



## **OPERATIONS REVIEW: QUARTER ENDED 30 JUNE 2010**

ANNOUNCEMENT

29 JULY 2010

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### **HIGHLIGHTS**

- 1. Appointment of new Australian Distributor**
- 2. Agreement signed by Vmoto E-Max to supply electric scooters to Spanish Postal Service**
- 3. Commencement of construction of Stage 2, Nanjing Manufacturing Facility**
- 4. First shipments of Vietnamese scooter order despatched**
- 5. Chinese Bank operating capital facility increased**
- 6. Acquisition of remaining 40% interest in Vmoto E-Max**
- 7. OEM supply agreement secured with Vectrix, USA**

### **CASH FLOW**

The Company's cash flow activity for the quarter ended 30 June 2010 remained on par with the previous quarter, with only a slight increase in receipts. This continues to reflect the Company's move from an agency to manufacturing business.

It should be noted that the reported cash flow represents "actual physical cash flow" only, rather than actual sales, therefore timing impacts occur. Importantly, the Company's order book has continued to grow steadily, as has shipped sales of manufactured product, while costs have remained fairly constant due to management's very tight expense control in every part of the business.

A number of one off/extraordinary expenses impacted on Vmoto's cash flow for the quarter. These payments were required in order to complete the Company's business model prior to commencement of Vmoto's marketing campaign, which will begin in the current quarter. The following table highlights the key expenses of this nature:

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**June 2010 Quarter One-off/Extraordinary Payments:**

	<b>Amount</b>	<b>Comments</b>
<b>1</b>	A\$757,000	Includes progress payment of approximately A\$650,000 for Stage 2 Nanjing Manufacturing Facility construction and general plant and equipment purchase.
<b>2</b>	A\$1.7 million	Relates to purchase of additional stock and prepayments to suppliers to secure parts required for mass production in the upcoming quarters.
<b>3</b>	A\$50,000	Includes deposit of approximately A\$21,000 for exhibitions in Europe and marketing costs in preparation for these upcoming exhibitions.
<b>4</b>	A\$150,000	Includes: <ul style="list-style-type: none"> <li>- costs such as transport costs and relocation allowance in relation to moving staff, stock and plant and equipment from previous E-Max factory in Wuxi to Vmoto's Manufacturing Facility in Nanjing;</li> <li>- Legal, travel and other costs incurred in relation to the acquisition of the E-Max business.</li> </ul>
<b>5</b>	A\$182,000	Relates to payments for E-Max's office closure fees, accrued expenses and redundancies related to E-Max business pre-buyout (E-Max staff costs average A\$356,000 for the June 2010 quarter. Post restructuring, the staff costs are expected to average A\$246,000 per quarter).

**Notes:**

1. Stage 2 of the Nanjing Manufacturing Facility is proceeding on schedule and on budget.
2. The nature of Vmoto's manufacturing business is that there may be up to a 3 to 4 month lead time from actual order to supply and payment, due to either parts delivery requirements or shipping times. As such, the inventory figure will always remain high as we meet "just in time" shipments and also order parts to meet our larger orders. Many of our third party parts suppliers also require payment at the time of ordering or on very strict payment terms, which can also add to a large inventory buildup prior to shipment. The current figure of A\$4.154 million in working capital, including inventories, reflects this as we now have some large shipments to make in the next few months (Spanish Postal Service and Vectrix).

To best manage the cost of this essential inventory buildup, the Chinese bank operating facility has been utilised to the extent of A\$1.713 million, with a further

- A\$879,000 available if required. The Company also has the approximately A\$2.59 million cash at bank and cash on hand available if required.
3. Marketing costs were incurred as a result of prepayments required for a number of industry shows booked and paid for in advance. The Company intends to show at 5 global shows before the end of the calendar year.
  4. The closure of the old E-Max factory in Wuxi, China, and relocation of E-Max staff, stock and plant and equipment to Vmoto's Nanjing Manufacturing Facility took place in May 2010. The Company also incurred legal fees to ensure the proper transfer of ownership of moulds to the new Vmoto E-Max company, and travel expenses were necessarily incurred to ensure the relocation and transition took place smoothly.
  5. Staff costs were reduced marginally this quarter although they were negatively impacted to some extent by termination payments made to some non-essential E-Max staff following the takeover of the E-Max business.

## OPERATIONAL SUMMARY

### *New Australian Distributor*

In April 2010, following the dissolution by mutual agreement of the distribution arrangement with AHG Group, Vmoto announced that it had appointed a new distributor to manage the distribution of the Vmoto brand within Australia.

The new Australian Distributor, StuRay Investments, is a company run by well known motorcycle identity Ray Rooney. With 25 years experience in the distribution of scooters and motorcycles in Europe, Ray and his team brings a wealth of experience to the Vmoto brand.

StuRay Investments has brought on board nearly 20 new dealers nationally and its appointment coincides well with the release by Vmoto of 3 new models to the market. The timing also allows Ray and his team time to prepare for the arrival of the new Vmoto electric scooters later in the year. A quantity of some 300 units of various models of scooters was left as an overhang from the relinquishment by AHG of the distribution and it is expected the real benefit of the new Distributor will not be realised until these scooters have been sold. It is expected this stock will be cleared out by December 2010.

### *Construction commenced on Stage 2 manufacturing facility*

Late in April 2010, Vmoto broke ground on the building of Stage 2 of its Manufacturing Facility in Nanjing, China. Stage 2 comprises 19,937 square metres of factory floor space which, when added to the existing Stage 1 facility, will provide Vmoto with a combined factory floor space of 30,137 square metres. The expanded floor space will be adequate to

facilitate the manufacture of over 300,000 units of scooters, both petrol and electric, on an annual basis.

Construction of Stage 2 is expected to be completed in December of this year.

#### ***China Bank Operating Facility***

During the quarter, Vmoto secured an initial 10 million Chinese Yuan operating facility from the China Rural Credit cooperative Bank, which was then increased to 15 million Yuan (A\$ 2,592,000). This facility has the capacity to increase to a total of 50 million Yuan (A\$7,880,000) after certain production thresholds are met.

#### ***Agreement to supply electric delivery scooters to Spanish Postal Service***

During the quarter, Vmoto was awarded the tender by the Spanish Postal Service for the supply of postal delivery scooters. The Spanish Postal Service has a fleet of nearly 14,000 scooters operating in Spain and intends to replace a percentage of its existing petrol scooters with electric scooters. The tender awarded to Vmoto was for an initial order of 128 scooters for delivery in August 2010, with a further 300 required by October 2010. The total requirement for the first 12 month period is 2000 scooters.

Vmoto's electric scooters were chosen over 12 other companies who also tendered for this business.

In addition to the electric scooters, the Spanish Postal Service also ordered a quantity of 100 petrol engine scooters from Vmoto to be added to their fleet. Representatives of the postal service visited the Vmoto facility in Nanjing twice during the period to ensure the product met with its strict specification requirements and were very satisfied with developments to date.

#### ***Acquisition of remaining 40% of VE-Max to take ownership to 100%***

In early June, Vmoto made the strategically important decision to acquire the remaining 40% interest in the issued capital of the joint venture electric scooter company Vmoto E-Max Electric Vehicle Company ("VE-Max"), taking Vmoto's interest to 100%.

After dealing with Vmoto for nearly 5 months, VE-Max minority shareholders took the decision to participate in the growth of the whole company, rather than just the electric division, and agreed to sell their remaining 40% stake in VE-Max to Vmoto for 22,400,000 shares at a deemed issue price of 20 cents each. The shares were issued on 21 July 2010 and will be held in voluntary escrow for a period of 12 months from issue. In the event 5,000 electric scooters are commercially sold from the VE-Max production lines in Nanjing within 12 months, Vmoto has also agreed to issue the minority shareholders 2,240,000 options, exercisable at 20 cents each on or before the date that is 3 years from the date of issue.

With 100% ownership, Vmoto can now maximise synergies between its divisions to ensure a reduction in running costs and a better penetration into the sales market, ultimately maximizing shareholder returns. This strategy is already showing results as some new contacts with larger customers have now been signed on the back of the 100% ownership being finalised. Taking full control of E-Max did however have the very short term impact of increasing one off expenses of the Vmoto group as a result of cost cutting and other restructuring charges which were easier and more quickly available to be made as an owner of the newly now fully owned JV. This in turn obviously impacted on cash flows for the quarter, as well as management time.

***Order for Electric Scooters secured from Vectrix under an OEM agreement.***

Following on from the E-Max acquisition, Vmoto signed a very significant OEM agreement with Vectrix LLC of the USA for the supply of its VX2 electric scooter.

Pursuant to the agreement, Vmoto has agreed to supply 144 units of the VX2 to Vectrix in the United States in August 2010, for distribution to its over 100 dealer network.

Vectrix has recently conducted extensive market research in relation to the USA market, which has indicated a potential market in that country of 7000 units per annum. The minimum number estimated to be required by Vectrix over the next 18 months is approximately 2000 units.

The first shipment is expected to be made in August 2010.

***Summary***

Vmoto continues to grow and develop quickly. The strategic deals undertaken in the June quarter were designed to complete the jigsaw and position the Company carefully for its future growth. Investors may be disappointed with the lack of positive cash flow and profit in the quarter but will hopefully understand the reasons behind this and see that developing a large, scalable business such as Vmoto can result in difficulty in exactly predicting short term outcomes. Vmoto's Directors are confident that the business is fundamentally on track and we will endeavor to continue to grow the business, whilst producing the positive cash flow in the short term that we all desire.

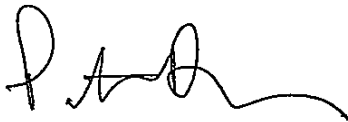
No further acquisitions or corporate transactions are anticipated for the foreseeable future as all the building blocks are now in place and all the consolidation is complete. Management can now get on with running the Company.

We are at a stage where the Company can position itself to push forward with the marketing of its products and our focus will now turn this, something which the whole team at Vmoto excels at and is looking forward to. Consequently, as noted above, exhibitions will take place at 5 international shows by the end of the calendar year. Further, a new marketing program is being developed for the launch of the Vmoto electric scooters into the market later this year.

Costs are down, managed well and on or below budget. Design work has been completed and Vmoto now has a quality model range tested and ready for the market, with 6 industry shows booked in the next 3 months to display our products.

Management is confident that we can now satisfy the needs of our already large customer base and look forward to expanding our scooter sales numbers to keep the factory running at its maximum efficiency and potential.

Yours faithfully



**Patrick Davin**

*Managing Director*

**About Vmoto**

*Perth based Vmoto Limited is a global scooter manufacturing and distribution group listed on the Australian Securities Exchange. The Company specialises in hi tech motor scooters and All Terrain Vehicles (ATVs) using state-of-the-art production facilities situated in China. Vmoto also operates an international scooter and ATV trading and distribution company based in Shanghai, with sales in over 100 countries.*

# Appendix 4C

## Quarterly report for entities admitted on the basis of commitments

Introduced 31/3/2000. Amended 30/9/2001, 24/10/2005.

Name of entity

<b>VMOTO LIMITED</b>
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ABN

<b>36 098 455 460</b>
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Quarter ended ("current quarter")

<b>30 June 2010</b>
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### Consolidated statement of cash flows

Cash flows related to operating activities	Current quarter \$A'000	Year to date (12 months) \$A'000
1.1 Receipts from customers	1,378	4,272
1.2 Payments for		
(a) staff costs	(648)	(1,959)
(b) advertising and marketing	(112)	(200)
(c) research and development	(17)	(158)
(d) leased assets	(2)	(11)
(e) other working capital (including inventories)	(4,154)	(9,580)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	10	50
1.5 Interest and other costs of finance paid	(31)	(90)
1.6 Income taxes paid	-	(12)
1.7 Other (provide details if material)	-	-
<b>Net operating cash flows</b>	<b>(3,576)</b>	<b>(7,688)</b>

+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

	Current quarter \$A'000	Year to date (12 months) \$A'000
1.8 Net operating cash flows (carried forward)	<b>(3,576)</b>	<b>(7,688)</b>
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	(1,226)
(c) intellectual property	-	-
(d) physical non-current assets	(757)	(1,812)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	100	200
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	16
(e) other non-current assets	-	-
1.11 Loans to other entities	-	(780)
1.12 Loans repaid by other entities	-	-
1.13 Other (net cash acquired on acquisition of subsidiary)	-	-
<b>Net investing cash flows</b>	<b>(657)</b>	<b>(3,602)</b>
<b>1.14 Total operating and investing cash flows</b>	<b>(4,233)</b>	<b>(11,290)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	-	11,463
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	1,713	1,813
1.18 Repayment of borrowings	-	(787)
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
<b>Net financing cash flows</b>	<b>1,713</b>	<b>12,489</b>
<b>Net increase (decrease) in cash held</b>	<b>(2,520)</b>	<b>1,199</b>
1.21 Cash at beginning of quarter/year to date	4,845	1,290
1.22 Exchange rate adjustments to item 1.21	265	101
1.23 <b>Cash at end of quarter</b>	<b>2,590</b>	<b>2,590</b>

+ See chapter 19 for defined terms.



**Payments to directors of the entity and associates of the directors**  
**Payments to related entities of the entity and associates of the related entities**

		Current quarter \$A'000
1.24	Aggregate amount of payments to the parties included in item 1.2	123
	Aggregate amount of payments to the parties included in item 1.18	-
1.25	Aggregate amount of loans to the parties included in item 1.11	-

1.26 Explanation necessary for an understanding of the transactions

Payments include:	<b>\$A'000</b>
Executive Directors' remuneration	80
Non-Executive Directors' remuneration	43
	<u>123</u>

**Non-cash financing and investing activities**

2.1 Details of financing and investing transactions which have had a material effect on consolidated assets and liabilities but did not involve cash flows

<b>Nil</b>
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2.2 Details of outlays made by other entities to establish or increase their share in businesses in which the reporting entity has an interest

<b>Nil</b>
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+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

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**Financing facilities available**

*Add notes as necessary for an understanding of the position. (See AASB 1026 paragraph 12.2).*

	Amount available \$A'000	Amount used \$A'000
3.1 Loan facilities	2,592	1,713
3.2 Credit standby arrangements*	-	-

**Reconciliation of cash**

Reconciliation of cash at the end of the quarter (as shown in the consolidated statement of cash flows) to the related items in the accounts is as follows.	Current quarter \$A'000	Previous quarter \$A'000
4.1 Cash on hand and at bank	2,390	4,195
4.2 Deposits at call	200	650
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
<b>Total: cash at end of quarter</b> (item 1.23)	<b>2,590</b>	<b>4,845</b>

**Acquisitions and disposals of business entities**

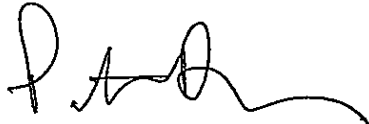
	Acquisitions (Items 1.13 and 2.1)	Disposals (Item 1.10(a))
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

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+ See chapter 19 for defined terms.

**Compliance statement**

- 1 This statement has been prepared under accounting policies which comply with accounting standards as defined in the Corporations Act (except to the extent that information is not required because of note 2) or other standards acceptable to ASX.
  
- 2 This statement does give a true and fair view of the matters disclosed.



Sign here: ..... Date: **29 July 2010**  
**(Managing Director)**

Print name: **Patrick Davin**

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+ See chapter 19 for defined terms.

**Appendix 4C**  
**Quarterly report for entities**  
**admitted on the basis of commitments**

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**Notes**

1. The quarterly report provides a basis for informing the market how the entity's activities have been financed for the past quarter and the effect on its cash position. An entity wanting to disclose additional information is encouraged to do so, in a note or notes attached to this report.
2. The definitions in, and provisions of, *AASB 1026: Statement of Cash Flows* apply to this report except for the paragraphs of the Standard set out below.
  - 6.2 - reconciliation of cash flows arising from operating activities to operating profit or loss
  - 9.2 - itemised disclosure relating to acquisitions
  - 9.4 - itemised disclosure relating to disposals
  - 12.1(a) - policy for classification of cash items
  - 12.3 - disclosure of restrictions on use of cash
  - 13.1 - comparative information
3. **Accounting Standards.** ASX will accept, for example, the use of International Accounting Standards for foreign entities. If the standards used do not address a topic, the Australian standard on that topic (if any) must be complied with.

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+ See chapter 19 for defined terms.