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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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**VMEPH**  
**V i e t n a m**

**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**

**ALTUS CAPITAL LIMITED**

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A letter from the Board (as defined herein) is set out on pages 4 to 15 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 16 of this circular. A letter from Altus Capital Limited containing its advice to the Independent Board Committee and the Independent Shareholders is set out on pages 17 to 48 of this circular.

A notice convening the EGM (as defined herein) of Vietnam Manufacturing and Export Processing (Holdings) Limited to be held at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on Thursday, 21 February 2019 at 10:00 a.m. is set out on pages 53 to 54 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 17M 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 (i.e. before 10:00 a.m. on Tuesday, 19 February 2019) or any adjournment thereof. Completion and delivery of the form of proxy will not preclude you from attending the EGM and voting in person should you so wish and, in such event, the form of proxy shall be deemed to be revoked.

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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:*

“Altus” or “Independent Financial Adviser”	Altus Capital Limited, a corporation licensed to carry out Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO, being the independent financial adviser appointed by the Company to advise the Independent Board Committee and the Independent Shareholders as to the Continuing Connected Transactions and the related Annual Caps
“Annual Cap(s)”	the maximum aggregate annual value of each of the Continuing Connected Transactions for the three financial years ending 31 December 2019, 2020 and 2021 proposed by the Board
“Board”	the board of Directors of the Company
“Company”	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, whose shares are listed on the Stock Exchange
“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
“Director(s)”	the director(s) of the Company
“Distributorship Agreement”	the agreement dated 12 November 2018 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 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 Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on Thursday, 21 February 2019 at 10:00 a.m. to consider, and if thought fit, 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, including Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, the Philippines, Singapore, Thailand and Vietnam

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## DEFINITIONS

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“Group”	the Company and its subsidiaries
“HK\$”	Hong Kong Dollar, being the lawful currency of Hong Kong
“Hong Kong”	the Hong Kong Special Administrative Region of the PRC
“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 Ms. Wu Kwei Mei, established for the purpose of advising the Independent Shareholders in respect of the Continuing Connected Transactions and the related Annual Caps
“Independent Shareholders”	Shareholders other than Sanyang and its associates and any other Shareholder(s) materially interested in the Continuing Connected Transactions
“Independent Third Parties”	persons or entities who/which are not connected persons within the meaning of the Listing Rules
“Latest Practicable Date”	7 January 2019, 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 (as amended from time to time)
“Master Purchase Agreement”	the agreement dated 12 November 2018 entered into between the Company as the purchaser and Sanyang 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 of the PRC 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
“Sanyang”	Sanyang Motor Co., Limited (三陽工業股份有限公司), a company incorporated in Taiwan and listed on the Taiwan Stock Exchange, which is the ultimate controlling shareholder of the Company

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## DEFINITIONS

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“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, its subsidiaries and associates (excluding the Group)
“SFO”	the Securities and Futures Ordinance (Cap 571 of the Laws of Hong Kong)
“Shareholder(s)”	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
“SYI”	SY International Ltd., 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 grant of an exclusive licence to VMEP to use the technology, know-how, trade secrets and production information owned by Sanyang
“US\$”	United States Dollars, being the lawful currency of the United States
“VMEP”	Vietnam Manufacturing and Export Processing Co., Limited, a wholly-owned subsidiary of the Company
“VTBM”	Vietnam Three Brothers Machinery Industry Co., Limited, an associate company of the Group and an indirect non wholly-owned subsidiary of Sanyang incorporated in Vietnam
“Xia Shing”	Xiamen Xiashing Motorcycle Co., Ltd. (廈門廈杏摩托有限公司), an indirect non wholly-owned subsidiary of Sanyang incorporated in the PRC
“%”	per cent.

*In this circular, unless the context requires otherwise, the terms “applicable percentage ratio”, “associate(s)”, “connected person(s)”, “connected transaction(s)”, “controlling shareholder(s)”, “subsidiary(ies)” and “substantial shareholder(s)” shall have the meaning given to such terms in the Listing Rules.*

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## LETTER FROM THE BOARD

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# VMEPH Vietnam

## 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. Liu Wu Hsiung (*Chairman*)  
Mr. Lin Chih Ming (*Chief Executive Officer*)  
Mr. Lin Chun Yu  
Mr. Chiang Chin Yung

*Non-executive Directors:*

Mr. Chiu Ying Feng  
Ms. Wu Li Chu

*Independent non-executive Directors:*

Ms. Lin Ching Ching  
Mr. Shen Hwa Rong  
Ms. Wu Kwei Mei

*Registered Office:*

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

*Principal Place of Business  
in Hong Kong:*

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai, Hong Kong

10 January 2019

*To the Shareholders*

Dear Sir or Madam,

## CONTINUING CONNECTED TRANSACTIONS

### INTRODUCTION

On 12 November 2018, the Company announced, among others, that as the existing agreements relating to the Continuing Connected Transactions (except for the Technology Licence Agreement) has expired on 31 December 2018, the Company had, on 12 November 2018, 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 2021. The Board also proposes the Annual Caps for all Continuing Connected Transactions for the three years ending on 31 December 2019, 2020 and 2021.

The Independent Board Committee has been established by the Company to advise the Independent Shareholders in respect of the Continuing Connected Transactions and the related Annual Caps. Altus has been appointed by the Company as its independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the above matters.

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## LETTER FROM THE BOARD

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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 53 to 54 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 16 of this circular. The letter from Altus 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 17 to 48 of this circular.

### **PRINCIPAL TERMS OF THE CONTINUING CONNECTED TRANSACTIONS, REASONS AND BENEFITS**

#### **(A) Master Purchase Agreement**

Date: 12 November 2018

Parties: (a) the Company (on behalf of other members of the Group) as the purchaser  
(b) Sanyang (for itself and on behalf of other members of the Sanyang Group) as the seller

Term: 1 January 2019 to 31 December 2021

#### ***Background***

The Group has been sourcing certain motorbike parts from Sanyang and other members of the Sanyang Group for its production of motorbikes. As the previous purchase agreement with Sanyang will expire on 31 December 2018, on 12 November 2018, the Company entered into the Master Purchase Agreement with Sanyang, to continue to engage the Sanyang Group to supply motorbike parts to the Group upon expiry of the previous agreement. 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, Sanyang Global, Qingzhou Machinery and Xia Shing, 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 for the Master Purchase Agreement*

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, engine control units, carburetors, clutches 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, centrifugal clutches, cam shafts, pistons, cylinders and gears from Sanyang Global, Qingzhou Machinery and Xia Shing 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.

The price of sourcing of motorbike parts from members of the Sanyang Group is at a cost plus basis. Sanyang Group charges the Group at the manufacturing cost or purchase cost (as the case may be) of such products plus a margin of 10% (if Vietnam import duty for such product is 20% or more) or of 15% (if Vietnam import duty for such product is less than 20%). The above 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 Purchase Agreement is used.

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

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 Master Purchase Agreement*

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.

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## LETTER FROM THE BOARD

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Apart from sourcing from Sanyang, the Group also sources certain motorbike parts from other members of the Sanyang Group (such as Sanyang Global, Qingzhou Machinery and Xia Shing) in the PRC. It enables 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 fluctuation 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) 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.

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 Board considers the Sanyang Group a long term business partner and reliable supplier of motorbike parts.

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

Date: 12 November 2018

Parties: (a) the Company (on behalf of other members of the Group) as the distributor  
(b) Sanyang (for itself and on behalf of other members of the Sanyang Group) as the supplier

Term: 1 January 2019 to 31 December 2021

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## LETTER FROM THE BOARD

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### *Major terms and pricing terms of the Distributorship Agreement*

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). For the years 2019 to 2021, the types of motorbikes that are subject to the Distributorship Agreement would mainly include scooters with the brand names of “Joyride 200i EVO”, “MAXSYM 400i”, “CURiSYM 250i”, “Joyride S. 200i”, “CURiSYM 300i” and “Jet 14 125cc”. The Group only purchases products from the Sanyang Group when confirmed customer orders are received and the motorbikes 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 to 60 days (as the case may be) after the date of the invoice unless the relevant parties determined otherwise in the relevant purchase order.

### *Reasons and benefits for the Distributorship Agreement*

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, 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  
(b) Sanyang as the supplier

### *Major terms and pricing terms of the Technology Licence Agreement*

The Technology Licence Agreement was entered into between VMEP (a wholly-owned subsidiary of the Company) and Sanyang on 26 November 2007, and will continue in force for so long as Sanyang is a controlling shareholder of the Company 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.

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## LETTER FROM THE BOARD

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Under the Technology Licence Agreement, Sanyang has granted an exclusive licence to VMEP 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.

### *Reasons and benefits for the Technology Licence Agreement*

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 Board considers 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.

### **INTERNAL CONTROL MEASURES**

The Company has established internal control measures to ensure that the Continuing Connected Transactions are in accordance with the pricing policies and the terms of the relevant agreement, and that the purchase price of the relevant products and services from the Sanyang Group are on normal commercial terms and on terms no less favourable than those terms offered to the Group by Independent Third Parties for similar products and/or services. Such internal control measures employed by the Group include the following:

- (i) all the orders under the relevant agreements shall be reviewed and approved by the Directors and general manager, and finance department of the Company to ensure the terms are in compliance with the relevant agreements under which the transactions are entered into, and in this connection he/she must be satisfied that (i) the pricing policies and internal procedures adopted by the Company have been fully complied with; (ii) each transaction thereunder are on normal commercial terms; (iii) the purchase price of the relevant products and services from the Sanyang Group are no less favourable to the Group than the prices at which such products are offered by Independent Third Parties to the Group; and (iv) the selling price of the relevant products and services to the Sanyang Group are no less favourable to the Group than the prices at which such products are offered by it to Independent Third Parties;
- (ii) in relation to the purchase of products and services from the Sanyang Group the pricing of which are determined on a cost-plus basis, including the transactions pursuant to the Master Purchase Agreement, the independent internal control team of the Company shall request the Sanyang Group to provide it with the relevant records of the manufacturing cost and/or purchase cost of the products and services incurred by the Sanyang Group, in order to ensure that the pricing mechanisms under the relevant agreements have been properly complied with; and

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## LETTER FROM THE BOARD

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- (iii) the independent non-executive Directors shall, and the Company shall engage its external auditors to, conduct annual review of the Continuing Connected Transactions in accordance with the Listing Rules requirements.

The Board considers that such internal control procedures on pricing could effectively ensure that the pricing and terms of the transactions contemplated under the relevant agreements are conducted on normal commercial terms no less favourable to the Group and in accordance with the pricing policy as agreed under the relevant agreements.

### HISTORICAL TRANSACTION AMOUNTS AND PROPOSED ANNUAL CAPS

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

The table below sets out the historical transaction amounts of the Continuing Connected Transactions with utilisation rates of the respective annual caps approved for the relevant years for the two years ended 31 December 2016 and 2017 and the ten months ended 31 October 2018:

(in US\$)	Transaction amounts for the year ended 31 December 2016 (utilisation rates compared to the respective annual caps ((%))	Transaction amounts for the year ended 31 December 2017 (utilisation rates compared to the respective annual caps ((%))	Transaction amounts for the ten months ended 31 October 2018 (based on management accounts of the Group up to 31 October 2018) (utilisation rates compared to the respective annual caps ((%))
(A) Master Purchase Agreement	13,095,848 (63.57%)	7,918,868 (24.12%)	12,512,482 (29.49%)
(B) Distributorship Agreement	4,079,870 (40.80%)	1,287,226 (12.87%)	1,845,350 (18.45%)
(C) Technology Licence Agreement	3,224,785 (73.12%)	934,865 (18.81%)	1,271,822 (22.39%)

The actual transaction amounts of the Continuing Connected Transactions for the two years ended 31 December 2016 and 2017 had not exceeded the respective annual caps of the relevant year. The actual transaction amounts of the Continuing Connected Transactions during the first ten months of 2018 had not exceeded the respective annual caps for the year ended 31 December 2018.

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## LETTER FROM THE BOARD

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### 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 2019, 2020 and 2021 be set as follows:

(in US\$)	Annual Cap for the year ending 31 December 2019	Annual Cap for the year ending 31 December 2020	Annual Cap for the year ending 31 December 2021
(A) Master Purchase Agreement	11,100,000	12,110,000	12,700,000
(B) Distributorship Agreement	3,301,000	3,603,000	3,603,000
(C) Technology Licence Agreement	2,580,000	2,710,000	2,770,000

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 relevant transaction amounts of the respective transactions;
- (ii) historical percentages of the relevant values of the subject transactions to the turnover of the Group;
- (iii) internal projected and/or targeted growth in turnover and sales volume of the Group;
- (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 fluctuation 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.

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## LETTER FROM THE BOARD

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### **The Annual Caps for Master Purchase Agreement**

During the year 2017, the Group experienced a serious decline of sales revenue as a result of intensified competition in motorbike market in Vietnam due to the low-price strategy adopted by the Japanese motorbike manufacturers in the country. The Group recorded an exceptionally low sales amount in 2017 compared to that of previous years, as a result of which the total amount of motorbike parts purchased from the Sanyang Group also dropped to a low level during the relevant period.

In order to combat this, the Group successfully launched electric motorbikes in the third quarter of 2017 and several new models in 2018 which have raised the sales volume for the relevant periods in Vietnam. The introduction of the electronic motorbikes and various other new models also required the deployment of more complex and advanced motorbike parts (such as high technology electronic fuel injection engines). This led to an increase in procurement of motorbike parts from the Sanyang Group in 2018 and the Directors expects that this would pave the way for a slight and steady increase in demand of motorbikes parts from Sanyang in 2019 to 2021 due to the increase in demand of motorbikes in Vietnam.

In the export market, the Group intends to further relax risk management control policy against customers in Malaysia from 2019 onwards. Also, the Group expects that the motorbike market in the ASEAN countries will experience a slow but steady growth. Given the above factors, the Group considers the purchase cost of motorbike parts from the Sanyang Group will increase at a slow but steady rate for the coming three years.

Further, for the years 2020 and 2021, the increase of the proposed annual cap of approximately 9% and 4.9% respectively compared to the preceding years is attributable to expected market growth (as mentioned above), inflation, rising cost of raw materials and currency fluctuation.

### **The Annual Caps for Distributorship Agreement**

For the period from 1 January 2018 to the Latest Practicable Date, the sales amount of “SYM” brand motorbikes under the Distributorship Agreement has increased to US\$2,637,616. As such, as compared to this updated historical transaction amount, the proposed annual cap for the year 2019 only increases by approximately 25%.

The Directors consider that this increase in annual cap for the year 2019 as necessary for the following factors. First, despite the increased competition in the motorbike market in Malaysia (a major export market under the Distributorship Agreement) due to the influx of low-priced motorbikes from China, the Group projects that the sales of “SYM” branded motorbikes in Malaysia will remain strong as motorbikes manufactured by the Sanyang Group remains popular in the Malaysia consumer market. Also, as mentioned under the section headed “The Annual Caps for Master Purchase Agreement”, the Group has begun to relax its risk management control policy against customers in Malaysia in the second half of 2018 and intends to further relax the same against customers in Malaysia from 2019 onwards. In addition, the Sanyang Group intends to introduce new motorbike types which would target both the high-end and low-end consumer markets in ASEAN countries such as Malaysia, Philippines, Singapore and Indonesia. As such, the Group expects the export sales amount of motorbikes sourced from the Sanyang Group for the coming years will be restored to a normal level comparable to that of 2016.

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## LETTER FROM THE BOARD

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Further, the increase of approximately 9% in the annual caps for the years ending 2020 and 2021 as compared to that of 2019 was attributable to (i) the target sale quantity determined by the Group for the relevant years taking into account its strategy to increase its product diversity and competitiveness in Vietnam and the ASEAN countries for the corresponding years and (ii) the gradual relaxation of risk control policy against Malaysia.

### **The Annual Caps for Technology Licence Agreement**

The Directors expect the license fee to be paid under the Technology Licence Agreement for the year 2019 will restore to a higher level, and hence consider a significant increase in annual cap for the year 2019 as compared to the actual transaction amount for the ten months ended 31 October 2018 as necessary, due to a number of factors. First, as mentioned under the section headed “The Annual Caps for Master Purchase Agreement”, the Group intends to further relax risk management control policy against customers in Malaysia from 2019 onwards. Also, the Group is planning to launch new models under the “SYM” brand to increase its product diversity and to replace the existing old models in both Vietnam and the export market. In particular, in the local market, in view of the increasing population in Vietnam that drives the demand in motorbikes and the popularity of the “SYM” brand motorbikes in the country, the Directors expect that the sales volume of “SYM” brand motorbikes in Vietnam will increase significantly.

Further, the increase of approximately 5.0% and 2.2% in the annual caps for the years ending 2020 and 2021 as compared to that of the previous years was attributable to the target sale quantity determined by the Group for the relevant years taking into account its strategy to increase its product diversity and competitiveness in Vietnam and the ASEAN countries for the corresponding years.

### **INFORMATION OF THE COMPANY, THE GROUP, SANYANG AND SANYANG GROUP**

The Company is an investment holding company. The Group is one of the leading manufacturers of scooters and cub motorbikes in Vietnam which is principally engaged in the production of scooters and cub motorbikes, engines and related parts.

Sanyang, together with its subsidiaries, is principally engaged in the manufacturing of (i) motorbikes and related parts and (ii) motor cars, trucks and related parts. As at the date of this circular, Sanyang, through its wholly-owned subsidiary, SYI, held 608,818,000 issued shares of the Company (approximately 67.07%).

### **LISTING RULES IMPLICATIONS**

The Continuing Connected Transactions will be conducted between members of the Group and members of the Sanyang Group. As Sanyang is an indirect controlling shareholder of the Company and thus a connected person of the Company by virtue of Rule 14A.07(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 exceed 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.

### BOARD VIEWS

As at the Latest Practicable Date, each of Ms. Wu Li Chu, Mr. Chiang Chin Yung, Mr. Liu Wu Hsiung, Mr. Lin Chih Ming and Mr. Chiu Ying Feng (all being Directors) has a 1.997%, 0.019%, 0.013%, 0.003% and 0.002% shareholding in Sanyang respectively. Ms. Wu Li Chu is the deputy vice chairperson of Sanyang and she serves as the director of various subsidiaries of Sanyang. Mr. Chiu Ying Feng is the deputy vice president of Sanyang. Therefore, pursuant to the articles of association of the Company and the Listing Rules, Ms. Wu Li Chu, Mr. Chiang Chin Yung, Mr. Liu Wu Hsiung, Mr. Lin Chih Ming and Mr. Chiu Ying Feng have abstained from voting in the Board meeting to approve the Continuing Connected Transactions due to the aforesaid overlapping of roles and shareholding interests in Sanyang. Save as mentioned above, no other Directors were in any way materially interested in and therefore have abstained from voting in the Board meeting approving the Continuing Connected Transactions.

The pricing policies of the Continuing Connected Transactions are either on a cost plus basis calculated at the manufacturing cost or purchase cost (as the case may be) of such products or services plus with an agreed margin (for the Master Purchase Agreement), or based on an agreed upon percentage to the indicative sales price or actual annual net selling price of products (for the Distributorship Agreement and the Technology Licence Agreement). The Board considers the pricing policies to be certain and objective, while the Group shall continue to monitor and ensure that the purchase price of the relevant products and services from the Sanyang Group are on normal commercial terms and on terms no less favourable than those terms offered to the Group by Independent Third Parties for similar products and/or services, as set out in the paragraph headed "Internal Control Measures" above.

The Board (including the independent non-executive Directors) considers 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 have been reached after arm's length negotiations among the parties, 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 Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong at 10:00 a.m. on Thursday, 21 February 2019 is set out on pages 53 to 54 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.

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## LETTER FROM THE BOARD

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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 608,818,000 shares of the Company (representing approximately 67.07% of the total issued share capital of the Company) at the Latest Practicable Date. Therefore, Sanyang, its subsidiaries and associates are required to abstain from voting on the resolutions in respect of the Continuing Connected Transactions and the related Annual Caps at the EGM. Save as disclosed above, no other Shareholder is required to abstain from voting on the resolutions in respect of the Continuing Connected Transactions and the related Annual Caps at the EGM.

For determining the entitlement to attend and vote in the EGM, the register of members of the Company will be closed from Monday, 18 February 2019 to Thursday, 21 February 2019 (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 Friday, 15 February 2019.

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 17M 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 (i.e. before 10:00 a.m. on Tuesday, 19 February 2019) 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 and in such event, the form of proxy shall be deemed to be revoked.

### RECOMMENDATION

The Independent Board Committee, having taken into account the advice of Altus, 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 Altus and (iii) the additional information set out in the appendix to this circular and the notice of the EGM.

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

10 January 2019

Dear Independent Shareholders,

**CONTINUING CONNECTED TRANSACTIONS**

We refer to the circular of the Company dated 10 January 2019 (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. Altus 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 Altus, including the basis of the pricing of the Continuing Connected Transactions and the internal control measures adopted by the Group to ensure that the Continuing Connected Transactions are in accordance with the pricing policies and the terms of the relevant agreement, 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 Altus, and (iii) the appendix to the Circular.

Yours faithfully,  
For and on behalf of the  
Independent Board Committee

**Ms. Lin Ching Ching**  
*Independent non-executive  
Director*

**Mr. Shen Hwa Rong**  
*Independent non-executive  
Director*

**Ms. Wu Kwei Mei**  
*Independent non-executive  
Director*

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## LETTER FROM ALTUS

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*The following is the text of a letter of advice from Altus Capital Limited to the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions (including the respective Annual Caps), which has been prepared for the purpose of incorporation in this circular.*

# ALTUS.

Altus Capital Limited  
21 Wing Wo Street  
Central, Hong Kong

10 January 2019

*To the Independent Board Committee and the Independent Shareholders*  
Vietnam Manufacturing and Export Processing (Holdings) Limited  
40th Floor  
Sunlight Tower  
No. 248 Queen's Road East  
Wanchai  
Hong Kong

Dear Sirs,

### CONTINUING CONNECTED TRANSACTIONS

#### INTRODUCTION

We refer to our appointment as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the Continuing Connected Transactions contemplated under the Master Purchase Agreement, the Distributorship Agreement and the Technology Licence Agreement (including their respective Annual Caps). Details are set out in the "Letter from the Board" contained in the circular dated 10 January 2019 (the "**Circular**") to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless otherwise defined herein or required by the context.

The agreements relating to the Continuing Connected Transactions (except for the Technology Licence Agreement) expired on 31 December 2018. The Company had, on 12 November 2018, 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 31 December 2021. The Board also proposed the Annual Caps for all Continuing Connected Transactions (including transactions under the Technology Licence Agreement) for the three years ending 31 December 2021.

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## LETTER FROM ALTUS

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Each of Ms. Wu Li Chu, Mr. Chiang Chin Yung, Mr. Liu Wu Hsiung, Mr. Lin Chih Ming and Mr. Chiu Ying Feng (all being Directors) has a 1.997%, 0.019%, 0.013%, 0.003% and 0.002% shareholding in Sanyang respectively. Ms. Wu Li Chu is the deputy vice chairperson of Sanyang and serves as the directors of various subsidiaries of Sanyang. Mr. Chiu Ying Feng is the deputy vice president of Sanyang. Therefore, pursuant to the articles of association of the Company and the Listing Rules, Ms. Wu Li Chu, Mr. Chiang Chin Yung, Mr. Liu Wu Hsiung, Mr. Lin Chih Ming and Mr. Chiu Ying Feng have abstained from voting in the Board meeting to approve the Continuing Connected Transactions due to the aforesaid overlapping of roles and shareholding interests in Sanyang. Save as mentioned above, no other Directors were in any way materially interested in and therefore have abstained from voting in the Board meeting approving the Continuing Connected Transactions.

### **LISTING RULES IMPLICATION**

Sanyang, through its wholly-owned subsidiary SYI, held approximately 67.07% of the issued Shares of the Company. As Sanyang is an indirect controlling shareholder of the Company and thus a connected person of the Company by virtue of Rule 14A.07(1) of the Listing Rules, members of Sanyang Group are also connected persons of the Company. Accordingly, the Continuing Connected Transactions constitute continuing connected transactions for the Company under Chapter 14A of the Listing Rules.

As one or more of the applicable percentages ratio in respect of the Annual Caps for each of the Continuing Connected Transactions exceed 5%, the Continuing Connected Transactions are subject to the reporting, annual review, announcement and Independent Shareholders' approval requirements under Chapter 14A of the Listing Rules. Accordingly, the Company is seeking approval from the Independent Shareholders for the terms of the Continuing Connected Transactions, their respective agreements (except for the Technology Licence Agreement) and their respective Annual Caps at the EGM. As Sanyang, either itself or its associates, being the counterparties to the agreements relating to the Continuing Connected Transactions, is materially interested in those transactions, Sanyang Group and its associates will abstain from voting in those resolutions concerning the Continuing Connected Transactions, their respective agreements (except for the Technology Licence Agreement) and their respective Annual Caps at the EGM.

### **INDEPENDENT BOARD COMMITTEE**

The Independent Board Committee consisting of Ms. Lin Ching Ching, Mr. Shen Hwa Rong and Ms. Wu Kwei Mei, being all the independent non-executive Directors, has been established to advise the Independent Shareholders on (i) whether the terms and conditions of the Continuing Connected Transactions contemplated under the Master Purchase Agreement, the Distributorship Agreement and the Technology Licence Agreement are on normal commercial terms and are fair and reasonable; (ii) whether the Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Company and its subsidiaries and are in the interests of the Company and the Shareholders as a whole; (iii) whether the respective Annual Caps have been fairly and reasonably arrived at; and (iv) how to vote at the EGM, taking into account the recommendations of the Independent Financial Adviser.

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## LETTER FROM ALTUS

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### INDEPENDENT FINANCIAL ADVISER

As the Independent Financial Adviser to the Independent Board Committee, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the terms and conditions of the Continuing Connected Transactions contemplated under the Master Purchase Agreement, the Distributorship Agreement and the Technology Licence Agreement are on normal commercial terms and are fair and reasonable; (ii) whether the Continuing Connected Transactions will be conducted in the ordinary and usual course of business of the Company and its subsidiaries and are in the interests of the Company and the Shareholders as a whole; (iii) whether the respective Annual Caps have been fairly and reasonably arrived at; and (iv) how the Independent Shareholders should vote in respect of the resolutions relating thereto to be proposed at the EGM.

We have previously acted as the independent financial adviser to the Company with regards to a discloseable and connected transaction. Details of such transaction were set out in a circular of the Company dated 16 May 2018. Save for the aforesaid transaction, we have not acted as an independent financial adviser or financial adviser for other transactions of the Group in the last two years from the date of the Circular. Pursuant to Rule 13.84 of the Listing Rules, and given that remuneration for our engagement to opine on the Continuing Connected Transactions is at market level and not conditional upon successful passing of the resolution to be proposed at the EGM, and that our engagement is on normal commercial terms, we are independent of and not associated with the Company, its controlling shareholder(s) or connected person(s).

### BASIS OF OUR ADVICE

In formulating our opinion, we have reviewed, amongst others, (i) the Master Purchase Agreement, the Distributorship Agreement and the Technology Licence Agreement; (ii) annual report of the Company for the year ended 31 December 2017 (the “**2017 Annual Report**”); (iii) the interim report of the Company for the six months ended 30 June 2018 (the “**2018 Interim Report**”); and (iv) other information as set out in the Circular.

We have relied on the statements, information, opinions and representations contained or referred to in the Circular and/or provided to us by the Company, the Directors and the management of the Company (the “**Management**”). We have assumed that all statements, information, opinions and representations contained or referred to in the Circular and/or provided to us were true, accurate and complete at the time they were made and continued to be so as at the date of the Circular. The Directors collectively and individually accept full responsibility, including particulars given in compliance with the Listing Rules for the purpose of giving information with regards to the Group. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief, the information contained in the Circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other facts the omission of which would make any statement in the Circular misleading.

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## LETTER FROM ALTUS

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We have no reason to believe that any statements, information, opinions or representations relied on by us in forming our opinion is untrue, inaccurate or misleading, nor are we aware of any material facts the omission of which would render the statements, information, opinions or representations provided to us untrue, inaccurate or misleading. We have assumed that all the statements, information, opinions and representations for matters relating to the Group contained or referred to in the Circular and/or provided to us by the Company and the Management have been reasonably made after due and careful enquiry. We have relied on such statements, information, opinions and representations. We consider that we have been provided with and have reviewed sufficient information to reach an informed view and to provide a reasonable basis for our opinion. We have not, however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group.

### PRINCIPAL FACTORS AND REASONS CONSIDERED

#### 1. Background information of the Group and its relationship with Sanyang Group

##### 1.1 Principal activities of the Group and Sanyang Group

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

Sanyang Group is principally engaged in the manufacturing of motorbikes and related parts, as well as motor cars, trucks and related parts.

##### 1.2 Operating results of the Group

Set out below is a summary of the operating results of the Group for each of the year ended 31 December 2016 and 2017 and the six months ended 30 June 2017 and 2018, as extracted from the 2017 Annual Report and the 2018 Interim Report, respectively.

	Year ended 31 December		Six months ended 30 June	
	2016	2017	2017	2018
	US\$	US\$	US\$	US\$
	(audited)	(audited)	(unaudited)	(unaudited)
Revenue	133,202,011	93,746,331	45,884,241	44,540,908
Cost of sales	(117,469,298)	(87,680,654)	(41,727,739)	(45,092,373)
Gross profit/(loss)	15,732,713	6,065,677	4,156,502	(551,465)
Distribution costs	(6,959,150)	(6,940,838)	(3,313,804)	(2,848,486)
Administrative expenses	(9,707,052)	(9,299,828)	(3,873,066)	(4,341,510)
(Loss) for the period/year	(747,122)	(9,332,218)	(2,429,665)	(5,584,321)

Source: 2017 Annual Report and 2018 Interim Report

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## LETTER FROM ALTUS

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*Year ended 31 December 2017*

Revenue for the year ended 31 December 2017 was approximately US\$93.7 million, representing a decrease of approximately 29.7% compared with approximately US\$133.2 million for the year ended 31 December 2016. The decrease in revenue was mainly attributable to the competition from Japanese manufacturers, the Group's major competitors, who aggressively seized market share of domestic sales of motorbikes in Vietnam through price-cutting strategy. Further, an amended regulation in Vietnam poses fines on persons aged between 16 and 18 who ride motorbikes with engine capacity greater than 50 cubic centimetres ("cc"), which resulted in a decline in sales volume of 50 cc motorbikes to part of the Group's target customers. In respect of export, the Group imposed stricter risk control on export sales to Malaysia due to a significant devaluation in Malaysian Ringgit ("MYR") that resulted in payment delay from distributing agents. China's export of low-priced motorbike models into Malaysia also caused a sharp reduction in the Group's sales volume. According to the 2017 Annual Report, the Group sold a total of approximately 128,800 units of motorbikes for the year ended 31 December 2017, representing a decrease of approximately 29.3% from approximately 182,300 units of motorbikes for the year ended 31 December 2016.

In relation to geographical distribution, approximately 54.1% of the total revenue was generated from the domestic market in Vietnam for the year ended 31 December 2017, as compared to approximately 43.5% for the year ended 31 December 2016. Domestic sales in Vietnam decreased to approximately US\$50.7 million for the year ended 31 December 2017, representing a decrease of approximately 12.4% from approximately US\$57.9 million for the year ended 31 December 2016. According to the 2017 Annual Report, an aggregate of approximately 57,600 units of motorbikes (including approximately 6,000 units of scooters, 49,800 units of cubs and 1,800 units of electric motorbikes, respectively) were sold in Vietnam in 2017, representing a decrease of approximately 11.8% from the previous year. In addition, the business environment of motorbike industry in Vietnam continues to be challenging with the Vietnamese government putting emphasis on air pollution control and limiting vehicles to ease overloaded transport infrastructure. Approximately 71,200 units of scooters and cubs were sold and exported to other ASEAN countries during the year ended 31 December 2017, representing a decrease of approximately 39.1% from the previous year primarily because of the substantial sales reduction in Malaysian market.

The Group's cost of sales decreased by approximately 25.4%, from approximately US\$117.5 million for the year ended 31 December 2016 to approximately US\$87.7 million for the year ended 31 December 2017, mainly resulting from the decrease of sales in Vietnam and other ASEAN countries. As a percentage of total revenue, the Group's cost of sales slightly increased from approximately 88.2% for the year ended 31 December 2016 to approximately 93.5% for the year ended 31 December 2017. The increase in cost rate was attributable to the decline in sales volume that weakened the effect of economies of scale on cost per unit. In addition, the Euro 3 standard implemented in 2017 led to an increase in cost of certain parts for the purpose of regulation compliance which increased the percentage of costs to total revenue.

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## LETTER FROM ALTUS

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The gross profit of the Group decreased by approximately 61.1%, from approximately US\$15.7 million for the year ended 31 December 2016 to approximately US\$6.1 million for the year ended 31 December 2017. The Group's gross profit margin also decreased from approximately 11.8% for the year ended 31 December 2016 to approximately 6.5% for the year ended 31 December 2017. The decline in gross profit and gross profit margin was primarily due to the decrease sales in Group's product which has a higher gross profit margin as well as the reasons mentioned above in relation to the decrease in sales volume and increase in cost rate.

The Group's distribution expenses decreased by approximately 1.4% from approximately US\$7.0 million for the year ended 31 December 2016 to approximately US\$6.9 million for the year ended 31 December 2017. Such decrease was mainly due to the rectification of existing distribution network and the decrease in sales incentives and supporting fees to distributors.

The Group's administrative expenses decreased by approximately 4.1% from approximately US\$9.7 million for the year ended 31 December 2016 to approximately US\$9.3 million for the year ended 31 December 2017. The decrease was principally due to the decrease in related research and development expenses and other operating costs, and increased efforts in boosting operation efficiency and strengthening cost control.

As a result of the factors described above, the Group's loss for the year ended 31 December 2017 amounted to approximately US\$9.3 million, representing an increase of approximately 12.3 times as compared to a loss of approximately US\$0.7 million for the year ended 31 December 2016.

### *Six months ended 30 June 2018*

Revenue for the six months ended 30 June 2018 was approximately US\$44.5 million, representing a decrease of approximately 3.1% from approximately US\$45.9 million for the six months ended 30 June 2017. The decrease in revenue was mainly attributable to the competition continuously arisen from Japanese manufacturers. Such competition posed significant pressure on the Group. In respect of export, it was mainly due to the decline in the Group's sales volume in other ASEAN countries.

The Group sold approximately 25,600 units of motorbikes (including approximately 2,600 units of scooters, 21,100 units of cubs and 1,900 units of electric motorbikes, respectively) in Vietnam for the six months ended 30 June 2018, representing an increase of approximately 10.3% compared to the corresponding period in 2017. Such increase was mainly because the Group pushed forward the launch of five new and modified motorbike models, including one scooter model which targets metropolitan female market and four cub models which provide a more diversified product offerings to students and youngsters in the first half of 2018. Besides, in response to the global trend of protecting the environment by

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## LETTER FROM ALTUS

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energy saving and carbon reduction, the Group took the lead ahead of other Vietnamese motorbike manufacturers and launched two models of electric motorbikes in 2017, which have become widely recognised by the market and show improvement on the sales. In addition, the Group sold approximately 36,900 units of motorbikes to other ASEAN countries for the six months ended 30 June 2018, representing a slight decrease of approximately 1.1% compared to the corresponding period in 2017. Such decrease was mainly attributable to the impact on sales as a result of the devaluation in MYR and the presence of Chinese low-priced motorbike options available in other ASEAN countries.

The Group's cost of sales increased by approximately 8.2%, from approximately US\$41.7 million for the six months ended 30 June 2017 to approximately US\$45.1 million for the six months ended 30 June 2018, which was mainly attributable to the increase pressure on the cost of sales including costs of labour, raw materials, components and assemblies. Furthermore, in order to adapt to the current consumption trend in the market, the Group launched electric motorbikes that need more moulding tools for specific models and sophisticated imported components, adding pressure on overall costs. As a result, as a percentage of total revenue, the Group's cost of sales increased from approximately 90.9% for the six months ended 30 June 2017 to approximately 101.2% for the six months ended 30 June 2018.

Gross profit of the Group decreased by approximately 114.3%, from approximately US\$4.2 million for the six months ended 30 June 2017 to a gross loss of approximately US\$0.6 million for the six months ended 30 June 2018. Correspondingly, the Group's gross profit margin decreased from approximately 9.2% for the six months ended 30 June 2017 to a loss margin of approximately 1.3% for the six months ended 30 June 2018. Such decrease was mainly due to decline in sales from the major sources of profit, the continued increasing cost pressure and the keen competition in the business environment, as well as the higher cost of sales as mentioned above.

The Group's distribution expenses decreased by approximately 15.2%, from approximately US\$3.3 million for the six months ended 30 June 2017 to approximately US\$2.8 million for the six months ended 30 June 2018. Such decrease was mainly attributable to rectification of existing distribution network, a decrease of sales incentives and supporting fees to distributors.

The Group's administrative expenses increased by approximately 10.3%, from approximately US\$3.9 million for the six months ended 30 June 2017 to approximately US\$4.3 million for the six months ended 30 June 2018. The increase was principally due to the increase of research and development expenses as the Group strived to develop new products satisfying the customer's needs in the first half of 2018.

As a result of the above, the Group's loss for the six months ended 30 June 2018 increased by approximately 133.3%, from a loss of approximately US\$2.4 million for the six months ended 30 June 2017 to approximately US\$5.6 million in the corresponding period in 2018.

### *1.3 Prospects of the Group*

During the first half of 2018, the Vietnamese economy grew steadily and experienced a mild inflation, while its business environment remained relatively stable with an expected gross domestic products growth at approximately 6.8%. In addition, Vietnamese Dong (“VND”) was also devalued by approximately 3.2% over the same period in 2017, which will keep the positive momentum in foreign direct investment. The Management is of the view that the stable economic environment will enable the Group to carry out its strategy and reposition the Group in a highly competitive market.

It is noted that the Vietnamese government will take active steps to adjust its monetary policy in a flexible way, and implement various measures to stimulate domestic demand, with an aim to reach its target annual economic growth rate of between 6.5% and 6.7%. In addition, the mandatory registration on electric motorbikes, which is applicable to electric motorbikes of all capacity, has been taken into effect since 2017. The Management believes that this will increase consumer confidence in electric motorbikes because of the improved production quality and enhanced safety under a better regulatory regime, which benefits the Group’s sales in electric motorbike models.

As the business environment will remain challenging with increasing government environmental awareness on the air pollution issue that imposes a stricter control over the automotive market, the Group will adopt product innovation as its key strategy to further strengthen its capabilities in product design and core technology development. In the second half of 2018, the Group plans to roll out a number of new or modified motorbike models in the Vietnamese and ASEAN markets so as to achieve product diversification and greater profitability, and offer consumers with environmentally-friendly and convenient products at reasonable prices.

As for promotion and place of marketing, the Group will open flagship stores in four major cities in Vietnam and execute holistic sales strategies to promote its brand image. The Group will also improve its “distributor licensing system” and extend the geographical coverage of its sales and services centres in order to provide its customers with better product repair and maintenance services. In ASEAN markets, the Group will step up further to engage in marketing and promotional activities, and to provide better aftersales services overseas. The Group will launch more new motorbike models to boost and stimulate the sales volume of export. It is also expected that following the completion of the integration of the Group’s adjacent production plants in the Dong Nai province with the production facilities of Sanyang Motor Vietnam Company (“SMV”) in mid-June 2019, the Group may enjoy the benefits of economies of scale through additional production capacity and lowered general and administrative expenses. Without any major development, the Management is cautious on the outlook of the Group due to the various challenges ahead.

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## LETTER FROM ALTUS

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### 2. Background and principal terms of the Continuing Connected Transactions contemplated under the Master Purchase Agreement, the Distributorship Agreement and the Technology Licence Agreement

#### 2.1 *The Master Purchase Agreement*

As set out in the “Letter from the Board” of the Circular, the Group entered into the previous master purchase agreement with Sanyang which allowed the Company to source certain motorbike parts from Sanyang Group for its motorbike production. As the previous master purchase agreement expired on 31 December 2018, the Company entered into the Master Purchase Agreement with Sanyang (for itself and on behalf of other members of Sanyang Group) on 12 November 2018 to continue engaging Sanyang Group to supply motorbike parts to the Group.

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 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.

To assess the fairness and reasonableness of the terms of the Master Purchase Agreement, we have considered the following:

#### *a. Major terms and pricing*

We noted that pursuant to the Master Purchase Agreement:

- (i) All purchase transactions shall be undertaken on normal commercial terms or on terms no less favourable to the Group than terms available to or from Independent Third Parties (if any).
- (ii) The price of sourcing of motorbike parts from members of the Sanyang Group is at a cost plus basis. Sanyang Group shall charge the Group at the production cost or purchase cost (as the case may be) of the products purchased by the Group plus a margin of 10% (if Vietnam import duty for such product is 20% or more) or of 15% (if Vietnam import duty for such product is less than 20%). According to the Management, such margin on top of the cost is to cover Sanyang Group’s administrative and operation cost in providing such parts to the Group. 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 ALTUS

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- (iii) A credit period of 30 or 60 days (as the case may be) from the date of the invoice without interest shall be granted to the Group by Sanyang Group in respect of any purchase order.
- (iv) The Group may request Sanyang Group to provide the relevant records of the production or purchase cost (as the case may be) of products sold to ensure the pricing mechanism under the Master Purchase Agreement has been properly complied with.

Sanyang Group undertakes to comply with such requests of the Group.

In relation to the above, we have reviewed randomly selected sample purchase orders and purchase invoices (i.e. referring to (i) all items in general – the top 5 purchase invoices plus another 5 randomly selected purchase invoices; and (ii) several key parts selected from the aforementioned invoices along with relevant independent quotations, for each of the two years ended 31 December 2017 and the ten months ended 31 October 2018) entered into between (i) the Group and Sanyang Group in respect of the purchase of motorbike parts; and (ii) the Group and Independent Third Party suppliers in respect of the purchase of similar motorbike parts during the two years ended 31 December 2017 and the ten months ended 31 October 2018 (i.e. the latest available financial data in the management accounts of the Group), and noted that thereunder:

- (i) The terms offered by Sanyang Group and Independent Third Party suppliers, namely pricing of parts, delivery time, payment method and credit terms were generally similar.
- (ii) The price of the parts and products from Sanyang Group was at a cost plus basis. Sanyang Group charged the Group at the production cost or purchase cost (as the case may be) of the products purchased by the Group plus a margin of 10% (if Vietnam import duty for such product is 20% or more) or of 15% (if Vietnam import duty for such product is less than 20%). Further discussion about the margin is set out below.
- (iii) The prices of the parts purchased by the Group from Sanyang Group on a cost plus basis were no less favourable than the prices quoted by Independent Third Party suppliers in the PRC or Vietnam for similar parts within similar timeframe.
- (iv) The payment terms of the purchase orders (e.g. by telegraphic transfer) between the Group and Sanyang Group were similar to those of the purchase orders/quotations between the Group and other Independent Third Party suppliers.

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## LETTER FROM ALTUS

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- (v) The credit terms of the purchase orders (i.e. 30 to 60 days) from the date of the invoice without interest between the Group and Sanyang Group were similar to those of the purchase orders/quotations between the Group and other Independent Third Party suppliers.

With regards to the pricing policy of the aforesaid 10% or 15% margin (depending on the import duty) to be added on to the cost to Sanyang Group, we have reviewed the relevant pricing ledger of the motorbike parts, their respective prices in US\$ charged to the Group as set out in the sample invoices reviewed by us as mentioned above and the exchange rates used. We noted such pricing policy has been adhered thereto.

We have also compared the price quotations of the Independent Third Party suppliers in the PRC for similar motorbikes parts within the similar timeframe (i.e. facing same import duty of Vietnam and US\$ to Renminbi (“**RMB**”) exchange rate) set out in the sample invoices reviewed by us as mentioned above, we noted that the pricing of the products sold by Sanyang Group to the Group (i.e. after taking into account 10% or 15% margin on top of the cost incurred by Sanyang Group in providing such sourcing services) was no less favourable and may sometimes be slightly lower than terms offered by Independent Third Party suppliers.

Given that the sample invoices (as described above) supporting the major terms and pricing policy of the previous master purchase agreement had been consistently adhered to during the past two years ended 31 December 2017 and the ten months ended 31 October 2018, we believe the abovementioned sample invoices are fair and representative samples.

Taking into account the above factors, we consider the terms of the Master Purchase Agreement are normal commercial terms and are fair and reasonable so far as the Independent Shareholders are concerned.

*b. Reasons for and benefits of the Master Purchase Agreement*

According to the Management, by centralising and aggregating Sanyang Group’s sourcing of motorbikes parts with those of the Group’s, Sanyang Group would be in a better position to negotiate better price and terms with the suppliers and enjoy the benefit of a bulk purchase. As a result, the Management believes that this would also benefit the Group as Sanyang Group would be able to supply the Group motorbike parts at a lower costs based on the cost plus basis than those directly sourced by the Group from Independent Third Party suppliers.

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## LETTER FROM ALTUS

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The Management also noted that for motorbike parts sourced from supplier outside Vietnam (because such parts are either unavailable or not of acceptable quality or pricing in Vietnam), Sanyang Group can also provide quality testing, packaging, custom clearance and logistic services on the motorbike parts sold to the Group at a lower cost than that for the Group to engage an Independent Third Party supplier outside Vietnam to provide similar services. In addition, as for the parts sourced in the PRC, Sanyang Group would be able to provide a centralised sourcing with other members of Sanyang Group and thus reducing the administrative cost. It also enables the Group to secure a cost effective and stable source of supply of motorbike parts which are supplied at a lower cost in the PRC due to the lower labour costs and production costs in the PRC. Sanyang Group would also be able to assist in the quality check of parts sourced from the PRC and conduct survey on suppliers to ensure they meet the requirement and standards of the Group. Moreover, Sanyang Group is one of few suppliers in the market who is able to satisfy the demand in technologically more advanced parts of the motorbike model the Group newly launched in 2018.

The Company also sources motorbike parts from Sanyang Group locally in Vietnam, which will reduce the transportation costs and delivery time and therefore bring more flexibility to the Company's motorbike production (such as allowing it to meet unexpected increase of orders or other market contingencies).

We have reviewed (i) the quantity ordered and the amount purchased by the Group from Sanyang Group during the two years ended 31 December 2017 and the ten months ended 31 October 2018 (samples as mentioned in paragraph a above); (ii) the quotations on such motorbike parts obtained by the Group from Independent Third Party suppliers (samples as mentioned in paragraph a above) to compare with the prices obtained by the Group from Sanyang Group; and (iii) the terms and conditions (such as packaging, logistic services, transportation costs and delivery time) offered by Independent Third Party suppliers to the Group set out in the quotations (as mentioned in paragraph a above), we concur with the Management that it is fair and reasonable to purchase through Sanyang Group and such purchases are in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM ALTUS

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c. *Proposed Annual Caps*

(i) 2015 approved annual caps and historical transaction amount

Below is a table setting out the 2015 approved annual caps and the historical transaction amount for each of the year ended 31 December 2016 and 2017 and the ten months ended 31 October 2018.

	<b>Year ended 31 December</b>		<b>Ten months ended</b>
	<b>2016</b>	<b>2017</b>	<b>31 October</b>
	<i>US\$</i>	<i>US\$</i>	<b>2018</b>
			<i>US\$</i>
2015 approved annual cap	20,600,000	32,830,000	42,430,000
Historical transaction amount	13,095,848	7,918,868	12,512,482
Utilisation percentage	63.6%	24.1%	35.4%
			(annualised)

As shown in the table above, the Group utilised approximately 63.6% and 24.1% of the 2015 approved annual caps for the two years ended 31 December 2016 and 2017, respectively. For the ten months ended 31 October 2018, the Group utilised approximately 35.4% (on an annualised basis) of the 2015 approved annual cap for the year ended 31 December 2018.

It is noted that both the transaction amount and the utilisation rate had declined for the year ended 31 December 2017 as compared to the previous year, which, according to the Management, was mainly due to the (i) decreased sales volume attributable to the competitive environment of the Vietnam domestic motorbike market, which was dominated by some Japanese motorbike manufacturers, and the Malaysia market, into which China has been exporting low-priced motorbike models; and (ii) a stricter risk control measures on export sales to Malaysia the Group implemented (as described in the paragraph headed “1.2 Operating results of the Group” above). In view of the above, the Group had purchased fewer parts to manufacture motorbikes.

Both the transaction amount for the ten months ended 31 October 2018 and the utilisation rate (annualised) for the ten months ended 31 October 2018 were higher than the total amount and annual utilisation rate for the year ended 31 December 2017. We understand from the Management that such increase was mainly attributable to the launching of electric motorbikes and new motorbike models in the third quarter of 2018. These vehicles involved parts of high complexity and components of advanced technology which could not be sourced in Vietnam. In view of the above, the Group had purchased more parts from Sanyang Group to manufacture those motorbikes.

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## LETTER FROM ALTUS

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According to the Management, the Company did not anticipate the severe competition in 2017 nor the change in government policy when preparing for the proposed annual caps in 2015. As such, the above market forces caused a significant sales drop in 2017 as compared to 2016. The Management believes and we concur that the relatively low utilisation rates of the 2015 approved annual caps have no bearing on the fairness and reasonableness of the basis in determining the then historical annual caps.

(ii) Proposed Annual Caps

	Year ending 31 December		
	2019	2020	2021
	US\$	US\$	US\$
Proposed Annual Cap	11,100,000	12,110,000	12,700,000
Year-on-year percentage change		+9.1%	+4.9%

We noted that the proposed Annual Cap for each year under the Master Purchase Agreement has been determined with the reference to (i) the historical transaction amount and cost of parts purchased from Sanyang Group; (ii) the projected and/or targeted growth in revenue and sales volume of the Group; and (iii) the expected increasing demand of parts arisen from the Group's focus in the coming three years on sales of new motorbike models that require sophisticated parts.

According to the latest available historical sales figures of motorbikes (comprising scooters and cubs) issued by Vietnam Association of Motorcycle Manufacturers ("VAMM"), a trade association in Vietnam, from 2009 to 2018, the Group achieved a market share in Vietnam of approximately 7.8% (180,008 units of motorbikes out of a total of 2,301,875 units of motorbikes) in 2009 among the other major brands like Honda (62.2%), Yamaha (28.3%) and Suzuki (1.7%). In view of the severe market competition, in particular, when the aforesaid major brands can provide a diversity of products to cover different target markets (e.g. high-end/luxurious, mid-range/functional, low-end/basic, different gender or age group), the Group's market share shrunk to approximately 1.9% (51,862 units of motorbikes out of a total of 2,745,484 units of motorbikes) up to and including October 2018 among the other major brands like Honda (75.6%), Yamaha (21.5%) and Suzuki (0.7%), respectively. For the two years ended 31 December 2017, the Group's market share in Vietnam was approximately 2.1% (65,316 units of motorbikes out of a total of 3,120,385 units of motorbikes) and approximately 1.7% (55,798 units of motorbikes out of a total of 3,269,375 units of motorbikes), respectively.

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## LETTER FROM ALTUS

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In view of the severe market competition, which in turn, shrunk the market share, the Group has to redefine its strategy to recapture market share and improve profitability by (i) achieving sales target of the new and modified models launched by the Group; (ii) adopting measures on the manufacturing of motorbikes in order to lower the manufacturing cost; and (iii) attracting sales by enhancing its brand image.

As described in the 2018 Interim Report, the Group launched five new or modified motorbike models in 2018, including one scooter model namely Abela 110, which targets metropolitan female market, and four cub models namely Elegant 50, Angela 50, Galaxy 50 and Star SR 125, which provide a more diversified product offerings to students and youngsters in the first half of 2018. Also, the Group launched two models of electric motorbikes namely EV Elite and SYM Z1 in 2017. The Group is also planning to change the colour of certain motorbikes as a strategy to remarket the motorcycles and attract sales. The Group will adopt measures on the manufacturing of motorbikes to better control the manufacturing cost. On the other hand, the Group will be enhancing its brand image through storefront renovation and by strengthening its agency network as another strategy to attract sales.

Based on our discussions with the Management, the Group targets to attain a market share (comprising cub and scooter) in Vietnam of approximately 2.0% in 2019, 2.4% in 2020 and 2.7% in 2021, representing a target sales of 67,000 units, 75,000 units and 83,000 units of motorbikes (i.e. assuming a total of approximately 3,200,000 units, 3,150,000 units and 3,100,000 units of motorbikes) in the respective years. In respect of electric motorbikes, the Group targets to attain a stable sales of 5,000 units per year from 2019 to 2021. With regards to the sales to ASEAN countries, the Group targets to sell 52,560 units, 54,108 units and 59,724 units of motorbikes in 2019, 2020 and 2021, respectively.

In view of the above, the Group is projected to purchase more parts from Sanyang Group from 2019 to 2021, thus increasing the proposed Annual Caps on a year-on-year basis.

To consider the fairness and reasonableness of the proposed Annual Caps, we have taken into account the individual variables which may have an impact on the proposed Annual Caps:

(aa) Target sales quantity – Vietnam

According to the report issued by the VAMM, there were about 3,200,000 motorbikes sold in Vietnam each year in the past few years. As Vietnam's economy has been steady (as described in the paragraph headed "1.3 Prospects of the Group" above), the Management believes and we concur that it is fair and reasonable to expect a steady annual market demand in Vietnam for each year in the next three years ending 31 December 2021.

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## LETTER FROM ALTUS

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In addition, we noted the current population dynamics of Vietnam, that (i) the population is constantly rising with about 96.8 million people as at November 2018; and (ii) about 65% of the population aged 30 years old or above. The Management is of the view that motorcycles will continue to be the main mean of transport in the foreseeable years, the Management also expects an increasing demand in the newly launched models.

Taking into account (i) the Group had sold 65,316 units and 57,577 units of motorbikes (comprising scooters, cubs and electric motorbikes) in 2016 and 2017, respectively and 55,678 units of motorbikes (comprising scooters, cubs and electric motorbikes) during the ten months ended 31 October 2018 in Vietnam despite intense market competition; (ii) the increased year-on-year growth in the projected sales resulting from the Group's redefined strategy in expanding sales in their newly launched motorbike models, cutting manufacturing cost and enhancing brand image; and (iii) the increasing population in Vietnam that drives the demand in motorbikes, the Management believes and we concur that the target sales quantity of 72,000 motorbikes, 80,000 motorbikes and 88,000 motorbikes in Vietnam in the year ending 31 December 2019, 2020 and 2021 respectively, have been fairly and reasonably arrived at.

(bb) Target sales quantity – other ASEAN countries

We noted that the decline in historical sales from 2016 to 2018 is a result of keen competition in the ASEAN market and the devaluation in MYR (as described in the paragraph headed "1.2 Operating results of the Group" above). We also noted that the Group sold 115,047 units and 70,678 units of motorbikes in 2016 and 2017, respectively and 54,589 units of motorbikes during the ten months ended 31 October 2018 in other ASEAN countries. The Group targets to sell approximately 50,224 units, 55,264 units and 55,842 units of motorbikes for the three years ending 31 December 2021, respectively.

We noted that compared with the actual sales volume of approximately 54,589 units for the ten months ended 30 October 2018, the target sales volume for the year ending 31 December 2019 decreased to approximately 50,224 units. We understand from the Management that such decrease was mainly due to the Group's intention to gradually phase out motorbike models with relatively low profit margin in Malaysia and Philippines.

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## LETTER FROM ALTUS

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Based on our discussion with the Management, the increase in growth rate of the sales resulted from the cost control measures adopted on the manufacturing of motorbikes will start to be realised in 2020, during which a new model will be introduced to the ASEAN market as well, thus increasing the projected export sales volume.

Taking into account the above, the Management believes and we concur that the target sale quantity of 50,224 motorbikes, 55,264 motorbikes and 55,842 motorbikes by the Group to other ASEAN countries in the year ending 31 December 2019, 2020 and 2021 respectively, have been fairly and reasonably arrived at.

Shareholders should note that the proposed Annual Caps represent an estimate based on information currently available and that the actual utilisation and sufficiency of the proposed Annual Caps would depend on a number of factors, including but not limited to, the possible fluctuation in the cost of raw materials in the future and the actual demand of the Group's products. The proposed Annual Caps have no direct relationship to, nor should be taken to have any direct bearing on, the Group's financial or potential financial performance.

### **2.2 *Distributorship Agreement***

As set out in the "Letter from the Board" of the Circular, the Group entered into the previous distributorship agreement with Sanyang Group which the Company acts as the exclusive distributor of certain motorbikes and related parts manufactured by Sanyang Group in the Exclusive Territory (except in the case of Vietnam where the right is restricted for exhibition purposes only). As the previous distributorship agreement expired on 31 December 2018, the Company entered into the Distributorship Agreement with Sanyang Group on 12 November 2018 to continue engaging the Company to act as the exclusive distributor of certain motorbikes and related parts manufactured by Sanyang Group in the Exclusive Territory.

To assess the fairness and reasonableness of the terms of the Distributorship Agreement, we have considered the following:

*a. Major terms and pricing*

We noted that in pursuant to the Distributorship Agreement:

- (i) The Group only purchases products from Sanyang Group when confirmed customer orders are received and the motorbikes to be distributed are restricted to those models which the Group does not produce.

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## LETTER FROM ALTUS

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- (ii) Sanyang Group shall sell the products to the Company at a price that is at least 3.5% lower than the indicative selling price of such products proposed to be sold by the Group to independent end-customers.
- (iii) Sanyang Group shall provide the Company with a copy of its current price list for the products from time to time.
- (iv) Sanyang Group shall grant the Company in respect of the purchase order, a credit period of 30 to 60 days from the date of the invoice without interest.

In relation to the above, we have reviewed randomly selected sample purchase orders and purchase invoices (i.e. referring to the top 5 purchase invoices plus another 5 randomly selected purchase invoices for each of the two years ended 31 December 2017 and for the ten months ended 31 October 2018) entered into between the Group and Sanyang Group in respect of the distribution of “SYM” brand motorbikes during the two years ended 31 December 2017 and the ten months ended 31 October 2018, and noted that thereunder:

- (i) The 3.5% minimum profit guaranteed for the Group under the previous distributorship agreement has been achieved.
- (ii) The terms under the previous distributorship agreement as mentioned above had been generally being complied with.

Given that the abovementioned sample invoices (as described above) supporting the major terms and pricing policy of the Distributorship Agreement had been consistently adhered to during the past two years ended 31 December 2017 and the ten months ended 31 October 2018, we believe the abovementioned samples are fair and representative samples.

We have discussed with the Management and noted that the 3.5% margin was able to cover the administrative and operating expenses attributable to the distributorship operations of the Group. We have reviewed the historical monthly sales data and compared that with the related costs incurred by the Group under the previous distributorship agreement and noted the difference exceeded 3.5%. We have also discussed with the Management about the possibility to increase the margin of 3.5%. Given Sanyang Group is also facing the challenge of rising cost of production, a higher than 3.5% profit guarantee will unlikely be acceptable by Sanyang Group. On the other hand, given the Group is currently operating under severe competition in the Vietnam markets, any increase in profit margin by increasing the indicative sales price of the products to its end-customers may result in lower volume of business to the Group and therefore is not in the interests of the Company and the Shareholders as a whole. Taking into account the above factors, although there is no direct comparable to such 3.5% margin as the Group acts as the exclusive distributor of certain motorbikes and related parts manufactured by Sanyang Group in the Exclusive Territory under the previous distributorship agreement, the Management believes and we concur that the minimum guaranteed profit of at least 3.5% is fair and reasonable.

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## LETTER FROM ALTUS

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In addition, we have considered whether the pricing mechanism adopted by the Company under the Distributorship Agreement is in line with the market practice, we, based on our best endeavor and as far as we are aware, have identified transactions conducted by two other companies (“**Comparable Companies**”) which (i) are listed on the Stock Exchange; (ii) are principally engaged in the manufacturing and distribution of consumer goods; (iii) have similar pricing mechanism as that of the Company as set out above; and (iv) are also renewed continuing connected transactions, as set out below:

Symphony Holdings Limited (“**Symphony**”, stock code 1223), as set out in the announcement of Symphony dated 27 February 2017 and 22 March 2017, Arena Shanghai Industrial Company Limited (“**Arena Shanghai**”, a joint venture of Symphony) entered into the Distribution Agreement (as defined in the announcement) with Shanghai Descente Commercial Company Limited, (“**Shanghai Descente**”, a substantial shareholder of Arena Shanghai), whereby Arena Shanghai is an exclusive distributor of Shanghai Descente for conducting local marketing activities and the sale and distribution of Shanghai Descente products including sportswear and related accessories. The price payable is determined on a cost plus basis that is equal to the landed cost of the goods purchased multiplied by a factor of 1.41.

Samsonite International S.A (“**Samsonite**”, stock code 1910), as set out in the announcement of Samsonite dated 6 December 2017, Bagzone Lifestyles Private Limited (“**Bagzone**”, a company controlled by certain members of the Tainwala Group whereby Mr. Tainwala is a director of Samsonite) entered into the Bagzone MoU (as defined in the announcement) with Samsonite South Asia Private Limited (“**Samsonite India**”, a non-wholly owned member of Samsonite), whereby Bagzone is a preferred dealer of Samsonite products and operates the exclusive Samsonite-branded retail outlets in India, and that Samsonite India will continue to sell Samsonite products to Bagzone. The pricing where Bagzone is to distribute the Samsonite products from Samsonite India shall be determined based on the purchase cost plus certain profit margin of 3%.

As the Group is going to purchase from Sanyang Group at a price 3.5% lower than the indicative sales price of such products proposed to be sold by the Group to independent end-customers, which in other words, is similar to the aforesaid case for Sanyang Group to sell at a price based on the cost plus principle (that is cost incurred by Sanyang Group plus certain profit margin). We consider the pricing mechanism adopted by the Company under the Distribution Agreement is in line with market practice for distribution of consumer goods.

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## LETTER FROM ALTUS

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We wish to clarify that there are only two Comparable Companies being identified due to our strict selection criteria mentioned above. On the other hand, we, based on our best endeavor and as far as we are aware, have noted four companies listed in the table below which we believe to be exhaustive, namely:

<b>Date of announcement</b>	<b>Name of company</b>	<b>Stock code</b>	<b>Pricing mechanism</b>
8 November 2017	Tong Ren Tang Technologies Co. Ltd	1666	The price of the products supplied by the group to Beijing Tong Ren Tang International Natural- Pharm Co., Ltd., a connected person of the group, shall not be higher than the wholesale price of the products sold by the group to its wholesale customer in the PRC.
17 August 2018	Shanghai Fudan-Zhangjiang Bio-Pharmaceutical Co., Ltd.	1349	The pricing of the pharmaceutical products sold to Shanghai Pharmaceutical Group, subsidiaries of Shanghai Pharmaceuticals Holding Co., Ltd. which is a substantial shareholder of the company, shall be determined on fair market basis which will be adjusted by a reasonable profit margin that is determined with reference to the profit margin of a comparable quantity of the similar products sold to at least two independent third parties at the same period and to Shanghai Pharmaceutical Group, by the group in the past transactions.

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## LETTER FROM ALTUS

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<b>Date of announcement</b>	<b>Name of company</b>	<b>Stock code</b>	<b>Pricing mechanism</b>
12 October 2018	Shenzhen Neptunus Bio-Technique Company Limited	8329	The monthly average unit price of the pharmaceutical products provided by Neptunus Pharmaceutical, a connected person of the company, to Neptunus Changjian shall not be higher than the corresponding monthly average unit price of the same type of products sold to the top five clients of Neptunus Pharmaceutical.
5 December 2018	Shandong Weigao Group Medical Polymer Company Limited	1066	The comprehensive pricing of the distribution services charged by Shandong Weigao Medical Company Limited, a wholly owned subsidiary of the company, shall be fair and reasonable and shall not be higher than the comprehensive pricing of the similar distribution services provided by independent third parties to the group during the same period

each of which (i) is listed on the Stock Exchange; (ii) is principally engaged in the manufacturing and distribution of consumer or industrial goods; (iii) had entered into distribution agreement with connected person as defined in the Listing Rules; (iv) had varied pricing mechanism as described above; and (v) also constituted as continuing connected transactions but with a duration range from two years ending 31 December 2019 to three years ending 31 December 2021. Taking into account the table above, we are of the view that the Comparable Companies were selected on a fair and reasonable basis and the Distributorship Agreement is in line with the market practice in general (in terms of the operational method or the settlement method or the duration) within a broader group of companies notwithstanding that there are only two Comparable Companies being identified which has similar pricing mechanism as well as in terms of the operating method and the settlement method.

Taking into account the above factors, we consider the terms of the Distributorship Agreement are normal commercial terms and fair and reasonable so far as the Independent Shareholders are concerned.

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## LETTER FROM ALTUS

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*b. Reasons for and benefits of the Distributorship Agreement*

Through distributing specific models and related parts of motorbikes manufactured by Sanyang Group (as the Group does not produce those models) in the Exclusive Territory, the Group can retain its end-customers in the Exclusive Territory who purchase specific models of motorbikes manufactured by the Sanyang Group. The Group may also leverage on Sanyang Group's customer base to expand the Group's customer base in the Exclusive Territory, increasing its market shares and brand recognition. The pricing mechanism agreed under the Distributorship Agreement also guarantees a minimum 3.5% profit on the sales price for the Group on each product distributed or re-sold to end-customers in the Exclusive Territory.

Taking into account the reasons mentioned above and that the terms of the Distributorship Agreement (as mentioned in the paragraph headed "a. Major terms and pricing" above) are fair and reasonable, we concur with the Management that it is fair and reasonable to act as an exclusive distributor for Sanyang Group in the Exclusive Territory and such transactions contemplated under the Distributorship Agreement are in the interests of the Company and the Shareholders as a whole.

*c. Proposed Annual Caps*

(i) 2015 approved annual caps and historical transaction amount

Below is a table setting out the 2015 approved annual caps under the previous distributorship agreement, and the historical transaction amount recorded for each of the year ended 31 December 2016 and 2017 and the ten months ended 31 October 2018.

	<b>Year ended 31 December</b>		<b>Ten months ended</b>
	<b>2016</b>	<b>2017</b>	<b>31 October</b>
	<i>US\$</i>	<i>US\$</i>	<b>2018</b>
			<i>US\$</i>
2015 approved annual cap	10,000,000	10,000,000	10,000,000
Historical transaction amount	4,079,870	1,287,226	1,845,350
Utilisation percentage	40.8%	12.9%	22.1%
			(annualised)

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## LETTER FROM ALTUS

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As shown in the table above, the Group utilised approximately 40.8% and 12.9% of the 2015 approved annual caps for the two years ended 31 December 2016 and 2017 respectively. For the ten months ended 31 October 2018, the Group utilised approximately 22.1% (on an annualised basis) of the 2015 approved annual cap for the year ended 31 December 2018. It is noted that the utilisation had declined in 2017, which we understand from the Management was mainly due to a stricter risk control policy imposed by the Group in response to the significant devaluation in MYR (as described in the paragraph “1.2 Operating results of the Group”). The sales quantity of motorbikes in Malaysia was therefore significantly reduced in 2017. In the third quarter of 2018, given the issue of the delay in payment from the distributing agent was alleviated and that the relevant risk was better managed through insurance policy, the sales quantity in Malaysia has been steadily increasing, which resulted in the increase in utilisation rate for the ten months ended 31 October 2018.

Since the historical utilisation rate is resulted from unexpected market forces (as described in the paragraph headed “2.1 c (i) 2015 approved annual caps and historical transaction amount” above), the Management believes and we concur that the relatively low utilisation rates of the 2015 approved annual caps have no bearing on the fairness and reasonableness of the basis in determining the then historical annual caps.

(ii) Proposed Annual Caps

	<b>Year ending 31 December</b>		
	<b>2019</b>	<b>2020</b>	<b>2021</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
Proposed Annual Cap	3,301,000	3,603,000	3,603,000
Year-on-year percentage of change		+9.15%	+0.00%

We noted that each of the proposed Annual Cap has been determined with reference to (i) the historical transaction amount and demand for “SYM” brand motorbikes; and (ii) the projected sales volume and selling price of the models of the Group as determined by the Board.

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## LETTER FROM ALTUS

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To consider the fairness and reasonableness of the proposed Annual Caps, we have taken into account the individual variables which may have an impact to the proposed Annual Caps:

(aa) Total sales quantity of “SYM” brand motorbikes under the Distributorship Agreement

According to the historical sales record, the Group had distributed 1,734 units and 496 units of “SYM” brand motorbikes in the year ended 31 December 2016 and 2017 respectively and 1,061 units of “SYM” brand motorbikes in the ten months ended 31 October 2018. The Group projected a stable sales of 1,634 units, 1,732 units and 1,732 units of “SYM” brand motorbikes in the Exclusive Territory in each of the next three years ending 31 December 2021, respectively.

According to the Management, the 6.0% increase of sales quantity from 2019 to 2021 is accounted by the continuous increase in sales to Malaysia under the improving payment from distributors.

Taking into account (i) the historical sales record as described above; (ii) the Group’s strategy to increase its product diversity and competitiveness (which the range of “SYM” brand motorbikes will be able to fill the gap); and (iii) the distributing sales projection taking into account the improving repayment condition and the insurance agreement the Group is able to secure, the Management believes and we concur that the aforementioned target sales of 1,634 units, 1,732 units and 1,732 units of “SYM” brand motorbikes in each of the next three years has been fairly and reasonably arrived at respectively.

(bb) Selling prices of “SYM” brand motorbikes

The Company expects the selling price of the “SYM” brand motorbikes for the year ending 31 December 2019, 2020 and 2021 to be similar to that for the year ended 31 December 2018 and continue to be stable throughout the three years ending 31 December 2021 and we believe such item has been fairly and reasonably arrived at.

In summary, the proposed Annual Caps for the year ending 31 December 2019, 2020 and 2021 is calculated based on the target sales quantity and the selling price of the “SYM” brand motorbikes under the Distribution Agreement. Given that each of the aforesaid items has been fairly and reasonably arrived at, we consider that the proposed Annual Caps have also been fairly and reasonably arrived at.

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## LETTER FROM ALTUS

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We noted that the proposed Annual Cap of US\$3,301,000 for the year ending 31 December 2019 increases by approximately 78.9% as compared to the actual transaction amount of approximately US\$1,845,350 for the ten months ended 31 October 2018. According to the Management, sales volume of approximately 1,734 units for the year ended 31 December 2016 was a normal level while there was a low sales volume of approximately 491 units for the year ended 31 December 2017 mainly due to the Group's strict credit control on export to Malaysia as mentioned in the paragraph headed "1.2 Operating results of the Group" in this letter. As the Group gradually relieves its credit control in 2018, the Group expects that the sales volume of "SYM" brand motorbikes will bounce back to the 2016 level. Given that the sales volume and transaction amount under the Distributorship Agreement up to 31 December 2018 (based on the confirmed sales figures up to the Latest Practicable Date) amounted to approximately 1,523 units and US\$2,637,616, we believe that the significant increase of approximately 78.9% is reasonable.

Shareholders should note that the proposed Annual Caps represent an estimate based on information currently available and that the actual utilisation and sufficiency of the proposed Annual Caps would depend on a number of factors, including but not limited to, the actual demand of the "SYM" brand motorbikes. The proposed Annual Caps have no direct relationship to, nor should be taken to have any direct bearing on, the Group's financial or potential financial performance.

### **2.3 Technology Licence Agreement**

On 26 November 2007, VMEP, a wholly-owned subsidiary of the Company, has entered into the Technology Licence Agreement with Sanyang. The Technology Licence Agreement will continue to be in force as long as Sanyang is a controlling shareholder of the Company and for a further period of 20 years after Sanyang ceases to be a controlling shareholder of the Company.

To assess the fairness and reasonableness of the terms of the Technology Licence Agreement, we have considered the following:

*a. Major terms and pricing*

We noted that in pursuant to the Technology Licence Agreement:

- (i) Sanyang grants to the Company an exclusive license to use Sanyang's property rights and technology within the Exclusive Territory to manufacture Sanyang motorbikes.

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## LETTER FROM ALTUS

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- (ii) The Company shall pay Sanyang a licence fee of 4% of the annual net selling price of products manufactured using such technology from Sanyang and sold by VMEP.
- (iii) The sum would be calculated in arrears once every 6 months, with a 60 days credit period from the last day of each 6 months period.

Having reviewed the invoices (i.e. referring to all the invoices issued during the two years ended 31 December 2017 and the six months ended 30 June 2018) in respect of the licence fee paid under the Technology Licence Agreement during the past two years ended 31 December 2017 and the six months ended 30 June 2018, the terms under the Technology Licence Agreement as mentioned had been complied with. There is no direct comparable to such 4.0% licence fee as the Group, being a non-wholly owned subsidiary of Sanyang Group, will not be able to use the technology, know-how, trade secrets and production information owned by other motorbikes manufacturers in connection with the Group's manufacture and sale of "SYM" brand motorbikes and related parts in the Exclusive Territory. In view of the Group's historical relationship with Sanyang Group, in particular, in relation to its reliance on certain technology and trademarks owned by Sanyang, and when the Group is implementing a strategy to diversify its product range as well as to enhance its competitiveness, we concur with the Directors that it is justifiable and essential for the Group to continue to carry on the transactions contemplated under the Technology Licence Agreement.

For the two years ended 31 December 2017 and the six months ended 30 June 2018, the licence fees paid to Sanyang Group amounted to approximately US\$0.3 million, US\$0.9 million and US\$0.6 million, representing approximately 0.2%, 1.0% and 1.3% of the Group's revenue during the corresponding year/period, respectively. If the Group is to establish its own technology team, the Management believes and we concur that it may take years to develop the technology, know-how, trade secrets and production information and the cost is expected to be substantially higher than the current level of 0.2% to 1.3% of the Group's revenue. Taking into account the historical gross profit margin of the Group for the two years ended 31 December 2017 were approximately 11.8% and 6.5%, respectively and the gross loss recorded for the six months ended 30 June 2018, any substantial increase in cost for technology development to be incurred by the Group may further erode the already thin profit margin or loss position of the Group.

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## LETTER FROM ALTUS

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In addition, we have considered whether the pricing mechanism adopted by the Company under the Technology Licence Agreement is in line with the market practice, we, based on our best endeavor and as far as we are aware, have identified transactions conducted by another company (“**Comparable Company**”) which is (i) listed on the Stock Exchange; (ii) principally engaged in the manufacturing and sales of automobiles and related parts; (iii) having similar pricing mechanism as that of the Company as set out above; and (iv) also constituted as continuing connected transactions with a duration of three years ending 31 December 2019, as set out below:

Qingling Motors Company Limited (“**Qingling**”, stock code 1122), as set out in the announcement of Qingling dated 22 December 2016, Isuzu Motors Limited (“**Isuzu**”, a substantial shareholder of Qingling) entered into the CYH Technology Licence Agreement (as defined in the announcement) with Qingling, whereby Isuzu will provide Qingling the technology and technical know-how, staff training and technical assistance and the licence to use the trademark and the emblem of Isuzu. Qingling will pay an initial fee and royalties in relation to the sales of “CYH” vehicles, which are calculated at percentage of the on-site added value of each vehicle set by reference to items not limited to the price of licensed engines. Similar to the aforesaid case, the Group entered into the Technology Agreement with Sanyang, whereby Sanyang grants to the Company an exclusive licence to use Sanyang’s property rights and technology with the Exclusive Territory to manufacture and sell “SYM” brand motorbikes and the Company shall pay Sanyang a licence fee equals to 4% of the annual net selling price of products manufactured using such technology from Sanyang and sold by VMEP. In view of the above, we consider the pricing mechanism adopted by the Company under the Technology Licence Agreement is in line with market practice for licencing arrangement.

We wish to clarify that there is only one Comparable Company being identified due to our strict selection criteria mentioned above. On the other hand, during 31 July 2018 to the Latest Practicable Date, within a period of four months, we, based on our best endeavor and as far as we are aware, have noted one company listed in the table below which we believe to be exhaustive, namely:

<b>Date of announcement</b>	<b>Name of company</b>	<b>Stock code</b>	<b>Pricing mechanism</b>
31 July 2018	DreamEast Group Limited	593	DreamEast Pictures charged DreamEast (Jiaxing), an indirect wholly-owned subsidiary of the company, an annual license fee of RMB2 million during the term of the agreement for the non-exclusive and non-transferable licence in the use of trademarks and copyrights owned by DreamEast Pictures.

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## LETTER FROM ALTUS

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which (i) is listed on the Stock Exchange; (ii) is principally engaged in the operation of tourist resorts and theme parks; (iii) had entered into licencing agreement, that involves intellectual property right including trademarks and copyrights, with connected person as defined in the Listing Rules; (iv) had different pricing mechanism as described above; and (v) also constituted as continuing connected transactions but with a of two years ending 31 December 2020 and seven months ending 31 July 2021. Taking into account the table above, we are of the view that the Comparable Company was selected on a fair and reasonable basis and the Technology Licence Agreement is in line with the market practice in general (in terms of the operational method or the settlement method or the duration) within a broader group of companies notwithstanding that there is only one Comparable Company being identified which has a similar pricing mechanism as well as in terms of the operating method and the settlement method.

Taking into account the above, the Directors believe and we concur that the transactions contemplated under the Technology Licence Agreement have been 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 are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

*b. Reasons for and benefits of the Technology Licence Agreement*

Sanyang owns the proprietary right to the technology, trade secrets and production information in connection with the manufacture and sales of “SYM” brand motorbikes and related parts. As the sales of “SYM” brand motorbikes contribute to a significant portion of to the Group’s revenue, the Directors consider the continued use of such technology and related intellectual property rights essential to the continued growth and operations of the Group.

Taking into account the reasons mentioned above and the terms of the Technology Licence Agreement (as mentioned in the paragraph headed “a. Major terms and pricing” above) are fair and reasonable, we concur with the Management that it is essential, fair and reasonable to continue to carry out transactions contemplated under the Technology Licence Agreement.

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## LETTER FROM ALTUS

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c. *Proposed Annual Caps*

(i) 2015 approved annual caps and historical transaction amount

Below is a table setting out the 2015 approved annual caps and the historical transaction amount for each of the year ended 31 December 2016 and 2017 and the ten months ended 31 October 2018.

	<b>Year ended 31 December</b>		<b>Ten months ended 31 October</b>
	<b>2016</b>	<b>2017</b>	<b>2018</b>
	<i>US\$</i>	<i>US\$</i>	<i>US\$</i>
2015 approved annual cap	4,410,000	4,970,000	5,680,000
Historical transaction amount	3,224,785	934,865	1,271,822
Utilisation percentage	73.1%	18.8%	26.9%
			(annualised)

As shown in the table above, the Group utilised approximately 73.1% and 18.8% of the 2015 approved annual caps for the two years ended 31 December 2016 and 2017 respectively. For the ten months ended 31 October 2018, the Group utilised approximately 26.9% (on an annualised basis) of the 2015 approved annual cap for the year ended 31 December 2018. It is noted that the transaction amount and utilisation rate had an overall decrease in 2017, which we understand from the Management was due to the decrease in sales volume as mentioned in the paragraph headed “1.2 Operating results of the Group” in this letter. The slight subsequent increase in utilisation was attributed to the new and modified motorbikes launched in the first half of 2018 and the improving sales in electric motorbikes as described in the paragraph headed “1.2 Operating results of the Group” above.

Since the historical utilisation rate is resulted from unexpected market forces (as described in the paragraph headed “2.1 c (i) 2015 approved annual caps and historical transaction amount” above), the Management believes and we concur that the relatively low utilisation rates of the 2015 approved annual caps have no bearing on the fairness and reasonableness of the basis in determining the then historical annual caps.

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## LETTER FROM ALTUS

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(ii) Proposed Annual Caps

	Year ending 31 December		
	2019	2020	2021
	US\$	US\$	US\$
Proposed Annual Cap	2,580,000	2,710,000	2,770,000
Year-on-year percentage of change		+5.04%	+2.21%

We noted that each of the proposed Annual Caps has been determined with the reference to (i) the historical transaction amounts; (ii) the projected sales volume of the products manufactured using Sanyang's technology; and (iii) the costs of sales of motorbikes taking into account the advertising and distribution costs, and the parts costs.

To consider the fairness and reasonableness of the proposed Annual Caps, we have taken into account the individual variables which may have an impact to the proposed Annual Caps:

(aa) Target sales quantity – Vietnam

Please refer to the description in the paragraph headed “2.1 c (ii) (aa) Target sales quantity – Vietnam” above.

(bb) Target sales quantity – ASEAN countries

Please refer to the description in the paragraph headed “2.1 c (ii) (bb) Target sales quantity – other ASEAN countries” above.

(cc) Cost of sales of the Group's motorbikes

In respect to the distribution costs including packaging and shipping fee, according to the Management, the distribution cost for domestic sales will be adjusted upwards because its internal production will be concentrated in one of the two local factories which is expected to increase the burden of the remaining factory to distribute products to further places, thus increasing the distribution costs from the remaining factory under operation. Also taking into account the constantly rising costs of raw materials purchased from Sanyang Group, the Management believes and we concur that such item has been fairly and reasonably arrived at.

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## LETTER FROM ALTUS

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We noted the proposed Annual Caps for the three years ending 31 December 2021 has a year-on-year percentage growth of approximately 5.04% and 2.21% respectively. The proposed Annual Caps for each of the year ending 31 December 2019, 2020 and 2021 is calculated by multiplying 4% (i.e. the licence fee) with the target sales quantity and with net selling price of each of those models. Although the distribution costs is estimated to increase, which in turn lower the net selling price of the motorbikes, such effect will be countered by the projected increase in the sales quantity of both Vietnam and other ASEAN countries. Given that each of the aforesaid items has been fairly and reasonably arrived at, we consider that the proposed Annual Caps have also been fairly and reasonably arrived at.

Shareholders should note that the proposed Annual Caps represent an estimate based on information currently available and that the actual utilisation and sufficiency of the proposed Annual Caps would depend on a number of factors, including but not limited to, the actual demand of the Group's motorbikes. The proposed Annual Caps have no direct relationship to, nor should be taken to have any direct bearing on, the Group's financial or potential financial performance.

### **3. Internal control measures regarding the Continuing Connected Transactions**

Having reviewed the terms in the regulations and procedures manual regarding the purchase and procurement of parts from Sanyang Group, the Group set out various conditions of price adjustments that are subject to approval, the parties who are entitled to make relevant decisions and the guidance on the financing of purchases. We noted that the Company has established internal control measures to ensure that the Continuing Connected Transactions are in accordance with the pricing policies and the terms of the relevant agreements, and that the purchase price of the relevant products and services from Sanyang Group are on normal commercial terms and on terms no less favourable than those terms offered to the Group by Independent Third Parties for similar products and/or services. The internal control measures employed by the Group are summarised and set out in the "Letter from the Board" of the Circular.

The Directors consider that such internal control procedures on pricing could effectively ensure that the pricing and terms of the transactions contemplated under the relevant agreements of the Continuing Connected Transactions are conducted on normal commercial terms and on terms no less favourable to the Group and in accordance with the pricing policy as agreed under the relevant agreements.

Pursuant to Rule 14A.55 of the Listing Rules, the independent non-executive Directors are required to review the Continuing Connected Transactions annually and confirm in the Company's annual report that they have been carried out (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms; and (iii) in accordance with the relevant agreements governing them on terms that are fair and reasonable and in the interests of the Company and the Shareholders as a whole.

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## LETTER FROM ALTUS

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In compliance with the Listing Rules, the Company had engaged auditors to report on the Continuing Connected Transactions for the two years ended 31 December 2017. The Company will continue to engage auditors to report on the Continuing Connected Transactions for the year ended 31 December 2018 and on the Continuing Connected Transactions for each of the three years ending 31 December 2021. Given the above, we consider that there exist appropriate procedures and arrangements to ensure that the Continuing Connected Transactions will be conducted on terms in compliance with the provisions of the Listing Rules.

### RECOMMENDATION

Having considered the above principal factors, we are of the view that (i) the terms and conditions of the Continuing Connected Transactions contemplated under the Master Purchase Agreement, the Distributorship Agreement and the Technology License Agreement are on normal commercial terms and are fair and reasonable; (ii) the respective Annual Caps have been fairly and reasonably arrived at; and (iii) the Continuing Connected Transactions contemplated under the Master Purchase Agreement, the Distributorship Agreement and the Technology License Agreement will be conducted in the ordinary and usual course of business of the Company and its subsidiaries and are in the interests of the Company and the Shareholders as a whole.

Accordingly, we recommend the Independent Shareholders, as well as the Independent Board Committee to advise the Independent Shareholders, to vote in favour of the resolutions approving the Continuing Connected Transactions contemplated under the Master Purchase Agreement, the Distributorship Agreement and the Technology License Agreement (including the respective Annual Caps) at the EGM.

Yours faithfully,  
For and on behalf of  
**Altus Capital Limited**  
**Jeanny Leung**  
*Executive Director*

*Ms. Jeanny Leung (“Ms. Leung”) is a Responsible Officer of Altus Capital Limited licensed to carry on Type 6 (advising on corporate finance) regulated activity under the SFO and permitted to undertake work as a sponsor. She is also a Responsible Officer of Altus Investments Limited licensed to carry on Type 1 (dealing in securities) regulated activity under the SFO. Ms. Leung has about 30 years of experience in corporate finance advisory and commercial field in Greater China, in particular, she has participated in sponsorship work for initial public offerings and acted as financial adviser or independent financial adviser in various corporate finance transactions.*

## 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, 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 Issuers (the “**Model Code**”) contained in Appendix 10 of the Listing Rules which is adopted by the Company were as follows:

Name of director	Name of corporation/ associated corporation	Nature of interest	Types of Shares/ underlying shares	Number of Shares held <sup>(1)</sup>	Approximate percentage of interest in the share capital <sup>(2)</sup>
Liu Wu Hsiung	Sanyang	Beneficial owner	Ordinary shares	111,380 (L)	0.013%
Lin Chih Ming	Sanyang	Beneficial owner	Ordinary shares	26,793 (L)	0.003%
Chiang Chin Yung	Sanyang	Beneficial owner	Ordinary shares	165,480 (L)	0.019%
Chiu Ying Feng	Sanyang	Beneficial owner	Ordinary shares	18,412 (L)	0.002%
Wu Li Chu	Sanyang	Beneficial owner	Ordinary shares	17,046,560 (L)	1.997%

Notes:

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

(2) The calculation is based on the total number of 853,595,604 shares of Sanyang in issue as at the Latest Practicable Date.

Save as disclosed above, so far as is known to the Directors, as at the Latest Practicable Date, none of the Directors or the chief executive of the Company had 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) Directors' positions in substantial shareholders**

As at the Latest Practicable Date, as disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO, (1) SYI was interested in 608,818,000 Shares of the Company, representing approximately 67.07% of the total number of Shares of the Company in issue; and (2) Sanyang, being the indirect sole shareholder of SYI, was deemed to be interested in the Shares held by SYI.

As at the Latest Practicable Date, Ms. Wu Li Chu is the deputy vice chairperson of Sanyang and she also served as the director of various subsidiaries of Sanyang. Mr. Chiu Ying Feng is the deputy vice president of Sanyang.

Save as disclosed above, as at the Latest Practicable Date, none of the Directors was a director or employee of a company which had an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Division 2 and 3 of Part XV of the SFO.

**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>
Altus Capital Limited (Independent Financial Adviser)	Altus Capital limited, a corporation licensed to carry on Type 4 (advising on securities), Type 6 (advising on corporate finance) and Type 9 (asset management) regulated activities under the SFO

As at the Latest Practicable Date, Altus did not have any shareholding in any member of the Group or any right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for securities in any member of the Group.

As at the Latest Practicable Date, Altus did not have any direct or indirect interest in any assets of the Group which had, since 31 December 2017, being the date to which the latest published audited financial statements of the Group were made up, been acquired or disposed of by or leased to any member of the Group, or were proposed to be acquired or disposed of by or leased to any member of the Group.

**5. CONSENT**

Altus 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**

As at the Latest Practicable Date, the Company is not aware of any material adverse change in the financial or trading position of the Group since 31 December 2017, 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 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 of the Directors had any interest, either directly or indirectly, in any assets which have been, since 31 December 2017, being the date to which the latest published audited financial statements of the Group 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 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 of any business days at the principal place of business in Hong Kong of the Company at 40th Floor, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong from the date of this circular to the date of the EGM (both days inclusive):

- (a) the Master Purchase Agreement;
- (b) the Distribution Agreement;
- (c) the Technology Licence Agreement;
- (d) the letter from the Independent Board Committee dated 10 January 2019, the text of which is set out on page 16 of this circular;
- (e) the letter from Altus, the text of which is set out on pages 17 to 48 of this circular; and
- (f) the consent letter from Altus referred to in the paragraph headed "Consent" in this Appendix.

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## NOTICE OF EXTRAORDINARY GENERAL MEETING

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# VMEPH Vietnam

## 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 (the “EGM”) of Vietnam Manufacturing and Export Processing (Holdings) Limited (the “Company”) will be held at Suite 2418, 24/F, Jardine House, 1 Connaught Place, Central, Hong Kong on Thursday, 21 February 2019 at 10:00 a.m. 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 12 November 2018 entered into between the Company and Sanyang Motor 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 2019, 2020 and 2021 be and are hereby approved, confirmed and ratified.”
2. “**THAT** the agreement (the “**Distribution Agreement**”) dated 12 November 2018 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 in the exclusive territory, the transactions contemplated thereunder and the proposed annual caps for each of the three years ending 31 December 2019, 2020 and 2021 be and are hereby approved, confirmed and ratified.”
3. “**THAT** the proposed annual caps for each of the three years ending 31 December 2019, 2020 and 2021 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  
Liu Wu Hsiung  
Chairman

Hong Kong, 10 January 2019

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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:*

40th Floor, Sunlight Tower  
No. 248 Queen's Road East  
Wanchai, 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 Monday, 18 February 2019 to Thursday, 21 February 2019 (both days inclusive) during which period no transfer of shares of the Company will be registered. In order to qualify for the attendance of the 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 Friday, 15 February 2019.
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 17M 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 (i.e. before 10:00 a.m. on Tuesday, 19 February 2019) 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 and in such event, the instrument appointing a proxy shall be deemed to be revoked.
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.