



## MANAGING DIRECTOR'S REVIEW FOR THE YEAR ENDED 30 JUNE 2008

ANNOUNCEMENT

29 AUGUST 2008

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### HIGHLIGHTS

- CONSOLIDATED REVENUE OF \$35.3 MILLION ACHIEVED, UP FROM \$25.6MILLION FY07
- CONSTRUCTION OF THE MANUFACTURING FACILITY IN NANJING
- FIRST GLOBAL DELIVERY OF SCOOTERS FROM IN-HOUSE PRODUCTION FACILITY
- VMOTO MANUFACTURING BASE STRIKES LONG TERM SUPPLY AGREEMENT WITH SOUTH KOREAN AND VIETNAMESE SCOOTER GROUPS
- ACQUISITION OF KEY ASSETS OF CSR MOTORCYCLES SPAIN COMPLETED
- LAUNCH OF VMOTO EUROPEAN BASE OF OPERATIONS
- MAJOR SCOOTER SUPPLY CONTRACTS SECURED IN SPAIN WITH GRUPPO AUPPER AND CARREFOUR

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## **SUMMARY**

In the financial year ending 30 June 2008, Vmoto Limited (“Vmoto”) has advanced further toward consolidating a vertically integrated platform for the manufacture, distribution, design, development and direct-to-market sales of Vmoto products and services throughout the globe.

The rapid construction of the Vmoto manufacturing facility in Nanjing China and the establishment of Vmoto Europe has been the highlight for the Vmoto Group (“Group”) in fulfilling the Board directive of self-determination.

The consolidated revenue for the year ended 30 June 2008 totaled \$35.3million, (up from \$25.6million in FY2007) with distribution to over 50 countries. The manufacturing and distribution operations in China have been aligned over the past 12 months to accommodate full operational support for the manufacturing division by the trading and distribution arm.

The decision was made to shift to a model of significant strategic OEM partnerships, which has led to a temporary margin reduction during the transitional period. Going forward, the emphasis will be to allocate 75% resource support to the company owned manufacturing activities, balanced by limited but cornerstone outsourced partnerships.

The revenue contribution from the diversified Group was well represented in the consolidated figures, with strong sales contributions generated by first sales of proprietary scooters to Europe, significant engine supply contracts to major international scooter clients based in Vietnam and South Korea and major sales supply agreements with European clients.

Vmoto branded scooter sales have continued to be strong in Australia, New Zealand and the Middle East over the last 12 months.

The change in direction toward complete vertical integration has required the restructure of the global bases of operation, by function and reporting lines. This comprehensive platform restructure has warranted a review of the goodwill associated with the original acquisition of Capital Pacific (Vmoto branded scooters in Australia) as Vmoto look to focus more on the manufacturing division.

The Company has opted to write down the goodwill of the recent acquisition totalling \$6.1 million.

## OPERATIONAL OVERVIEW

The global rollout and implementation of the vertical integration strategy is becoming fast tracked through the material acquisitions of the last 18 months and equally as importantly, the skill sets gained through key management joining the Vmoto team.

The recent developments leading to the global platform have occurred through:

- Distribution base – The acquisition of Freedomotor Co. Ltd Shanghai on 1 January 2007 served as the catalyst in the global rollout strategy. Securing international lines of distribution to 50 countries from China, with a majority of the major clients in Europe, has given Vmoto access to all other strategic opportunities that have followed.

Mr Charles Chen has provided the Group with a new dynamic of expertise and is widely respected in the global motorcycle industry.

- Manufacturing base – In order to best control its destiny, Vmoto has gravitated from a completely outsourced manufacturing model to a manufacturing centred Group. The manufacturing base has been created by the acquisition of Haiya Engine Manufacturing Co Ltd in May 2007.

Establishing a Chinese manufacturing presence with Western quality manufacturing and exceptional motorcycle engines has led to demand levels much higher than envisaged.

The next step in the evolution of the manufacturing base will be marked by opening of the Nanjing Manufacturing Facility later this year. This 3 hectare facility will provide Vmoto with scale for exponential growth over the mid-term.

Gaining the experience of Mr Li Gang as General Manager Production Asia provides Vmoto with a level of world class production and development expertise from Mr Gang's experience with Honda and Johnson Outboard Motors. Li Gang's guidance to the Group manufacturing function will ensure worlds' best practice manufacturing techniques are adopted and impeccable quality products roll off the line each and every time.

- Design and product development base – The next arm of the global vertical integration platform will be derived through the initial acquisition of the key assets of CSR Motorcycles Spain ("CSR"). The Group's design function will be headed by Mr Carlos Sotelo, five-time Paris Dakar rally motorcycle racer. Mr Sotelo brings product design capability and product development (prototype, performance and race development) which will directly feed into the manufacturing function for the introduction of innovative new technical upgrades and brand defining designs in the years ahead.

### *Vmoto Branded Products*

#### *Australia*

The Australian Distributor has navigated through its first year with sales strengthening in the latter half to reach \$2.3 million. Vmoto branded scooters remain top selling in an over serviced market that experienced zero growth in unit sales over the previous year.

With the delayed complete transition of the distribution structure and comprehensive review of the national dealer network, overall sales did not meet forecast expectations. Following a comprehensive annual review, an internal restructure of the operation and a new dealer support strategy has been initiated to increase the market share in the coming year. It is also envisaged that scooter sales are poised to dramatically increase in the coming 12 months, as is the case globally.

#### *Vmoto New Zealand*

New Zealand contributed stronger than expected revenue for the financial year. Vmoto branded sales accounted for \$424,994 for the year.

To bring greater public recognition and exposure for the brand, Vmoto New Zealand initiated a standalone concept retail outlet in the prestigious Auckland shopping district of Newmarket.

In addition, Vmoto New Zealand has launched the ATV program and placed the first order of the ATV 500cc model.

#### *Vmoto United Arab Emirates*

Vmoto UAE continues to develop the brand in the region, a difficult task given there has been no scooter industry to speak of prior to the introduction of the product by the Dubai based distributor.

The ATV range has experienced a strong reception, particularly the high powered ATV 500CC four wheel drive product, while the retail concept showroom in Dubai has served as a brand beacon for the immediate UAE customer base and greater transitory international customers.

#### *Vmoto Europe*

Vmoto Europe was created following the acquisition of key assets of CSR on 1 April 2008. Vmoto's European Operations has reported very promising debut revenues, with initial revenues from the newly established operation totaled \$854,047 in only 3 month of reporting during the financial year.

Along with the solid revenue, the European base has consecrated two major supply agreements during the quarter. In early June, Vmoto Europe signed an agreement to supply 3,000 scooters over a 12 month period to Spanish company, Gruppo Aupper, a specialty publisher and book supplier.

The Aupper order is expected to generate approximately €3,000,000 (A\$4,800,000) turnover for Vmoto in the financial year to 30 June 2009 with a considerable profit contribution. The first order of 300 units arrived in Spain late July.

The ECO 50cc scooter will be supplied to Gruppo Aupper as a promotional item to be packaged in an ongoing sales and marketing campaign geared at high value publications, such as encyclopaedias.

Following on from the Aupper agreement, Vmoto Europe also secured a major supply agreement with Carrefour SA (Euronext: "CA"). Carrefour SA (headquartered in France), is the world's

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second largest retail group by turnover, specialising in the “hypermarket” format of a combined grocery and department store housed in a massive retail complex. Carrefour operates primarily in Europe, Africa, Asia, Middle East and South America.

A range of 50cc and 125cc T17 scooters and ECO 50cc scooters will be delivered initially to the 22 Carrefour shopping centres in Madrid. If Carrefour is satisfied with sales it is expected that further scooters will be delivered to other shopping centre regions in Spain over the year. An option exists to expand the scooter supply arrangement throughout the European Carrefour network following the opening of the Vmoto Nanjing manufacturing facility later this year.

Vmoto Europe expects to deliver approximately 500 units to the Madrid Carrefour Centres over the European summer and autumn selling period.

#### *Vmoto China Operations*

#### *Vmoto International Distribution and Trading Operations*

The Vmoto global scooter and ATV distribution business, based in Shanghai, continues to perform well, although it delivered lower than expected profit. The Distribution division achieved consolidated sales for the year in excess of \$29.5 million.

The boost in revenue during the final quarter of the year can be attributed to the recent bolstering of the sales team, delivering new business to the Group. This trend is expected to increase in the coming year, to coincide with the Nanjing manufacturing operation going live.

#### *Vmoto International Manufacturing Operations*

The Vmoto scooter assembly plant in Wuxi became fully operational during the second quarter with initial production of the T17 scooters shipped to France and Spain. Following the inaugural shipment, the T17 scooter has now been delivered to customers in the United Kingdom, France, Spain, Russia, Canada and Korea.

The Board is confident that the manufacturing operations will become a major contributor of sales and profit over the coming year, supported through the migration of all manufacturing activities under one unified facility in Nanjing, increased production capacity and a major reduction in the fixed overhead structures.

During the period, an initial Original Equipment Manufacturer (‘OEM’) contract was secured with a Korean scooter group, in a limited run for market assessment, together with a number of additional OEM partnership Enquiries which offer potential opportunities for long-term OEM supplier contracts.

The Vmoto China manufacturing base has signed another long term agreement to develop and initially supply 30,000 engines over a 12 month period to a major Vietnamese scooter group. The Agreement, executed by Vmoto’s Chinese based engine manufacturing company is expected to generate approximately US\$5.7 million (A\$6.1 mil) turnover for Vmoto over the initial 12 month period with a considerable profit contribution.

Under the terms of the Agreement, Vmoto will supply the new generation water cooled, 125cc Electronic Fuel Injection ("EFI") scooter engine to the Vietnamese group. The Vmoto 125cc water cooled engine is currently in the final pre-production prototyping and evaluation phase. The production model will be modified to the customer's specifications, built around the existing pre-production platform. The modification, development and assessment process is expected to take approximately 8 months before commissioning into full volume production. The delivery window is envisaged to commence around April 2009.

### **Financial & Corporate Matters**

The financial year delivered strong revenue, along with significant long-term operational initiatives some of which will be realised in the next year.

The due diligence process for the acquisition of key assets of CSR was also completed and the transaction executed with an effective date of 1 April 2008.

### **CORPORATE ACTIVITY**

#### *Launch of European Operations*

Following the acquisition of the key assets of CSR, Vmoto has successfully established a European base in Barcelona, Spain.

The European market for scooters is the largest and most mature, representing approximately 6 million unit sales in CY2007 (equating to approximately \$11.2 billion) and growing at an average rate of 9.7% per annum. Spain, along with Italy, is one of the largest components of the European market, where scooters are a well accepted means of alternative transport, suited also to the warmer Mediterranean climate. Spain is also a recognised centre of innovation and design for the European scooter market.

The CSR acquisition is in-line with Vmoto's strategy of becoming a fully integrated global motorcycle, ATV and scooter company, which includes the development of a strong positioning in the European scooter market.

As part of the acquisition, CSR founder and Managing Director, Mr Carlos Sotelo has assumed a General Manager role for Vmoto Europe. Vmoto has also gained complete ownership of the intellectual property of the SCARTT, a new category of off-road recreational UTV vehicle, the NKT "naked" cafe racing style motorcycle and other products in various stages of development.

CSR's proprietary motorcycle design has been spearheaded by Mr Sotelo, utilising his competition experience and technical expertise to create high performance product with cutting edge design aesthetic. The new Vmoto European operation will also house a business development unit dedicated to increased OEM sales for the Chinese scooter and engine manufacturing department.

### *Nanjing Manufacturing Facility*

Stage 1 of the Nanjing manufacturing facility is on schedule for opening in late 2008. The factory, once completed, will provide the foundation for Vmoto moving forward to protect the continuity of supply of its products as it continues to expand into international markets.

The timing for completion is also extremely good news for the Company as, owing to rapidly increasing orders, both rental factories in use for current operations for assembly and engine manufacture is reaching maximum capacity. The commissioning of the new factory will enable production to more than triple from current capacity and will provide significant production cost reductions by locating both operations at the one location.

It is envisaged the factory will be commissioned and delivering the T17 scooter, SCARTT 500 cc Sport UTV and its Naked 250 Cafe Cruiser allowing Vmoto to commence proprietary manufacture of these products immediately upon opening.

The acquisition of the land for the factory development (consideration USD \$750,000.00) was paid in its entirety in October 2007. Stage one costs of the factory, being USD \$1,200,000.00 has been met, largely from cash flow.

### *Changes in Board Composition*

During the period, Vmoto appointed Mr Lee Verios as Non-Executive Chairman to the Board of Vmoto Ltd.

Mr Verios also acts as Chairman to the Perth based Wyllie Group Pty Ltd, one of Western Australia's largest private investors with significant holdings nationally in property investment, commercial and residential property development, farming, financial services, share trading and strategic public and private company interests, and is also a Director of Kailis Organic Olive Groves Ltd, an unlisted public company managing some of the largest organic olive groves in the world and which is in the process of establishing an international brand for its premium grade extra virgin olive oil.

In addition, Mr Verios is an experienced commercial lawyer. He is a partner in the international law firm of Deacons and is the leader of its Commercial Property division in Perth. In that capacity, he has been involved in some of the largest commercial property transactions in Western Australia in recent times. A member of the Australian Institute of Company Directors and of the Law Society of WA, Mr Verios also has significant experience in managing large professional service firms and in the establishment of various commercial activities both on a national and international basis.

Former Managing Director and Executive Director Mr Blair Sergeant assumed a Non-Executive Directorship role, effective 1 January 2008, while Mr Patrick Davin assumed the role of Managing Director.

Mr Carlos Sotelo was appointed Executive Director of Vmoto Europe, a wholly-owned subsidiary of Vmoto, on 28 May 2008.

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## **FINANCIAL REVIEW**

### *Significant Changes in the State of Affairs*

Total consolidated sales of \$35.3 million were recorded for the Group during the financial year, approximately 94% of which have been derived from international transactions. Most of the revenue increase has been through the successful aggregation strategy employed by the Board.

Although the consolidated entity's net assets have decreased by \$5.4 million, this merely reflects the writing off of goodwill in relation to Capital Pacific. Net tangible assets have increased by \$1.6 million, with net tangible asset backing per share improving by 65.6%, largely as a result of the assets acquired for the Vmoto Europe operations.

Fully paid ordinary share capital increased during the year as follows:

- On 20 July 2007, the Company drew down \$500,000 against an equity standby facility by the issue of 3,068,351 shares at 16.3 cents per share;
- On 29 February 2008, eleven \$25,000 convertible notes plus interest were converted into shares. The Company issued 2,743,438 shares at an issue price of 11 cents per share to the value of \$301,778;
- On 2 April 2008 the final deferred consideration of \$1,833,952 on the acquisition of Freedomotor Company Limited was settled by the issue of 25,637,844 shares at 7.1533 cents each.

### *Review of Financial Condition*

The Company had the following interest bearing liabilities as at 30 June 2008:

- Bank overdraft facility, the balance of which was \$1.27 million as at 30 June 2008;
- Private loans to the Company of \$2 million;
- Convertible notes of \$930,073 including accrued interest; and
- Vendor Finance valued at \$167,402.

The bank overdraft and private loans were subsequently repaid from part of the proceeds of the \$7 million capital raised in July 2008.

### **Events Subsequent to Balance Date**

Along with the exciting operational developments, Vmoto was involved in one major corporate transaction when the Company conducted a share placement to raise \$7 million. The placement was fully subscribed and subsequently approved by shareholders at a General Meeting on 14 July 2007.

The funds raised will be applied to fund growth and expansion of the global operational platform.

**SUMMARY AND OUTLOOK**

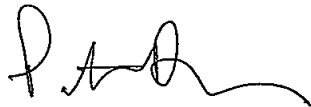
The year ahead is expected to be very rewarding, as Vmoto initiates its manufacturing division and provides the much needed facility in Nanjing.

The design and product development capability, intellectual property acquisition and European base of operations derived from the CSR transaction has already delivered tangible assets, along with a proven sales and business development team. The long term supply initiatives that have been forged over the previous 12 month period by both divisions are expected to underwrite a major component of the Group's business activity.

As recently announced, Vmoto has also embarked in providing low cost hybrid/alternative energy vehicles to the market in a mass production environment to meet the needs and expectations of the rapidly changing consumer demand for efficient, green transport.

Vmoto is now a truly global company, with significant sales, manufacturing, distribution, design and development capacity and management capability to provide world class products and services to our customers.

Yours faithfully



**Patrick Davin**  
*Managing Director*

**About Vmoto**

*Australian based Vmoto Limited is a global integrated scooter manufacturing and distribution group listed on the Australian Securities Exchange. Vmoto specialises in high quality motor scooters and All Terrain Vehicles (ATV's) using state-of-the-art production facilities situated in China. Vmoto also operates an international scooter and ATV trading and distribution business in Shanghai China and a sales, distribution and design centre based in Barcelona Spain.*

# Appendix 4E

## Preliminary Final Report to the Australian Stock Exchange

### Part 1

<b>Name of Entity</b>	Vmoto Limited
<b>ABN</b>	36 098 455 460
<b>Financial Year Ended</b>	30 June 2008
<b>Previous Corresponding Reporting Period</b>	Financial year ended 30 June 2007

### Part 2 – Results for Announcement to the Market

	\$'000	Percentage increase /(decrease) over previous corresponding period
<b>Revenue from ordinary activities</b>	35,322	38%
<b>Loss from ordinary activities after tax attributable to members</b>	(8,643)	(553)%
<b>Net loss attributable to members</b>	(8,643)	(553)%

<b>Dividends (distributions)</b>	<b>Amount per security</b>	<b>Franked amount per security</b>
<b>Final Dividend</b>	Nil	Nil
<b>Interim Dividend</b>	Nil	Nil
<b>Record date for determining entitlements to the dividends (if any)</b>	Not Applicable	

**Brief explanation of any of the figures reported above necessary to enable the figures to be understood:**

Please refer Managing Director's Review for commentary on the results for the year.

### Part 3 – Contents of ASX Appendix 4E

SECTION	CONTENTS
Part 1	Details of entity, reporting period
Part 2	Results for announcement to the market
Part 3	Contents of ASX Appendix 4E
Part 4	Consolidated income statement
Part 5	Accumulated losses
Part 6	Consolidated balance sheet
Part 7	Consolidated statement of cash flows
Part 8	Basis of preparation
Part 9	Loss from ordinary activities
Part 10	Commentary on results
Part 11	Notes to the statement of cash flows
Part 12	Details relating to dividends
Part 13	Earnings per share
Part 14	Net tangible assets per security
Part 15	Details of entities over which control has been gained or lost
Part 16	Details of associates and joint venture entities
Part 17	Issued securities
Part 18	Segment information
Part 19	Subsequent events
Part 20	Information on audit or review

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#### Part 4 – Consolidated Income Statement

	2008 \$	2007 \$
<b>Continuing Operations</b>		
Sales revenue	35,322,031	24,816,278
Cost of goods sold	(32,472,148)	(21,790,302)
Gross profit	2,849,883	3,025,976
Other revenue from ordinary activities	124,944	157,512
Operational expenses	(1,900,612)	(1,137,213)
Marketing and distribution expenses	(586,875)	(546,716)
Corporate and administrative expenses	(2,153,344)	(1,044,198)
Occupancy expenses	(498,440)	(207,466)
Other expenses from ordinary activities	(72,219)	(139,730)
Write off of goodwill	(6,109,813)	-
<b>Profit/(Loss) before finance costs and income tax</b>	<b>(8,346,476)</b>	<b>108,165</b>
Finance costs	(320,759)	(314,906)
Income tax	-	-
<b>Loss after tax from continuing operations</b>	<b>(8,667,235)</b>	<b>(206,741)</b>
Loss after tax from discontinued operations	-	(1,111,699)
<b>Total loss for the year</b>	<b>(8,667,235)</b>	<b>(1,318,440)</b>
Profit attributable to minority interest	24,415	(5,719)
<b>Loss attributable to members of the parent entity</b>	<b>(8,642,820)</b>	<b>(1,324,159)</b>

#### Part 5 – Accumulated losses

	2008 \$	2007 \$
Accumulated losses at the beginning of the year	(9,650,737)	(8,326,578)
Loss for the year	(8,642,820)	(1,324,159)
Accumulated losses at the end of the year	(18,293,557)	(9,650,737)

**Part 6 – Consolidated Balance sheet**

	<b>2008</b>	<b>2007</b>
	<b>\$</b>	<b>\$</b>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	1,099,777	631,156
Trade and other receivables	1,973,206	4,160,476
Inventories	402,800	599,697
Other	204,086	596,668
<b>Total Current Assets</b>	<b>3,679,869</b>	<b>5,987,997</b>
<b>NON CURRENT ASSETS</b>		
Receivables	-	1,055
Property, plant and equipment	2,398,584	403,330
Intangible assets	4,842,546	11,863,708
<b>Total Non Current Assets</b>	<b>7,241,130</b>	<b>12,268,093</b>
<b>TOTAL ASSETS</b>	<b>10,920,999</b>	<b>18,256,090</b>
<b>CURRENT LIABILITIES</b>		
Trade and other payables	2,691,056	6,251,669
Employee benefits	43,702	47,419
Interest bearing loans (Note (a))	3,478,663	1,652,518
Other liabilities	-	-
<b>Total Current Liabilities</b>	<b>6,213,421</b>	<b>7,951,606</b>
<b>NON CURRENT LIABILITIES</b>		
Interest bearing loans (Note (a))	947,423	1,175,440
<b>Total Non Current Liabilities</b>	<b>947,423</b>	<b>1,175,440</b>
<b>TOTAL LIABILITIES</b>	<b>7,160,844</b>	<b>9,127,046</b>
<b>NET ASSETS</b>	<b>3,760,155</b>	<b>9,129,044</b>
<b>EQUITY</b>		
Issued capital (Note (b))	21,218,419	18,666,346
Reserves	326,637	(77,283)
Accumulated losses	(18,293,557)	(9,650,737)
Minority interest	508,657	190,718
<b>TOTAL EQUITY</b>	<b>3,760,155</b>	<b>9,129,044</b>

(a) Included in interest bearing loans is an overdraft balance of \$1,272,801 (2007 \$1,181,682) and convertible notes (including accrued interest) of \$930,073 (2007 \$1,144,513).

(b) Subsequent to balance date, the Company issued 77,777,778 shares at an issue price of 9 cents each to raise a total of \$7,000,000 (before costs).

**Part 7 – Consolidated Statement of Cash Flows**

	2008 \$	2007 \$
<b>Cash flows from operating activities</b>		
Cash receipts in the course of operations	25,348,487	24,740,743
Cash payments in the course of operations	(25,233,698)	(27,037,314)
Interest received	15,554	25,479
<b>Net cash used in operating activities</b>	<u>130,343</u>	<u>(2,271,092)</u>
<b>Cash flows from investing activities</b>		
Cash acquired on acquisition of subsidiary	-	1,578,708
Proceeds from sale of plant and equipment	22,727	-
Payment for acquisition of businesses	-	(3,958,461)
Payment for plant and equipment	(1,226,689)	-
Payments for intellectual property rights	(210,927)	-
<b>Net cash used in investing activities</b>	<u>(1,414,889)</u>	<u>(2,379,753)</u>
<b>Cash flows from financing activities</b>		
Proceeds from the issue of shares and options	500,000	4,798,850
Proceeds from the exercise of options	-	100,000
Share issue costs	(63,636)	(285,246)
Repayment of loan to other entities		
Payments for loans to other entities		
Proceeds from borrowings	1,999,850	1,225,000
Repayment of borrowings	(515,964)	(817,881)
<b>Net cash provided by financing activities</b>	<u>1,920,250</u>	<u>5,020,723</u>
<b>Net increase/(decrease) in cash held</b>	635,704	369,878
<b>Cash at the beginning of the financial year</b>	(550,526)	(808,337)
Effects of exchange rate changes on cash	(258,202)	(112,067)
<b>Cash at the end of the financial year</b>	<u><u>(173,024)</u></u>	<u><u>(550,526)</u></u>

## Part 8 – Basis of Preparation

This preliminary final report has been prepared in accordance with ASX Listing Rule 4.3A and the disclosure requirements of ASX Appendix 4E.

## Part 9 – Loss from Ordinary Activities

The loss from ordinary activities before income tax benefit includes the following items of revenue and expense:

	2008 \$	2007 \$
<b>2. REVENUES AND EXPENSES OF CONTINUING OPERATIONS</b>		
<b>(a) Other income</b>		
Interest income	15,554	54,282
Rent income	26,667	6,250
Commissions	36,125	96,980
Other	46,598	-
	<u>124,944</u>	<u>157,512</u>

<b>(b) Other expenses</b>		
Foreign exchange loss	40,175	-
Increase in provision for doubtful debts	32,044	12,930
Bad debts written off	-	67,856
Loss on closing out foreign currency exchange contracts	-	183,446
Amendment to 2005 income tax return	-	(124,502)
Other	-	-
	<u>72,219</u>	<u>139,730</u>

<b>(c) Employee benefits expense</b>		
Wages and salaries costs	1,687,874	1,079,929
Superannuation costs	87,024	73,200
Increase/(decrease) in liability for annual leave	(3,717)	36,434
Expense of share based payments	-	8,510
	<u>1,771,181</u>	<u>1,198,073</u>

## Part 10 – Commentary on Results

Please refer Managing Director's Review for commentary on the results for the year.

## Part 11 – Notes to the Consolidated Statement of Cash Flows

	2008	2007
	\$	\$
<b>(a) Reconciliation of cash:</b>		
For the purposes of the Statement of Cashflows, cash includes cash on hand, and in banks, net of outstanding bank overdrafts. Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the Balance Sheet as follows:		
Cash and cash equivalents	1,099,777	631,156
Overdrafts included in Interest bearing loans	(1,272,801)	(1,181,682)
Cash at bank	<u>(173,024)</u>	<u>(505,526)</u>
<b>(b) Reconciliation of net cash used in operating activities to loss after income tax</b>		
Loss after income tax	(8,642,820)	(1,324,159)
<i>Add non-cash items:</i>		
Goodwill on consolidation written off	6,109,813	-
Amounts set aside to provisions	(23,360)	31,540
Loss on sale of plant and equipment	9,412	-
Depreciation	136,790	43,433
Share based payment expenses	621,000	-
	<u>(1,789,165)</u>	<u>(1,249,186)</u>
<i>Changes in assets and liabilities:</i>		
(Increase)/decrease in receivables	2,323,432	(3,428,505)
(Increase) /decrease in inventories	196,897	966,220
(Increase)/decrease in prepayments	(134,568)	(48,324)
Increase/(decrease) in accounts payable	<u>(466,253)</u>	<u>1,488,703</u>
<b>Net cash used in operating activities</b>	<u>130,343</u>	<u>(2,271,092)</u>

## Part 12 – Details Relating to Dividends

Date the dividend is payable	N/A
Record date to determine entitlement to the dividend	
Amount per security	
Total dividend	
Amount per security of foreign sourced dividend or distribution	
Details of any dividend reinvestment plans in operation	
The last date for receipt of an election notice for participation in any dividend reinvestment plans	

### Part 13 – Loss per Share

	2008	2007
Basic loss per share		
Ordinary shares	(3.86 cents)	(0.71 cents)
The Company's potential ordinary shares are not considered dilutive and accordingly basic loss per share is the same as diluted loss per share.		
	No.	No.
Weighted average number of ordinary shares used as the denominator in the calculation of basic loss per share	224,034,254	185,500,779

### Part 14 – Net Tangible Assets per Security

	2008	2007
Net tangible asset backing per ordinary security (cents)	(0.44)	(1.28)
Refer to Part 19 - Subsequent Events regarding a placement of shares subsequent to balance date.		

### Part 15 – Details of Entities Over Which Control has been Gained or Lost

Name of entity (or group of entities)	<b>Vmoto Europe Operations</b>
Date control gained	<b>1 April 2008</b>
Contribution of the controlled entity (or group of entities) to the profit/(loss) from ordinary activities during the period, from the date of gaining or losing control	<b>(167,496)</b>
Profit (loss) from ordinary activities of the controlled entity (or group of entities) for the whole of the previous corresponding period	<b>Not applicable</b>
Contribution to consolidated profit/(loss) from ordinary activities from sale of interest leading to loss of control	<b>Not applicable</b>

### Part 16 – Details of Associates and Joint Venture Entities

	Ownership Interest		Contribution to net profit/(loss)	
	2008 %	2007 %	2008 \$A'000	2007 \$A'000
Name of entity	N/A	N/A	N/A	N/A
Associates				
Joint Venture Entities				
Aggregate Share of Losses				

**Part 17 – Issued Securities**

	2008 \$	2007 \$
<b>Share capital</b>		
245,348,459 [2007: 213,898,826 ] fully paid ordinary shares	<u>21,218,419</u>	<u>18,666,346</u>
<i>The following movements in issued capital occurred during the year:</i>		
	2008 Number of Shares	2007 Number of Shares
Balance at beginning of the year	213,898,826	159,340,751
Issue of shares at 7.5 cents each	-	23,984,666
Issue of shares at 11.5 cents each	-	26,086,957
Issue of shares at 14.5 cents each	-	3,486,452
Issue of shares at 16.3 cents each	3,068,351	-
Issue of shares at 11.0 cents each	2,743,438	-
Issue of shares at 7.1533 cents each	25,637,844	-
Exercise of options at 10.0 cents each	-	1,000,000
	<u>245,348,459</u>	<u>213,898,826</u>
<b>Options</b>		
The following options to subscribe for ordinary fully paid shares are outstanding at balance date:		
	<ul style="list-style-type: none"> <li>➤ 383,544 options exercisable at 19.9 cents each on or before 20 July 2010.</li> <li>➤ 9,000,000 options exercisable at 20 cents each on or before 30 September 2012.</li> </ul>	

## Part 18 – Segment Information

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

The continuing operations of the consolidated entity is predominantly in the scooter and ATV manufacture and distribution industry. The discontinued operations relates to the surf leisure wear and products industry.

### Primary reporting - Geographical segments

Segment assets are based on the geographical location to which the assets apply.

Continuing Operations	Australia \$A'000		China \$A'000		Spain \$A'000		United States \$A'000		Consolidated \$A'000	
	2008	2007	2008	2007	2008	2007	2008	2007	2008	2007
<b>Revenue</b>										
Segment revenue	2,715,906	4,414,160	31,838,222	20,559,630	892,847	-	-	-	35,446,975	24,973,790
<b>Result</b>										
Segment result	(9,086,974)	(1,683,643)	611,650	1,471,184	(167,496)	-	-	-	(8,642,820)	(212,460)
<b>Assets</b>										
Segment assets	700,130	12,468,081	4,569,928	5,330,891	1,026,160	-	--	-	6,296,218	17,798,972
<b>Liabilities</b>										
Segment liabilities	(5,112,610)	(5,782,816)	(1,935,007)	(3,137,572)	(113,227)	-	-	-	(7,160,844)	(8,920,388)
<b>Discontinued Operations</b>										
	Australia \$A'000		China \$A'000		Spain \$A'000		United States \$A'000			
	2008	2007	2008	2007	2007	2008	2007	2008	2007	
<b>Revenue</b>										
Segment revenue	-	-	-	-	-	-	-	772,031	-	772,031
<b>Result</b>										
Segment result	-	-	-	-	-	-	-	(1,111,699)	-	(1,111,699)
<b>Assets</b>										
Segment assets	-	-	-	-	-	-	-	457,117	-	457,117
<b>Liabilities</b>										
Segment liabilities	-	-	-	-	-	-	-	(208,655)	-	(208,655)

## Part 18 – Segment Information (cont'd)

### Secondary reporting

#### *Business segments*

The principal activity of the continuing consolidated entity is the manufacture, marketing and distribution of scooters and ATVs. The discontinued operations were the marketing and distribution of surfing leisure wear and products. More than 90% of segment revenue and segment profits/(losses) from ordinary activities, and more than 90% of segment assets, relate to these operations.

### Part 19 – Subsequent Events

The Company raised \$7,000,000 through a share placement that was fully subscribed. After shareholder approval at the Company's general meeting on 14 July 2008, 77,777,778 shares were issued at 9 cents each.

The financial effect of this transaction has not been brought to account in the financial statements for the year ended 30 June 2008.

There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

### Part 20 – Audit/Review Status

<b>This report is based on accounts to which one of the following applies:</b> (Tick one)			
The accounts have been audited		The accounts have been subject to review	
The accounts are in the process of being audited or subject to review	✓	The accounts have not yet been audited or reviewed	

**If the accounts have not yet been audited or subject to review and are likely to be subject to dispute or qualification, a description of the likely dispute or qualification:**

Not applicable

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**If the accounts have been audited or subject to review and are subject to dispute or qualification, a description of the dispute or qualification:**

Not applicable