. Under the Technology Licence Agreement, Sanyang has granted an exclusive licence to VMEP (a wholly-owned subsidiary of the Company) to use the technology, know-how, trade secrets and production information owned by Sanyang in connection with the Group's manufacture and sale of "SYM" brand motorbikes and related parts in the Exclusive Territory. The licence fee as provided for in the Technology Licence Agreement is 4% of the annual net selling price of products manufactured using such technology from Sanyang and sold by VMEP. The Group shall settle all undisputed invoices within 60 days from the last day of each six-month period in each calendar year.

Sanyang owns the proprietary right to the technology, know-how, trade secrets and production information in connection with the manufacture and sale of "SYM" brand motorbikes and related parts. As the sales of "SYM" brand products contribute to a significant percentage of the Group's turnover, the Directors consider the continued use of such technology and related intellectual property rights which enable the Group to continue manufacturing and selling "SYM" brand motorbikes and related parts is essential to the Group's operations and continued growth.

### HISTORICAL TRANSACTION AMOUNTS AND PROPOSED ANNUAL CAPS

#### Annual caps for the three years ending 31 December 2012

The table below sets out the respective annual caps (as subsequently revised by announcement and/or Independent Shareholders' approval of the Company, as the case may be) of the Continuing Connected Transactions for the three years ending 31 December 2012:

<i>(in US\$)</i>	Annual cap for the year ended 31 December 2010	Annual cap for the year ended 31 December 2011	Annual cap for the year ending 31 December 2012
<b>(A) Master Purchase Agreement (Note 1)</b>			
<i>Existing Purchase Agreements</i>			
(i) VMEPH Purchase Agreement	8,900,000	21,600,000	25,200,000
(ii) VMEPH Sanyang Global Purchase Agreement	8,100,000	9,500,000	10,000,000
(iii) VMEPH VTBM Purchase Agreement	4,300,000	6,000,000	7,000,000
(iv) VMEPH Full Ta Purchase Agreement	Nil	1,600,000	2,500,000
<i>Aggregated annual caps under the Existing Purchase Agreements:</i>	21,300,000	38,700,000	44,700,000
<b>(B) Distributorship Agreement</b>	10,000,000	13,000,000	28,500,000
<b>(C) Technology Licence Agreement</b>	9,500,000	11,000,000	13,000,000

*Note 1:* During the three financial years ending 31 December 2012, the Group entered into the Existing Purchase Agreements with members of the Sanyang Group including Sanyang, VTBM, Full Ta and Sanyang Global, for the purchase of motorbike parts from Sanyang and its respective subsidiaries. The annual caps set out above represent the aggregated annual caps (as subsequently revised by announcement and/or Independent Shareholders' approval of the Company, as the case may be) of the purchase amounts of motorbike parts from the Sanyang Group under the Existing Purchase Agreements.

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## LETTER FROM THE BOARD

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### Historical transaction amounts of the Continuing Connected Transactions

The table below sets out the historical transaction amounts of the Continuing Connected Transactions for the two years ended 31 December 2011 and the nine months ended 30 September 2012:

<i>(in US\$)</i>	Transaction amounts for the year ended 31 December 2010	Transaction amounts for the year ended 31 December 2011	Transaction amounts for the nine months ended 30 September 2012 (based on audited management accounts of the Group up to 30 September 2012)
<b>(A) Master Purchase Agreement (Note 2)</b>			
<i>Existing Purchase Agreements</i>			
(i) VMEPH Purchase Agreement	8,882,518	21,232,894	5,454,057
(ii) VMEPH Sanyang Global Purchase Agreement	7,105,699	9,495,208	7,447,765
(iii) VMEPH VTBM Purchase Agreement	4,296,635	5,355,381	2,064,649
(iv) VMEPH Full Ta Purchase Agreement	Nil	124,737	605,727
<i>Aggregated historical transaction amounts under the Existing Purchase Agreements:</i>	20,284,852	36,208,220	15,572,198
<b>(B) Distributorship Agreement</b>	9,538,244	12,883,870	17,030,930
<b>(C) Technology Licence Agreement</b>	6,455,056	6,899,833	3,174,598

*Note 2:* The historical transaction amounts set out above represent the aggregated amount of motorbike parts purchased by the Group from members of the Sanyang Group under the Existing Purchase Agreements.

As at the Latest Practicable Date, the actual transaction amounts of the Continuing Connected Transactions for the two years ended 31 December 2011 had not exceeded the respective annual caps (as subsequently revised, as the case may be) of the relevant year. The actual transaction amounts of the Continuing Connected Transactions during the first nine months of 2012 had not exceeded the respective annual caps (as subsequently revised, as the case may be) for the year ending 31 December 2012.

### Proposed Annual Caps of the Continuing Connected Transactions and the basis of determination

The Board proposes that the Annual Caps for the Continuing Connected Transactions for the three years ending 31 December 2015 be set as follows:

<i>(in US\$)</i>	Annual Cap for the year ending 31 December 2013	Annual Cap for the year ending 31 December 2014	Annual Cap for the year ending 31 December 2015
<b>(A) Master Purchase Agreement</b>	46,600,000	57,900,000	66,300,000
<b>(B) Distributorship Agreement</b>	28,000,000	29,000,000	30,000,000
<b>(C) Technology Licence Agreement</b>	8,000,000	10,000,000	12,000,000

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## LETTER FROM THE BOARD

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The Annual Caps have been determined by the Board based on the historical transaction amounts of the Continuing Connected Transactions and expected growth and expansion of the Company's manufacturing and sales for the coming three years, taking into account of the following factors:

- (i) historical growth rates of the turnover of the Group and the transaction amounts of the subject transactions;
- (ii) historical percentages of the relevant values of the subject transactions to the turnover of the Group;
- (iii) projected and/or targeted growth in turnover and sales volume of the Group as determined by the Board;
- (iv) the recent transaction amounts of the subject transactions during the current financial year;
- (v) the expected rising costs of sourcing from the Sanyang Group as a result of the constant appreciation of New Taiwanese Dollar and Renminbi and the constantly rising costs of raw materials;
- (vi) the expected increase in average unit price of the motorbike parts offered by independent suppliers due to inflation and increased production cost;
- (vii) the diversification of Company business by expanding production to new models which will deploy advance technology components like electronic fuel injection engines; and
- (viii) projected increase in the amount of the subject transactions for the purpose of reserved stocks to avoid disruption to Company business in the case of contingency.

### ***The Annual Caps of the Master Purchase Agreement***

As disclosed in the announcement dated 20 April 2012 and interim report of the Company, during the first quarter of 2012, the Group experienced a serious decline of sales revenue as a result of intensified competition in motorbike market in Vietnam and rising production costs as a result of severe inflation in Vietnam. Due to the adverse market conditions in the first half of 2012, the Group recorded an exceptionally low sales amount for the first nine months of 2012 compared to that of 2011, as a result of which the total amount of motorbike parts purchased from the Sanyang Group also dropped to an uncommonly low level during the relevant period. As the peak season of the Group's motorbike sales normally starts in the second half of the financial year (in particular the fourth quarter with the increased purchase orders for the Chinese New Year), the Directors anticipate that the purchase amount of the fourth quarter of 2012 will be substantially higher than the average quarterly purchase amounts for the first three quarters.

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## LETTER FROM THE BOARD

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As the economy in ASEAN countries started to pick up since the third quarter of 2012, the Directors expects the demand of the motorbikes manufactured by the Group for the coming years will be restored to a normal level of not lower than that of 2011. Furthermore, many of the new products to be launched by the Group in the years 2013 to 2015 require complex and advanced motorbike parts (such as high technology electronic fuel injection engines) the selling price of which is general higher that other parts. Without taking into account of the unexpectedly severe market conditions resulting in exceptionally low level of demand of motorbikes during year 2012, and considering the historical increment in purchase amounts of 78% in year 2011 compared to that of 2010, the Directors consider an increase of approximately 28% for the year 2013 as compared to that of 2011 is reasonable in anticipation of the increase in motorbikes sales following the market recovery. For the years 2014 and 2015, an annual increase of approximately 24% and 15% respectively compared to the preceding year is considered appropriate to allow steady market growth.

### ***The Annual Caps of the Distributorship Agreement***

Having considered the confirmed purchase orders and market conditions, the Directors expect the annual transaction amounts under the Distributorship Agreement for the year ending 31 December 2012 will be no less than US\$23 million. In view of the rapid growth of demand during the years 2011 and 2012, as well as the steady growth in local commercial activities, consumers' preference and purchasing powers in ASEAN countries in particular, the Philippines and Malaysia, the Board expects such strong demand of motorbikes manufactured by Sanyang Group to continue to sustain in the coming few years. In this connection, having considered the historical increment in purchase amounts paid to Sanyang Group was approximately 35% for the year 2011 and 78% for the year 2012 (based on the Directors' estimate), respectively, the Directors consider an increase of approximately 22% for the year 2013 as compared to that of 2012 (based on the Directors' estimate) is reasonable to allow steady market growth. The Directors expects the sales of motorbikes manufactured by Sanyang Group for the years 2014 and 2015 will remain relatively stable compared to that of 2013.

### ***The Annual Caps of the Technology Licence Agreement***

Due to the reasons set out under the heading "The Annual Caps of the Master Purchase Agreement", notwithstanding the sales amount of the "SYM" brand motorbikes for the first nine months of 2012 was less than that of last year', the Directors expect the sales amount for the fourth quarter will increase significantly compared to the first three quarters, hence the license fee paid under the Technology Licence Agreement will increase.

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## LETTER FROM THE BOARD

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For the years 2013 to 2015, the Directors expect the sales amount of the “SYM” brand motorbikes will be restored to a level not lower than that of 2011. As the “SYM” brand motorbikes have gained their popularity in and are generally well-received Vietnam and other ASEAN countries such as Philippines and Malaysia, and with the promotion activities of the “SYM” brand motorbikes in new markets such as Thailand, Brunei and Indonesia, the units of sales and sales amount of “SYM” brand motorbikes for the coming years are expected to increase significantly in these regions.

As part of the its continued research and development plan for advancement of its motorbike products, the Group plans to launch new competitive models of “SYM” brand motorbikes during the year 2013 and 2014, including advanced models of “Shark”, “Elizabeth” and “Victoria” scooter series, and new models of cub. With the increased production cost, the average selling price per unit of the “SYM” brand motorbikes is also expected to increase. Having considered the above factors which lead to an overall increase of sales amount of “SYM” brand motorbikes in the coming years, the Directors expect the licence fee payable under the Technology Licence Agreement, which is calculated with reference to the annual net selling price of products manufactured using such technology from Sanyang, shall increase steadily at rate of 20% to 25% on annual basis.

### INFORMATION OF THE GROUP AND SANYANG GROUP

The Group is one of the leading manufacturers of scooter and cub motorbikes in Vietnam which is principally engaged in the production of scooters and cub motorbikes, engines and related parts.

Sanyang Group is principally engaged in the manufacturing of (i) motorbikes and related parts and (ii) motor cars, trucks and related parts. As at the Latest Practicable Date, Sanyang, through its wholly-owned subsidiary, SYI, held 608,318,000 issued Shares (approximately 67.02% of the issued share capital of the Company).

### LISTING RULES IMPLICATIONS

As Sanyang is an indirect controlling shareholder of the Company and thus a connected person of the Company by virtue of Rule 14A.11(1) of the Listing Rules, members of the Sanyang Group are also connected persons of the Company. Accordingly, the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules.

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## LETTER FROM THE BOARD

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As one or more of the applicable percentage ratios in respect of the Annual Caps for each of the Continuing Connected Transactions exceeds 5%, the aforesaid transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Hence, the terms of the Continuing Connected Transactions, their respective agreements (except for the Technology Licence Agreement) and the respective Annual Caps are conditional on approval by the Independent Shareholders being obtained at the EGM.

### **DIRECTORS' VIEWS**

Each of Mr. Chen Chung Long, Mr. Chiang Shih Huang, Mr. Chiu Ying Feng, Mr. Chou Ken Yuan and Mr. Yu Wen Lung (each being a Director) has a 0.0001%, 0.0001%, 0.0032%, 0.0236% and 0.0011% shareholding in Sanyang respectively. Each of Mr. Chiang Shih Huang, Mr. Chiu Ying Feng and Mr. Chou Ken Yuan also either serves on the board of Sanyang or members of the Sanyang Group, or is an employee of the Sanyang Group. Therefore, pursuant to the articles of association of the Company and the Listing Rules, Mr. Chen Chung Long, Mr. Chiang Shih Huang, Mr. Chiu Ying Feng, Mr. Chou Ken Yuan and Mr. Yu Wen Lung had abstained from voting in the board meeting to approve the Continuing Connected Transactions due to the aforesaid overlapping of roles and shareholding interests in the Sanyang Group.

The Directors (excluding the independent non-executive Directors who have expressed their views in the letter from the Independent Board Committee set out on page 17 of this circular) consider that the Continuing Connected Transactions have been carried out and will continue to be carried out in the ordinary and usual course of business of the Group and on normal commercial terms, and that the terms of such transactions and the respective Annual Caps are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

### **EGM**

A notice convening the EGM to be held at United Conference Centre, 10/F., United Centre, 95 Queensway, Admiralty, Hong Kong at 10:30 a.m. on Thursday, 17 January 2013 is set out on pages 46 to 47 of this circular. At the EGM, ordinary resolutions will be proposed for the Independent Shareholders to consider and, if thought fit, to approve the Continuing Connected Transactions and the related Annual Caps.

The ordinary resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. Sanyang, the ultimate controlling shareholder, through its wholly-owned subsidiary, SYI, was interested in approximately 67.02% of the issued share capital of the Company as at the Latest Practicable Date. Therefore, Sanyang, its subsidiaries and associates are required to abstain from voting at the EGM.

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## LETTER FROM THE BOARD

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For determining the entitlement to attend and vote in the EGM, the register of members of the Company will be closed from 15 January 2013 to 17 January 2013 (both days inclusive) during which period no transfer of Shares will be registered. In order to qualify for the attendance of the EGM, all transfers of Shares accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 14 January 2013.

A form of proxy for use in connection with the EGM is enclosed with this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the enclosed form of proxy in accordance with the instructions printed thereon as soon as possible to the branch share registrar of the Company in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong and in any event not later than 48 hours before the time of the EGM or any adjournment thereof. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.

### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Centurion, is of the opinion that the Continuing Connected Transactions have been entered into in the ordinary and usual course of the business of the Group and are based on normal commercial terms, and the terms of Continuing Connected Transactions and the related Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, the Board and the Independent Board Committee recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Continuing Connected Transactions and the related Annual Caps at the EGM.

### GENERAL

Your attention is drawn to (i) the letter from the Independent Board Committee, (ii) the letter from Centurion and (iii) the additional information set out in the appendix to this circular and the notice of the EGM.

Yours faithfully,

By order of the Board

**Vietnam Manufacturing and Export Processing (Holdings) Limited**

**Chou Ken Yuan**

*Chairman*

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## LETTER FROM THE INDEPENDENT BOARD COMMITTEE

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### **Vietnam Manufacturing and Export Processing (Holdings) Limited** **越南製造加工出口(控股)有限公司**

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 422)**

17 December 2012

Dear Independent Shareholders,

### **CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 17 December 2012 (the “Circular”) of which this letter forms a part. Terms defined in the Circular bear the same meanings herein unless the context otherwise requires.

We have been appointed as members of the Independent Board Committee to advise you in respect of the fairness and reasonableness of the Continuing Connected Transactions. Centurion has been appointed as the independent financial adviser to advise us and the Independent Shareholders in this regard.

Having taken into account the advice of Centurion, we are of the opinion that the Continuing Connected Transactions have been entered into in the ordinary and usual course of the business of the Group and are based on normal commercial terms, and the Continuing Connected Transactions and the related Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole. Accordingly, we would advise the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Continuing Connected Transactions and the related Annual Caps at the EGM.

We also draw the attention of the Independent Shareholders to (i) the letter from the Board, (ii) the letter from Centurion, and (iii) the appendix to the Circular.

Yours faithfully,

For and on behalf of the Independent Board Committee

**LIN Ching Ching**

*Independent non-executive  
Director*

**SHEN Hwa Rong**

*Independent non-executive  
Director*

**WEI Sheng Huang**

*Independent non-executive  
Director*

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## LETTER FROM CENTURION

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*The following is the text of the letter of advice to the Independent Board Committee and the Independent Shareholders from Centurion dated 17 December 2012 for incorporation in this circular:–*



### CENTURION CORPORATE FINANCE LIMITED 盛百利財務顧問有限公司

7th Floor, Duke Wellington House  
14-24 Wellington Street  
Central, Hong Kong

香港中環  
威靈頓街14-24號  
威靈頓公爵大廈7號

Telephone : (852) 2525 2128  
(852) 2525 6026  
Facsimile : (852) 2537 7622

17 December 2012

*To the Independent Board Committee and the Independent Shareholders of  
Vietnam Manufacturing and Export Processing (Holdings) Limited*

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We have been engaged to advise the Independent Board Committee and the Independent Shareholders with respect to the terms of the Continuing Connected Transactions, namely the transactions under the Master Purchase Agreement, Distributorship Agreement and Technology Licence Agreement and their respective Annual Caps. Details of these transactions are outlined in the “Letter From The Board” set out from pages 5 to 16 of the circular dated 17 December 2012 to the Shareholders (“Circular”) of which this letter forms a part.

We have been appointed to give an opinion as to whether the terms of the Continuing Connected Transactions and their respective Annual Caps are carried out in the ordinary and usual course of business, are of normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole. Capitalised terms used in this letter shall have the same meanings as defined in the Circular unless the context otherwise requires.

The Company announced on 9 November 2012 regarding, among other things, the Continuing Connected Transactions and the Annual Caps. As the existing agreements relating to the Continuing Connected Transactions (except for the Technology Licence Agreement) will expire on 31 December 2012, the Company had, on 9 November 2012, entered into new agreements in relation to the Continuing Connected Transactions (except for the Technology Licence Agreement) each with a term of three years ending on 31 December 2015. The Board also proposes the Annual Caps for all the Continuing Connected Transactions (including transactions under the Technology Licence Agreement) for the three years ending on 31 December 2015.

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## LETTER FROM CENTURION

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As set out in the “Letter From The Board”, Sanyang is an indirect controlling shareholder of the Company and thus a connected person of the Company by virtue of Rule 14A.11(1) of the Listing Rules, members of the Sanyang Group are also connected persons of the Company. Accordingly, the Continuing Connected Transactions constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules. The ordinary resolutions to be proposed at the EGM will be determined by way of poll by the Independent Shareholders. Sanyang, through its wholly-owned subsidiary, SYI, was interested in approximately 67.02% of the issued share capital of the Company as at the Latest Practicable Date. Therefore, Sanyang, its subsidiaries and associates are required to abstain from voting at the EGM. The Independent Board Committee has been formed to advise the Independent Shareholders in connection with the Continuing Connected Transactions and the Annual Caps.

The Continuing Connected Transactions are also subject to the annual review requirements of Rules 14A.37 to 14A.40 of the Listing Rules.

### **BASIS OF OUR OPINION**

In formulating our opinion and recommendation, we have relied on the accuracy of the information, opinions and representation contained in the Circular, the past prospectus, circulars and other documents (including but not limited to the sample invoices and comparable market quotations for the Continuing Connected Transactions) which have been provided to us by the executive Directors and for which they take full responsibility. We have also assumed that all statements, information, opinions and representations made or referred to in the Circular were true at the time they were made and continued to be true at the date of this Circular. We have also assumed that all statements of belief, opinions and intention made by the Directors in the Circular are reasonably made after due and careful enquiry.

In respect of the financial information of each of the Group and the Sanyang Group, we have relied principally on their respective audited and/or unaudited financial statements, the financial statements of the Group were all prepared by the Company and for which the Directors shall take full responsibility. We have also sought and obtained confirmation from the Company that no material facts have been omitted from the information provided and/or referred to in the Circular.

We have no reason to doubt the truth, accuracy and completeness of the information and representations provided to us by the Directors. We consider that we have reviewed sufficient financial information to enable us to reach an informed view and to justify reliance on the accuracy of the financial information of the Group as contained in the Circular. We have not, however, conducted any form of independent or in-depth investigation into the businesses and affairs of the prospects of the Group, Sanyang Group, or any of their respective subsidiaries or associates, or the Annual Cap amounts sought, nor have we independently verified any of the information (including but not limited to the sample invoices and comparable market quotations) supplied to us.

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## LETTER FROM CENTURION

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### PRINCIPAL FACTORS AND REASONS CONSIDERED

In formulating our recommendation, we have taken into consideration the following principal factors and reasons:

#### 1. Background

The Group is one of the leading manufacturers of scooters and cub motorbikes in Vietnam. Its manufacturing and assembly operations are located in Dong Nai Province (near Ho Chi Minh City) and Hanoi of Vietnam with an annual production capacity of 360,000 motorbikes. Offering a wide range of models, the Group's motorbikes are sold under the "SYM" brand name. It also produces motorbike engines and parts for internal use and export as well as selling and providing services associated with moulds to make die-cast and forged metal parts.

Sanyang Group is principally engaged in the manufacturing of (i) motorbikes and related parts and (ii) motor cars, trucks and related parts.

As at the Latest Practicable Date, Sanyang, through its wholly-owned subsidiary, SYI, held 608,318,000 Shares (approximately 67.02% of the issued share capital of the Company) and thus, is an indirect substantial shareholder of the Company. Therefore, members of the Sanyang Group are connected persons of the Company.

The Group's motorbikes are retailed under the SYM and SANDA brand names and its operations in Vietnam commenced in 1992. The Group also produces motorbike engines and parts for internal use and for sale to overseas customers, and sells and provides services in respect of moulds for making die-cast and forged metal parts. Principal operations of the Group are undertaken through VMEP. The following table summarises the Group's segment revenue for the year ended 31 December 2011:–

**Table A: Segment revenue of the Group for the year ended 31 December 2011**  
(in US\$)\*

	Manufacture and sales of motorbikes	Manufacture and sales of spare parts and engines	Moulds and repair services	Total
Revenue from external customers	240,560,976	29,561,532	111,828	270,234,336
Inter segment revenue	2,482	94,859,433	1,535,067	96,396,982
<b>Reportable segment revenue</b>	<b><u>240,563,458</u></b>	<b><u>124,420,965</u></b>	<b><u>1,646,895</u></b>	<b><u>366,631,318</u></b>
<b>Reportable segment profits (adjusted earnings before interest and taxes)</b>	<b><u>7,967,981</u></b>	<b><u>6,362,244</u></b>	<b><u>231,672</u></b>	<b><u>14,561,897</u></b>

(\*Source: 2011 annual report of the Company)

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## LETTER FROM CENTURION

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As set out in the 2011 annual report of the Company, revenue of the Group for the year ended 31 December 2011 increased to US\$270.2 million from US\$246.9 million for the year ended 31 December 2010, representing an increase of US\$23.3 million or 10%. The Group's domestic sales quantities of scooters increased by 8% for the year ended 31 December 2011 as compared with the year ended 31 December 2010, while overall sales quantities also increased from approximately 235,000 units for the year ended 31 December 2010 to 264,000 units for the year ended 31 December 2011, representing an increase of 12% over the comparative periods. Sales of scooters continued to be the Group's major profit driver, which account for 68% of total sales, and the principal models were ATTILA-ELIZABETH, ELEGANT, ANGEL and JOYRIDE.

In terms of geographical contribution, approximately 89% of total sales were generated from the domestic market in Vietnam for the year ended 31 December 2011. Domestic sales in Vietnam increased 9% from US\$220.0 million for the year ended 31 December 2010 to US\$240.7 million for the year ended 31 December 2011.

As set out in the 2012 interim report of the Company, in the first half of 2012, the market in Vietnam was still highly competitive and challenging and the Group was faced with a slow down of the local consumer spending. During the six months ended 30 June 2012, the costs of materials and salaries increased considerably.

For the six months ended 30 June 2012, an aggregate of approximately 53,600 units (which comprised of approximately 31,300 units and 22,300 units of scooters and cubs respectively) were sold by the Group in Vietnam, representing a decrease of 56% over the same period of the previous year. In contrast, due to the increase in overseas markets demands, approximately 44,600 units were exported to ASEAN countries (mainly the Philippines, Malaysia, Singapore and Thailand), representing an increase 111% over the comparative periods.

During the first half of 2012, the Group has also strengthened its distribution network with 287 SYM-authorized stores owned by dealers as at 30 June 2012, covering every province in Vietnam. Revenue decreased from approximately US\$143.8 million for the six months ended 30 June 2011 to approximately US\$93.7 million for the six months ended 30 June 2012, and the Group's recorded a net loss of approximately US\$0.5 million for the six months ended 30 June 2012 as compared with a net profit after tax of US\$12.5 million for the six months ended 30 June 2011.

The Group intends to introduce several modified motorbike models to raise product price and profitability. The Group will continue to consolidate the existing scooter market, including reinforcing the leading position in the female ATTILA series, upgrading product quality of SHARK model for male customers and deploying new models target at young people to expand sales. The Group aimed at seeking new opportunities in the ASEAN market and to seek collaboration with dealers to explore new markets. The Group will further reinforce the uprising markets in the Philippines and Malaysia, and to support dealers in Thailand and Burma in setting up SYM authorized stores and explore business opportunities in Laos.

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## LETTER FROM CENTURION

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The Group is optimistic that Vietnam's economic development will grow steadily and the motorbike industry in Vietnam will resume its growth momentum in a mid and long term following the Vietnam government's adoption of proactive and effective policies to combat inflation. As for the other major ASEAN countries, the Group expects the motorbike markets will also continue to maintain fast growth, driven by positive economic conditions in the respective markets.

### **2. Principal Terms and Backgrounds of the Continuing Connected Transactions**

#### ***2.1 Master Purchase Agreement***

Given that the Existing Purchase Agreements will expire on 31 December 2012, the Company entered into the Master Purchase Agreement with Sanyang to continue to engage the Sanyang Group to supply motorbike parts to the Group. The Existing Purchase Agreements consist of the following agreements:–

1. the VMEPH Purchase Agreement;
2. the VMEPH Sanyang Global Purchase Agreement;
3. the VMEPH VTBM Purchase Agreement; and
4. the VMEPH Full Ta Purchase Agreement.

As set out in the "Letter From The Board":–

#### ***Background***

The Group has been sourcing certain motorbike parts from Sanyang and other members of the Sanyang Group (including subsidiaries of Sanyang such as VTBM, Full Ta and Sanyang Global, which are engaged in manufacturing or sourcing of various motorbike parts in different countries and regions) for its production of motorbikes. In relation to sourcing of such motorbike parts, the Group entered into the Existing Purchase Agreements with members of the Sanyang Group including Sanyang, VTBM, Full Ta and Sanyang Global, for the purchase of motorbike parts from Sanyang and the respective subsidiary of Sanyang.

The Company entered into the Master Purchase Agreement with Sanyang, to, among others, continue to engage the Sanyang Group to supply motorbike parts to the Group upon expiry of the Existing Purchase Agreements. The relevant suppliers of motorbike parts under the Master Purchase Agreement are members of the Sanyang Group (including direct or indirect, and wholly-owned or non-wholly owned subsidiaries) from time to time, which include but are not limited to Sanyang, VTBM, Full Ta, Sanyang Global and Qingzhou Machinery which are engaged in manufacturing or sourcing of various motorbike parts in different countries and regions.

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## LETTER FROM CENTURION

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### *Major terms and pricing of the purchase of motorbike parts from the Sanyang Group*

Under the Master Purchase Agreement, the Group purchases certain motorbike parts from the Sanyang Group which are either manufactured by the Sanyang Group or sourced by it from independent third parties, for the Group's production of motorbikes. The motorbike parts to be sourced are as follows:–

1. From Sanyang: include electronic fuel injection components, carburetors and cylinder heads (currently under the VMEPH Purchase Agreement);
2. From Sanyang Global (and in the future, and/or Qingzhou Machinery):– pistons, cylinders and gears which are sourced by them from independent third parties in the PRC (currently under the VMEPH Sanyang Global Purchase Agreement);
3. From other members of the Sanyang Group for parts manufactured in Vietnam by VTBM: include fuel tanks, frames and rear shafts (currently under the VMEPH VTBM Purchase Agreement); and
4. From other members of the Sanyang Group for parts manufactured in Vietnam by Full Ta: same parts as in 3 above (currently under the VMEPH Full Ta Purchase Agreement).

The Group may also source other motorbike parts from other members of the Sanyang Group from time to time should it be required by its production process.

The following is a summary of the principal terms under the Master Purchase Agreement:–

- In relation to sourcing of motorbike parts such as electronic fuel injection components, carburetors and cylinder heads from Sanyang (currently under the VMEPH Purchase Agreement), the price of such purchases is at a cost plus basis. Sanyang charges the Group at the manufacturing cost or purchase cost (as the case may be) plus a margin of 10% (if Vietnam import duty is 20% or more) or of 15% (if Vietnam import duty is less than 20%). The manufacturing cost or purchase cost (as the case may be) will be determined on an annual basis subject to adjustments in any annual period with respect to fluctuations in foreign exchange rates and modifications to model of motorbikes in which the products to be purchased by the Group from Sanyang pursuant to the Master Purchaser Agreement is used.

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## LETTER FROM CENTURION

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- In relation to sourcing of motorbike parts from members of the Sanyang Group other than Sanyang (currently under the VMEPH Sanyang Global Purchase Agreement; the VMEPH VTBM Purchase Agreement; and the VMEPH Full Ta Purchase Agreement), the pricing at which motorbike parts are to be sold to the Group shall be determined by the relevant parties after negotiation by reference to the market price at the time an order is placed. The price of the motorbike parts offered by such member of the Sanyang Group shall not be higher than that offered by other independent suppliers offering the same products or substantially similar products in the same or substantially similar quantities to the Group from time to time. Pursuant to the Master Purchase Agreement, the Group shall, on a regular basis and before it places any purchase order with members of the Sanyang Group (other than Sanyang), obtain price quotations from two separate suppliers who are independent third parties for the supply of the same or similar motorbike parts and in the same or substantially similar quantities, as the reference market price of such motorbike parts. If the Group proceeds to place a purchase order for such motorbike parts with the Sanyang Group, the price at which such product is to be offered by the Sanyang Group shall not be higher than any of the price quotations, and all other terms and conditions offered by the Sanyang Group shall be no less favourable to the Group than those offered by such independent suppliers.

The Group shall settle the purchase costs under the Master Purchase Agreement in cash with a credit period of not less than 30 days without interest from the date of the invoice. Insofar as such payment term is concerned, we noted that as set out in the “Letter From The Board”, the Group “shall settle the purchase costs” under the Master Purchase Agreement in cash within 30 or 60 (as the case may be) days after the date of delivery unless the relevant parties determined otherwise in the individual purchase orders”. In this regard, the executive Directors are of the view that while not set out in the Master Purchase Agreement, the 60 days payment term was and will continue to be applicable for each of the VMEPH VTBM Purchase Agreement and the VMEPH Full Ta Purchase Agreement as historically, purchases under these agreements have a 60 days credit period, notwithstanding such 60-day payment term has not been explicitly set out in the Master Purchase Agreement.

The Master Purchase Agreement is a framework agreement which provides the principles, mechanism and terms and conditions for the Group’s purchase of motorbike parts from the Sanyang Group. Individual purchase orders will be entered into between the relevant members of the Group and Sanyang Group from time to time which will specify the types of motorbike parts to be purchased, price, delivery arrangements and any other terms which may be relevant to the supply of the parts to the Group. The individual purchase orders may only contain provisions which are in all material respects consistent with the binding principles, guidelines, terms and conditions set out in the Master Purchase Agreement.

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## LETTER FROM CENTURION

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### *Our views*

Following our review of the randomly selected sample invoices, customers' orders, ledgers, price quotations of the sample historical transactions and price quotations prepared by independent third parties, our findings are as follows:

#### *Purchases from Sanyang currently under the VMEPH Purchase Agreement*

The pricing policy of the aforesaid 10% or 15% margin (depending on the import duty) to be added on to the cost to Sanyang, based on the relevant pricing ledger and samples reviewed by us (including our analysis on the cost in NT\$ of each of such sample parts, their respective prices in US\$ charged to the Group as set out in the sample invoices reviewed by us and the exchange rates used), is generally correct on the assumption that sales prices and costs are all in NT\$. However, it should be noted that the actual invoicing of the parts sold by Sanyang to the Group, based on the sample invoices reviewed by us, are all in US\$. As a result, depending on the relevant NT\$:US\$ exchange rate used, actual margins do differ from the stipulated 10% or 15% margin, albeit not significantly. We therefore take the view that the margins are still either 10% or 15%.

As the 10% and 15% margins have been in place since the Company's listing on the Stock Exchange in 2007 under the VMEPH Purchase Agreement (under the Master Purchase Agreement going forward) and such margins were determined based on the then market comparables and taking into consideration the cost incurred by Sanyang in providing such sourcing services, we have sought confirmation from the Company on whether the current market conditions would justify any reduction to such margins which would be more advantageous to the Group. We are given to understand by the Company of the following:-

- A large portion of the motorbike parts (such as electronic fuel injection components, carburetors and cylinder heads) sourced from Sanyang have patent rights or have been registered as industrial designs or utility solutions, following considerable research and development costs being incurred by Sanyang, the incurrence of which is a continuous process given such motorbike parts need to be upgraded or changed due to new model launches;
- Nearly all of the motorbike parts sourced which have been covered by the aforesaid intellectual property rights are for the Group's production needs and these parts accounted for most of the transaction amounts under the VMEPH Purchase Agreement;

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## LETTER FROM CENTURION

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- Sanyang also needs to invest in the relevant management fee, quality testing and packaging services on the motorbike parts sold to the Group; and
- If the Group were to set up its own research and development for the manufacture of such parts in its factories in Vietnam, it would not be economical, given the Group's lack of economy of scales and therefore, it is in the Group's interests to continue to source these motorbike parts from Sanyang.

In light of the aforesaid and that Sanyang also needs to make a reasonable return for its shareholders, we concur with the Directors that the aforesaid 10% and 15% margins are fair and reasonable and are on normal commercial terms.

*Purchases from Sanyang Global currently under the VMEPH Sanyang Global Purchase Agreement*

For the various motorbike parts such as, but not limited to, crank case components, pistons and cylinders to be sourced by Sanyang Global in the PRC on behalf of the Group, Sanyang Global will sell such components to the Group on a market price basis, which we understand from the management of Sanyang, will usually mean sourcing cost incurred by Sanyang Global plus a mark-up. We have made enquiries with the management of Sanyang and we are given to understand that even with such mark-up, given the combined purchase volume handled by Sanyang Global, the cost to the Group will still be lower than those costs for similar motorbike parts had they been sourced directly by the Group.

We have reviewed randomly selected sample invoices of the purchases from Sanyang Global and viewed these samples against price quotations prepared by independent third parties and provided by the Group. We are of the view that the costs to the Group for such similar motorbike parts under review were generally lower than, or at least no higher than, those price quotations of independent third parties suppliers offering the same products or substantially similar products in the same or substantially similar quantities quoted from time to time.

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## LETTER FROM CENTURION

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*Purchases from members of the Sanyang Group for parts manufactured in Vietnam by VTBM currently under the VMEPH VTBM Purchase Agreement*

VTBM is held as to 31% by VMEP and 69% by Three Brothers Machinery Industry Company Limited, Taiwan (“Three Brothers Taiwan”), a non wholly-owned subsidiary of Sanyang. Therefore VTBM is a non wholly-owned subsidiary of Sanyang and is thus a connected person of the Company. The Group is required to pay for all purchases under the current VMEPH VTBM Purchase Agreement in cash within 60 days after the date of delivery.

We have reviewed randomly selected sample invoices of the purchases for parts manufactured in Vietnam by VTBM currently under the VMEPH VTBM Purchase Agreement and viewed these samples against price quotations prepared by independent third parties and provided by the Group. We are of the view that the costs to the Group for such similar motorbike parts under review were generally lower than, or at least not higher than, that of those price quotations by independent third parties suppliers offering the same products or substantially similar products in the same or substantially similar quantities quoted from time to time.

*Purchases from members of the Sanyang Group for parts manufactured in Vietnam by Full Ta currently under the VMEPH Full Ta Purchase Agreement*

Full Ta specialises in the production of various motorbike parts. Its manufacturing centre in Vietnam is located near Hanoi. Full Ta is held as to 51% by Three Brothers Taiwan, a non wholly-owned subsidiary of Sanyang. Therefore, Full Ta is a non wholly-owned subsidiary of Sanyang and is thus a connected person of the Company.

Under the VMEPH Full Ta Purchase Agreement, products are to be sold at their then prevailing market prices which are to be not less favourable to the Company or the Group (as the case may be) compared to prices charged by suppliers who are independent third parties, and payment is to be made within 60 days after the date of delivery, after which interest will be charged against the Company (or the Group, as the case may be).

We have reviewed randomly selected sample invoices of the purchases for parts manufactured in Vietnam by Full Ta currently under the VMEPH Full Ta Purchase Agreement and viewed these samples against price quotations prepared by independent third parties and provided by the Group. We are of the view that the costs to the Group for such similar motorbike parts under review were generally lower than, or at least not higher than, that of those price quotations by independent third parties suppliers offering the same products or substantially similar products in the same or substantially similar quantities quoted from time to time.

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## LETTER FROM CENTURION

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We have also been provided with a parts procurement guideline prepared by the Company in 2011 and have been advised by the Company that such guideline is still valid and there is no change to it. We therefore noted that there are established procedures for parts procurements (including jointly developed parts) from suppliers such as Full Ta, VTBM etc. and the various competitive pricing/bidding and quality control requirements under such guideline.

### *Further information about sample price quotations from independent third parties*

During our aforesaid reviews of sample quotations from independent third parties in support of randomly selected sample purchases under each of the VMEPH Sanyang Global Purchase Agreement; the VMEPH VTBM Purchase Agreement; and the VMEPH Full Ta Purchase Agreement, we have been advised by the executive Directors that:–

1. Quotations from independent third parties would generally be procured once at the beginning of a year;
2. Suppliers under the aforesaid purchase agreements would then be expected to adhere to such beginning-of-the-year price quotations throughout the year; and
3. Given the large number of motorbike parts required by the Group and for cost reason, if the Group had to procure quotations from independent third parties more than once a year, it would have been an onerous and unnecessary exercise.

Notwithstanding the aforesaid, during our review, we have noticed that there were price quotations from independent third parties for purchases under the VMEPH VTBM Purchase Agreement procured throughout the entire 2011. In response to our inquiry, the executive Directors have represented to us that these price quotations were only for either new motorbike parts or parts which had experienced considerable price increases (for reasons not foreseeable by suppliers at the beginning of 2011), and hence their respective price quotations were procured during 2011 to provide the necessary market comparables to the Group.

Based on the above information and representation and assuming future transactions will adhere to the terms and conditions of those samples reviewed by us, we concur with the Board that products to be sold under the Master Purchase Agreement are expected to be lower than, or at least not higher than, price quotations offered by other independent third party suppliers offering the same products or substantially similar products in the same or substantially similar quantities to the Group from time to time.

### **2.2 Distributorship Agreement**

The Distributorship Agreement is to replace the VMEPH Distributorship Agreement dated 9 November 2009 entered into between the Company and Sanyang which is expiring on 31 December 2012.

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## LETTER FROM CENTURION

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Under the Distributorship Agreement, the Group acts as the exclusive distributor of certain motorbikes and related parts manufactured by the Sanyang Group in the Exclusive Territory (except in the case of Vietnam, the Company will only be entitled to re-sell such motorbikes to customers in Vietnam solely for use in exhibitions). The Group only purchases products from the Sanyang Group when confirmed customer orders are received and the motorbike to be distributed are restricted to those models which the Group does not produce. The Sanyang Group sells such products to the Group at a price that is at least 3.5% lower than the indicative sales price of such products proposed to be sold by the Group to independent end-customers. The Group shall pay for all purchases made under the Distributorship Agreement in cash within 30 days after the date of delivery.

Through distribution of specific models of motorbikes and related parts manufactured by the Sanyang Group (which model the Group does not produce) in the Exclusive Territory, the Group can retain the end-customers in the Exclusive Territory who purchase specific models of motorbike manufactured by the Sanyang Group. The Group may leverage on the customer base of the Sanyang Group as a gateway for expanding its own customer base within the Exclusive Territory and increasing its market shares and promoting its corporate and brand recognition. The pricing basis as agreed under the Distributorship Agreement also ensures that the Group will have a minimum guaranteed profit of at least 3.5% of the sales price on each product the Group distributes or re-sells to end-customers in the Exclusive Territory.

### ***Our views***

In order to satisfy ourselves that the terms of the transactions contemplated under the Distributorship Agreement will be, in general, carried out in the ordinary and usual course of business, are of normal commercial terms and that the terms of such transactions are no less favourable to the Group than those available to independent third parties and where applicable, the pricing thereof will in general, be in line with the pre-determined margins or the prevailing market price, we have reviewed certain randomly selected samples from ledgers provided by the Company, these samples include sample invoices, customers' orders, ledgers and price quotations. In particular, the cost of such sample motorbikes and related parts as set out in the sample costing records, the respective sales prices of such products as set out in the commercial invoices, the exchange rates involved and the resulting margin thereof. Our findings under the current VMEPH Distributorship Agreement are set out below.

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## LETTER FROM CENTURION

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Under the current VMEPH Distributorship Agreement, the Group purchases motorbike products from the Sanyang Group and the Sanyang Group sells such products at a price that is at least 3.5% lower than the indicative purchase price for such products offered by independent third party customers to whom the Group proposes to re-sell such products.

As this 3.5% margin has been in place since the Company's listing on the Stock Exchange in 2007 under the VMEPH Distributorship Agreement (under the Distributorship Agreement going forward) and that such margin was considered by the then directors of the Company to be sufficient to the Group's cost of selling such products, we have sought confirmation from the Company on whether the current market conditions would justify a higher margin. We are given to understand by the Company of the following:—

- While the steady growth in commercial activities and purchasing powers in the ASEAN countries (in particular, the Philippines and Malaysia) has a positive impact to the Group's businesses, some of the ASEAN countries such as the Philippines are also flooded with inexpensive motorbikes manufactured in the PRC, this resulted in intense pressure on margins and render larger price increases more difficult;
- Notwithstanding motorbikes manufactured in Taiwan usually command higher margins, motorbikes manufactured in the PRC usually are of lower specifications and therefore, only have thinner margins. On balance, the 3.5% margin is still reasonable for both parties under the Distributorship Agreement;
- The 3.5% margin represents the minimum, currently there are transactions which exceed this baseline margin as and when market conditions permit; and
- If the margin of 3.5% were to be raised, it would most likely result in lower volume of business to the Group.

In light of the aforesaid and the fact that (i) the Group acts as the exclusive distributor of certain motorbikes and related parts manufactured by the Sanyang Group in the Exclusive Territory (i.e. all countries under ASEAN except Vietnam, where the Company will only be entitled to re-sell such motorbikes to customers in Vietnam solely for use in exhibitions) under the VMEPH Distributorship Agreement, so there is a lack of comparables to such 3.5% margin; and (ii) Sanyang also requires to make a reasonable return for its shareholders, we concur with the Directors that this 3.5% margin is still fair and reasonable and on normal commercial term.

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## LETTER FROM CENTURION

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Based on the aforesaid samples reviewed by us, we concur with the Board's view that the transactions under the Distributorship Agreement are expected to be (i) entered into in the ordinary and usual course of the business of the Group; and (ii) based on normal commercial terms, and the Distributorship Agreement and the relevant revised Annual Caps are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

### ***2.3 Technology Licence Agreement***

The Technology Licence Agreement was entered into between VMEP and Sanyang on 26 November 2007, and will continue in force for so long as Sanyang is a controlling shareholder and for a further period of 20 years after Sanyang ceases to be a controlling shareholder of the Company, subject to certain termination events as set out in the Technology Licence Agreement. Under the Technology Licence Agreement, Sanyang has granted an exclusive licence to VMEP (a wholly-owned subsidiary of the Company) to use the technology, know-how, trade secrets and production information owned by Sanyang in connection with the Group's manufacture and sale of "SYM" brand motorbikes and related parts in the Exclusive Territory. The licence fee as provided for in the Technology Licence Agreement is 4% of the annual net selling price of products manufactured using such technology from Sanyang and sold by VMEP. The Group shall settle all undisputed invoices within 60 days from the last day of each six-month period in each calendar year.

Sanyang owns the proprietary right to the technology, know-how, trade secrets and production information in connection with the manufacture and sale of "SYM" brand motorbikes and related parts. As the sales of "SYM" brand products contribute to a significant percentage of the Group's turnover, the executive Directors consider the continued use of such technology and related intellectual property rights which enable the Group to continue manufacturing and selling "SYM" brand motorbikes and related parts is essential to the Group's operations and continued growth.

### ***Our views***

Having reviewed certain randomly selected sample ledgers in respect of records of the licence fee paid under the Technology Licence Agreement and in view of the aforesaid Group's historical relationship with the Sanyang Group, in particular, in relation to its reliance on certain technology and trade marks owned by Sanyang, we are in concurrence with the Board that in so far as the 4% fee of the annual net selling price of products manufactured using such technology from Sanyang and sold by VMEP is concerned, the transactions contemplated under the Technology Licence Agreement will be carried out in the ordinary and usual course of business of the Group and on normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM CENTURION

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### 3. Reasons for and Benefits of Sourcing of Motorbike Parts from the Sanyang Group

As set out in the “Letter From The Board”, the Group purchases motorbike parts from the Sanyang Group rather than directly from independent third party suppliers because of the following reasons:-

- By centralising and aggregating the Sanyang Group’s sourcing of such parts with those of the Group’s, the Sanyang Group is in a position to negotiate better purchase prices and terms with the suppliers and enjoy benefits of such bulk purchases and the Sanyang Group will then be able to supply the parts to the Group at lower costs.
- For motorbike parts which are currently sourced from suppliers outside Vietnam, they are either unavailable or not of acceptable quality or pricing in Vietnam and in this respect, the Sanyang Group also provides quality testing, packaging, customs clearance and logistics services on the motorbike parts sold to the Group at a lower cost than that for the Group to engage independent third party suppliers outside Vietnam to provide similar services.
- The Group also sources certain motorbike parts from the Sanyang Group (such as from Sanyang Global and Qingzhou Machinery, currently under the VMEPH Sanyang Global Purchase Agreement) in the PRC. This enables the Group to secure a cost effective and stable source of supply of motorbike parts at a lower cost in the PRC than in other countries due to lower labour costs and production costs in the PRC. By centralising such purchases, the Group is able to minimise the impact of the increasing sourcing costs. The Sanyang Group also assists the Group to conduct surveys and perform quality checks on suppliers which are based in the PRC.
- The Group also sources motorbike parts from members of the Sanyang Group which have production plants in the southern and northern parts of Vietnam located near the Group’s plants (such as VTBM and Full Ta, currently under the VMEPH VTBM Purchase Agreement and the VMEPH Full Ta Purchase Agreement respectively). This reduces transportation costs and delivery time, as compared to sourcing from other suppliers. Such sourcing motorbike parts in Vietnam will also allow the Group to better meet unexpected increase of orders or other market contingencies.

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## LETTER FROM CENTURION

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Due to the rapid growth in the economy of Vietnam and the expansion of the Group's business into the Exclusive Territory, an increasing number and types of motorbike parts manufactured by the Sanyang Group or sourced by it from independent third parties are used for the manufacture of motorbikes by the Group. Taking into account the Sanyang Group's production capacity and relevant experience in supplying motorbike parts to motorbike manufacturers, quality of the motorbike parts supplied, and the established business relationship with the Group from which the Sanyang Group gained profound understanding of the Group's product specification and production need, the executive Directors consider the Sanyang Group a long term business partner and reliable supplier of motorbike parts.

### *Our views*

Independent Shareholders should take note of the special and close relationship between the Group and the Sanyang Group, details of which are set out in the Company's past circulars to Shareholders and prospectus dated 6 December 2007. The Sanyang Group began selling its motorbikes in 1970s in Taiwan. Sanyang, which was incorporated in Taiwan in 1961 with its shares having been listed on the Taiwan Stock Exchange since 29 July 1996, has the depth and breadth in the manufacture and sourcing of motorbikes and related parts.

We also understand from management of the Company that the whole supply chain arrangement of the Group is driven by a combination of important factors like pricing, quality, logistics services and supports. These are therefore the reasons for the aforesaid sourcing of motorbike parts from the Sanyang Group.

In so far as the sourcing from Sanyang Global is concerned, the Group has been scouring parts in the PRC from independent third party suppliers prior to the establishment of Sanyang Global. The subsequent consolidation of these sourcing exercises with that of the Sanyang Group under Sanyang Global is driven by business and cost reasons and are viewed by the executive Directors as beneficial to the Group.

In light of the aforesaid, in particular, the motorbike manufacturing capability of the Sanyang Group, the Group's historical relationship with Sanyang, the needs to source parts from or through the Sanyang Group due to pricing, quality, stability of supply and other supply chain factors, given the rising material costs and other prevailing economic circumstances, we are in concurrence with the abovementioned reasons as cited by the Board.

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## LETTER FROM CENTURION

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### 4. Historical Transaction Amounts and Proposed Annual Caps

#### 4.1 Annual caps for the three years ending 31 December 2012

The table below sets out the respective annual caps (as subsequently revised by announcement and/or Independent Shareholders' approval of the Company, as the case may be) of the Continuing Connected Transactions for the three years ending 31 December 2012:

<i>(in US\$)</i>	Annual cap for the year ended 31 December 2010	Annual cap for the year ended 31 December 2011	Annual cap for the year ending 31 December 2012
<b>(A) Master Purchase Agreement (Note 1)</b>			
<i>Existing Purchase Agreements</i>			
(i) VMEPH Purchase Agreement	8,900,000	21,600,000	25,200,000
(ii) VMEPH Sanyang Global Purchase Agreement	8,100,000	9,500,000	10,000,000
(iii) VMEPH VTBM Purchase Agreement	4,300,000	6,000,000	7,000,000
(iv) VMEPH Full Ta Purchase Agreement	Nil	1,600,000	2,500,000
<i>Aggregated annual caps under the Existing Purchase Agreements:</i>	21,300,000	38,700,000	44,700,000
<b>(B) Distributorship Agreement</b>	10,000,000	13,000,000	28,500,000
<b>(C) Technology Licence Agreement</b>	9,500,000	11,000,000	13,000,000

*Note 1:* During the three financial years ending 31 December 2012, the Group entered into the Existing Purchase Agreements with members of the Sanyang Group including Sanyang, VTBM, Full Ta and Sanyang Global, for the purchase of motorbike parts from Sanyang and its respective subsidiaries. The annual caps set out above represent the aggregated annual caps (as subsequently revised by announcement and/or Independent Shareholders' approval of the Company, as the case may be) of the purchase amounts of motorbike parts from the Sanyang Group under the Existing Purchase Agreements.

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## LETTER FROM CENTURION

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### 4.2 *Historical transaction amounts of the Continuing Connected Transactions*

As set out in the “Letter From The Board”, the table below sets out the historical transaction amounts of the Continuing Connected Transactions for the two years ended 31 December 2011 and the nine months ended 30 September 2012:

<i>(in US\$)</i>	Transaction amounts for the year ended 31 December 2010	Transaction amounts for the year ended 31 December 2011	Transaction amounts for the nine months ended 30 September 2012 (based on audited management accounts of the Group up to 30 September 2012)
<b>(A) Master Purchase Agreement (Note 2)</b>			
<i>Existing Purchase Agreements</i>			
(i) VMEPH Purchase Agreement	8,882,518	21,232,894	5,454,057
(ii) VMEPH Sanyang Global Purchase Agreement	7,105,699	9,495,208	7,447,765
(iii) VMEPH VTBM Purchase Agreement	4,296,635	5,355,381	2,064,649
(iv) VMEPH Full Ta Purchase Agreement	Nil	124,737	605,727
<i>Aggregated historical transaction amounts under the Existing Purchase Agreements:</i>	20,284,852	36,208,220	15,572,198
<b>(B) Distributorship Agreement</b>	9,538,244	12,883,870	17,030,930
<b>(C) Technology Licence Agreement</b>	6,455,056	6,899,833	3,174,598

*Note 2:* The historical transaction amounts set out above represent the aggregated amount of motorbike parts purchased by the Group from members of the Sanyang Group under the Existing Purchase Agreements.

As set out in the “Letter From The Board”, the actual transaction amounts of the Continuing Connected Transactions for the two years ended 31 December 2011 had not exceeded the respective annual caps (as subsequently revised, as the case may be) of the relevant year. The actual transaction amounts of the Continuing Connected Transactions during the first nine months of 2012 had not exceeded the respective annual caps (as subsequently revised, as the case may be) for the year ending 31 December 2012.

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## LETTER FROM CENTURION

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### **4.3 Proposed Annual Caps of the Continuing Connected Transactions and the basis of determination**

The Board proposes that the Annual Caps for the Continuing Connected Transactions for the three years ending 31 December 2015 be set as follows:

<i>(in US\$)</i>	Annual Cap for the year ending 31 December 2013	Annual Cap for the year ending 31 December 2014	Annual Cap for the year ending 31 December 2015
(A) Master Purchase Agreement	46,600,000	57,900,000	66,300,000
(B) Distributorship Agreement	28,000,000	29,000,000	30,000,000
(C) Technology Licence Agreement	8,000,000	10,000,000	12,000,000

The Annual Caps have been determined by the Board based on the historical transaction amounts of the Continuing Connected Transactions and expected growth and expansion of the Company's manufacturing and sales for the coming three years, taking into account of the following factors:

- (i) historical growth rates of the turnover of the Group and the transaction amounts of the subject transactions;
- (ii) historical percentages of the relevant values of the subject transactions to the turnover of the Group;
- (iii) projected and/or targeted growth in turnover and sales volume of the Group as determined by the Board;
- (iv) the recent transaction amounts of the subject transactions during the current financial year;
- (v) the expected rising costs of sourcing from the Sanyang Group as a result of the constant appreciation of New Taiwanese Dollar and Renminbi and the constantly rising costs of raw materials;
- (vi) the expected increase in average unit price of the motorbike parts offered by independent suppliers due to inflation and increased production cost;
- (vii) the diversification of Company business by expanding production to new models which will deploy advance technology components like electronic fuel injection engines; and
- (viii) projected increase in the amount of the subject transactions for the purpose of reserved stocks to avoid disruption to Company business in the case of contingency.

The following is extracted from the "Letter From The Board":

#### *The Annual Caps of the Master Purchase Agreement*

As disclosed in the announcement dated 20 April 2012 and 2012 interim report of the Company, during the first quarter of 2012, the Group experienced a serious decline of sales revenue as a result of intensified competition in motorbike market in Vietnam and rising production costs as a result of severe inflation in Vietnam. Due to the adverse market conditions in the first half

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## LETTER FROM CENTURION

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of 2012, the Group recorded an exceptionally low sales amount for the first nine months of 2012 compared to that of 2011, as a result of which the total amount of motorbike parts purchased from the Sanyang Group also dropped to an uncommonly low level during the relevant period. As the peak season of the Group's motorbike sales normally starts in the second half of the financial year (in particular the fourth quarter during which most of the purchase orders for the Chinese New Year are placed), the executive Directors anticipate that the purchase amount in the fourth quarter of 2012 will be substantially higher than the average quarterly purchase amount for the first three quarters.

As the economy in ASEAN countries started to pick up since the third quarter of 2012, the executive Directors expect the demand of the motorbikes manufactured by the Group for the coming years will be restored to a normal level not lower than that of 2011. Furthermore, many new products to be launched by the Group in the years 2013 to 2015 require complex and advanced motorbike parts (such as high technology electronic fuel injection engines) the selling prices of which are general higher than other parts. Without taking into account the unexpectedly severe market conditions resulting in exceptionally low level of demand of motorbikes during year 2012, and considering the historical increment in purchase amounts of approximately 78% in year 2011 compared to that of 2010, the executive Directors consider an increase of approximately 28% for the year 2013 as compared to that of 2011 reasonable in anticipation of the increase in demand of motorbikes following the market recovery. For the years 2014 and 2015, an annual increase of approximately 24% and 15% respectively compared to the preceding year is considered appropriate to allow steady market growth.

### *The Annual Caps of the Distributorship Agreement*

Having considered the confirmed purchase orders and market conditions, the executive Directors expect the annual transaction amounts under the Distributorship Agreement for the year ending 31 December 2012 will be no less than US\$23 million. In view of the rapid growth of demand of motorbikes manufactured by Sanyang Group during the years 2011 and 2012, as well as the steady growth in local commercial activities, consumers' preference and purchasing powers in ASEAN countries in particular, the Philippines and Malaysia, the Board expects such strong demand to continue to sustain in the coming few years. In this connection, having considered the historical annual increment in purchase amounts paid to Sanyang Group was approximately 35% for the year 2011 and approximately 78% for the year 2012 (based on the executive Directors' estimate), respectively, the executive Directors consider an increase of approximately 22% for the year 2013 as compared to that of 2012 (based on the executive Directors' estimate) is reasonable to allow steady market growth. The executive Directors expect the sales of motorbikes manufactured by Sanyang Group for the years 2014 and 2015 will remain relatively stable compared to that of 2013.

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## LETTER FROM CENTURION

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### *The Annual Caps of the Technology Licence Agreement*

Due to the reasons set out under the heading “The Annual Caps of the Master Purchase Agreement”, notwithstanding the sales amount of the “SYM” brand motorbikes for the first nine months of 2012 was less than that of last years’, the executive Directors expect the sales amount for the fourth quarter will increase significantly compared to the first three quarters, hence the license fee paid under the Technology Licence Agreement will increase.

For the years 2013 to 2015, the executive Directors expect the sales amount of the “SYM” brand motorbikes will be restored to a level not lower than that of 2011. As the “SYM” brand motorbikes have gained their popularity and are generally well-received in Vietnam and other ASEAN countries such as the Philippines and Malaysia, and with the promotion activities of the “SYM” brand motorbikes in new markets such as Thailand, Brunei and Indonesia, the units of sales and sales amount of “SYM” brand motorbikes for the coming years are expected to increase significantly in these regions.

As part of its continued research and development plan for advancement of its motorbike products, the Group also plans to launch new competitive models of “SYM” brand motorbikes during the year 2013 and 2014, including advanced models of “Shark”, “Elizabeth” and “Victoria” scooter series and new models of cub. With the increased production cost, the average selling price per unit of the “SYM” brand motorbikes is also expected to increase. Having considered the above factors which lead to an overall increase of sales amount of “SYM” brand motorbikes in the coming years, the executive Directors expect the licence fee payable under the Technology Licence Agreement, which is calculated with reference to the annual net selling price of products manufactured using such technology from Sanyang, shall increase steadily at rate of 20% to 25% on an annual basis.

### ***Our views***

The proposed Annual Caps under the Master Purchase Agreement for the next 3 years ending 31 December 2015 represent a year-on-year increase of approximately of 4%, 24% and 15% respectively. We have also noted that for the year ending 31 December 2012, the aggregate annual cap under the Existing Purchase Agreement is US\$44.7 million and in comparison, the actual transactions for the nine months ended 30 September 2012 amounted to US\$15.6 million. We have noted the views of the executive Directors that due to the adverse market conditions in the first half of 2012, the Group recorded an exceptionally low sales amount for the first nine months of 2012 compared to that of 2011, but purchase amounts under this agreement are expected to increase in the last quarter of 2012. In this regard, we have reviewed the sales projection for various models of motorbikes for 2012 as prepared by the executive Directors on a month-by-month basis and noted an increase in the last quarter. This is consistent with the statement as set out in the “Letter From The Board” that the peak season of the Group’s motorbike sales normally starts in the second half of the financial year (in particular the fourth quarter during which most of the purchase orders for the Chinese New Year are placed).

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## LETTER FROM CENTURION

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We have also considered the bases and assumptions as set out above, in particular, the following bases for determining the Annual Caps under the Master Purchase Agreement as provided by the Company:–

- Inflation pressure pushing up prices for motorbike parts, as a result of rising cost of raw materials;
- products to be launched require complex and advanced motorbike parts which will be more expensive;
- Organic growth for the motorbike market share;
- Possible currency appreciation in each of RMB or New Taiwan Dollars, the result of which could push up prices for motorbike parts; and
- An approximately 20% safety margin for the Annual Caps,

we are of the opinion that the Annual Caps for the Master Purchase Agreement are arrived at based on bases and assumptions which are fair and reasonable.

The proposed Annual Caps under the Distributorship Agreement for the next 3 years ending 31 December 2015 represent a year-on-year decrease/increase of approximately -2%, 4% and 3% respectively. We have further noted that for the year ending 31 December 2012, the annual cap is US\$28.5 million and in comparison, for the 9-month period ended 30 September 2012, actual transactions amounted to approximately US\$17 million. In this regard, we have noted that the executive Directors expect the annual transaction amounts under the Distributorship Agreement for the year ending 31 December 2012 will be no less than US\$23 million.

We have also reviewed, apart from the above bases and assumptions as set out in this sub-section above, the following bases and assumptions prepared by the Company for the expected increase in the volumes of motorbikes to be distributed under the Distributorship Agreement, in particular:–

- Recent market trends and the expected increase in sales of higher powers output motorbikes in the ASEAN countries, in particular Malaysia and the Philippines, for the remaining of the year ending 31 December 2012 and the executive Directors expect the sales of motorbikes for the years 2014 and 2015 will remain relatively stable compared to that of 2013 (in this regard, we have reviewed the relevant sales projections prepared by the executive Directors for each of Malaysia, the Philippines and other ASEAN countries as a group for each of the 3 years ending 31 December 2015);
- The expected increase in sales are driven by growth in the local ASEAN commercial activities, consumers' preference and economic strengths (in this regard, we have reviewed the GDP and GDP growth rates statistics of each Malaysia and the Philippines as published by the International Monetary Fund); and
- An approximately 20% safety margin for the Annual Caps.

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## LETTER FROM CENTURION

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The proposed Annual Caps under the Technology Licence Agreement for the next 3 years ending 31 December 2015 represent a year-on-year decrease/increase of -38%, 25% and 20% respectively. We have also noted for the year ending 31 December 2012, the annual cap is US\$13 million and in comparison, actual transaction for the 9-month period ended 30 September 2012 amounted to US\$3 million. We believe this is partially attributable to the aforesaid market conditions of the first half of 2012 as cited by the executive Directors in this sub-section above. We further noted that the Group plans to launch new competitive models of “SYM” brand motorbikes and with the increased production cost, the average selling price per unit of the “SYM” brand motorbikes is also expected to increase.

We have considered the above factors, which may lead to an overall increase of sales amount of “SYM” brand motorbikes in the coming years, and the fact that the executive Directors expect the licence fee payable under the Technology Licence Agreement to increase steadily at rate of 20% to 25%, couple with a built-in of approximately 20% safety margin to such cap amounts.

The aforesaid 20% “safety margin” for the Annual Caps under each of the Master Purchase Agreement, the Distributorship Agreement and the Technology Licence Agreement are estimated by the executive Directors which we understand, are due to (i) the aforesaid fluctuations in market conditions in Vietnam and the other ASEAN countries (the projected sales of the “SYM” brand motorbikes in certain ASEAN countries such as the Philippines and Malaysia, and in new markets such as Thailand, Brunei and Indonesia); and (ii) the fact that the Company had experienced the need to revise approved annual caps in the past and in particular, a recent revision of the then approved annual cap under the VMEPH Distributorship Agreement in June 2012.

Having reviewed the relevant projections prepared by the Company, the special and close relationship between the Group and the Sanyang Group, coupled with other macro/micro economic and other factors as set out below, we are of the view that the proposed Annual Caps have been determined with reference to the bases and assumptions which are fair and reasonable. We have considered the continuous challenging market conditions in Vietnam’s motorbike market of the Group. We are of the view that the Group is faced with a number of complicated business and economic factors in determining the Annual Caps. In line with all projections, actual events are likely to be different and this is particularly so for a business model as complicated as that of the Group. As such, there is always the possibility that a particular Annual Cap is either too conservative or aggressive. The aforesaid notwithstanding, we concur with the bases and assumptions cited by the executive Directors in determining the Annual Caps.

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## LETTER FROM CENTURION

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### RECOMMENDATION

Having considered the principal factors and reasons set out above, we consider that the terms of the Continuing Connected Transactions, namely the transactions under the Master Purchase Agreement, Distributorship Agreement and Technology Licence Agreement and their respective Annual Caps, are or will be carried out in the ordinary and usual course of business, are of normal commercial terms and that the terms of such transactions are fair and reasonable and in the interests of the Shareholders as a whole. We therefore, advise the Independent Board Committee to recommend the Independent Shareholders to vote in favour of the ordinary resolutions to approve the Master Purchase Agreement, Distributorship Agreement and Technology Licence Agreement and their respective Annual Caps at the EGM.

Yours faithfully,  
for and on behalf of  
**Centurion Corporate Finance Limited**  
**Baldwin LEE**  
*Managing Director*

## 1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the issuer. The Directors having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

## 2. DISCLOSURE OF INTERESTS

### (a) Interests of Directors

As at the Latest Practicable Date, the interests and short positions, if any, of each Director and chief executive of the Company in the Shares, underlying shares and debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which the Directors and chief executives were deemed or taken to have under such provisions of the SFO), or which were required to be and are recorded in the register required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise required to be notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies adopted by the Company (the “Model Code”) were as follows:

Name of director	Name of corporation	Nature of interest	Interests in Shares/ underlying Shares	Total number of Shares <sup>(1)</sup>	Approximate percentage of interest in the share capital
Wang Ching Tung	The Company	Personal interest	Share options <sup>(2)</sup>	398,000 (L)	0.04%
Yu Wen Lung	The Company	Personal interest	Share options <sup>(2)</sup> Shares	249,000 (L) 50,000 (L)	0.03%

(1) The letter “L” denotes a long position in such Shares.

(2) These share options were granted to Directors on 4 February 2008 under the share option scheme adopted by the Company on 24 November 2007.

Save as disclosed above, none of the Directors or the chief executive of the Company had, as at the Latest Practicable Date, any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests

and short positions in which they were taken or deemed to have under such provisions of the SFO), or which were recorded in the register required to be kept by the Company under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**(b) Interests of substantial shareholders**

So far as is known to any Director or chief executive of the Company, as at the Latest Practicable Date, Shareholders (other than the Directors or chief executive of the Company) who had interests or short positions in the Shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO were as follows:

Name	Nature of interest	Number of Shares <sup>(1)</sup>	Approximate percentage of interest in the share capital
SY International Limited <sup>(2)</sup>	Corporate interest	608,318,000 (L)	67.02%
Sanyang <sup>(2) (3)</sup>	Interest in a controlled corporation	608,318,000 (L)	67.02%

(1) The letter "L" denotes a long position in such Shares.

(2) SY International Limited is a direct wholly-owned subsidiary of Sanyang and therefore, Sanyang is deemed or taken to be interested in the Shares held by SY International Limited for the purposes of the SFO.

(3) Each of Mr. Chen Chung Long, Mr. Chiang Shih Huang, Mr. Chiu Ying Feng, Mr. Chou Ken Yuan and Mr. Yu Wen Lung (each being a Director) has a 0.0001%, 0.0001%, 0.0032%, 0.0236% and 0.0011% shareholding in Sanyang respectively. Each of Mr. Chiang Shih Huang, Mr. Chiu Ying Feng and Mr. Chou Ken Yuan also either serves on the board of Sanyang or members of the Sanyang Group, or is an employee of the Sanyang Group.

Save as disclosed above, as at the Latest Practicable Date, the Company had not been notified by any persons (other than the Directors or chief executive of the Company) who had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or who were interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other members of the Group, or any options in respect of such share capital.

**3. COMPETING BUSINESS INTERESTS OF DIRECTORS**

As at the Latest Practicable Date, none of the Directors or their respective associates had any interests in a business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

**4. QUALIFICATION**

The following is the qualification of the expert who has given an opinion or advice on the information contained in this circular:

<b>Name</b>	<b>Qualification</b>
Centurion Corporate Finance Limited	a licensed corporation under the SFO permitted to engage in types 1, 4, 6 and 9 of the regulated activities under the SFO

**5. CONSENT**

Centurion has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter and references to its name in the form and context in which they respectively appear herein.

**6. MATERIAL ADVERSE CHANGE**

Save and except for the information disclosed in the Company's announcement dated 20 April 2012 regarding profit warning of the Group, the Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2011, being the date to which the latest published audited financial statements of the Group were made up.

**7. LITIGATION**

So far as the Company is aware, as at the Latest Practicable Date, neither the Company nor any of its subsidiaries was engaged in any litigation or arbitration of material importance and no litigation or claim of material importance was pending or threatened against the Company or any of its subsidiaries.

**8. MISCELLANEOUS**

- (a) None of the Directors has entered into or is proposed to enter into a service contract with any member of the Group which does not expire or which is not determinable by such member of the Group within one year without payment of compensation, other than statutory compensation.

- (b) As at the Latest Practicable Date, save as disclosed in this circular, none of the Directors or Centurion was beneficially interested in the share capital of any member of the Group or had any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group and none had any interest, either directly or indirectly, in any assets which have been, since 31 December 2011, being the date to which the latest published audited financial statements of the Company were made up, acquired or disposed of by or leased to or are proposed to be acquired or disposed of by or leased to any member of the Group.
- (c) As at the Latest Practicable Date, none of the Directors was materially interested in any contract or arrangement entered into by any member of the Group, which was subsisting and was significant in relation to the business of the Group.
- (d) The company secretary and the qualified accountant of the Company is Mr. Chan Chi Shing who is a certified public accountant of the Hong Kong Institute of Certified Public Accountants.
- (e) The registered office of the Company is at Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands.
- (f) The principal place of business of the Company in Hong Kong is at Room 2106, 21/F, Technology Plaza, 651 King's Road, North Point, Hong Kong.
- (g) The branch share registrar of the Company in Hong Kong is Computershare Hong Kong Investor Services Limited.
- (h) The principal share registrar and transfer office of the Company is Butterfield Fund Services (Cayman) Limited.
- (i) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.

## **9. DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the following documents will be available for inspection during normal business hours at the offices of the Company at room 2106, 21/F., Technology Plaza, 651 King's Road, North Point, Hong Kong from the date of this circular to 17 January 2013 (both days inclusive):

- (a) the Master Purchase Agreement;
- (b) the Distribution Agreement;
- (c) the Technology Licence Agreement;
- (d) the Existing Purchase Agreements;
- (e) the letter from the Independent Board Committee dated 17 December 2012, the text of which is set out on page 17 of this circular;
- (f) the letter from Centurion, the text of which is set out on pages 18 to 41 of this circular; and
- (g) the consent letter from Centurion referred to in the paragraph headed "Consent" in this Appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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### Vietnam Manufacturing and Export Processing (Holdings) Limited 越南製造加工出口(控股)有限公司

*(Incorporated in the Cayman Islands with limited liability)*

**(Stock Code: 422)**

**NOTICE IS HEREBY GIVEN** that the extraordinary general meeting of shareholders (the “EGM”) of Vietnam Manufacturing and Export Processing (Holdings) Limited (the “Company”) will be held at United Conference Centre, 10/F, United Centre, 95 Queensway, Admiralty, Hong Kong at 10:30 a.m. on Thursday, 17 January 2013 for the purpose of considering and, if thought fit, passing the following ordinary resolutions:

#### **ORDINARY RESOLUTIONS**

1. “**THAT** the agreement (the “**Master Purchase Agreement**”) dated 9 November 2012 entered into between the Company and Sanyang Industry Co., Limited. (“**Sanyang**”) in relation to the purchase of motorbike parts by the Company and its subsidiaries (the “**Group**”) from Sanyang and its subsidiaries (the “**Sanyang Group**”), the transactions contemplated thereunder and the proposed annual caps for each of the three years ending 31 December 2015 be and are hereby approved, confirmed and ratified.”
2. “**THAT** the agreement (the “**Distribution Agreement**”) dated 9 November 2012 entered into between the Company and Sanyang in relation to the exclusive distribution by the Group of motorbikes and related parts manufactured by the Sanyang Group, the transactions contemplated thereunder and the proposed annual caps for each of the three years ending 31 December 2015 be and are hereby approved, confirmed and ratified.”
3. “**THAT** the proposed annual caps for each of the three years ending 31 December 2015 in respect of the agreement (the “**Technology Licence Agreement**”) dated 26 November 2007 entered into between Vietnam Manufacturing and Export Processing Co., Limited (“**VMEP**”) and Sanyang in relation to the grant of an exclusive licence to VMEP to use the technology, know-how, trade secrets and production information owned by Sanyang be and are hereby approved, confirmed and ratified.”

By order of the Board

**Vietnam Manufacturing and Export Processing (Holdings) Limited**

**Chou Ken Yuan**

*Chairman*

Hong Kong, 17 December 2012

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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*Registered Office:*

Cricket Square  
Hutchins Drive  
P. O. Box 2681  
Grand Cayman KY1-1111  
Cayman Islands

*Principal Place of Business*

*in Hong Kong:*  
Room 2106, 21/F  
Technology Plaza  
651 King's Road  
North Point  
Hong Kong

*Notes :*

1. For determining the entitlement to attend and vote in the EGM, the register of members of the Company will be closed from 15 January 2013 to 17 January 2013 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the attendance of the EGM, all transfers of shares of the Company accompanied by the relevant share certificates must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-16, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not later than 4:30 p.m. on 14 January 2013.
2. Any member entitled to attend and vote at the meeting convened by the above notice is entitled to appoint one or more proxies to attend and to vote in his stead. A proxy need not be a member of the Company. If more than one proxy is appointed, the appointment shall specify the number of Shares in respect of which each such proxy is appointed.
3. In order to be valid, the instrument appointing a proxy and the power of attorney or other authority, if any, under which it is signed, or a notarially certified copy of such power or authority, must be lodged with the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited at Rooms 1806-7, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wan Chai, Hong Kong, not less than 48 hours before the time fixed for holding of the meeting or any adjourned meeting. Completion and return of the form of proxy will not preclude you from attending and voting in person at the EGM should you so wish.
4. In accordance with Chapter 14A of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"), Sanyang, the ultimate controlling shareholder of the Company, its subsidiaries and associates (as defined in the Listing Rules) are required to abstain from voting on the above ordinary resolutions.
5. The ordinary resolutions set out above will be determined by way of poll.