



## OPERATIONS REVIEW: QUARTER ENDED 30 JUNE 2011

ANNOUNCEMENT

29 JULY 2011

### HIGHLIGHTS

1. **Vmoto achieves first cash flow positive quarter**
2. **Completion of fit-out of warehouse and staff cafeteria of Stage 2 of the Nanjing Manufacturing Facility**
3. **Approval of increase in bank operating facility and additional debt facility secured**

### CASH FLOW

The Company's cash flow for the June 2011 quarter improved significantly in comparison to the March 2011 quarter, with the Company achieving a positive net operating cash flow.

Receipts from customers increased by 32.1% for the June 2011 quarter as a result of the Company receiving up front deposits for increased orders, together with receipts on delivery of finished products to customers. All receipts from customers for the June 2011 quarter were in respect of Vmoto's own manufactured products. The Company expects that receipts from customers for the September 2011 quarter will be lower due to Europe's public holidays in August, however the Company is working on other markets to attempt to counter this.

Payments for staff costs for the June 2011 quarter returned to a normal level following a number of one-off payments in the March 2011 quarter. The Company is currently planning to implement a number of training programmes for its staff to improve skills and is implementing a number of initiatives to provide a better working environment to attract and retain talented, sophisticated and key staff.

Payments in respect of other working capital (including inventories) for the June 2011 quarter decreased by 63.5% compared to March 2011 quarter. This was mainly due to a decrease in payments to suppliers during the quarter given substantial prepayments had already been made to such in the previous quarter. The quarter also saw the utilisation of existing inventory that was on hand at the end of the previous quarter. The Company has also gradually negotiated better credit terms and volume discounts for parts with approximately 244 suppliers.



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## OPERATIONAL SUMMARY AND MARKET UPDATE

### *Nanjing Manufacturing Facility*

The Company recently held a ceremony to celebrate the completion of Stage 2 of its Nanjing Manufacturing Facility and to recognise a number of staff for their outstanding performance and contribution. This ceremony was attended by senior management of the Company and one of the Company's key customers, Mr Mauro Benedito, the owner of Nemax Italy, which is the importer for TNT Italy. The Executive Director of the Company, Mr Charles Chen, and Vmoto's International Sales Manager, Mr Michael Fulton, presented their thanks to all staff for their efforts and contributions to the Company and the smooth completion and fit out of the Stage 2 of the Nanjing Manufacturing Facility.



Attendees from left hand side:

Michael Fulton, Vmoto's International Sales Manager; Carlos Sotelo, General Manager Europe; Mauro Benedito, Owner of Nemax Italy (importer for TNT Italy), Charles Chen, Executive Director of Vmoto Ltd; Wendy Wang, Acting General Manager of Vmoto Nanjing; and Jackie Wu, Deputy General Manager of Vmoto Nanjing.

Stage 2 of the Nanjing Manufacturing Facility consists of a manufacturing floor and office building, a staff cafeteria, a four level warehouse and a five level staff dormitory. Following the previously announced completion of the building, the Company is pleased to advise that the fit-out of the warehouse and the staff cafeteria have been completed and are now fully operational. The manufacturing floor fit-out will be implemented as demand requires and the Company intends that this be funded from cash flow. Notwithstanding that the manufacturing floor is currently not being utilised, the Board is confident that proceeding with Stage 2 was the correct strategic move to position the Company well for its future growth plans.



Buildings from left hand side:  
Warehouse, manufacturing floor and office building.

#### *China Bank Operating Facility and Additional Facility*

As announced on 10 May 2011, the Company received approval from its local bank in Nanjing to increase its operating facility from RMB14.9 million (approximately AUD2.2 million) to RMB34.0 million (approximately AUD4.9 million). In addition to the increased operating facility, the Company has also put in place an unsecured debt facility of RMB5 million (approximately AUD\$720,000).

As is reflected in the cash flow for this quarter, the Board has set tight budgetary measures which are suitable for this stage of the Company's development in a small but fast emerging electric scooter market. It is anticipated that the abovementioned loan and debt facilities, together with the Company's improved cash flows, will provide sufficient working capital for the immediate term.

### *Sales Order and New Distributors*

During the quarter, Vmoto continued to expand its customer base. It also continued negotiations with new potential distributors and, in total, the Company now has distributors in 15 countries handling product manufactured wholly by the Company's manufacturing facilities in Nanjing.

Increased sales have arisen predominantly as a result of the process of continuous development, modifications and quality improvement, undertaken by Vmoto in consultation with the Company's customers.

The Company's previously stated strategy of targeting Business to Business (B2B) customers is continuing, with many large multinational companies working with Vmoto to trial and test different models in specific markets. Vmoto's European General Manager, Mr Carlos Sotelo, and Vmoto's International Sales Manager, Mr Michael Fulton along with the team in Nanjing then continue to work closely with the customer to develop a scooter that suits the customer's specific needs for their market.

The Company sees great opportunities for future orders from these customers, who, while initially taking small quantities, are expected to increase their orders over time as the small but emerging electric scooter market develops.

The Company is confident of the future of electric vehicles and the infrastructure and strategies that are in place for Vmoto to grow with the demand for electric transport.

To further secure this growth path and Vmoto's already large footprint in a small but emerging market, the Company's management is in talks with a number of sophisticated battery suppliers and electrical component manufacturers to develop advanced technology together to bring electric scooter technology to the next level.

The Company currently has 2 models of electric scooter available (4 versions in total) for immediate delivery. It also has a further model in the final stages of development and a new model under market research for future development.

The Company is also planning to exhibit its electric scooter products at Post Expo 2011 to be held in September 2011 at Stuttgart, Germany and EICMA International Motorcycle Exhibition to be held in November 2011 at Milan, Italy. These exhibitions are two of the largest and most influential exhibitions in the world, attracting potential customers from around the globe.

While the Company's electric scooter products are creating significant buying interest, the sales and marketing development of the Company's petrol scooter products is still progressing. During the June 2011 quarter, 2 containers of the Company's petrol scooters using Vmoto patented 125cc water cooled fuel injected engine were shipped to Italjet in Korea and a further order is expected soon. The Company is hopeful that orders for the petrol scooters will continue to grow.

As announced in the quarter, work is continuing on the Vietnamese contract which has been hampered by problems with the Electronic Fuel Injection System ("EFI") for the 125cc EFI petrol scooter. 200 units of a reconfigured EFI System were sent to Vietnam in June to be retro fitted to existing customers scooters and tested. The Company is pleased to report that initial feedback has been positive and the Vietnamese customer has now

ordered a further 300 units of the new EFI to fit to the remaining customers bikes. Representatives of the Vietnamese customer visited Vmoto in Nanjing last week to finalise these arrangements. The Company is now hopeful that the Vietnamese scooter program can be brought “back on track” and will update the market as things continue to develop.

Vmoto’s four wheel Utility Terrain Vehicle, the Scartt, has received steady enquiries and is undergoing evaluation in a number of markets.

Sales of Scartt to New Zealand continue to be strong, with 16 units sold in May 2011 alone. This interest makes New Zealand our strongest market for the Scartt and this success can be attributed to the hard work carried out by Vmoto’s distributor in New Zealand.

As announced previously, the Company’s Scartt product has experienced certain quality control issues and significant improvement work has been undertaken. Recent customer feedback is very positive and the Company is hopeful sales will gradually increase in line with the continuous improvement of the product.

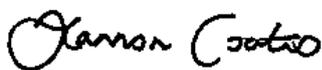
#### *Corporate*

The Company has met with a number of candidates as potential Directors during the quarter. The Board strongly believes it is important for any new Directors to have the right skill set and fit with the Company and will advise the market as soon as any appointments are confirmed.

Vmoto is also in the process of upgrading its website to better reflect the Company’s focus towards zero emission electric scooters.

On 26 May 2011, the Company made an announcement with regard to it being aware of a group of minority shareholders attempting to destabilise the Company and undermine Vmoto’s operations. The Company has appointed a legal firm to investigate and review their actions.

#### **AUTHORISED BY:**



**Shannon Coates**  
*Company Secretary*

# 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 2011</b>
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### Consolidated statement of cash flows

	Current quarter \$A'000	Year to date (12 months) \$A'000
<b>Cash flows related to operating activities</b>		
1.1 Receipts from customers	1,613	7,324
1.2 Payments for		
(a) staff costs	(536)	(2,444)
(b) advertising and marketing	(5)	(300)
(c) research and development	(1)	(26)
(d) leased assets	-	(8)
(e) other working capital (including inventories)	(1,034)	(10,185)
1.3 Dividends received	-	-
1.4 Interest and other items of a similar nature received	1	11
1.5 Interest and other costs of finance paid	(41)	(155)
1.6 Income taxes paid	-	-
1.7 Other (provide details if material)	9	23
<b>Net operating cash flows</b>	<b>6</b>	<b>(5,760)</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 (9 months) \$A'000
1.8 Net operating cash flows (carried forward)	<b>6</b>	<b>(5,760)</b>
<b>Cash flows related to investing activities</b>		
1.9 Payment for acquisition of:		
(a) businesses (item 5)	-	-
(b) equity investments	-	-
(c) intellectual property	-	(4)
(d) physical non-current assets	(324)	(2,096)
(e) other non-current assets	-	-
1.10 Proceeds from disposal of:		
(a) businesses (item 5)	-	80
(b) equity investments	-	-
(c) intellectual property	-	-
(d) physical non-current assets	-	-
(e) other non-current assets	-	-
1.11 Loans to other entities	-	-
1.12 Loans repaid by other entities	-	-
1.13 Other (net cash acquired on acquisition of subsidiary)	-	-
<b>Net investing cash flows</b>	<b>(324)</b>	<b>(2,020)</b>
<b>1.14 Total operating and investing cash flows</b>	<b>(318)</b>	<b>(7,780)</b>
<b>Cash flows related to financing activities</b>		
1.15 Proceeds from issues of shares, options, etc.	-	4,713
1.16 Proceeds from sale of forfeited shares	-	-
1.17 Proceeds from borrowings	1,100	3,940
1.18 Repayment of borrowings	(718)	(2,747)
1.19 Dividends paid	-	-
1.20 Other (provide details if material)	-	-
<b>Net financing cash flows</b>	<b>382</b>	<b>5,906</b>
<b>Net increase (decrease) in cash held</b>	<b>64</b>	<b>(1,874)</b>
1.21 Cash at beginning of quarter/year to date	651	2,590
1.22 Exchange rate adjustments to item 1.21	(13)	(14)
1.23 <b>Cash at end of quarter</b>	<b>702</b>	<b>702</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	58
	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 Director's remuneration	44
Non-Executive Directors' remuneration	<u>14</u>
	<u>58</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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**Appendix 4C**  
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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	5,619	2,536
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	702	621
4.2 Deposits at call	-	30
4.3 Bank overdraft	-	-
4.4 Other (provide details)	-	-
<b>Total: cash at end of quarter (item 1.23)</b>	<b>702</b>	<b>651</b>

**Acquisitions and disposals of business entities**

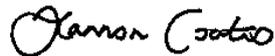
	Acquisitions <i>(Items 1.13 and 2.1)</i>	Disposals <i>(Item 1.10(a))</i>
5.1 Name of entity		
5.2 Place of incorporation or registration		
5.3 Consideration for acquisition or disposal		
5.4 Total net assets		
5.5 Nature of business		

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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 2011**  
**(Company Secretary)**

Print name: **Shannon Coates**

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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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