

Road to Success

INTERIM REPORT
2008



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)

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MANAGEMENT DISCUSSION & ANALYSIS

The Group is one of the leading manufacturers of scooter and cub motorbikes in Vietnam and currently ranks third amongst the principal foreign-owned motorbike manufacturers in terms of sales. The Group also produces motorbike engines and parts for internal use and for sale to overseas customers, and sells and provides services in respect of moulds for making die-cast and forged metal parts.

The Company completed an initial public offering of its shares and became a company listed on the main board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 20 December 2007.

BUSINESS AND FINANCIAL REVIEW

Despite the increase in the overall Consumer Price Index of Vietnam to a high level in the first half of 2008, the Vietnamese motorbike market reported a double-digit percentage growth. Under the macro-economic inflation, the Group achieved a satisfactory result by the persistent improvement in its operations and stringent control over its costs. Profit attributable to equity holders of the Company increased by 18% to US\$16.5 million for the six months ended 30 June 2008 as compared with US\$14.0 million for the corresponding period in the immediately preceding financial year.

REVENUE

Revenue of the Group for the six months ended 30 June 2008 increased by US\$19.3 million or 17%, to US\$134.3 million from US\$115.0 million for the corresponding period in the immediately preceding financial year. All the business segments of the Group demonstrated robust growth trends. In particular, domestic sales quantities of scooters increased by 27% for the six months ended 30 June 2008 as compared with the corresponding period in the immediately preceding financial year, while overall sales quantities increased by 11% for the same comparative period. The increase in revenue was mainly attributable to the increase in sales volume of scooters, in particular the Attila series.

COST OF SALES

The Group's cost of sales increased by 12%, from US\$87.3 million for the corresponding period in the immediately preceding financial year to US\$98.2 million for the six months ended 30 June 2008. This increase was primarily due to higher sales volumes, but was partly offset by stringent control over costs through increasing local components usage and persistent product cost enhancements. As a percentage of total revenue, the Group's cost of sales decreased from 76% for the corresponding period in the immediately preceding financial year to 73% in the six months ended 30 June 2008.

GROSS PROFIT AND GROSS PROFIT MARGIN

As a result of the factors discussed above, the gross profit of the Group increased by 30%, from US\$27.7 million for the same period last year to US\$36.1 million for the six months ended 30 June 2008. During the comparative period and the six months ended 30 June 2008, the Group's gross profit margin increased from 24% to 27%, mainly due to the contribution from sales of higher margin scooters as compared to cubs with relatively low margins.

DISTRIBUTION EXPENSES

The Group's distribution expenses increased by 10%, from US\$7.7 million for the corresponding period in the immediately preceding financial year to US\$8.5 million for the six months ended 30 June 2008. This increase was largely due to : (i) an increase in advertising and marketing fees for enhancement of brand image; and (ii) higher sales incentives and supporting fees to distributors to organize marketing activities and the renovation of flagship stores.

TECHNOLOGY TRANSFER FEES

The technology transfer fees increased by 32%, from US\$2.5 million for the corresponding period in the immediately preceding financial year to US\$3.3 million for the six months ended 30 June 2008. This rise was largely the result of an increase in the sales volume of SYM-branded motorbikes and related parts.

ADMINISTRATIVE EXPENSES

The Group's administrative expenses increased by 62%, from US\$4.6 million for the corresponding period in the immediately preceding financial year to US\$7.4 million for the six months ended 30 June 2008, principally as a consequence of an increase in : (i) salary expenses in connection with a surge in staff costs in the market; (ii) equity settled share-based payment expenses attributable to the valuation of granted share options; and (iii) withholding taxes in connection with the technology transfer fees. For the six months ended 30 June 2008, administrative expenses as a percentage of revenue was 6%.

PROFIT FROM OPERATING ACTIVITIES

As a result of the factors discussed above, the Group's profit from operating activities increased by 31%, from US\$13.2 million for the corresponding period in the immediately preceding financial year to US\$17.3 million for the six months ended 30 June 2008.

NET FINANCE INCOME

The Group's net finance income decreased by 30%, from US\$2.3 million for the corresponding period in the immediately preceding financial year to US\$1.6 million for the six months ended 30 June 2008. This decrease was mainly attributable to an increase in exchange losses for the six months ended 30 June 2008 compared with the corresponding period in the immediately preceding financial year as the exchange rate of the Vietnam Dong against the US dollar has been decreasing during the period. However, this was partly offset by an increase in interest income and a decrease in interest expenses.

PROFIT FOR THE PERIOD AND PROFIT MARGIN

As a result of the factors discussed above, the Group's profit for the period, after income tax, increased by 18%, from US\$14.0 million for the corresponding period in the immediately preceding financial year to US\$16.5 million for the six months ended 30 June 2008, and the Group's net profit margin was maintained at 12.2% for both periods.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2008, the Group's net current assets was approximately US\$138.8 million (31 December 2007: US\$145.5 million) which consisted of current assets amounting to approximately US\$209.8 million (31 December 2007: US\$208.2 million) and current liabilities amounting to approximately US\$71.0 million (31 December 2007: US\$62.6 million).

As at 30 June 2008, the interest-bearing borrowings repayable within one year was approximately US\$34.7 million, of which approximately US\$14.8 million was denominated in US\$ and approximately US\$19.9 million was originally denominated in HK\$ (31 December 2007: US\$13.4 million which was denominated in US\$). As at 30 June 2008, the Group had interest-bearing borrowings repayable beyond one year amounting to US\$0.06 million which was denominated in US\$ (31 December 2007: US\$0.07 million which was denominated in US\$). As at 30 June 2008, the gearing ratio was 18.9% (31 December 2007: 7.1%) calculated by dividing total interest-bearing borrowings by total equity.

As at 30 June 2008, the cash and bank balances (including pledged bank deposits), amounted to approximately US\$89.1 million, including approximately US\$66.2 million which was originally denominated in Vietnam Dong, approximately US\$16.6 million which was denominated in US\$ and approximately US\$6.3 million which was originally denominated in NTD. (31 December 2007: US\$148.8 million, including approximately US\$63.0 million which was originally denominated in Vietnam Dong, approximately US\$81.0 million which was denominated in US\$ and approximately US\$4.8 million which was originally denominated in NTD).

As at 30 June 2008, the Group had placed with a reputable financial institution available-for-sale financial assets amounting to US\$68.1 million (31 December 2007: US\$Nil) which were denominated in US\$. These financial assets are in respect of Assets Backed Securities ("ABS") predominantly with a credit rating of AAA and are not credit-impaired. Due to the deterioration of the debt capital market in the United States, the liquidity of the market for the ABS began to fall in the beginning of 2008. The Group has recognized a loss of US\$1.3 million in the equity account on change of fair value of these ABS in respect of temporarily impaired market situations. However, the Group was recently informed by the financial institution that it has reached a resolution with the securities regulators of the United States to buyback ABS from its clients by January 2009. The board of directors of the Company (the "Board") is of the opinion that the ABS does not have a material adverse impact on its liquidity and consolidated financial performance.

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

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES

Details of the Group's exposure to fluctuations in exchange rates and related hedges are included in note 21(c) to the unaudited interim financial report.

CAPITAL COMMITMENTS AND CONTINGENT LIABILITIES

As at 30 June 2008, the capital commitments of the Group were approximately US\$12.3 million (31 December 2007: US\$13.2 million), which will all be paid off using the net proceeds from the initial public offering of the shares of the Company and cash generated from the Group's operations within 3 years. Save for the above, the Group had no significant contingent liabilities.

PLEDGE OF ASSETS

As at 30 June 2008, cash at bank amounting to approximately US\$34.4 million (31 December 2007: US\$9.8 million) was pledged with banks as security for certain banking facilities.

HUMAN RESOURCES AND REMUNERATION POLICIES

The Group offers competitive remuneration packages to its employees in Vietnam, Taiwan and Hong Kong, including bonuses, share option schemes, quality staff quarters, training and development opportunities, medical benefits, insurance coverage and retirement benefits in order to attract, retain and motivate employees. As at 30 June 2008, the Group had 2,161 employees (as at 30 June 2007: 1,799). The total salaries and related cost for the six months ended 30 June 2008 amounted to approximately US\$6.6 million (six months ended 30 June 2007: US\$4.2 million).

CHANGES SINCE 31 DECEMBER 2007

Save as disclosed in this report, since 31 December 2007, there were no other significant changes in the Group's financial position and there were no other significant changes in relation to the information disclosed under the section headed, "Management Discussion and Analysis", in the annual report of the Company for the year ended 31 December 2007.

PROSPECTS

Looking forward ahead to the second half of 2008, the inflation pressure and macro-economic environment of Vietnam will continue to affect the Group's business environment. However, the steady growth of spending power and living standards of Vietnamese will boost the domestic demand for motorbikes.

The Group will aim at consolidating its leading position in the motorbike manufacturing industry and strengthening its business growth. In order to achieve this goal, the Group

will continue to increase its investment in research and development, improve cost control, expand the distribution network in both Vietnam and overseas and consolidate its brand image to enhance the value of its products.

The management of the Group is confident that its business will continue to grow in the foreseeable future and generate good returns to the shareholders (the “Shareholders”) of the Company.

ADDITIONAL INFORMATION

SHARE OPTION SCHEMES

Pursuant to the written resolutions of the Shareholders passed on 24 November 2007, the Board, at its discretion, may grant options to any directors, executives, employees and any other persons who have contributed or will contribute to the Group.

During the six months ended 30 June 2008, share options were granted to eligible full-time employees and qualified participants pursuant to the terms of the Share Option Scheme. Details of such grant of share options are as follows:

	Number of share options				Outstanding at 30 June 2008
	Outstanding at 1 January 2008	Granted during the period	Exercised during the period	Lapsed during the period	
<i>Directors:</i>					
Mr. Chang Kwang Hsiung	–	498,000	–	–	498,000
Mr. Chen Pang Hsiung	–	498,000	–	–	498,000
Mr. Lee Hsi Chun	–	398,000	–	–	398,000
Mr. Wang Ching Tung	–	398,000	–	–	398,000
Mr. Huang Kwang Wu	–	498,000	–	–	498,000
Mr. Liu Wu Hsiung Harrison	–	413,000	–	–	413,000
	–	2,703,000	–	–	2,703,000
Employees	–	9,280,000	–	(524,000)	8,756,000
Sub-total	–	11,983,000	–	(524,000)	11,459,000
Other qualified participants	–	8,017,000	–	(49,000)	7,968,000
Total	–	20,000,000	–	(573,000)	19,427,000

The share options to subscribe for 20,000,000 shares of the Company in aggregate were granted on 4 February 2008. The fair value of options granted is approximately at an average of HK\$0.88 per share on the basis of the binominal model. The significant inputs into the model were the closing price of the shares of the Company at the date of grant of HK\$2.9 per share, annual risk-free interest rate of approximately 2.6%, an expected option life of approximately five years, expected volatility of 55% and an annual dividend yield of 7%. The amortised fair value of the share options for the six months ended 30 June 2008 amounting to approximately US\$717,903 (2007: Nil) was charged to the income statement.

The options are exercisable from 4 August 2008 to 3 August 2013 (both days inclusive) up to 100% of the options at an exercise price of HK\$2.9 per share. The closing price of the share of the Company immediately before the date of grant was HK\$2.9 per share.

DIRECTORS' INTERESTS IN SHARES

As at 30 June 2008, save as disclosed in the section headed, "Share Option Schemes" above, none of the directors of the Company had registered an interest or short position in the shares of the Company or any of its associated corporations within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO") that was (i) required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including a requirement of the SFO in respect of directors, chief executive officers or senior management who have interests or short positions); and (ii) required to be registered pursuant to Section 352 of the SFO or 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.

DIRECTORS' RIGHTS TO ACQUIRE SHARES

At no time during the six months ended 30 June 2008 were rights to acquire benefits by means of the acquisition of shares in the Company granted to any directors of the Company or their respective spouses or minor children, or were such rights exercised by them, or was the Company, or any of its holding companies, subsidiaries or fellow subsidiaries a party to any arrangement to enable the directors of the Company to acquire such rights in any other body corporate.

SUBSTANTIAL SHAREHOLDERS' INTERESTS IN THE SHARE CAPITAL OF THE COMPANY

As far as the directors of the Company are aware, as at 30 June 2008, the following persons (who are not directors of the Company) had interests or short positions in the shares of the Company or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under Section 336 of the SFO:

Name	Nature of interest	Number and class of securities	Approximate percentage of interest in the Company
SY International Ltd ("SYI") (Note 1)	Corporate interest	629,520,000 Shares	69.4%
Sanyang Industry Co., Ltd ("Sanyang") (Note 1)	Interest in a controlled corporation	629,520,000 Shares	69.4%
Indopark Holdings Limited ("Indopark") (Note 2)	Corporate interest	51,240,000 Shares	5.7%
Merrill Lynch L.P. Holdings Inc. (Note 2)	Interest in a controlled corporation	51,240,000 Shares	5.7%
Merrill Lynch Group, Inc. (Note 2)	Interest in a controlled corporation	51,240,000 Shares	5.7%
Merrill Lynch & Co., Inc. (Note 2)	Interest in a controlled corporation	51,240,000 Shares	5.7%

Notes:

- (1) SYI is a direct wholly-owned subsidiary of Sanyang and therefore, Sanyang is deemed or taken to be interested in the shares of the Company held by SYI for the purposes of the SFO.
- (2) Indopark is a direct wholly-owned subsidiary of Merrill Lynch L.P. Holdings Inc., which is a direct wholly-owned subsidiary of Merrill Lynch Group, Inc., which is a direct wholly-owned subsidiary of Merrill Lynch & Co., Inc., and therefore, each of Merrill Lynch L.P. Holdings Inc., Merrill Lynch Group, Inc. and Merrill Lynch & Co., Inc. is deemed or taken to be interested in the Shares held by Indopark for the purposes of the SFO.

Save as disclosed above, as at 30 June 2008, the Company had not been notified by any persons (other than the directors or chief executives of the Company) who had interests or short positions in the shares or underlying shares of the Company which would be required to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register required to be kept by the Company under section 336 of the SFO.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES AND ASSOCIATED COMPANIES

During the six months ended 30 June 2008, the Group had no material acquisition or disposal of subsidiaries and associated companies, except for the acquisition of the remaining 30% minority equity interests in C.Q.S. Molds Inc. for a consideration of US\$465,000.

CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors of the Company, having considered amongst others, the findings of reviews and/or audits conducted by the independent professional parties, the Company has applied the principles and complied with all the applicable code provisions as set out in the Code on Corporate Governance Practices (the “Code”) as set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”) for the six months ended 30 June 2008.

COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “Model Code”) as set out in Appendix 10 to the Listing Rules as the code of conduct in respect of transactions in securities of the Company by the directors of the Company. Having made specific enquiry, the Company confirms that the directors of the Company have complied with the required standard set out in the Model Code for the six months ended 30 June 2008.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

For the six months ended 30 June 2008, there was no purchase, sale or redemption made by the Company, or any of its subsidiaries, of the shares of the Company.

REVIEW OF INTERIM RESULTS BY AUDIT COMMITTEE

The interim results for the six months ended 30 June 2008 have been reviewed by the audit committee of the Company which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure has been made.

INTERIM DIVIDEND

The Board has resolved not to recommend the payment of an interim dividend for the six months ended 30 June 2008. Accordingly, no closure of the Register of Members of the Company is proposed.

OUR APPRECIATION

Finally, we would like to express our gratitude to the Shareholders, suppliers and customers for their unfaltering support. We would also like to thank our dedicated staff for their contributions to the success of the Group.

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

Hong Kong, 20 August 2008

As at the date of this report, the directors of the Company comprised four executive directors, namely Mr. Chang Kwang Hsiung, Mr. Chen Pang Hsiung, Mr. Lee Hsi Chun and Mr. Wang Ching Tung, two non-executive directors, namely Mr. Huang Kwang Wuu and Mr. Liu Wu Hsiung Harrison, and three independent non-executive directors, namely Mr. Hsu Nai Cheng Simon, Ms. Lin Ching Ching and Mr. Wei Sheng Huang.



INDEPENDENT REVIEW REPORT TO THE BOARD OF DIRECTORS OF VIETNAM MANUFACTURING AND EXPORT PROCESSING (HOLDINGS) LIMITED FOR THE SIX MONTHS ENDED 30 JUNE 2008

(Incorporated in the Cayman Islands with limited liability)

INTRODUCTION

We have reviewed the interim financial report set out on pages 12 to 40 which comprises the consolidated balance sheet of Vietnam Manufacturing and Export Processing (Holdings) Limited (“the Company”) and its subsidiaries (hereinafter collectively referred to “the Group”) as of 30 June 2008, and the related consolidated income statement, consolidated statement of changes in equity and condensed consolidated cash flow statement for the six months then ended and explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 “Interim Financial Reporting” issued by the International Accounting Standards Board. The directors are responsible for the preparation and presentation of the interim financial report in accordance with International Accounting Standard 34.

Our responsibility is to form a conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants. A review of the interim financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the interim financial report for the six months ended 30 June 2008 is not prepared, in all material respects, in accordance with International Accounting Standard 34 “Interim financial reporting”.

KPMG

Certified Public Accountants
8th Floor, Prince’s Building
10 Chater Road
Central, Hong Kong

20 August 2008

CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2008

		Six months ended 30 June	
	Note	2008 (Unaudited) US\$	2007 (Audited) US\$
Revenue	6	134,275,121	114,964,647
Cost of sales		(98,160,365)	(87,288,531)
Gross profit		36,114,756	27,676,116
Other income		359,817	274,385
Distribution expenses		(8,462,129)	(7,691,823)
Technology transfer fees	19(a)	(3,334,871)	(2,530,870)
Administrative expenses		(7,396,652)	(4,560,210)
Other expenses		(18,201)	(10,034)
Results from operating activities		17,262,720	13,157,564
Finance income		5,223,460	2,939,208
Finance expenses		(3,629,291)	(662,449)
Net finance income	7(a)	1,594,169	2,276,759
Share of profits of an equity accounted investee		64,605	53,192
Profit before income tax	7	18,921,494	15,487,515
Income tax expense	8	(2,423,039)	(1,484,148)
Profit for the period		16,498,455	14,003,367
Attributable to:			
Equity holders of the Company		16,462,398	13,995,715
Minority interests		36,057	7,652
Profit for the period		16,498,455	14,003,367
Dividend payable to equity holders of the Company			
Interim dividend proposed after the balance sheet date	9(a)	–	33,000,000
Earnings per share			
– basic	10	0.018	0.019
– diluted	10	0.018	N/A

The notes on pages 17 to 40 form part of the interim financial report.

CONSOLIDATED BALANCE SHEET

At 30 June 2008

	Note	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Assets			
Property, plant and equipment	11	40,330,626	39,470,807
Intangible assets		258,432	413,889
Lease prepayments		3,291,551	3,536,911
Investment in an equity accounted investee		858,544	793,939
Other non-current assets		–	62,510
Deferred tax assets		291,510	303,582
Total non-current assets		45,030,663	44,581,638
Inventories		36,337,925	40,838,363
Trade receivables, other receivables and prepayments	12	17,523,161	18,566,475
Income tax recoverable		–	3,573
Available-for-sale financial assets	13	66,774,076	–
Pledged bank deposits	14	34,387,473	9,822,323
Time deposits maturing after three months		6,550,825	13,243,810
Cash and cash equivalents		48,179,564	125,696,749
Total current assets		209,753,024	208,171,293
Total assets		254,783,687	252,752,931
Liabilities			
Trade and other payables	15	33,200,984	45,919,905
Interest-bearing borrowings	16	34,708,700	13,425,523
Income tax payables		1,162,669	1,355,736
Provisions		1,900,683	1,946,683
Total current liabilities		70,973,036	62,647,847
Net current assets		138,779,988	145,523,446
Total assets less current liabilities		183,810,651	190,105,084
Interest-bearing borrowings	16	57,465	70,226
Total non-current liabilities		57,465	70,226
Net assets		183,753,186	190,034,858

CONSOLIDATED BALANCE SHEET (Continued)

At 30 June 2008

	Note	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Equity			
Paid-in capital		1,162,872	1,162,872
Reserves		<u>182,590,314</u>	<u>188,405,996</u>
Total equity attributable to equity holders of the Company		183,753,186	189,568,868
Minority interests		<u>–</u>	<u>465,990</u>
Total equity		<u>183,753,186</u>	<u>190,034,858</u>
Total liabilities and equity		<u>254,783,687</u>	<u>252,752,931</u>

Approved and authorised for issue by the Board of Directors on 20 August 2008

Director

Director

CHEN PANG HSIUNG

LEE HSI CHUN

The notes on pages 17 to 40 form part of the interim financial report.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2008

	Audited								
	Available-								
	Paid-in capital US\$	Share premium US\$	Capital reserve US\$	Exchange reserve US\$	for-sale reserve US\$	Retained profits US\$	Total US\$	Minority interests US\$	Total equity US\$
At 1 January 2007	58,560,000	–	–	(880,913)	–	65,120,184	122,799,271	421,765	123,221,036
Profit for the period	–	–	–	–	–	13,995,715	13,995,715	7,652	14,003,367
Dividends (Note 9(b))	–	–	–	–	–	(6,000,000)	(6,000,000)	–	(6,000,000)
Exchange difference	–	–	–	(243,240)	–	–	(243,240)	–	(243,240)
At 30 June 2007	<u>58,560,000</u>	<u>–</u>	<u>–</u>	<u>(1,124,153)</u>	<u>–</u>	<u>73,115,899</u>	<u>130,551,746</u>	<u>429,417</u>	<u>130,981,163</u>
	Unaudited								
	Available-								
	Paid-in capital US\$	Share premium US\$	Capital reserve US\$ (Note 17(a))	Exchange reserve US\$	for-sale reserve US\$ (Note 17(b))	Retained profits US\$	Total US\$	Minority interests US\$	Total equity US\$
At 1 January 2008	1,162,872	131,981,478	–	(694,910)	–	57,119,428	189,568,868	465,990	190,034,858
Profit for the period	–	–	–	–	–	16,462,398	16,462,398	36,057	16,498,455
Dividends (Note 9(b))	–	(19,782,769)	–	–	–	–	(19,782,769)	–	(19,782,769)
Equity settled									
share-based payment	–	–	717,903	–	–	–	717,903	–	717,903
Available-for-sale									
financial assets									
– change in fair value	–	–	–	–	(1,362,000)	–	(1,362,000)	–	(1,362,000)
Acquisition of minority									
interests (Note 17(c))	–	–	–	–	–	37,047	37,047	(502,047)	(465,000)
Exchange difference	–	–	–	(1,888,261)	–	–	(1,888,261)	–	(1,888,261)
At 30 June 2008	<u>1,162,872</u>	<u>112,198,709</u>	<u>717,903</u>	<u>(2,583,171)</u>	<u>(1,362,000)</u>	<u>73,618,873</u>	<u>183,753,186</u>	<u>–</u>	<u>183,753,186</u>

The notes on pages 17 to 40 form part of the interim financial report.

CONDENSED CONSOLIDATED CASH FLOW STATEMENT*For the six months ended 30 June 2008*

	Six months ended 30 June	
	2008 (Unaudited) US\$	2007 (Audited) US\$
Cash generated from operations	11,003,618	4,856,450
Corporate income tax paid	<u>(2,600,462)</u>	<u>(1,252,636)</u>
Net cash from operating activities	8,403,156	3,603,814
Net cash (used in)/from investing activities*	(62,842,838)	3,831,969
Net cash used in financing activities	<u>(23,077,503)</u>	<u>(7,879,456)</u>
Net decrease in cash and cash equivalents	(77,517,185)	(443,673)
Cash and cash equivalents at beginning of the period	<u>125,696,749</u>	<u>47,434,924</u>
Cash and cash equivalents at the end of the period	48,179,564	<u>46,991,251</u>

* *Included in net cash used in investing activities for the six months ended 30 June 2008 are an acquisition and a disposal of available-for-sale financial assets of United State Dollar ("US\$") 73,000,000 and US\$4,900,000, respectively.*

The notes on pages 17 to 40 form part of the interim financial report.

NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

1. REORGANISATION

Vietnam Manufacturing and Export Processing (Holdings) Limited (the “Company”) was incorporated in the Cayman Islands on 20 June 2005 as an exempted company with limited liability under the Companies Law, Chapter 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The Company and its subsidiaries (collectively, the “Group”) are principally engaged in manufacture and sales of motorbikes, related spare parts and engines and provision of motorbike maintenance services.

2. BASIS OF PREPARATION

The Company has a financial year end date of 31 December. The interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standard (“IAS”) 34 “Interim Financial Reporting” issued by the International Accounting Standards Board (“IASB”).

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2007 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for a full set of financial statements prepared in accordance with International Financial Reporting Standards (“IFRSs”). The interim financial report has been prepared under the historical cost convention, as modified by the revaluation of available-for-sale assets.

The interim financial report for the six months ended 30 June 2008 is unaudited, but has been reviewed by the audit committee of the Company and approved for issue by the board of directors on 20 August 2008. The interim financial report has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, “Review of interim financial information performed by the independent auditor of the entity” issued by the Hong Kong Institute of Certified Public Accountants. KPMG’s review report to the Board of Directors is included on page 11.

3. SIGNIFICANT ACCOUNTING POLICIES

The interim financial report has been prepared on the same accounting policies adopted in the 2007 annual financial statement and should be read in conjunction with the 2007 annual financial statements.

In the current interim period, the Group has adopted the following accounting policies in respect of share-based payment transactions, available-for-sale financial assets and transactions with minority interests:

(a) Share-based payment transactions

The fair value of share options granted to qualified participants is recognised as an administrative expense with a corresponding increase in the capital reserve within equity. The fair value is measured at grant date using the binomial option pricing models, taking

into account the terms and conditions upon which the options were granted. Where the qualified participants have to meet vesting conditions before becoming unconditionally entitled to the share options, the total estimated fair value of the share options is spread over the vesting period, taking into account the probability that the options will vest.

During the vesting period, the number of share options that is expected to vest is reviewed. Any adjustment to the cumulative fair value recognised in prior years is charged/credited to profit or loss for the year of the review, unless the original expenses qualify for recognition as an asset, with a corresponding adjustment to the capital reserve. On the vesting date, the amount recognised as an expense is adjusted to reflect the actual number of share options that vest (with a corresponding adjustment to the capital reserve) except where forfeiture is only due to not achieving vesting conditions that relate to the market price of the Company's shares. The equity amount is recognised in the capital reserve until either the option is exercised (when it is transferred to the share premium account) or the option expires (when it is released directly to retained profits).

(b) Available-for-sale financial assets

Available-for-sale financial assets are those non-derivative financial assets intended to be held for an indefinite period of time, which may be sold in response to liquidity requirements or changes in interest rates.

Initial recognition

Purchases and sales of available-for-sale financial assets are initially recognised on trade-date (the date on which the Group commits to purchase or sell the asset). Available-for-sale financial assets are initially recognised at fair value plus, in the case of a financial asset or financial liability not at fair value through profit or loss, directly attributable transaction costs.

Subsequent measurement

Available-for-sale financial assets are subsequently carried at fair value. The Group establishes fair value by using valuation techniques that provide reliable estimates of prices which could be obtained in actual market transactions. These include reference to recent arm's length transactions and the market condition.

Income recognition

The interest income arising from available-for-sale financial assets is recognised in the income statement using the effective interest method.

Gains and losses arising from changes in the fair value of available-for-sale financial assets, other than foreign exchange gains and losses from monetary items, are recognised directly in equity, until the financial asset is derecognised or impaired at which time the cumulative gain or loss previously recognised in equity is recognised in profit or loss.

Impairment

A significant or prolonged decline in the fair value of an available-for-sale financial asset below its cost is considered, amongst other indicators of impairment, in determining whether an asset is impaired. If any such evidence exists, the cumulative loss (measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement) is removed from equity and recognised in the income statement. If, in a subsequent period, the fair value of available-for-sale financial assets increases and the increase can be objectively related to an event occurring after the impairment loss was recognised, the impairment loss is reversed through the income statement.

(c) Transactions with minority interests

Transactions with minority equity holders are at book value and classified as equity transactions. Accordingly, when the Group acquires minority interests of its subsidiaries, the differences between the amounts of consideration and carrying value of minority interests are recognised as reserve movement.

4. ACCOUNTING ESTIMATE AND JUDGEMENTS

The preparation of the interim financial report requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised and in any future periods affected.

In preparing the interim financial report, in addition to the Note 18 which contains information about assumptions relating to fair value of share options granted and Note 13 which contains information about the management judgement relating the impairment of available-for-sale financial assets, the significant judgement made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to and are disclosed in the 2007 annual financial statements.

5. DETERMINATION OF FAIR VALUE

Grant date fair value of qualified participants' shares

The grant date fair value of qualified participants' shares are measured at the estimated market price, which was determined based on a valuation analysis performed by an independent valuer based on various generally accepted valuation methodologies.

6. REVENUE AND SEGMENT REPORTING

Business segments

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The principal activities of the Group are those relating to manufacture and sales of motorbikes, related spare parts and engines and provision of motorbike maintenance services. Revenue excludes value added taxes and sales rebates.

	Six months ended 30 June 2008 (Unaudited)				
	Manufacture and sales of motorbikes	Manufacture and sales of spare parts and engines	Moulds and repair services	Inter-segment elimination	Group
	US\$	US\$	US\$	US\$	US\$
Revenue from external customers	118,638,380	15,465,609	171,132	–	134,275,121
Inter-segment revenue	–	45,005,282	781,326	(45,786,608)	–
Total revenue	118,638,380	60,470,891	952,458	(45,786,608)	134,275,121
Segment result	18,322,698	8,125,842	149,097	(6,861,912)	19,735,725
Unallocated expense					(2,473,005)
Results from operating activities					17,262,720
	Six months ended 30 June 2007 (Audited)				
	Manufacture and sales of motorbikes	Manufacture and sales of spare parts and engines	Moulds and repair services	Inter-segment elimination	Group
	US\$	US\$	US\$	US\$	US\$
Revenue from external customers	102,996,167	11,693,312	275,168	–	114,964,647
Inter-segment revenue	–	41,601,415	368,856	(41,970,271)	–
Total revenue	102,996,167	53,294,727	644,024	(41,970,271)	114,964,647
Segment result	12,756,307	5,869,600	26,288	(5,492,780)	13,159,415
Unallocated expense					(1,851)
Results from operating activities					13,157,564

7. PROFIT BEFORE INCOME TAX

The following items have been included in arriving at profit before income tax:

(a) Finance income and expense

	Six months ended 30 June	
	2008 (Unaudited) US\$	2007 (Audited) US\$
Interest income from banks	3,769,398	2,939,208
Interest income from available-for-sale financial assets	1,454,062	–
Finance income	5,223,460	2,939,208
Interest paid and payable to banks	(345,983)	(415,663)
Net foreign exchange losses	(3,283,308)	(246,786)
Finance expense	(3,629,291)	(662,449)
Net finance income	1,594,169	2,276,759

(b) Staff cost

	Six months ended 30 June	
	2008 (Unaudited) US\$	2007 (Audited) US\$
Wages and salaries	4,314,975	2,337,029
Staff welfare	1,288,897	1,552,685
Equity settled share-based payment expenses	430,132	–
Contributions to defined contribution plan	282,009	179,982
Severance allowance	268,521	153,558
Total	6,584,534	4,223,254

(c) Other items

	Six months ended 30 June	
	2008 (Unaudited) US\$	2007 (Audited) US\$
Amortisation of lease prepayments/intangible assets	265,072	261,299
Depreciation of property, plant and equipment	3,452,188	4,031,410
Equity settled share-based payment expenses	717,903	–
(Gain)/Loss on disposal of property, plant and equipment (net)	(2,374)	6,024
Research and development expenses	3,480,764	2,254,837
Write down of inventories	–	383,739

8. INCOME TAX EXPENSE**Recognised in the income statement**

	Six months ended 30 June	
	2008 (Unaudited) US\$	2007 (Audited) US\$
Current tax expenses		
– current tax	2,160,919	1,501,826
– under provision in prior period	250,048	33,453
Deferred tax expense		
– origination and reversal of temporary differences	12,072	(51,131)
	2,423,039	1,484,148

No provision for Hong Kong Profits Tax has been made, as the Group did not earn any income subject to Hong Kong Profits Tax for the six months ended 30 June 2008 and 2007.

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

In accordance with the Law of Foreign Investment of 1987, as amended in 1990 and 1992 in Vietnam, provision for corporate income tax (“CIT”) for Vietnam Manufacturing and Export Processing Co., Limited (“VMEP”) is calculated at 18% of the profits from manufacturing and sales of motorbikes, spare parts and services rendered. Although the applicable tax rate for profits from assembling and sales of engines is 10%, pursuant to the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, such business is entitled to a tax holiday of a tax free period for 8 years from 2001 to 2008.

In 2005, VMEP obtained a license for truck business from local government authorities. As VMEP has not commenced the truck business since obtaining its business license, there were no profits/losses arising from this business during the years ended 31 December 2006, 2007 and the six months ended 30 June 2008. Profits from assembly and production of trucks, engines, components and spare parts for trucks are subject to corporate income tax at 15% for 12 years from the commencement of such activities and 28% for subsequent years. In addition, VMEP is entitled to a tax holiday on profits from such activities of a tax-free period for 3 years from the first profit making year and a 50% reduction of the applicable income tax rate for the following 7 years.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000 in Vietnam, the applicable CIT rate for Vietnam Casting Forge Precision Limited (“VCFP”) is 15%. VCFP is entitled to a tax holiday of a tax-free period for 3 years from 2003 to 2005. Thereafter, it is subject to CIT at 50% of the applicable income tax rate for the following 7 years.

In accordance with the Law of Foreign Investment of 1996, as amended in 2000, the Investment Law of 2006, and the Law on Corporate Income Tax of 2003 in Vietnam, the applicable tax rate for C.Q.S. Molds Inc. (“C.Q.S.”) is 15% for the first 5 years starting from the first year of operation, 20% for the next 6 years (2007 to 2012) and 28% for subsequent years. C.Q.S. is entitled to a tax holiday of a tax-free period for 2 years from 2004 to 2005 and is subject to CIT at 50% of the applicable income tax rate for 2006.

The Law of Foreign Investment of 1987, as amended in 1990 and 1992, and the Law of Foreign Investment of 1996, as amended in 2000, has been repealed, however VMEP, VCFP and C.Q.S. are entitled to retain the tax incentives by virtue of the provisions on protection of foreign investments under the Investment Law of 2006.

In accordance with the Corporate Income Tax Law of Taiwan, the applicable tax rate for Chin Zong Trading Co., Ltd. ("Chin Zong") is 15% for the amount of net profit below New Taiwan Dollar ("NTD") 100,000, and 25% for the amount of net profit at or above NTD100,000.

9. DIVIDEND

(a) Dividends payable to equity holders of the Company attributable to the interim period

	2008 (Unaudited) US\$	2007 (Audited) US\$
Interim dividend declared and paid of US\$ nil per ordinary share (2007: US\$0.56) after the interim period *	–	33,000,000

* *The interim dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.*

(b) Dividends payable to equity holders of the Company attributable to the previous period, declared and paid during the period

	2008 (Unaudited) US\$	2007 (Audited) US\$
Interim dividend in respect of the previous period, declared and paid during the period of US\$0.02 per ordinary share (2007: N/A*)	19,782,769	6,000,000

The dividend rate is not presented as such information is not meaningful for the purpose of this interim financial report.

10. EARNINGS PER SHARE

Basic earnings per share

The calculation of basic earnings per share for the six months ended 30 June 2008 and 2007 is based on the profit attributable to equity holders of the Company during the above periods of US\$16,462,398 (six months ended 30 June 2007: US\$13,995,715) and the weighted average of 907,680,000 ordinary shares (six months ended 30 June 2007: 732,000,000 shares after adjusting for the capitalisation issue) in issue during the periods, calculated as follows:

Weighted average number of ordinary shares

	2008	2007
Issued ordinary shares at beginning of the period	907,680,000	58,560,000
Effect of capitalisation issue	–	673,440,000
Weighted average number of ordinary shares at end of the period	907,680,000	732,000,000

Diluted earnings per share

The amount of diluted earnings per share is the same as the basic earnings per share for the six months ended 30 June 2008 as there was no dilutive effect on earnings per share since all outstanding share options were anti-dilutive.

There were no dilutive potential shares in existence during the six months ended 30 June 2007 and therefore diluted earnings per share are not presented.

11. PROPERTY, PLANT AND EQUIPMENT

The additions, disposals and the effect of movements in exchange rate of the items of property, plant and equipment during the six months ended 30 June 2008 and 2007 are as follows:

	Six months ended 30 June	
	2008 (Unaudited) US\$	2007 (Audited) US\$
Additions	6,361,545	6,312,964
Disposals (net carrying amount)	(36,313)	(38,978)
Effect of movements in exchange rate	(2,013,225)	(221,228)

12. TRADE RECEIVABLES, OTHER RECEIVABLES AND PREPAYMENTS

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Trade receivables	4,449,888	2,539,534
Non-trade receivable	3,090,711	7,575,119
Prepayments	8,313,059	5,250,947
Amounts due from related parties (Note 19(c))	1,669,503	3,200,875
	17,523,161	18,566,475

The Group's exposure to credit risk is minimal as the Group generally offers no credit terms to domestic customers, which accounted for approximately 93% (six months ended 30 June 2007: 91%) of total customers for the six months period ended 30 June 2008. Overseas customers are generally granted credit terms ranging from 30 days to 60 days. The Group does not have any significant exposure to any individual customer or counter party.

Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed on all customers requiring credit over a certain amount.

An aging analysis of the trade receivables of the Group including trade receivables due from related parties is as follows:

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Within three months	5,132,853	4,632,505
More than three months but within one year	83,874	263,143
More than one year but within five year	13,902	44,778
	<u>5,230,629</u>	<u>4,940,426</u>

13. AVAILABLE-FOR-SALE FINANCIAL ASSETS

The available-for-sale financial assets are in respect of investments in Assets Backed Securities ("ABS") with credit rating of AAA*. The ABS are secured by their respective security issuers' assets, which primarily consist of the student loans originated under the Federal Family Education Loan Program ("FFELP") created under the United States Higher Education Act. The ABS's maturity dates range from 15 March 2028 to 27 January 2042. The interest rate is periodically reset through an auction on every 28 days and settled at the end of each auction period. The available-for-sale financial assets' exposure to financial risk is set out in Note 21.

The security issuers and the amount of the ABS held by the Group are as follows:

Security issuer	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 US\$
SLM Student Loan Trust ("SSLT") 2002-7	26,967,765	–
SSLT 2003-2	20,008,846	–
SSLT 2006-7	20,008,846	–
Access Group, Inc.	1,150,619	–
At cost	68,136,076 [#]	–
Less: cumulative change in fair value	(1,362,000)	–
At fair value	<u>66,774,076[#]</u>	–

The ABS are denominated in US\$ and bear interest rates ranging from 2.77% to 3.98% as at 30 June 2008.

The Group follows the guidance of IAS 39, Financial Instruments: Recognition and Measurement, when determining whether an investment in available-for-sale financial asset is other-than-temporarily impaired. This determination requires significant judgement. In making this judgement, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its carrying amount, and the expected time span the Group will hold on to this investment.

* The credit ratings are based on rating agency, Standard and Poor's rating.
Including an accrued interest of US\$36,076.

14. PLEDGED BANK DEPOSITS

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Pledged bank deposits-denominated in Vietnam Dong ("VND")	<u>34,387,473</u>	<u>9,822,323</u>

Bank deposits have been pledged to banks as security for certain banking facilities of the Group.

15. TRADE AND OTHER PAYABLES

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Trade payables	12,825,794	18,045,969
Other payables and accrued operating expenses	9,124,738	14,087,056
Advances from customers	2,550,443	4,313,555
Amounts due to related parties (Note 19(d))	<u>8,700,009</u>	<u>9,473,325</u>
	<u>33,200,984</u>	<u>45,919,905</u>

An aging analysis of trade payables of the Group including trade payables due to related parties is as follows:

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Within three months	19,804,668	24,741,291
More than three months but within one year	1,258,195	2,553,441
More than one year but within five years	<u>215,609</u>	<u>224,562</u>
	<u>21,278,472</u>	<u>27,519,294</u>

16. INTEREST-BEARING BORROWINGS

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Current	34,708,700	13,425,523
Non-current	<u>57,465</u>	<u>70,226</u>
	<u>34,766,165</u>	<u>13,495,749</u>

Movements in interest-bearing borrowings were as follows:

	Six months ended 30 June	
	2008 (Unaudited) US\$	2007 (Audited) US\$
At beginning of the period	13,495,749	17,290,665
Proceeds from borrowings	21,270,416	–
Repayment of borrowings	–	(450,000)
	<u>34,766,165</u>	<u>16,840,665</u>
At the end of the period	34,766,165	16,840,665

17. RESERVES

(a) Capital reserve

Capital reserve represents the fair value of the actual of estimated number of unexercised share options granted by the Company recognised in accordance with the accounting policy adopted for share-based payments.

(b) Available-for-sale reserve

The available-for-sale reserve comprises the cumulative change in the fair value of available-for-sale financial assets held at the balance sheet date and is dealt with in accordance with the accounting policies in Note 3(b).

(c) Acquisition of minority interests

On 27 May 2008, VMEP, a direct wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with the minority equity holder of C.Q.S., a subsidiary of VMEP, to acquire the remaining 30% equity interest held by the minority equity holder for a cash consideration of US\$465,000. The difference of US\$37,047 between the net asset value of minority interests acquired and the cash consideration of US\$465,000 was credited to the retained profits.

18. SHARE-BASED PAYMENTS

A share option scheme was adopted pursuant to a written resolution of the shareholders of the Company passed on 24 November 2007 (the "Share Option Scheme").

The purpose of the Share Option Scheme is to provide an incentive for the qualified participants to work with commitment towards enhancing the value of the Company and the shares for the benefit of the shareholders and to retain and encourage qualified participants to work towards enhancing the value of the Company and its shares for the benefit of the Company and its shareholders as a whole.

The qualified participants include (i) any executive director, or employee (whether full time or part time) of the Company, any member of the Group or any entity in which any member of the Group holds an equity interest ("Invested Entity"); (ii) any non-executive directors (including independent non-executive directors) of the Company, any member of the Group or any Invested Entity; (iii) any supplier of goods or services to the Company, any member of the Group or any Invested Entity; (iv) any customer of the Company, any member of the Group or any Invested Entity; and (v) any such persons (including but not limited to consultant, adviser, contractor, business partner or service provider of the Company or any member of the Group or any Invested Entity) who in the absolute discretion of the board has contributed or will contribute to the Group.

On 4 February 2008 (the "Grant Date"), the Company granted 20,000,000 share options at a subscription price of HK\$2.90 per share to certain qualified participants.

(a) The terms and conditions of the grants that existed during the period are as follows, whereby all options are settled by physical delivery of shares:

	Number of Options	Vesting condition and exercisable percentage condition	Up to %	Contractual life of options
Option granted to directors of the Group - on 4 February 2008	2,703,000	Six months from the Grant Date	20	5 years
		One year from the Grant Date	45	
		Two years from the Grant Date	70	
		Three years from the Grant Date	100	
Option granted to the employees of the Group - on 4 February 2008	9,280,000	Six months from the Grant Date	20	5 years
		One year from the Grant Date	45	
		Two years from the Grant Date	70	
		Three years from the Grant Date	100	
Option granted to the employees of the ultimate holding company, Sanyang Industry Co., Ltd. - on 4 February 2008	8,017,000	Six months from the Grant Date	20	5 years
		One year from the Grant Date	45	
		Two years from the Grant Date	70	
		Three years from the Grant Date	100	
	20,000,000			

(b) The number and weighted average exercise prices of share options are as follows:

	Weighted average exercise price <i>HK\$</i>	Number of options
Outstanding at 1 January 2008	2.90	–
Granted during the period	2.90	20,000,000
Lapsed during the period	2.90	(573,000)
Outstanding at 30 June 2008		<u>19,427,000</u>
Exercisable at 30 June 2008		<u>Nil</u>

No share option has been exercised during the six months ended 30 June 2008.

The options outstanding at 30 June 2008 had an exercise price of HK\$2.90 and a contractual life of 4.58 years.

(c) Fair value of share options and assumptions

The fair value of services received in return for share options granted is measured by reference to the fair value of share options granted. The estimate of the fair value of the share options granted is measured based on a binomial option pricing model. The contractual life of the option is used as an input into this model. Expectations of early exercise are incorporated into the binomial option pricing model.

**At 4 February 2008
(Grant Date)**

Fair value at measurement date	HK\$0.88
Share price	HK\$2.90
Exercise price	HK\$2.90
Expected volatility	55.15%
Option life	5 years
Expected dividends	7%
Risk free interest rate	2.06%

The expected volatility was determined with reference to the volatilities of the comparable companies. The expected annual dividend yield was based on the projected dividend yield of shares of the Company as provided by the management of the Company. Changes in the subjective input assumptions could materially affect the fair value estimate.

Share options were granted under a service condition. The condition has not been taken into account in the grant date fair value measurement of the services received. There were no market conditions associated with the share option grants.

19. RELATED PARTY TRANSACTIONS

During the periods ended 30 June 2008 and 2007, transactions with the following parties are considered as related party transactions:

Name of party	Relationship
Sanyang Industry Co., Ltd. (“Sanyang”)	The ultimate holding company
SY International Limited	Equity holder of the Company
Indopark Holdings Limited	Minority equity holder of the Company
Xia Shing Xiamen Motorcycle Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Teamworld Industries Corporation	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
PT Sanyang Industri Indonesia	Effectively controlled by Sanyang, the controlling equity holder of the Group
Plassen International Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Chinlead International Corporation	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
Quingzhou Engineering Industry Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group
Chinfon Commercial Bank	Effectively controlled by the Huang Family, the single largest equity holder of Sanyang
Vietnam Three Brothers Machinery Industry Co., Limited	The associate of the Company and a non-wholly owned subsidiary of Sanyang
Sanyang Vietnam Automobile Co., Ltd. (formerly known as Sanyang Motor Vietnam Co., Limited)	A subsidiary of SY International Limited, the equity holder of the Company
Sanyang Global Co., Ltd.	Effectively controlled by Sanyang, the controlling equity holder of the Group

(a) Recurring transactions

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Audited)
	US\$	US\$
Sales of finished goods and spare parts:		
Sanyang Industry Co., Ltd.	873,160	10,450,077
Xia Shing Xiamen Motorcycle Co., Ltd.	24,594	27,818
Teamworld Industries Corporation	14,287	6,293
PT Sanyang Industri Indonesia	39,911	3,373
Sanyang Vietnam Automobile Co., Ltd.	6,343	–
	958,295	10,487,561
Purchases of raw materials or finished goods:		
Sanyang Industry Co., Ltd.	11,520,393	13,287,439
Xia Shing Xiamen Motorcycle Co., Ltd.	1,291,876	28,352
Sanyang Global Co., Ltd.	936,013	–
Teamworld Industries Corporation	–	1,284,225
Vietnam Three Brothers Machinery Industry Co., Limited	2,494,915	1,922,574
Quingzhou Engineering Industry Co., Ltd.	324,818	–
	16,568,015	16,522,590
Technology transfer fees:		
Sanyang Industry Co., Ltd.	3,334,871	2,530,870
Technical consultancy fee:		
Sanyang Industry Co., Ltd.	33,750	184,632

(b) Non-recurring transactions

	Six months ended 30 June	
	2008	2007
	(Unaudited)	(Audited)
	US\$	US\$
Purchases of property, plant and equipment:		
Sanyang Industry Co., Ltd.	307,318	32,871
Xia Shing Xiamen Motorcycle Co., Ltd.	929,116	–
Vietnam Three Brothers Machinery Industry Co., Limited	35,564	–
	<u>1,271,998</u>	<u>32,871</u>
Interest income:		
Chinfon Commercial Bank	30,179	371,670
Interest expenses:		
Chinfon Commercial Bank	–	17,870

(c) Amount due from related companies

	At 30 June	At 31 December
	2008	2007
	(Unaudited)	(Audited)
	US\$	US\$
Trade		
Sanyang Industry Co., Ltd.	435,416	1,211,450
Xia Shing Xiamen Motorcycle Co., Ltd.	279,415	1,115,664
Teamworld Industries Corporation	–	49,292
PT Sanyang Industri Indonesia	59,734	24,486
Sanyang Vietnam Automobile Co., Ltd.	6,176	–
	<u>780,741</u>	<u>2,400,892</u>
Sub-total		
Non-trade		
Sanyang Industry Co., Ltd.	523,841	523,052
Sanyang Vietnam Automobile Co., Ltd.	364,921	–
Qingzhou Engineering Industry Co., Ltd.	–	276,931
	<u>888,762</u>	<u>799,983</u>
Sub-total		
	<u>1,669,503</u>	<u>3,200,875</u>
Total		
	<u>1,669,503</u>	<u>3,200,875</u>
Cash and cash equivalents		
Chinfon Commercial Bank	50,975	–

(d) Amount due to related parties

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Trade		
Sanyang Industry Co., Ltd.	6,489,444	8,246,112
Teamworld Industries Corporation	25,655	578,120
Vietnam Three Brothers Machinery Industry Co., Limited	254,893	222,631
Xia Shing Xiamen Motorcycle Co., Ltd.	746,673	362,514
Sanyang Global Co., Ltd.	936,013	–
Chinlead International Corporation	–	63,948
Subtotal	8,452,678	9,473,325
Non-trade		
SY International Limited	5,880	–
Sanyang Industry Co., Ltd.	241,451	–
Subtotal	247,331	–
Total	8,700,009	9,473,325

20. COMMITMENTS**(a) Capital commitments**

Capital commitments outstanding at the balance sheet date not provided for were as follows:

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Contracted for	3,047,478	986,196
Authorised but not contracted for	9,275,209	12,246,898
	12,322,687	13,233,094

Capital commitments as at 30 June 2008 were in respect of the construction of a new research and development centre.

Capital commitments authorised but not contracted for as at 31 December 2007 were in respect of the construction of a new research and development centre.

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases were payable as follows:

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Within 1 year	172,723	179,178
After 1 year but within 5 years	614,028	672,983
After 5 years	<u>2,847,139</u>	<u>3,357,813</u>
	<u>3,633,890</u>	<u>4,209,974</u>

The leases run for an initial period of one to fifty years.

21. FINANCIAL INSTRUMENT

The Group's business strategies, tolerance of risk and general risk management philosophy are consistent with those disclosed in the 2007 annual financial statements except for those set out as below.

(a) Credit risk*Available-for-sale financial assets*

The credit risk exposure to investment in ABS is minimal as the Group only invests in the ABS with credit rating of AAA*. In addition, all the ABS are secured by their respective security issuers' assets, which primarily consist of the student loans originated under the FFELP created under the United States Higher Education Act. Each FFELP student loan, including the principal and interest, is 98% guaranteed by a guarantee agency under a guarantee agreement. The guarantee agency is, in turn, reinsured by the United States Department of Education ("USDE"). The reinsurance rate provided by the USDE ranges from 75% to 95% depending on the performance of the guarantee agencies. In view of these guarantees, the management does not expect any impairment losses arising from default on securities.

* *The credit ratings are based on rating agency, Standard and Poor's rating.*

(b) Interest rate risk

The Group's exposure to interest rate risk relates to interest bearing financial assets and liabilities.

(i) Interest-bearing financial assets

Interest-bearing financial assets include pledged bank deposits, time deposits maturing after three months, cash and cash equivalents and available-for-sale financial assets.

Pledged bank deposits, time deposits maturing after three months and cash and cash equivalents are not held for speculative purposes but are placed to satisfy conditions for borrowing facilities granted to the Group and for higher yield returns than cash at banks. The Group manages its interest rate yield by prudently balancing the placement of deposits with varying maturity periods.

Interest rate risk in investment in ABS is the risk to the interest income deriving from the ABS due to uncertainty in the future interest rate. The interest rate is periodically reset through an auction on every 28 days.

(ii) *Interest-bearing financial liabilities*

Interest-bearing financial liabilities include bank borrowings. The Group's variable-rate borrowings are exposed to a risk of change in cash flows due to changes of interest rates.

At the balance sheet date the interest rate profile of the Group's variable interest bearing financial instruments was:

	At 30 June 2008 (Unaudited) US\$	At 31 December 2007 (Audited) US\$
Variable rate instrument		
Financial assets	66,774,076	–
Financial liabilities	34,766,165	13,495,749

Cash flow sensitivity analysis for variable rate instruments

A change of 500 basis points in interest rates at the balance sheet date would have increased/(decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular foreign currency rates, remain constant. The analysis is performed on the same basis for 31 December 2007.

30 June 2008	Profit or loss		Equity	
	500bp Increase	500bp Decrease	500bp Increase	500bp Decrease
Variable rate instrument				
Cash flow sensitivity	1,237,039	(1,237,039)	1,237,039	(1,237,039)

31 December 2007	Profit or loss		Equity	
	500bp Increase	500bp Decrease	500bp Increase	500bp Decrease
Variable rate instrument				
Cash flow sensitivity	(668,825)	668,825	(668,825)	668,825

(c) **Foreign exchange risk**

The Group is exposed to foreign currency risk primarily through sales, purchases and borrowings that are denominated in a currency other than the functional currency of the operations to which they relate. The currency giving rise to this risk is primarily US\$ and NTD.

The Group ensures that the net exposure to this risk is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Management does not enter into currency hedging transactions since it considers that the cost of such instruments outweighs the potential risk of exchange rate fluctuations.

The Group's exposure to foreign currency risk was as follows based on notional amounts:

At 30 June 2008	<i>US\$</i>	<i>NTD</i>	<i>HK\$</i>
Trade and other receivables	5,076,937	5,629	–
Available-for-sale financial assets	66,774,076	–	–
Cash and cash equivalents	16,615,714	6,266,266	5,043
Trade and other payables	(11,870,581)	(362,063)	–
Interest-bearing borrowings	(14,873,582)	–	(19,892,583)
Balance sheet exposure	<u>61,722,564</u>	<u>5,909,832</u>	<u>(19,887,540)</u>
At 31 December 2007	<i>US\$</i>	<i>NTD</i>	<i>HK\$</i>
Trade and other receivables	8,542,587	–	–
Cash and cash equivalents	81,044,254	4,776,205	14,392
Trade and other payables	(12,936,842)	(7,065,520)	–
Interest-bearing borrowings	(13,495,749)	–	–
Balance sheet exposure	<u>63,154,250</u>	<u>(2,289,315)</u>	<u>14,392</u>

The following significant exchange rates applied during the period/year:

	2008 VND	2007 VND
US\$ 1	16,356	16,015
NTD 1	519	503
HK\$ 1	2,097	2,067

The following exchange rates are the spot rate at balance sheet date:

	2008 VND	2007 VND
US\$ 1	16,592	16,119
NTD 1	542	496
HK\$ 1	2,126	2,067

Sensitivity analysis

A 4% weakening of the VND against the following currencies at the end of the period/year would have increased (decreased) equity and profit or loss by the amounts shown below. This analysis assumes that all other variables, in particular interest rates, remain constant. This analysis is performed on the same basis for 31 December 2007.

	Equity	Profit or loss
30 June 2008		
US\$	(2,341,181)	(585,957)
NTD	(13,912)	(13,912)
31 December 2007		
US\$	(2,353,703)	(616,839)
NTD	(270,441)	(270,441)

A 4% strengthening of the VND against the above currencies would have had the equal but opposite effect on the above currencies to the amounts shown above, on the basis that all other variables remain constant.

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The individual subsidiaries within the Group are responsible for their own cash management, including raising loans to cover the expected cash demands, subject to approval by the Company's board of directors. The Group's policy is to regularly monitor current and expected liquidity requirements to ensure that the Group maintains sufficient reserves of cash and adequate committed lines of funding from banks to meet its liquidity requirements in the short and longer term.

Due to deterioration of the debt capital market in United States, the liquidity of the market for the ABS began to fall in the beginning of 2008. The ABS held by the Group may not be converted to cash if failed auction occurred. Failed auction occurs when there are not enough orders to purchase all the securities being sold at the auctions.

The Group's cash and cash equivalents amounted to US\$48,179,564 as at 30 June 2008. The Group recorded a net cash inflow from operating activities of US\$8,403,156 for the six months ended 30 June 2008. In addition, the Group's current ratio as at 30 June 2008 is 2.96 times. The current ratio is calculated by dividing total current assets with total current liabilities. In view of these financial indicators, the management does not expect significant negative impact on their ability to meet the Group's obligations as they fall due.

	Undiscounted					
	Carrying amount	contractual cash flow	6 months or less	6-12 months	1-2 years	> 2 years
At 30 June 2008	US\$	US\$	US\$	US\$	US\$	US\$
Trade and other payables excluding advances from customers	30,650,541	30,650,541	30,482,251	168,290	-	-
Bank borrowings – Secured	33,085,571	33,149,443	33,072,810	14,841	28,473	33,319
Bank borrowings – Unsecured	1,680,594	1,693,762	1,693,762	-	-	-
	<u>65,416,706</u>	<u>65,493,746</u>	<u>65,248,823</u>	<u>183,131</u>	<u>28,473</u>	<u>33,319</u>
At 31 December 2007						
Trade and other payables excluding advances from customers	41,606,350	41,606,350	31,448,378	10,157,972	-	-
Bank borrowings – Secured	12,995,749	13,111,217	13,018,942	15,379	29,450	47,446
Bank borrowings – Unsecured	500,000	507,400	507,400	-	-	-
	<u>55,102,099</u>	<u>55,224,967</u>	<u>44,974,720</u>	<u>10,173,351</u>	<u>29,450</u>	<u>47,446</u>

(e) Fair value

The carrying amounts of significant financial assets and liabilities approximate their respective fair values as at 30 June 2008. The following methods and assumptions were used to estimate the fair value for each class of financial instrument:

(i) *Cash and cash equivalents, pledged bank deposits, trade receivables, deposits, other receivables, prepayments, trade and other payables, amounts due from/to related companies*

The carrying amounts approximate their respective fair values due to the short-term maturity of these instruments.

(ii) *Bank loans*

The carrying amount of bank loans approximate their fair value based on the borrowing rates currently available for bank loans with similar terms and maturities.

(iii) *Available-for-sale financial assets*

As the market for the ABS was not active at the balance sheet date, the Group established fair value by using valuation techniques that provided reliable estimates of prices which could be obtained in actual market transactions. These include reference to recent arm's length transactions and the market condition.

22. SUBSEQUENT EVENT

On 7 August 2008, the Company and Chin Zong entered into a sale and purchase agreement with Sanyang and Chinda Investment Company Limited (“Chinda”), a subsidiary of Sanyang, pursuant to which the Company and Chin Zong agreed to acquire from Sanyang and Chinda 99% and 1% respectively of the equity interests in PT Sanyang Industri Indonesia for a consideration of US\$1,200,000 in aggregate.

23. POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2008

At the date of this interim financial report, the IASB has issued the following IFRSs and interpretations which are not yet effective for the financial year beginning 1 January 2008. The Group has not early adopted these IFRSs and interpretations in the preparation of the financial statements.

	Effective for accounting periods beginning on or after
IFRIC 13, <i>Customer loyalty programmes</i>	1 July 2008
IFRIC 16, <i>Hedges of a net investment in a foreign operation</i>	1 October 2008
IFRIC 15, <i>Agreements for the construction of real estate</i>	1 January 2009
IFRS 8, <i>Operating segments</i>	1 January 2009
Revised IAS 1, <i>Presentation of financial statements</i>	1 January 2009
Revised IAS 23, <i>Borrowing costs</i>	1 January 2009
Amendments to IFRS 1, <i>First-time adoption of International Financial Standards, and IAS 27, Consolidated and separate financial statements – Cost of an investment in a subsidiary, jointly-controlled entity or associate</i>	1 January 2009
Amendment to IFRS 2, <i>Share-based payment – Vesting conditions and cancellations</i>	1 January 2009
Amendments to IAS 32, <i>Financial instruments: Presentation of financial statements-Putable financial instruments and obligations arising on liquidation</i>	1 January 2009

	Effective for accounting periods beginning on or after
Improvements to IFRSs	1 January 2009 or 1 July 2009
Revised IFRS 3, <i>Business combinations</i>	Applied to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning or after 1 July 2009
Amendments to IAS 27, <i>Consolidated and separate financial statements</i>	1 July 2009
Amendments to IAS 39, <i>Financial instruments: Recognition and measurement – Eligible hedged items</i>	1 July 2009

The directors have confirmed that the above IFRSs and interpretations do not have a significant impact on how the results of operations and financial position for the six months ended 30 June 2008 are prepared and presented. These IFRSs and interpretations may result in changes in the future as to how the results and financial position of the Group are prepared and presented.