

A Letter to Sanyang Industry Shareholders

April 10, 2013

To Our Valued Shareholders,

We would like to take this opportunity to express our gratitude for your long-term commitment and support of Sanyang Industry. In the year to come, we pledge to continue giving our utmost efforts to provide shareholders with investment returns that reward you for the faith you have shown in our management team.

We continue to push forward with the long-term shareholder value creation plan that we began implementing over 2 years ago. The main pillars of this plan include: (1) optimization of our core business operations; (2) improved capital structure management; and (3) improved measures of corporate governance and management transparency, even exceeding the government's regulatory requirement. Our efforts to execute this plan are a daily declaration to all shareholders of the Huang family's determination to create sustainable growth in Sanyang's core business profitability and sustainable returns for shareholders. We remain forever conscious of the fact that we are reliant on the support and good faith of our shareholders if we are to achieve our long-term goals.

Core Business Activities

Sanyang's employees redoubled their efforts in the face of the challenging economic conditions of 2012. Sales of Sanyang-manufactured Hyundai automobiles showed strong counter-cyclical performance despite an environment of declining local demand, reaching 14,352 units in sales, and becoming the only Taiwan-manufactured automobile brand to display a positive growth rate, at 17.8%. Sanyang-produced Hyundai cars continue to show positive annual growth, gaining Taiwan market share in a contracting market. Our global motorcycle and scooter sales in 2012 were 559,518 units, which is our second-best sales performance since 2008 (662,945 units in 2011 and 634,917 units in 2008). Exports to South America, Africa, the Middle East, and Russia grew by double digit growth rate, and exports to ASEAN countries grew by approximately 100%. Overall, Sanyang's consolidated revenues reached NT\$33.4bn in 2012, our second best sales performance during the 2008-2012 period (2011 sales reached NT\$36.8bn).

From 2010 to 2012, Sanyang Industry posted Taiwan-based revenues of NT\$19.3bn, NT\$23.5bn and NT\$23.7bn, respectively. This third consecutive year of revenue growth during challenging economic times was accomplished in spite of the oil and electricity price hikes seen in Taiwan in 2012, rising commodity prices and low wage growth – which all combined to produce a conservative attitude towards large ticket purchases amongst consumers.

Sanyang Industry delivered net income of NT\$431 million in 2012, its third best result in the 2008 to 2012 period (2010's NT\$987m and 2011's NT\$1,445 performance surpassed that of 2012). This was mainly due to VMEP's (our Vietnam subsidiary) 30% drop in sales units and revenue, which led to lower margins and an NT\$362 million reduction in VMEP's profit contribution to Sanyang in 2012 versus 2011. Additionally, profitability at our China-based subsidiaries was negatively affected by RMB appreciation and weaker export sales to Europe, a key export market.

The drop in VMEP sales and income were partly due to macro-economic factors such as a 25% increase in local oil prices and a 19% local inflation rate, which combined to cause a contraction in the Vietnam two-wheel market for the first time in over a decade. Moreover, competitors who built up excess inventories of completed bikes due to overly optimistic demand forecasts slashed prices aggressively to clear out those inventories, hence significantly hurting VMEP.

To adapt to the changing market conditions and to prepare for future challenges, we have undertaken a mid-to-long-term plan to return our Vietnam motorcycle business to a trend of stable growth. In addition to setting up a network of new shops offering a better SYM sales and service brand experience, we are aggressively investing in the research and development of new products, reviewing and improving quality control standards in our manufacturing process, and introducing new marketing strategies. There will be new products released this year and 2014, and we expect the new products to make a marked contribution towards increased sales and profitability in the Vietnam market.

Our near term initiatives have already produced results, as VMEP showed improved operating performance in 3Q12 and as 4Q12 profits allowed VMEP to cover its losses from prior quarters during the year. The outlook has also turned more favorable on the macroeconomic front, as the Vietnamese economy has shown early signs of improvement in 2013. Inflation is projected to drop to 8% in 2012 and GDP growth is forecast at 5.5%, amongst the strongest in the ASEAN region. With Vietnam's economy recovering off a bottom, we are optimistic that VMEP can emerge even stronger than before and be better poised to capture the attractive demand growth opportunities in the ASEAN region.

Our proposed dividend payout for 2012 profits is NT\$0.45 cash/share. Since an NT\$0.45 cash/share dividend for 2011 profit was just approved at the last December 24, 2012 shareholder meeting, we expect to distribute both dividends in the 3rd quarter this year if the 2012 dividend is approved.

Capital Restructuring

As part of our financial restructuring and optimization effort, we have proposed an agenda item for the May 20, 2013 Annual General Shareholders Meeting to amend the Articles of Incorporation to increase the capital stock limit from the current NT\$ 9.5 billion to NT\$ 13.0 billion. With our current issued capital of NT\$9 billion, we have almost reached the limit of our Company charter, which is substantially less than our domestic peers in the vehicle manufacturing industry.



Sanyang's asset base is also much smaller than that of its local peers. Amending the Articles of Incorporation to a higher capital stock limit would give the Company the balance sheet flexibility needed to reduce our debt/equity ratio and to fund growth. As this will put the Company in a more advantageous position to reduce fixed costs and fund mid-to-long term development plans, we believe that it will enhance shareholders value. **Please vote FOR the amendments to the Articles of Incorporation at the May 20, 2013 AGM.**

Corporate Governance Enhancement Program

We are committed to ever improving transparency and corporate governance. At our May 20, 2013 AGM, we propose to change the Articles of Incorporation to add two independent directors, starting from the next Board of Directors Election in 2014. Moreover, we also propose changing the Articles of Incorporation to adopt the nomination system for the election of all directors and supervisors, not just for independent directors. While current government regulations do not require a company of our size to have independent directors, we are committed to improving transparency and corporate governance. Moreover, while the regulators only require the adoption of the nomination system for independent directors, rather than for all directors and supervisors, we again are committed to improving transparency and corporate governance, and use international best past practice as our benchmark goal. **Please vote FOR the amendments to the Articles of Incorporation at the May 20, 2013 AGM.**

Better Profit Apportionment Terms for Neihu Land Development Project

One of the most important agenda items for the May 20, 2013 AGM, and one that significantly affects your immediate interests, regards our Neihu Land Development Project. Shangyang Asset Management ("Shangyang"), a wholly-owned subsidiary of Sanyang, owns idle land in one of Taipei City's key office districts. In order to enhance shareholder value, Shangyang signed a contract with Mei Fu Development Co., Ltd in 2008 to develop the idle piece of property. The Neihu Land Development Project profit apportionment rates were originally set to be 46% for Shangyang Asset Management and 54% for Mei Fu Development Company, based on Shangyang's contribution of the Neihu land, valued at about NT\$5.5 billion at the time.

However, land values in the Neihu area have risen substantially since 2008, and based on appraisal reports completed in March 2013, the current value of Shangyang's Neihu land is between NT\$ 10.6 billion to NT\$12.6 billion. This means that the current land value has appreciated by 93% to 130% over the October 2007 appraisal value of NT\$5.5bn, on which the 46%:54% apportionment rates were based. We therefore believe that the original profit distribution rates for the Neihu Land Development Project are no longer appropriate and do not provide a suitable return to the Company's shareholders, especially in light of the fact that the Company's contribution to the project is the most valuable asset – the land itself.



Because the Neihu property development project significantly affects your shareholder value, and in order to protect and increase the interests of all shareholders, the Company proposes to re-negotiate with Mei Fu Development Company for better apportionment terms for the project (including the buildings being constructed) that more fairly and appropriately reflect the returns the Company and shareholders should receive. **Please therefore vote "FOR" Negotiating Better Profit Apportionment Terms for Neihu Land Development Project with Mei Fu Development Co. Ltd.** For more information on our Neihu land development, please see our Company IR page (For English, please go to <http://www.sanyang.com.tw/en/investor.php>. For Chinese, please refer to <http://www.sanyang.com.tw/news/index.php?cat=4>).

Lastly, the Sanyang management team is resolute in its aim to single-mindedly focus our finite resources on our core business activities, with an aim to maximizing shareholder value creation and to producing long-term sustainable growth in revenues, profit and cash flow. Only in this way can we create the greatest benefit for all shareholders. If you have faith in the corporate vision that we have articulated in this letter, then we fervently hope that you will **vote in favor of ALL the Company agenda items at the May 20th AGM.**

For more information on the upcoming May 20, 2013 AGM, please refer to the meeting handbook and the Company IR webpage. (For English, please go to <http://www.sanyang.com.tw/en/investor.php>. For Chinese, please refer to <http://www.sanyang.com.tw/news/index.php?cat=4>).

As ever, thank you very much for your constant support of our management team! We are confident that Sanyang Industry, together with our cherished shareholders, will continue to grow and build a bright new future.

Respectfully yours,

S.H. Huang
Chairman of Sanyang Industry