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VMOTO LIMITED
ABN 36 098 455 460

ANNUAL REPORT
for the year ended 31 December 2013

C O R P O R A T E D I R E C T O R Y

Directors

Mr Simon Farrell – Non-Executive Chairman
Mr Charles Chen – Managing Director
Mr Ivan Teo – Finance Director
Mr Oliver Cairns – Non-Executive Director
Mr Kaijian Chen – Non-Executive Director

Company Secretary

Ms Shannon Coates

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Australian Securities Exchange
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United Kingdom

ASX Code: VMT, AIM Code: VMT

Vmoto Limited is a public company incorporated in Western Australia and listed on the Australian Securities Exchange and AIM market of the London Stock Exchange.



VMOTO LIMITED
ABN 36 098 455 460

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C H A I R M A N ' S L E T T E R

Dear Shareholders,

It is with great pleasure I present to you Vmoto Limited's 2013 Annual Report.

This year's major milestone is our maiden net profit of A\$404,460. After years of hard work, this is a most rewarding result.

During the year, 60,500 units were produced from the factory, a considerable increase from 2012 due to the escalation in production of the PowerEagle scooters and the launch of 11 new models of electric two wheel vehicles for the domestic Chinese market. Production at the Nanjing facility continues to ramp up and with the current infrastructure still running at below 20% capacity, it leaves significant room for growth in 2014. In the second half of 2013, Vmoto opened 10 retail stores in China, recording sales of over 3,700 units. Post the reporting period, further stores have been opened.

The success of the Company's business model, led by the Managing Director and his management team, is apparent with a 156% growth in revenue for 2013.

In August 2013, Vmoto delivered two trial electric four wheel street cleaning vehicles to the district government in Jianye District, Nanjing. The trial is still ongoing, however the Company continues to receive interest from many companies within China and internationally to collaborate with Vmoto. This is potentially a very exciting new market.

Vmoto still has one of the widest global distribution networks of any electric scooter manufacturer in the world, being represented by more than 28 distributors in 27 countries in the geographic regions of Australia and New Zealand, Asia, Europe, South America, South Africa and North America.

The global electric scooter market, lead predominantly by China and Asia, is growing at a rapid pace as governments, businesses and day to day commuters look to reduce carbon emissions and reduce operating costs. The Company's competitive strategy is based on producing the highest quality and most technically innovative scooters available to the market. It is this sector the Company believes will produce the most attractive returns over the long term. The forecast growth numbers in electric scooters in China and the world continue to increase and Vmoto is now well positioned from a competitive perspective.

In conclusion, I would like to thank my fellow Directors, the management team and our staff for their contributions during the 2013 financial year. The Company is now well placed within the scooter market and I look forward with enthusiasm to the year ahead as we build on our successes of 2013.

Yours faithfully



Simon Farrell
Chairman

OPERATIONS REVIEW

OVERVIEW

Vmoto Limited (ASX:VMT, AIM:VMT), the global scooter manufacturing and distribution group specialising in "green" electric powered scooters, provides the following operations review for the year ended 31 December 2013.

During the 2013 financial year, Vmoto continued with its strategy of designing, manufacturing and distributing high quality "green" electric powered two wheel scooters from its manufacturing facilities in Nanjing, China.

The Company's extensive sales pipeline began delivering rewards as customers such as Shanghai PowerEagle International Co Ltd's (PowerEagle) continued to ramp up orders under its cooperation agreement as announced on 3 July 2012. From mid way through the year, after the launch of 11 specifically designed low cost models, the Company also began to focus on the huge domestic Chinese market, the world's largest electric two wheel vehicle market, with 30 million units produced in 2012 and expected to increase to 40 million units in 2015¹.

As a result of the significant increase in production from factory, the opening of new retail stores, and more streamlined processes, the Company is pleased to report a maiden net profit of A\$404,460 on a turnover of A\$25.2 million for the 2013 financial year.

Cash, facility and inventory

As at 31 December 2013, the Company had cash of A\$4.4 million.

The Company's total operating facility drawn down was RMB29.9 million (approximately A\$5.5 million) and the total undrawn operating facility was RMB4.1 million (approximately A\$757,000). As at 31 December 2013 the inventory at the factory stood at A\$5.2 million.

EXISTING MARKETS AND SALES

Sales for the year were predominantly made in China. In particular, PowerEagle production ramped up and was complimented by the launch of the Company's own models and retail stores.

ASIA

China: During the year ended 31 December 2013, the Company fulfilled PowerEagle's forecast production of 42,000 units for the year, with a total of 44,235 units produced and 42,051 units sold to end of December 2013.

In June 2013, Vmoto opened its first Chinese flagship retail store in Lishui District, Nanjing. Following this, the Company opened a further 9 retail stores in various locations around Nanjing, Jurong, Shanghai and Kunshan.

The Company sold over 3,700 units of electric two wheel vehicles through its 10 Chinese retail stores during the financial year and has shown that Vmoto's electric two wheel vehicle products have been well received by retail customers in China. Given the lead time each store requires for sales to start being generated, the number of units sold has been encouraging and in line with management's expectations.

The opening of Vmoto's retail stores in China is a key milestone for the Company and is one of the strategies of the Company to further penetrate into the world's largest electric two wheel vehicles market. The Company is assessing a number of other locations and expects to open more retail stores in 2014.

Vmoto's own retail stores give customers a direct buying opportunity where they can test ride, touch and feel Vmoto's electric two wheel vehicles. Vmoto's retail stores are also a one-stop shop offering a wide range of Vmoto electric two wheel vehicle products that can meet the different requirements and budgets of customers, supply parts and accessories and provide requisite after sales services.

¹ Source: China Electric Two Wheel Vehicle Industry Research Report, 13 November 2012

OPERATIONS REVIEW (cont'd)

The Company also intends to seek collaborations and distribution agreements with other electric scooter companies within China where a direct Vmoto retail outlet is not appropriate.

Indonesia: In November 2013, the Company signed an exclusive distribution agreement with the Indonesian company PT. Garansindo Technologies to distribute, stock and market the Company's Vmoto and E-Max range of electric scooter products in Indonesia. The Company is in discussions with the Indonesian distributor to determine specific requirements for their electric scooter products for the Indonesian market.

Malaysia: The Company sold 72 units of its delivery electric scooters in completely knocked down ("CKD") form to its Malaysian Original Equipment Manufacturer ("OEM") customer during the year, with a further 72 units sold after the end of the period.

The Company also shipped units to distributors in Thailand and South Korea and started discussions with potential distributors in India.

EUROPE

Sales in Europe during 2013 were generally slower due to economic conditions.

Germany: The Company commenced the production of E-Tropolis electric scooters during the period. While orders remained slow due to Europe's economic conditions, by 31 December 2013, the Company had delivered 232 units to the customer.

Netherlands: The Company secured B.V Nimag as its new exclusive distributor in the Netherlands. 38 units were shipped to the Netherlands during the year.

The Company also shipped units to distributors in Cyprus, Italy and Slovenia.

NORTH AMERICA

USA: The Company delivered its first order of 75 units to KLD Energy in the USA where KLD will install their own Samsung lithium battery packs and drive systems into the Vmoto "120" model. KLD's engineers are performing further tests on the drive system and visited Vmoto's Nanjing Facility at the end of July 2013 for the required system update.

The Company also shipped units to distributors in Canada.

SOUTH AMERICA

Brazil: As announced on 24 April 2013, the Company signed a joint venture ("JV") agreement with Riba Motors Industria e Comercio Ltda ("Riba"), providing Vmoto access to Riba's assembly facility with direct distribution to Latin America, the world's second fastest growing electric scooter market².

The JV with Riba as a local partner offers significant cost savings for the Company and the opportunity for Vmoto to leverage Riba's expertise in the Latin American market.

Due to the unprecedented social turmoil and unrest in Brazil and the significant interest received in the domestic Chinese market by Vmoto, the Company opted to defer its marketing efforts in Brazil and focus on the world's biggest market, China, which the Company anticipates will generate better returns in the short to medium term.

OTHER COUNTRIES

During the year, the Company also shipped to distributors in South Africa.

² Source: Pike Research

OPERATIONS REVIEW (cont'd)

LAUNCH OF NEW MODELS/VERSIONS IN CHINA

In June 2013, Vmoto launched the first batch of five new models of electric two wheel vehicles in China. These new models are updated versions of Vmoto's E-Max classic 80S and 120S electric scooters and newly developed electric two wheel vehicle models. The new models have been developed specifically to target the Chinese market, the design being modern and fashionable and at a reasonable price point.

The Company now has a total of 11 models of electric two wheel vehicles and will be developing more models in 2014 to keep up with demand.

COLLABORATIONS, TENDERS AND JOINT VENTURE OPPORTUNITIES

Joint Venture

Vmoto continued to progress toward execution of the necessary Chinese regulation agreements required to implement the proposed joint venture with a private Chinese electronic technology company, as announced on 2 October 2013. While formal operations have been delayed as a result of the collation of these agreements, Vmoto's joint venture partner is currently in situ at Vmoto's Nanjing facility and both parties remain committed to formalising the joint venture.

Electric cleaning vehicles

As announced on 13 August 2013, the Company delivered two trial electric four-wheel street cleaning vehicles for the district Government in Jianye District, Nanjing for trial. Trials and discussions with the Nanjing Government are ongoing.

During the year, the Company received many leads within China and internationally from parties who have expressed interest in cooperating with Vmoto. The Company is continuously evaluating these collaborations and opportunities to expand sales in China and globally.

CORPORATE

During the year, the Company raised a total of A\$6.8 million (before costs) with institutional and sophisticated investors in Australia and the UK to assist the Company in meeting the electric two wheel vehicle market demand and continuing expansion into China.

On 29 January 2013, the Company announced the appointment of Mr Simon Farrell and Mr Ivan Teo as Non-Executive Chairman and Finance Director respectively.

Vmoto's Australian registered office relocated to Suite 1, Ground Floor, 83 Havelock Street, West Perth, Western Australia in March 2013 and Vmoto's European after sales service, marketing and distribution centre moved from Barcelona, Spain to Bremen, Germany in February 2013 in order to provide a more efficient after sales service to the Company's distributors and customers in Europe.

OUTLOOK

2013 was a significant year for Vmoto as production at the factory started ramping up leading to its maiden profit. The Company continues to deliver on its existing OEM contract with PowerEagle and this has been complemented by the launch of its own models and opening of its own stores in China. China is a huge market for the Company and there is still significant room for growth with the current factory infrastructure, which is still below 20% capacity.

The Company is very excited about the opportunities in China and is executing a number of strategies to gain a stronger foothold in China to further consolidate its position as a premium, quality brand for the Chinese market electric scooter market.

OPERATIONS REVIEW (cont'd)

Vmoto certainly does not ignore the rest of the world and this is demonstrated by the global sales, albeit much smaller than China, in more than 20 countries. The Board remains focussed on increasing sales outside of China and is excited by the opportunities and discussions presenting themselves amongst others in Indonesia, India, Brazil, Europe and the US.

The Company has also been approached by a number of parties operating in the electric vehicles sector for collaborations or joint ventures. Discussions with these parties are continuing and the Company is looking forward to progressing these to see if any agreements can be secured to add long term value to the Company.

The continuous interest in Vmoto's manufacturing capacity and electric scooters by customers has demonstrated their confidence in Vmoto's infrastructure, capabilities and products.

2014 is expected to be another year of growth for Vmoto as production at the factory increases for both domestic China and overseas markets. It is an exciting time for the global electric scooter market and the Board consider Vmoto is now well positioned to be at the forefront of it.

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DIRECTORS' REPORT

The Directors present their report together with the consolidated financial statements of Vmoto Limited ("Vmoto" or the "Company") and its controlled entities (the "Consolidated Entity") for the financial period 1 January 2013 to 31 December 2013.

Directors

The Directors of the Company at any time during or since the end of the financial year are:

| Name | Experience and responsibilities |
|------|---------------------------------|
|------|---------------------------------|

| | |
|----------------------|---|
| Simon Farrell | Mr Farrell was appointed as Non-Executive Chairman of the Company on 29 January 2013. |
|----------------------|---|

| | |
|-------------------------------|---|
| Non-Executive Chairman | Mr Farrell has over 30 years experience in private and public corporate business especially in the mining industry at senior management and board level, principally in the areas of finance, marketing and general management. He was previously managing director of ASX, JSE and AIM listed Coal of Africa Limited, for which he was responsible for growing to a market capitalisation of more than £1 billion. |
|-------------------------------|---|

Mr Farrell holds a BCom degree from the University of Western Australia and an MBA from the Wharton School at the University of Pennsylvania. He is a Fellow of both the Australian Society of Accountants and the Australian Institute of Company Directors.

Mr Farrell has very strong relationships with brokers and fund managers in the UK.

| | |
|---------------------|---|
| Charles Chen | Mr Chen was appointed as Executive Director on 5 January 2007 and Managing Director of the Company on 1 September 2011. |
|---------------------|---|

| | |
|--------------------------|---|
| Managing Director | Mr Chen founded Freedomotor Corporation Limited in 2004, through a management buyout of key assets, which were subsequently acquired by Vmoto. He holds a Bachelor of Automobile Engineering from Wuhan University of Automobile Technology (China) and a postgraduate Diploma of Business Administration from South Wales University (UK). |
|--------------------------|---|

From 1993 to 2002, Mr Chen held senior executive roles with Hainan Sundiro Motorcycle Company Limited, the largest publicly listed industrial company in Hainan Province. Hainan Sundiro was acquired by Honda Japan in 2001.

Mr Chen is based in Nanjing, China, and oversees all of the Company's operations and activities.

| | |
|-----------------|--|
| Ivan Teo | Mr Teo was appointed as Finance Director of the Company on 29 January 2013. Prior to this appointment, Mr Teo was employed as the Company's Chief Financial Officer from 17 June 2009. |
|-----------------|--|

| | |
|-------------------------|--|
| Finance Director | Mr Teo is a qualified Chartered Accountant and has over 10 years experience in accounting, audit, corporate finance and international business serving private and public companies in a diverse range of industries including automobile, manufacturing, mining and retail. |
|-------------------------|--|

Mr Teo holds a BCom degree from the University of Adelaide and is based in Nanjing, China.



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DIRECTORS' REPORT (cont'd)

Oliver Cairns

Mr Cairns was appointed as Non-Executive Director of the Company on 1 September 2011.

Independent Non-Executive Director

Mr Cairns has over 15 years' experience in the small-mid cap corporate and capital markets space, having joined Blue Oar Securities Plc (now Northland Capital) in July 1999, and was a corporate financier and Nominated Adviser for AIM companies in London for over 8 years. In London, he was responsible for floating and advising several resources and industrial companies before relocating to Perth in June 2007.

In May 2009, Mr Cairns set up Pursuit Capital, a corporate advisory and investment house, which is focussed on long term corporate, capital and strategic involvement with junior international companies.

Mr Cairns graduated with a degree in Classics from the University of Exeter and is a member of the Securities Institute (UK).

Mr Cairns will be retiring and seeking re-election by shareholders at the Company's 2014 Annual General Meeting.

Kaijian Chen

Mr Chen was appointed as Non-Executive Director of the Company on 1 September 2011.

Independent Non-Executive Director

Mr Chen has extensive experience in the motorcycle manufacturing industry in China. He was formerly vice president of Hainan Sundiro Motorcycle Co, which was the second largest motorcycle manufacturer in China at the time, and which was subsequently acquired by Honda in 2001.

Mr Chen also served as vice president for Changzhou Supaiqi E-Vehicle Co, Ltd for 5 years. Currently Mr Chen is vice president of Xinri E-Vehicle Co, Ltd, which is one of the largest E-vehicle manufacturers in China at present. The annual production of Xinri in 2010 was over 2 million units of electric bicycles and scooters for the Chinese domestic market.

Mr Chen holds a degree from the Beijing Institute of Technology and is based in Wuxi, China.

Mr Chen will be retiring and seeking re-election by shareholders at the Company's 2014 Annual General Meeting.

Company Secretary

Shannon Coates

Ms Coates was appointed as Company Secretary on 10 May 2007.

Ms Coates completed a Bachelor of Laws through Murdoch University in 1993 and has since gained over 18 years in-house experience in corporate law and compliance for public companies. She is a Chartered Secretary and an Associate Member of both the Institute of Chartered Secretaries & Administrators and Chartered Secretaries Australia.

Ms Coates is currently employed as Legal & Compliance Counsel with Evolution Capital Partners, a company providing corporate advisory services and is also company secretary to a number of ASX and AIM listed companies.

DIRECTORS' REPORT (c o n t ' d)

Directorships in other listed entities

Directorships in other listed entities held by Directors of the Company during the last 3 years immediately before 31 December 2013 are as follows:

| Director | Company | Period of directorship | |
|------------------|----------------------------|------------------------|---------|
| | | From | To |
| Mr Simon Farrell | Anglo-African Minerals Plc | 2012 | 2013 |
| | Kenmare Resources Plc | 2000 | 2013 |
| | Bellzone Mining Plc | 2010 | 2011 |
| | Coal of Africa Limited | 2000 | 2012 |
| Mr Charles Chen | - | - | - |
| Mr Ivan Teo | - | - | - |
| Mr Oliver Cairns | Zeta Petroleum Plc | 2013 | Current |
| Mr Kaijian Chen | - | - | - |

Directors' Meetings

The number of Directors' meetings and the number of meetings attended by each of the Directors of the Company during the period ended 31 December 2013 are:

| Director | Board Meetings | |
|------------------|---------------------|----------|
| | Held while Director | Attended |
| Mr Simon Farrell | 5 | 5 |
| Mr Charles Chen | 6 | 6 |
| Mr Ivan Teo | 5 | 5 |
| Mr Oliver Cairns | 6 | 6 |
| Mr Kaijian Chen | 6 | 1 |

There is presently no separate Audit, Nomination or Remuneration Committee, with all committee functions being addressed by the full Board.

Principal Activity

The principal activity of the Consolidated Entity during the year ended 31 December 2013 was the development and manufacture, and international marketing and distribution of electric powered scooters, petrol scooters and all terrain vehicles.

Operating and Financial Review

Review of Operations

Vmoto Limited is a global scooter manufacturing and distribution group. The Company specialises in high quality "green" electric powered scooters and manufactures a range of western designed electric scooters from its low cost manufacturing facilities in Nanjing, China. Vmoto combines low cost Chinese manufacturing capabilities with European design. The group operates through two primary brands: Vmoto (aimed at the value market in Asia) and E-Max (targeting Western markets with a premium end product). As well as operating under its own brands, the Company also sells to a number of customers on an original equipment manufacturer ("OEM") basis.

Total consolidated sales of A\$25.2 million were recorded for the Consolidated Entity for the year ended 31 December 2013. The revenue of the Consolidated Entity has increased by 447% as compared to the six months period ended 31 December 2012, largely as a result of the Company's expansion into the Chinese electric scooter market. During the year ended 31 December 2013, the Consolidated Entity achieved a profit of A\$404,460 after income tax.

A more detailed review of operations for the year ended 31 December 2013 is set out in the Operations Review preceding the Directors' Report.

DIRECTORS' REPORT (cont'd)

Review of Financial Position

The Consolidated Entity's net assets have increased by approximately A\$7.4 million during the year ended 31 December 2013.

Cash balances increased by A\$2.6 million during the year ended 31 December 2013 primarily as a result of the Company's successful placements during the financial year and partly offset by cash flow to build up stocks to mass produce electric two-wheel products especially for China market.

Trade and other receivables have increased by A\$1.8 million mainly due to higher accrued sales during the financial year.

Inventories have increased by A\$2.0 million and prepayments have increased by A\$1.8 million mainly due increased production level and requirements for higher stock level to mass produce electric two-wheel products to meet customers demand.

Property, plant and equipment were consistent year on year.

Trade and other payables decreased by A\$0.6 million during the period mainly due to higher level of payments to trade and other payables.

Loans and borrowings have increased from A\$4.2 million to A\$5.5 million mainly due to movement of AUD:RMB exchange rate from 6.4687 at 31 December 2012 to 5.4147 at 31 December 2013 as the bank operating facility are denominated in Renminbi. An additional RMB3 million (approximately A\$472,000) operating facility has been draw down during the financial year and the bank operating facility drawn down was RMB29.9 million (A\$5.5 million) at 31 December 2013.

Equity has increased by A\$7.4 million during the year ended 31 December 2013 primarily as a result of the Company's successful placements during the year ended 31 December 2013.

No dividend has been declared or paid by the Company to the date of this Report in respect of the year ended 31 December 2013 and the six months ended 31 December 2012.

Business Strategies and Prospects for Future Financial Years

The Chinese market is the world's largest electric two wheel vehicle market, with 30 million units produced in 2012 and expected to increase to 40 million units in 2015³. The Company has begun to focus on the huge domestic Chinese market and expects to continue its expansion into China and to increase its presence in China. We have a number of strategies to achieve this, including:

- Develop more retail stores, distributors and OEM customers in China; and
- Collaborations and cooperations with parties operating in the electric vehicles sector.

The Company also expects to increase its global sales by targeting B2B customers especially in the delivery and fast food sectors and to appoint more international distributors. The Company is already in discussions and progressing with a number of interested parties in many countries including Indonesia, India, Brazil, Vietnam, Europe and the US.

We are also continually considering ways of reducing the Company's cost of manufacturing and operating costs by improving efficiency.

The Chinese government has become increasingly focused on environmental protection to reduce pollution through new-energy and clean technology. This was highlighted in the 2014 Chinese Government Work Report from the Chinese People's Political Consultative Conference annual session concluded on 12 March 2014.

³ Source: China Electric Two Wheel Vehicle Industry Research Report, 13 November 2012

DIRECTORS' REPORT (c o n t ' d)

Chinese Government policies providing subsidies to purchasers of new-energy vehicles, accelerating the construction of public electric charging stations and poles, and encouraging greater investment in electric car technology are reflective of the Government's greater focus in this sector. While a number of the new policies are centred on China's electric car market, Vmoto is monitoring developments closely as the Company expects to benefit from new Government policies and initiatives that encourage the use of new-energy 4 wheel and 2 wheel electric vehicles.

The material business risks faced by the Company are likely to have an effect on the financial prospects of the Company. The potential material business risks and how the Company manages these risks includes:

- technological obsolescence - given the Company operates in industry involving green and electric vehicles technology, any technological obsolescence could have impact on our financial results. We address this risk through investment in research and development, patent appropriate and necessary research and development results, recruit competent technicians and constantly monitoring the market. We see this risk as minimal as the Company is constantly developing new technology and functions in its electric scooter products and have the protection of trademarks and patents.
- reduction in demand from China - given our reliance on the Chinese economy, reduction in demand from China market for our electric scooter products could have impact on our financial results. Based on the views of prominent economic commentators, we do not anticipate any significant slowdown in the Chinese economy for the next few years. The Company also distribute its products in Europe and expanding sales in Asia regions. In addition, the Company is investigating the option of expanding sales into other emerging economies such as India and Vietnam to diversify its sales channel and reduce reliance on Chinese market.

Impact of legislation and other external requirements

The Consolidated Entity's operations are not subject to any significant environmental regulations. The Board believes that the Consolidated Entity has adequate systems in place for the management of its environmental regulations and is not aware of any breach of those environmental requirements as they apply to the Consolidated Entity.

Clean Energy Legislative Package

The Clean Energy Legislative Package, which included the Clean Energy Act 2011, was passed by the Australian Government in November 2011. It sets out the way that the government will introduce a carbon price to reduce Australia's carbon pollution and move to a clean energy future.

The Consolidated Entity's manufacturing activities are primarily carried out in China and the Directors believe that the Group will not be significantly affected by this legislation passed. The Consolidated Entity has not incorporated the effect of any carbon price implementation in its impairment testing at 31 December 2013.

The Directors' view is that there were no changes in environmental or other legislative requirements during the year that have significantly affected the results or operations of the Consolidated Entity.

Events Subsequent to Balance Date

Vesting of Performance Rights

On 21 January 2014, the Company issued 1,000,000 fully paid ordinary shares to Mr Charles Chen and 1,000,000 fully paid ordinary shares to Mr Oliver Cairns as a result of vesting of Class D incentive performance rights as approved by shareholders on 31 July 2012.

Exercise of Options

On 13 February 2014, the Company issued 40,400 fully paid ordinary shares following the exercise of 40,400 listed options exercisable at \$0.04 on or before 31 December 2014.

Other than the above and as noted elsewhere in the financial statements, there has not arisen in the interval between the end of the financial period and the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the Directors, to affect significantly the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

DIRECTORS' REPORT (cont'd)

Likely Developments

Further information about likely developments in the operations of the Consolidated Entity and the expected results of those operations in future financial years are discussed in the Operations Review.

Directors' Interests

The relevant interests of each Director in the shares, options and performance rights issued by the Company at the date of this report are as follows:

| Director | Ordinary shares | Options | Performance Rights |
|---------------------------------------|-----------------|------------|--------------------|
| Mr Simon James Farrell ¹ | 2,272,728 | 10,000,000 | - |
| Mr Charles Chen ² | 43,937,306 | 13,221,526 | 8,000,000 |
| Mr Ivan Teo ³ | 5,783,728 | 2,425,000 | - |
| Mr Oliver William Cairns ⁴ | 13,216,162 | 5,000,000 | 8,000,000 |
| Mr Kaijian Chen ⁵ | 5,505,050 | 2,777,777 | - |

- 2,272,728 shares, 5,000,000 options exercisable at \$0.04 each on or before 23 May 2018 and 5,000,000 options exercisable at \$0.08 on or before 23 May 2018 held indirectly by Newcove International Inc. Mr Farrell is a director and beneficiary of Newcove International Inc.
- 15,647,306 shares, 3,791,526 options exercisable at \$0.04 each on or before 31 December 2014 are held indirectly by Pershing Australia Nominees Pty Ltd <Argonaut Account> on behalf of Mr Charles Chen. 8,000,000 Performance Rights are held directly by Mr Charles Chen. 28,290,000 shares and 9,430,000 options exercisable at \$0.04 each on or before 31 December 2014 are held indirectly by Mr Chen's spouse, Huixin Zhou.
- 5,783,728 shares, 1,000,000 options exercisable at \$0.025 each on or before 1 September 2014, 1,000,000 options exercisable at \$0.03 each on or before 23 November 2015 and 425,000 options exercisable at \$0.04 each on or before 31 December 2014 are held directly by Mr Ivan Teo.
- 1,488,888 shares are held directly by Mr Oliver Cairns. 10,363,637 shares, 5,000,000 options exercisable at \$0.04 each on or before 31 December 2014 and 8,000,000 Performance Rights are held indirectly by Silverlight Holdings Pty Ltd as trustee for Cairns Investment trust. Mr Cairns is a beneficiary of the Cairns Investment trust. 1,363,637 shares are held indirectly by Mr OW and CH Cairns as trustee for OCCM Fund. Mr Cairns is a beneficiary of the OCCM Fund.
- 5,505,050 shares and 2,777,777 options exercisable at \$0.04 each on or before 31 December 2014 are held directly by Mr Kaijian Chen.

Options

On 23 May 2013, 5,000,000 unlisted options (exercisable at \$0.04 and expiring on 23 May 2018) and 5,000,000 unlisted options (exercisable at \$0.08 and expiring on 23 May 2018) were issued to Mr Simon Farrell pursuant to shareholder approval at the Company's 2013 Annual General Meeting.

On 15 July 2013, 3,241,527 unlisted options remained unexercised on their expiry date and lapsed pursuant to the terms and conditions of the options.

On 15 November 2013, 500,000 listed options (exercisable at \$0.04 and expiring on 31 December 2014) were issued to an advisor in consideration for marketing services provided to the Company.

DIRECTORS' REPORT (cont'd)

At the date of this report, options over unissued ordinary shares of the Company are:

| Grant Date | Vesting Date | Expiry Date | Exercise Price | Number |
|-------------------|-------------------|------------------|------------------------|------------|
| 1 September 2011 | 1 September 2012 | 1 September 2014 | 2.5 cents ¹ | 8,500,000 |
| 28 May 2012 | 28 May 2012 | 31 December 2014 | 4 cents | 59,638,850 |
| 5 June 2012 | 5 June 2012 | 31 December 2014 | 4 cents | 25,957,341 |
| 27 September 2012 | 27 September 2012 | 31 December 2014 | 4 cents | 54,070,654 |
| 23 November 2012 | 23 November 2013 | 23 November 2015 | 3 cents ¹ | 11,500,000 |
| 23 November 2012 | 23 November 2013 | 31 December 2014 | 4 cents | 5,725,385 |
| 23 May 2013 | 23 May 2014 | 23 May 2018 | 4 cents | 5,000,000 |
| 23 May 2013 | 23 May 2014 | 23 May 2018 | 8 cents | 5,000,000 |
| 15 November 2013 | 15 November 2013 | 31 December 2014 | 4 cents | 500,000 |

1. These options do not confer the right to participate in any share issue or interest issue of the Company or any other entity.

Performance Rights

On 17 December 2013, the Company issued 1,000,000 shares to Mr Charles Chen and 1,000,000 shares to Mr Oliver Cairns as a result of vesting of 2,000,000 Class A incentive performance rights as approved by shareholders on 31 July 2012.

On 21 January 2014, the Company issued 1,000,000 shares to Mr Charles Chen and 1,000,000 shares to Mr Oliver Cairns as a result of vesting of 2,000,000 Class D incentive performance rights as approved by shareholders on 31 July 2012.

All performance rights convert to fully paid ordinary shares for nil cash consideration, subject to performance based vesting conditions. At the date of this report, performance rights over unissued ordinary shares of the Company are:

| Class | Number |
|---------|-----------|
| Class B | 2,000,000 |
| Class C | 2,000,000 |
| Class E | 2,000,000 |
| Class F | 2,000,000 |
| Class G | 2,666,666 |
| Class H | 2,666,666 |
| Class I | 2,666,668 |

Indemnification and Insurance of Officers and Auditors

Indemnification

The Company has agreed to indemnify the current Directors and Officers of the Company against all liabilities to another person (other than the Company or a related body corporate) that may arise from their position as Directors and Officers of the Company, except where the liability arises out of conduct involving a lack of good faith.

The agreement stipulates that the Company will meet, to the maximum extent permitted by law, the full amount of any such liabilities, including costs and expenses.

The Company has not agreed to indemnify their current auditors, Bentleys Audit & Corporate (WA) Pty Ltd.

Insurance Premiums

As at the date of this report, a Directors and Officers insurance policy has been secured. The insurance premium for this policy during the year ended 31 December 2013 was A\$20,000.

DIRECTORS' REPORT (cont'd)

Contingent Liabilities

The Company is currently a defendant in a proceeding brought against the Company by a former employee in relation to the employee's past employment. Having considered legal advice, the Directors believe that the claim can be successfully defended, without any losses (including for costs) being incurred by the Company.

Non-audit services

During the year, Bentleys Audit & Corporate (WA) Pty Ltd, the Company's auditor, did not perform any non-audit services in addition to their statutory duties.

Auditor's Independence Declaration

The Auditor's Independence Declaration is set out on page 66 and forms part of the Directors' Report for the year ended 31 December 2013.

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REMUNERATION REPORT

This remuneration report outlines the Director and executive remuneration arrangements of the Company and the Consolidated Entity.

Director and Key Management Personnel details

The following persons acted as Directors of the Company during or since the end of the financial year:

- Mr Simon Farrell (appointed 29 January 2013)
- Mr Charles Chen (appointed Executive Director 5 January 2007, appointed Managing Director 1 September 2011)
- Mr Ivan Teo (appointed Finance Director 29 January 2013)
- Mr Oliver Cairns (appointed 1 September 2011)
- Mr Kaijian Chen (appointed 1 September 2011)

The term 'key management personnel' is used in this remuneration report to refer to the Directors and the following persons. Except as noted, the named persons held their position during or since the end of the financial year:

- Mr Patrick Davin (President of Strategic Business Development)
- Mr Michael Fulton (International Sales Manager)
- Mr George Hou (General Manager)
- Mr Zhengjie Wu (Vice General Manager)

Overview of remuneration policies

The Board as a whole is responsible for considering remuneration policies and packages applicable both to Directors and executives of the Company and the Consolidated Entity.

Key management personnel have authority and responsibility for planning, directing and controlling the activities of the Company and the Consolidated Entity, including Directors of the Company and other executives. Key management personnel comprise the Directors of the Company, and executives for the Company and the Consolidated Entity including the key management personnel.

Broadly, remuneration levels for key management personnel of the Company and key management personnel of the Consolidated Entity are competitively set to attract and retain appropriately qualified and experienced Directors and executives and reward the achievement of strategic objectives. The Board obtains independent advice on the appropriateness of remuneration packages of both the Company and the Consolidated Entity given trends in comparative companies both locally and internationally, and the objectives of the Company's remuneration strategy.

Remuneration packages consist of fixed remuneration including base salary, employer contributions to superannuation funds and non-cash benefits.

The Company has a variable remuneration package for Directors, which is known as the Performance Rights Plan. This plan allows Directors to convert performance rights to fully paid ordinary shares for nil cash consideration, subject to performance based vesting conditions.

Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicle), as well as employer contributions to superannuation funds.

Remuneration levels are reviewed annually by the Board through a process that considers individual, segment and overall performance of the Consolidated Entity. The Board has regard to remuneration levels external to the Consolidated Entity to ensure the Directors' and executives' remuneration is competitive in the market place.

REMUNERATION REPORT (cont'd)

Executive Directors are employed full time and receive fixed remuneration in the form of salary and statutory superannuation or consultancy fees, commensurate with their required level of services.

Non-Executive Directors receive a fixed monthly fee for their services. Where Non-Executive Directors provide services materially outside their usual Board duties, they are remunerated on an agreed daily rate basis.

Service agreements

It is the Consolidated Entity's policy that service agreements for key management personnel are unlimited in term but capable of termination on 3 months' notice and that the Consolidated Entity retains the right to terminate the service agreements immediately, by making payment equal to 3 months' pay in lieu of notice.

The service agreement outlines the components of compensation paid to key management personnel but does not prescribe how remuneration levels are modified year to year. Remuneration levels are reviewed annually on a date as close as possible to 31 December of each year to take into account key management personnel's performance.

Certain key management personnel will be entitled to bonuses as the Board may decide in its absolute discretion from time to time, to a maximum of 50% of the key management personnel's annual base salary per annum.

Non-Executive Directors

Total remuneration for all Non-Executive Directors, last voted upon by shareholders at the 2012 Annual General Meeting, is not to exceed A\$300,000 per annum and has been set at a level to enable the Company to attract and retain suitably qualified Directors. The Company does not have any scheme relating to retirement benefits for Non-Executive Directors.

Relationship between the remuneration policy and company performance

The remuneration policy has been tailored to increase goal congruence between shareholders, Directors and executives. Two methods have been applied to achieve this aim, the first being a performance-based rights subject to performance based vesting conditions, and the second being the issue of options or shares to key management personnel to encourage the alignment of personal and shareholder interests. The Company believes this policy was effective in increasing shareholder wealth.

The tables below set out summary information about the Consolidated Entity's earnings and movements in shareholder wealth for the last five reporting periods:

| | 31 Dec 2013 12 months | 31 Dec 2012 6 months | 30 June 2012 12 months | 30 June 2011 12 months | 30 June 2010 12 months |
|--------------------------------|--------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| <i>In AUD</i> | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Revenue | 25,175 | 4,603 | 8,242 | 7,112 | 17,942 |
| Net profit / (loss) before tax | 404 | (1,276) | (7,162) | (4,425) | (4,077) |
| Net profit / (loss) after tax | 404 | (1,276) | (7,162) | (4,425) | (4,077) |

| | 31 Dec 2013 12 months | 31 Dec 2012 6 months | 30 June 2012 12 months | 30 June 2011 12 months | 30 June 2010 12 months |
|---|--------------------------|-------------------------|---------------------------|---------------------------|---------------------------|
| Share price at start of period | \$0.02 | \$0.01 | \$0.02 | \$0.14 | \$0.07 |
| Share price at end of period | \$0.03 | \$0.02 | \$0.01 | \$0.02 | \$0.14 |
| Dividend | - | - | - | - | - |
| Basic and diluted earnings / (loss) per share | 0.04 cents | (0.16) cents | (1.14) cents | (0.79) cents | (0.80) cents |

REMUNERATION REPORT (cont'd)

Directors' and executive officers' remuneration

Details of the nature and amount of each major element of the remuneration of each Director of the Company and the named officers of the Company and the Consolidated Entity for the year ended 31 December 2013 are:

| <i>In AUD</i> | | SHORT-TERM | POST-EMPLOYMENT | SHARE BASED PAYMENTS | Total | Value of options/rights as proportion of remuneration % | % of remuneration based on performance |
|--------------------------------|-----------------------|---------------------|-------------------------------|------------------------------------|---------|---|--|
| | | Salary & fees \$ | Superannuation benefits \$ | Options / Performance Rights \$ | | | |
| Executive Directors | | | | | | | |
| Mr Charles Chen | 12 months to Dec 2013 | 207,861 | - | - | 207,861 | - | - |
| | 6 months to Dec 2012 | 93,492 | - | 9,250 | 102,742 | 9.0% | 9.0% |
| Mr Ivan Teo | 12 months to Dec 2013 | 122,440 | - | 6,898 | 129,338 | 5.3% | - |
| | 6 months to Dec 2012 | 51,456 | - | 802 | 52,258 | 1.5% | - |
| Non-Executive Directors | | | | | | | |
| Mr Simon Farrell | 12 months to Dec 2013 | 22,317 | - | 28,420 | 50,737 | 56.0% | - |
| | 6 months to Dec 2012 | - | - | - | - | - | - |
| Mr Oliver Cairns | 12 months to Dec 2013 | 80,000 | - | - | 80,000 | - | - |
| | 6 months to Dec 2012 | 40,000 | - | 9,250 | 49,250 | 18.8% | 18.8% |
| Mr Kaijian Chen | 12 months to Dec 2013 | 40,000 | - | - | 40,000 | - | - |
| | 6 months to Dec 2012 | 20,000 | - | - | 20,000 | - | - |
| Mr Blair Sergeant | 12 months to Dec 2013 | - | - | - | - | - | - |
| | 6 months to Dec 2012 | 14,667 | - | 56,000 | 70,667 | 79.2% | - |
| Total, all Directors | | | | | | | |
| | 12 months to Dec 2013 | 472,618 | - | 35,318 | 507,936 | 7.0% | - |
| | 6 months to Dec 2012 | 219,615 | - | 75,302 | 294,917 | 25.5% | 6.3% |

REMUNERATION REPORT (cont'd)

| <i>In AUD</i> | | SHORT-TERM | POST-EMPLOYMENT | SHARE BASED PAYMENTS | Total \$ | Value of options / rights as proportion of remuneration % | % of remuneration based on performance |
|---|-----------------------|------------------|----------------------------|----------------------|----------|---|--|
| | | Salary & fees \$ | Superannuation benefits \$ | Shares / Options \$ | | | |
| Executives | | | | | | | |
| Mr Patrick Davin (President of Strategic Business Development) | 12 months to Dec 2013 | 62,487 | - | - | 62,487 | - | - |
| | 6 months to Dec 2012 | 24,006 | - | - | 24,006 | - | - |
| Mr Michael Fulton (International Sales Manager) | 12 months to Dec 2013 | 64,357 | - | 6,898 | 71,255 | 9.7% | - |
| | 6 months to Dec 2012 | 52,616 | - | 802 | 53,418 | 1.5% | - |
| Mr George Hou (General Manager) | 12 months to Dec 2013 | 52,414 | - | 13,972 | 66,386 | 21.0% | - |
| | 6 months to Dec 2012 | 25,646 | - | 1,203 | 26,849 | 4.5% | - |
| Mr Zhengjie Wu (Vice General Manager) | 12 months to Dec 2013 | 40,305 | - | - | 40,305 | - | - |
| | 6 months to Dec 2012 | 26,686 | - | - | 26,686 | - | - |
| Total, all Executives | 12 months to Dec 2013 | 219,563 | - | 20,870 | 240,433 | 8.7% | - |
| | 6 months to Dec 2012 | 128,954 | - | 2,005 | 130,959 | 1.5% | - |

REMUNERATION REPORT (cont'd)

Share-based payment arrangements

Options

The Company operates an Employee Share Option Plan ("ESOP") for executives and senior employees of the Consolidated Entity. In accordance with the provisions of the plan, executives and senior employees may be granted options to purchase ordinary shares at an exercise price to be determined by the Board with regard to the market value of the shares when it resolves to offer the options. The options may only be granted to eligible persons after the Board considers the person's seniority, position, length of service, record of employment, potential contribution and any other matters which the Board considers relevant.

Each employee share option converts into one ordinary share of Vmoto Limited on exercise. No amounts are paid or payable to the Company by the recipient on receipt of the option. The options carry neither rights to dividends nor voting rights. Options may be exercised at any time from the date of vesting to the date of their expiry.

The number of options granted is determined by the Board.

To date, options granted under the ESOP expire within thirty six months of their issue, or immediately on the resignation of the executive or senior employee, whichever is the earlier.

During the year ended 31 December 2013, the following ESOP arrangements were in existence:

| Options series | Number | Grant date | Grant date fair value | Expiry date | Exercise Price | Vesting date |
|----------------|------------|------------|-----------------------|-------------|----------------|--------------|
| ESOP | 8,500,000 | 01/09/2011 | A\$0.010 | 01/09/2014 | A\$0.025 | 01/09/2012 |
| ESOP | 11,500,000 | 23/11/2012 | A\$0.011 | 23/11/2015 | A\$0.030 | 23/11/2013 |
| Total | 20,000,000 | | | | | |

There is no further service or performance criteria that need to be met in relation to ESOP options granted before the beneficial interest vests in the recipient.

The following grants of share-based payment compensation under the ESOP arrangement to key management personnel relate to the year ended 31 December 2013:

| Name | Option series | During the year ended 31 Dec 2013 | | | | % of compensation for the period consisting of options |
|----------|---------------|-----------------------------------|------------|-------------------|----------------------|--|
| | | No. granted | No. vested | % of grant vested | % of grant forfeited | |
| I Teo | ESOP | - | 1,000,000 | 100% | n/a | 5.3% |
| P Davin | ESOP | - | n/a | n/a | n/a | n/a |
| M Fulton | ESOP | - | 1,000,000 | 100% | n/a | 9.7% |
| G Hou | ESOP | - | 1,500,000 | 100% | n/a | 15.6% |
| Z Wu | ESOP | - | n/a | n/a | n/a | n/a |

REMUNERATION REPORT (cont'd)

The following table summarises the value of options to key management personnel granted, exercised or lapsed during the year ended 31 December 2013:

| Name | Value of options granted at the grant date ¹ | Value of options exercised at the exercise date | Value of option lapsed at the date of lapse ² |
|----------|---|---|--|
| | \$ | \$ | \$ |
| I Teo | 6,898 | - | - |
| P Davin | n/a | n/a | n/a |
| M Fulton | 6,898 | - | - |
| G Hou | 10,347 | - | - |
| Z Wu | n/a | n/a | n/a |

1. The value of options granted during the year is recognised in compensation over the vesting period of the grant, in accordance with Australian Accounting Standards.
2. The value of options lapsing during the year due to the failure to satisfy a vesting condition is determined assuming the vesting condition had been satisfied.

Performance Rights

On 6 August 2012, following shareholder approval at the Company's general meeting held on 31 July 2012, the Company granted a total of 32,000,000 performance rights to Directors Charles Chen, Blair Sergeant and Oliver Cairns.

The performance rights comprise:

- a) 2,000,000 performance rights issued to Mr Blair Sergeant pursuant to his Non-Executive Director Appointment Agreement; and
- b) 30,000,000 performance rights issued under the Company's Performance Rights Plan (10,000,000 each to Mr Charles Chen, Mr Blair Sergeant, Mr Oliver Cairns), subject to the following performance conditions:

| Number of Performance Rights per Director | Class | Performance Conditions | Time of vesting |
|---|-------|---|--|
| 1,000,000 | A | - The volume weighted average price of the Shares for 10 consecutive trading days on ASX (VWAP) exceeds 3 cents at any time on or before 31 December 2013; and - the Participating Director remains a Director at the time of vesting. | The date the VWAP first exceeds 3 cents |
| 1,000,000 | B | - The VWAP exceeds 3 cents at any time on or before 31 December 2013; and - the Participating Director remains a Director at the time of vesting. | The date 12 months after the date the VWAP first exceeds 3 cents |
| 1,000,000 | C | - The VWAP exceeds 3 cents at any time on or before 31 December 2013; and - the Participating Director remains a Director at the time of vesting. | The date 24 months after the date the VWAP first exceeds 3 cents |
| 1,000,000 | D | - The VWAP exceeds 4 cents at any time on or before 31 December 2014; and - the Participating Director remains a Director at the time of vesting. | The date the VWAP first exceeds 4 cents |
| 1,000,000 | E | - The VWAP exceeds 4 cents at any time on or before 31 December 2014; and - the Participating Director remains a Director at the time of vesting. | The date 12 months after the date the VWAP first exceeds 4 cents |
| 1,000,000 | F | - The VWAP exceeds 4 cents at any time on or before 31 December 2014; and - the Participating Director remains a Director at the time of vesting. | The date 24 months after the date the VWAP first exceeds 4 cents |

REMUNERATION REPORT (cont'd)

| | | | |
|-----------|---|--|--|
| 1,333,333 | G | - The VWAP exceeds 5 cents at any time on or before 31 December 2015; and - the Participating Director remains a Director at the time of vesting. | The date the VWAP first exceeds 5 cents |
| 1,333,333 | H | - The VWAP exceeds 5 cents at any time on or before 31 December 2015; and - the Participating Director remains a Director at the time of vesting. | The date 12 months after the date the VWAP first exceeds 5 cents |
| 1,333,334 | I | - The VWAP exceeds 5 cents at any time on or before 31 December 2015; and - the Participating Director remains a Director at the time of vesting. | The date 24 months after the date the VWAP first exceeds 5 cents |

During the year ended 31 December 2013, the following performance rights arrangements were in existence:

| Performance rights series | Number | Grant date | Grant date fair value |
|---------------------------|-------------------|------------|-----------------------|
| Class A | 2,000,000 | 06/08/2012 | A\$0.004 |
| Class B | 2,000,000 | 06/08/2012 | A\$0.004 |
| Class C | 2,000,000 | 06/08/2012 | A\$0.004 |
| Class D | 2,000,000 | 06/08/2012 | A\$0.0015 |
| Class E | 2,000,000 | 06/08/2012 | A\$0.0015 |
| Class F | 2,000,000 | 06/08/2012 | A\$0.0015 |
| Class G | 2,666,666 | 06/08/2012 | A\$0.0005 |
| Class H | 2,666,666 | 06/08/2012 | A\$0.0005 |
| Class I | 2,666,668 | 06/08/2012 | A\$0.0005 |
| Total | 20,000,000 | | |

All performance rights convert to fully paid ordinary shares for nil cash consideration, subject to the above performance based vesting conditions.

The following performance rights to key management personnel relate to the year ended 31 December 2013:

| Name | Performance rights series | During the year ended 31 Dec 2013 | | | |
|----------|---------------------------|-----------------------------------|------------|-------------------|----------------------|
| | | No. granted | No. vested | % of grant vested | % of grant forfeited |
| C Chen | Class A | - | 1,000,000 | 100% | n/a |
| O Cairns | Class A | - | 1,000,000 | 100% | n/a |

This report is made with a resolution of the Directors pursuant to s298(2) of the Corporations Act 2001:



Charles Chen
Managing Director

Dated at China, Western Australia this 28th day of March 2014.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T

The Board of Directors of Vmoto Limited is responsible for the establishment of a corporate governance framework that has regard to the best practice recommendations set by the ASX Corporate Governance Council. Vmoto's objective is to achieve best practice in corporate governance and the Company's Board, senior executives and employees are committed to achieving this objective.

This statement summarises the corporate governance practices that have been adopted by the Board. In addition to the information contained in this statement, the Company's website at www.vmoto.com contains additional details of its corporate governance procedures and practices.

ASX Best Practice Recommendations

The ASX Listing Rules require listed companies to include in their Annual Report a statement disclosing the extent to which they have complied with the ASX best practice recommendations in the reporting period. The recommendations are not prescriptive and if a company considers that a recommendation is inappropriate having regard to its particular circumstances, the company has the flexibility not to adopt it. Where Vmoto considered it was not appropriate to presently comply with a particular recommendation the reasons are set out in the relevant section of this statement.

The Board has adopted a Corporate Governance policy that (except where expressly noted below) complies with the Principles set out in the Second Edition of the "Corporate Governance Principles and Recommendations", established by the ASX Corporate Governance Council and published by the ASX in August 2007. Other than as noted below, this Corporate Governance policy has been in effect for the entire reporting period.

| Recommendation | | Comply Yes/No | Reference / explanation | ASX Listing Rule / CGC recommendations |
|---|---|---------------|-------------------------|--|
| Principle 1 – Lay solid foundations for management and oversight | | | | |
| 1.1 | Companies should establish the functions reserved to the board and those delegated to senior executives and disclose those functions. | Yes | Page 24 | ASX CGC 1.1 |
| 1.2 | Companies should disclose the process for evaluating the performance of senior executives. | Yes | Page 25 | ASX CGC 1.2 |
| 1.3 | Companies should provide the information indicated in the guide to reporting on Principle 1. | Yes | Pages 24 - 25 | ASX CGC 1.3 |
| Principle 2 – Structure the board to add value | | | | |
| 2.1 | A majority of the board should be independent directors. | Yes | Page 26 | ASX CGC 2.1 |
| 2.1 | The chair should be an independent director. | Yes | Page 25 | ASX CGC 2.2 |
| 2.3 | The roles of chair and chief executive officer (CEO) should not be exercised by the same individual. | Yes | Page 25 | ASX CGC 2.3 |
| 2.4 | The board should establish a nomination committee. | No | Page 25 | ASX CGC 2.4 |
| 2.5 | Companies should disclose the process for evaluating the performance of the board, its committees and individual directors. | Yes | Page 25 | ASX CGC 2.5 |
| 2.6 | Companies should provide the information indicated in the guide to reporting on Principle 2. | Yes | Page 26 | ASX CGC 2.6 |

CORPORATE GOVERNANCE STATEMENT (cont'd)

| Principle 3 – Promote ethical and responsible decision-making | | | | |
|--|---|----------------------|---------|----------------------------|
| 3.1 | Companies should establish a code of conduct and disclose the code or a summary of the code as to: <ul style="list-style-type: none"> ➢ The practices necessary to maintain confidence in the company's integrity ➢ The practices necessary to take into account their legal obligations and the reasonable expectations of their stakeholders ➢ The responsibility and accountability of individuals for reporting and investigating reports of unethical practices | Yes | Page 26 | ASX CGC 3.1 |
| 3.2 | Companies should establish a policy concerning diversity and disclose the policy or a summary of that policy. The policy should include requirements for the board to establish measurable objectives for achieving gender diversity for the board to assess annually both the objectives and progress in achieving them. | Yes | Page 26 | ASX CGC 3.2 |
| 3.3 | Companies should disclose in each annual report the measurable objectives for achieving gender diversity set by the board in accordance with the diversity policy and progress towards achieving them. | Yes | Page 26 | ASX CGC 3.3 |
| 3.4 | Companies should disclose in each annual report the proportion of women employees in the whole organisation, women in senior executive's positions and women on the board. | Yes | Page 26 | ASX CGC 3.4 |
| 3.5 | Companies should provide the information indicated in the guide to reporting on Principle 3. | Yes | Page 26 | ASX CGC 3.5 |
| Principle 4 – Safeguard integrity in financial reporting | | | | |
| 4.1 | The board should establish an audit committee. | No | Page 27 | ASX CGC 4.1 |
| 4.2 | The audit committee should be structured so that it: <ul style="list-style-type: none"> ➢ Consists only of non-executive directors ➢ Consists of a majority of independent directors ➢ Is chaired by an independent chair, who is not chair of the board ➢ Has at least three members | No No No No | Page 27 | ASX CGC 4.2 ASX LR 12.7 |
| 4.3 | The audit committee should have a formal charter. | Yes | Page 27 | ASX CGC 4.3 |
| 4.4 | Companies should provide the information indicated in the guide to reporting on Principle 4. | Yes | Page 27 | ASX CGC 4.4 |
| Principle 5 – Make timely and balanced disclosure | | | | |
| 5.1 | Companies should establish written policies designed to ensure compliance with ASX Listing Rule disclosure requirements and to ensure accountability at a senior executive level for that compliance and disclose those policies or a summary of those policies. | Yes | Page 27 | ASX CGC 5.1 |
| 5.2 | Companies should provide the information indicated in the guide to reporting on Principle 5. | Yes | Page 27 | ASX CGC 5.2 |
| Principle 6 – Respect the rights of shareholders | | | | |
| 6.1 | Companies should design a communications policy for promoting effective communication with shareholders and encouraging their participation at general meetings and disclose their policy or a summary of that policy. | Yes | Page 27 | ASX CGC 6.1 |
| 6.2 | Companies should provide the information indicated in the guide to reporting on Principle 6. | Yes | Page 27 | ASX CGC 6.2 |

CORPORATE GOVERNANCE STATEMENT (cont'd)

| Principle 7 – Recognise and manage risk | | | | |
|--|--|----------------|---------|-------------|
| 7.1 | Companies should establish policies for the oversight and management of material business risks and disclose a summary of those policies. | Yes | Page 28 | ASX CGC 7.1 |
| 7.2 | The board should require management to design and implement the risk management and internal control system to manage the company's material business risks and report to it on whether those risks are being managed effectively. The board should disclose that management has reported to it as to the effectiveness of the company's management of its material business risks. | Yes | Page 28 | ASX CGC 7.2 |
| 7.3 | The board should disclose whether it has received assurance from the CEO (or equivalent) and the Chief Financial Officer (CFO) (or equivalent) that the declaration provided in accordance with section 295A of the <i>Corporations Act</i> is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks. | Yes | Page 28 | ASX CGC 7.3 |
| 7.4 | Companies should provide the information indicated in the guide to reporting on Principle 7. | Yes | Page 28 | ASX CGC 7.4 |
| Principle 8 – Remunerate fairly and responsibly | | | | |
| 8.1 | The board should establish a remuneration committee. | No | Page 28 | ASX CGC 8.1 |
| 8.2 | The remuneration committee should be structured so that it: <ul style="list-style-type: none"> ➤ Consists of a majority of independent directors ➤ Is chaired by an independent chair ➤ Has at least three members | No No No | Page 28 | ASX CGC 8.2 |
| 8.3 | Companies should clearly distinguish the structure of non-executive director's remuneration from that of executive directors and senior executives. | Yes | Page 29 | ASX CGC 8.3 |
| 8.4 | Companies should provide the information indicated in the guide to reporting on Principle 8. | Yes | Page 29 | ASX CGC 8.4 |

Board of Directors

Role and Responsibilities of the Board

The Board is responsible for guiding and monitoring the Company on behalf of shareholders. The specific responsibilities of the Board include:

- (a) appointment, evaluation, rewarding and if necessary the removal of the Managing Director, and Chief Financial Officer (or equivalent) and the Company Secretary;
- (b) in conjunction with management, development of corporate objectives, strategy and operations plans and approving and appropriately monitoring plans, new investments, major capital and operating expenditures, capital management, acquisitions, divestitures and major funding activities;
- (c) establishing appropriate levels of delegation to the Managing Director to allow him to manage the business efficiently;
- (d) monitoring actual performance against planned performance expectations and reviewing operating information at a requisite level, to understand at all times the financial and operating conditions of the Company;

CORPORATE GOVERNANCE STATEMENT (cont'd)

- (e) monitoring the performance of senior management including the implementation of strategy, and ensuring appropriate resources are available;
- (f) via management, an appreciation of areas of significant business risk and ensuring that the Company is appropriately positioned to manage those risks;
- (g) overseeing the management of safety, occupational health and environmental matters;
- (h) satisfying itself that the financial statements of the Company fairly and accurately set out the financial position and financial performance of the Company for the period under review;
- (i) satisfying itself that there are appropriate reporting systems and controls in place to assure the Board that proper operational, financial, compliance, and internal control processes are in place and functioning appropriately;
- (j) to ensure that appropriate internal and external audit arrangements are in place and operating effectively;
- (k) having a framework in place to help ensure that the Company acts legally and responsibly on all matters consistent with the code of conduct; and
- (l) reporting to shareholders.

In accordance with ASX Principle 1, the Board has established a Board Charter which sets out functions reserved to Board and those delegated to senior executives. This Charter is available on the Company's website. The Board has delegated responsibilities and authorities to management to enable management to conduct the Company's day to day activities. Matters which are not covered by these delegations, such as approvals which exceed certain limits, require Board approval.

Evaluation of Board and Senior Executive performance

A process has been established to review and evaluate the performance of the Board, individual Directors and senior executives. The Board is required to meet annually with the specific purpose of reviewing the role of the Board, assessing the performance of the Board and individual Directors over the previous 12 months and examining ways in which the Board can better perform its duties.

The Managing Director is responsible for assessing the performance of the key executives within the Company. This is performed through a formal process involving a formal meeting with each senior executive.

Board composition

As at the date of this Report, the Board is comprised of two executive Directors and three non-executive Directors.

The Company's website contains details on the procedures for the selection and appointment of new Directors and the re-election of incumbent Directors, together with the Board's policy for the nomination and appointment of Directors.

ASX Principle 2 recommends the Board establish a Nomination Committee to focus on the selection and appointment practices of the Company. It is further recommended that the Nomination Committee have a formal Charter.

The Company has adopted a formal Nomination Committee Charter, available on the Company's website, which includes information on the Company's approach to selection and appointment of Directors. However the Company does not presently have a separate Nomination Committee. Given the current size and operations of the Company, the full Board conducts the function of such a committee, in accordance with the Charter.

CORPORATE GOVERNANCE STATEMENT (cont'd)

The composition of the Board is reviewed at least annually to ensure the balance of skills and experience is appropriate. The current Directors have a broad range of qualifications, experience and expertise in scooter and motorcycle distribution and marketing and in the finance and corporate advisory industries. The skills, experience and expertise of Directors are set out in the Directors' Report. The Board considers that the current composition of the Board is adequate for the Company's current size and operations, and includes the appropriate mix of skills and expertise, relevant to the Company's business.

The names of the Directors in office at the date of this Report, the year they were first appointed, their status as non-executive, executive or independent Directors and whether they are retiring by rotation and seeking re-election by shareholders at the 2014 Annual General Meeting, are set out in the Directors' Report.

Independence of non-executive directors

ASX Principle 2 recommends that a majority of the Board should be independent. The Board considers an independent Director to be a non-executive Director who meets the criteria for independence included in Principle 2 of the ASX Corporate Governance Principles and Recommendations. Materiality for these purposes is based on quantitative and qualitative bases. An amount of over 5% of the annual turnover of the Company or 5% of the individual directors' net worth is considered material for these purposes.

The Board has reviewed and considered the positions and associations of each of the Directors in office at the date of this report and consider that a majority of the Directors are independent.

Independent professional advice

The Board has adopted a formal policy on access to independent professional advice which provides that Directors are entitled to seek independent professional advice for the purposes of the proper performance of their duties. The advice is at the Company's expense and advice so obtained is to be made available to all Directors.

Meetings

The Board held 6 scheduled meetings during the reporting period and no unscheduled meetings were held during that period. Senior management attended and made presentations at the Board Meetings as considered appropriate and were available for questioning by Directors.

The attendance of Directors at Board meetings during the financial year ended 31 December 2013 is detailed in the Directors' Report.

Code of Conduct

The Board encourages appropriate standards of conduct and behaviour from Directors, officers, employees and contractors of the Company.

The Board has adopted a Code of Conduct in relation to Directors and employees, available from the Company's website. This Code of Conduct is regularly reviewed and updated as necessary to ensure that it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Company's integrity.

A fundamental theme is that all business affairs are conducted legally, ethically and with strict observance of the highest standards of integrity and propriety.

ASX Principle 3 recommends companies establish a policy concerning diversity and disclose the policy or a summary of that policy. It further recommends companies should disclose in each annual report measurable objectives for achieving gender diversity set by the Board in accordance with the diversity policy and progress towards achieving them. Due to the current nature and scale of Vmoto's activities, the Board has not established a diversity policy or measurable objectives for achieving gender diversity to report against in this report for the period ending 31 December 2013. Notwithstanding, the Company notes that as at the date of this report, the proportion of women associated with the Company is:

- a) Board: Nil
- b) Senior Executive: 17.6%
- c) Employees: 48.7%

CORPORATE GOVERNANCE STATEMENT (cont'd)

Financial Reporting

ASX Principle 4 recommends the Board establish an Audit Committee to focus on issues relevant to the integrity of the Company's financial reporting. It is further recommended the Audit Committee have a formal Charter.

The Company has prepared a formal Audit Committee Charter, available from the Company's website, which promotes an environment consistent with best practice financial reporting and includes information on procedures for the selection and appointment of the external auditor and for the rotation of external audit engagement partners. Given the current size and operations of the Company, the Company does not presently have a separate Audit Committee. The full Board conducts the function of such a committee, in accordance with the Charter.

Continuous Disclosure

In accordance with ASX Principle 5, the Board has an established Continuous Disclosure Policy which is available from the Company's website.

The Company is committed to:

- (a) complying with the general and continuous disclosure principles contained in the Corporations Act and the ASX Listing rules;
- (b) preventing the selective or inadvertent disclosure of material price sensitive information;
- (c) ensuring shareholders and the market are provided with full and timely information about the Company's activities; and
- (d) ensuring that all market participants have equal opportunity to receive externally available information issued by the Company.

Shareholder Communication

In accordance with ASX Principle 6, the Board has established a communications strategy which is available from the Company's website. The Board aims to ensure that shareholders are kept informed of all major developments affecting the Company.

The Managing Director and Company Secretary have primary responsibility for communication with shareholders. Information is communicated through:

- (a) continuous disclosure to relevant stock markets of all material information;
- (b) periodic disclosure through the annual report (or concise annual report), half year financial report and quarterly reporting of corporate activities;
- (c) notices of meetings and explanatory material;
- (d) the annual general meeting;
- (e) periodic newsletters or letters from the Chairman or Managing Director; and
- (f) the Company's website at www.vmoto.com

The Company is committed to the promotion of investor confidence by ensuring that trading in the Company's securities takes place in an efficient, competitive and informed market.

Shareholders are encouraged at annual general meetings to ask questions of Directors and senior management and also the Company's external auditors, who are requested to attend the Company's annual general meetings.

CORPORATE GOVERNANCE STATEMENT (cont'd)

Risk Management

In accordance with ASX Principle 7, the Company has a policy for the oversight and management of material business risks, which is available on the Company's website.

Management determines the Company's risk profile and is responsible for overseeing and approving risk management strategy and policies, internal compliance and internal control. The Company's process of risk management and internal compliance and control includes:

- (a) establishing the Company's goals and objectives, and implementing and monitoring strategies and policies to achieve these goals and objectives;
- (b) continuously identifying and reacting to risks that might impact upon the achievement of the Company's goals and objectives, and monitoring the environment for emerging factors and trends that affect these risks;
- (c) formulating risk management strategies to manage identified risks and designing and implementing appropriate risk management policies and internal controls; and
- (d) monitoring the performance of, and continuously improving the effectiveness of, risk management systems and internal compliance and controls, including an ongoing assessment of the effectiveness of risk management and internal compliance and control.

Within the identified risk profile of the Company, comprehensive practices are in place that are directed towards achieving the following objectives:

- (a) effectiveness and efficiency in the use of the Company's resources;
- (b) compliance with applicable laws and regulations; and
- (c) preparation of reliable published financial information.

The Board oversees an ongoing assessment of the effectiveness of risk management and internal compliance and control, requiring management appraise the Board of changing circumstances within the Company and within the international business environment. During the reporting period, the Managing Director regularly reported to the Board as to the effectiveness of the Company's management of its material business risks. Further, in accordance with Principle 7, the Managing Director and Finance Director have confirmed in writing to the Board that:

- (a) the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results are in accordance with relevant accounting standards.
- (b) the above confirmation is founded on a sound system of risk management and internal compliance and control which implements the policies of the Board;
- (c) the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

Remuneration

ASX Principle 8 recommends the Board establish a Remuneration Committee to focus on appropriate remuneration policies. It is further recommended that the Remuneration Committee have a formal Charter.

The Company has adopted a formal Remuneration Committee Charter, available on the Company's website, which includes information on the Company's approach to remuneration of Directors (executive and non-executive) and senior executives. However the Company does not presently have a separate Remuneration Committee. Given the current size and operations of the Company, the full Board conducts the function of such a committee, in accordance with the Charter.

C O R P O R A T E G O V E R N A N C E S T A T E M E N T (c o n t ' d)

In accordance with Principle 8, Executive Directors and key executives are remunerated by way of a salary or consultancy fees, commensurate with their required level of services. Non-executive Directors receive a fixed monthly fee for their services. Non-executive Directors' fees are currently capped at \$300,000 per annum.

The Company does not have any scheme relating to retirement benefits for non-executive Directors.

See the Remuneration Report for details of remuneration paid to Directors and key executives during the period.

Securities Trading

In compliance with Listing Rule 12.12, the Board has adopted a Securities Trading Policy which regulates dealings by Directors, offices and employees in securities issued by the Company.

Under the policy, which is available on the Company's website, general restrictions are imposed on Directors and employees when in possession of inside information, while additional trading restrictions apply to Directors and some employees.

The policy also regulates trading by key management personnel within defined closed periods, as well as providing details of trading that is not subject to the policy, exceptional circumstances in which key management personnel may be permitted to trade during a prohibited period with prior written clearance and the procedure for obtaining such clearance.

Privacy

The Company has resolved to comply with the Australian Privacy Principles contained in the Privacy Act 1988, to the extent required for a company the size and nature of Vmoto.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2013

| | Notes | Year ended 31 December 2013 \$ | 6 months ended 31 December 2012 \$ |
|---|-------|--------------------------------------|--|
| Continuing Operations | | | |
| Revenue from sale of goods | | 25,174,809 | 4,603,010 |
| Cost of sales | | (21,409,686) | (3,530,274) |
| Gross Profit | | 3,765,123 | 1,072,736 |
| Other income | 2 | 453,418 | 194,923 |
| Operational expenses | | (1,398,897) | (720,290) |
| Marketing and distribution expenses | | (660,342) | (692,335) |
| Corporate and administrative expenses | | (1,337,819) | (905,550) |
| Occupancy expenses | | (43,175) | (43,186) |
| Other expenses | 2 | (1,002) | - |
| Finance costs | | (372,846) | (181,879) |
| Profit/(Loss) from continuing operations before tax | | 404,460 | (1,275,581) |
| Income tax | 4 | - | - |
| Profit/(Loss) after tax from continuing operations attributable to owners of the company | | 404,460 | (1,275,581) |
| Other comprehensive income | | | |
| Foreign currency translation differences | | 207,937 | (706,991) |
| Other comprehensive income for the period, net of tax | | 207,937 | (706,991) |
| Total comprehensive income for the period attributable to owners of the company | | 612,397 | (1,982,572) |
| Basic and Diluted Earnings/(Loss) per Share from Continuing Operations | 19 | 0.04 cents | (0.16 cents) |

The consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL
POSITION
AS AT 31 DECEMBER 2013

| | Note | 31 December 2013 \$ | 31 December 2012 \$ |
|-------------------------------|------|------------------------|------------------------|
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 5 | 4,426,994 | 1,834,894 |
| Trade and other receivables | 6 | 3,639,758 | 1,802,176 |
| Inventories | 7 | 5,180,807 | 3,150,650 |
| Other assets | 8 | 2,449,680 | 593,700 |
| Total Current Assets | | 15,697,239 | 7,381,420 |
| NON CURRENT ASSETS | | | |
| Property, plant and equipment | 9 | 5,473,184 | 5,614,796 |
| Intangible Assets | 10 | 3,592,983 | 3,588,532 |
| Total Non Current Assets | | 9,066,167 | 9,203,328 |
| TOTAL ASSETS | | 24,763,406 | 16,584,748 |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 11 | 1,509,999 | 2,083,334 |
| Loans and borrowings | 12 | 5,522,005 | 4,158,486 |
| Total Current Liabilities | | 7,032,004 | 6,241,820 |
| TOTAL LIABILITIES | | 7,032,004 | 6,241,820 |
| NET ASSETS | | 17,731,402 | 10,342,928 |
| EQUITY | | | |
| Issued capital | 13 | 57,725,955 | 51,060,622 |
| Reserves | 13 | (2,654,011) | (2,798,947) |
| Accumulated losses | 15 | (37,340,542) | (37,918,747) |
| TOTAL EQUITY | | 17,731,402 | 10,342,928 |

The consolidated statement of financial position is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2013

| | Note | Year ended 31 December 2013 \$ | 6 months ended 31 December 2012 \$ |
|---|------|--------------------------------------|--|
| Cash flows from operating activities | | | |
| Receipts from customers | | 27,835,244 | 4,686,933 |
| Payments to suppliers and employees | | (31,324,457) | (6,639,288) |
| Interest received | | 8,542 | 3,301 |
| Interest paid | | (375,681) | (181,738) |
| Other cash receipts | | 30,955 | 29,853 |
| Net cash used in operating activities | 22 | (3,825,397) | (2,100,939) |
| Cash flows from investing activities | | | |
| Payments for property, plant & equipment | | (402,528) | (280,847) |
| Payments for intangible assets | | (5,486) | (40,593) |
| Net cash used in investing activities | | (408,014) | (321,440) |
| Cash flows from financing activities | | | |
| Proceeds from issue of equity shares | | 6,540,660 | 2,836,883 |
| Payments for share issue costs | | (438,298) | (63,976) |
| Proceeds from borrowings | | 6,527,726 | 1,349,176 |
| Repayment of borrowings | | (6,043,162) | (1,066,021) |
| Net cash generated by financing activities | | 6,586,926 | 3,056,062 |
| Net (decrease)/increase in cash and cash equivalents | | 2,353,515 | 633,683 |
| Cash and cash equivalents at the beginning of the year | | 1,834,894 | 1,231,258 |
| Effect of exchange rate fluctuations on cash held | | 238,585 | (30,047) |
| Cash and cash equivalents at the end of the year | | 4,426,994 | 1,834,894 |

The consolidated statement of cash flows is to be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2013

| | Issued Capital \$ | Reserves \$ | Accumulated Losses \$ | Total \$ |
|--|----------------------|--------------------|-----------------------------|-------------------|
| Balance as at 1 July 2012 | 48,603,643 | (1,290,467) | (37,512,457) | 9,800,719 |
| Loss for the half year | - | - | (1,275,581) | (1,275,581) |
| Other comprehensive income for the year | - | (706,991) | - | (706,991) |
| Total comprehensive income for the year | - | (706,991) | (1,275,581) | (1,982,572) |
| Issue of ordinary shares | 3,058,940 | - | - | 3,058,940 |
| Share issue costs | (601,961) | - | - | (601,961) |
| Issue of options and performance rights | - | 67,802 | - | 67,802 |
| Transfer expired options reserve to accumulated losses | - | (869,291) | 869,291 | - |
| Balance as at 31 December 2012 | 51,060,622 | (2,798,947) | (37,918,747) | 10,342,928 |
| Balance as at 1 January 2013 | 51,060,622 | (2,798,947) | (37,918,747) | 10,398,928 |
| Profit for the year | - | - | 404,460 | 404,460 |
| Other comprehensive income for the year | - | 207,937 | - | 207,937 |
| Total comprehensive income for the year | - | 207,937 | 404,460 | 612,397 |
| Issue of ordinary shares | 7,006,800 | - | - | 7,006,800 |
| Share issue costs | (341,467) | - | - | (341,467) |
| Issue of options | - | 110,744 | - | 110,744 |
| Transfer expired options reserve to accumulated losses | - | (173,745) | 173,745 | - |
| Balance as at 31 December 2013 | 57,725,955 | (2,654,011) | (37,340,542) | 17,731,402 |

The consolidated statement of changes in equity is to be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

Vmoto Limited ("Vmoto" or "the Company") is a limited company incorporated in Australia. The consolidated financial report of the Company as at and for the year ended 31 December 2013 comprises the Company and its subsidiaries (together referred to as the "Consolidated Entity").

(a) Basis of preparation

(i) *Statement of compliance*

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) (including Australian Interpretations) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial report of the Consolidated Entity complies with International Financial Reporting Standards (IFRSs) and interpretations adopted by the International Accounting Standards Board (IASB).

The financial statements were approved by the Board of Directors on 27 March 2014.

(ii) *Basis of measurement*

The consolidated financial statements of the Consolidated Entity are prepared on an accruals basis and are based on historical costs except where otherwise stated.

(iii) *Functional and presentation currency*

The consolidated financial statements of the Consolidated Entity are presented in Australian dollars, which is different from its functional currency, determined to be Renminbi. The functional currency has changed from Euro Dollar in the prior year to Renminbi in the current year, and is attributable to majority of sales and operation costs are now predominantly denominated in Renminbi. A different presentation currency has been adopted as the Board of Directors believe that financial statements presented in Australian dollar (which is the functional currency of parent company) are more useful to the users and shareholders of the Company who are predominantly in Australia.

(iv) *Standards and interpretations affecting amounts reported in current period (and/or prior periods)*

During the year ended 31 December 2013, the Consolidated Entity adopted all of the new and revised Australian Accounting Standards and Interpretations applicable to its operations which became mandatory. The adoption of these standards has not significantly impacted the recognition, measurement and disclosure of the transactions of the Consolidated Entity and its consolidated financial statements for the year ended 31 December 2013.

New and revised Standards and amendments thereof and Interpretations effective for the year end included:

- AASB 10 'Consolidated Financial Statements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 11 'Joint Arrangements' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 12 'Disclosure of Interests in Other Entities' and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 127 'Separate Financial Statements' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 128 'Investments in Associates and Joint Ventures' (2011) and AASB 2011-7 'Amendments to Australian Accounting Standards arising from the consolidation and Joint Arrangements standards'
- AASB 13 'Fair Value Measurement' and AASB 2011-8 'Amendments to Australian Accounting Standards arising from AASB 13'
- AASB 119 'Employee Benefits' (2011) and AASB 2011-10 'Amendments to Australian Accounting Standards arising from AASB 119 (2011)'
- AASB 2012-2 'Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities' AASB 2012-5 'Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle'

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

- AASB 2012-10 'Amendments to Australian Accounting Standards - Transition Guidance and Other Amendments'

(v) *Going concern basis*

The Consolidated Entity has recorded a profit after tax for the year ended 31 December 2013 of \$404,460 (six months ended 31 December 2012: \$1,275,581 loss after tax). At 31 December 2013, the Consolidated Entity had a working capital surplus of \$8,665,235 (31 December 2012: \$1,195,600).

The Directors have prepared the financial statements on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Directors believe this to be appropriate for the following reasons:

- the Consolidated Entity has a significant working capital surplus;
- the Consolidated Entity has long term supply agreements and demand for its electric powered scooter products is increasing. As the units increase, this will further reduce the cost of goods manufactured due to achieving higher levels of economies of scale, which will further improve the gross profit margins;
- the Consolidated Entity achieved a profit during the financial year and it will further reduce corporate and other non-sales resources without materially affecting revenue activities;
- the Consolidated Entity's Stage 1 and 2 of the Nanjing Facility have been completed and have been used as security for its existing operating facility. As at the date of this report, RMB8.1 million (approximately AUD1.5 million) of the operating facility is still available for draw down if required;
- the Directors have prepared cash flow forecasts that indicate the Consolidated Entity will be cash flow positive for the year ending 31 December 2014 and will enable the Consolidated Entity to pay its debts as and when they fall due.

At the date of this report and having considered the above factors, the Directors are confident that the Consolidated Entity and the Company will be able to continue operations into the foreseeable future. The financial report does not include adjustments relating to the recoverability and classification of the recorded assets and liabilities amounts that might be necessary should the Consolidated Entity and the Company not continue as going concerns.

The accounting policies set out below have been applied consistently to all periods presented in the consolidated financial statements, and have been applied consistently by all entities in the Consolidated Entity.

(b) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Consolidated Entity.

Non-controlling interests in equity and results of the entities that are controlled by the Company are shown as a separate item in the consolidated financial statements.

In note 25, investments in subsidiaries are carried at cost and recoverable amount. Refer to Note (n).

Transactions eliminated on consolidation

Unrealised gains and losses and inter-entity balances resulting from transactions with or between subsidiaries are eliminated in full on consolidation.

(c) Foreign currency translation

The functional currency of each of the Group's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Australian dollars, which is the parent entity's functional currency.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date.

All differences in the consolidated financial report are taken to the profit & loss with the exception of differences on foreign currency borrowings that provide a hedge against a net investment in a foreign entity. These are taken directly to equity until the disposal of the net investment, at which time they are recognised in the profit & loss.

Tax charges and credits attributable to exchange differences on those borrowings are also recognised in equity.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

As at the reporting date the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Vmoto at the rate of exchange ruling at the reporting date and the income statements are translated at the weighted average exchange rates for the period where this rate approximates the rate at the date of the transaction.

The exchange differences arising on the retranslation are taken directly to a separate component of equity.

On disposal of a foreign entity, the deferred cumulative amount recognised in equity relating to that particular foreign operation is recognised in the profit & loss.

(d) Revenue recognition

Revenues are recognised at fair value of the consideration received net of the amount of goods and services tax (GST) payable to the taxation authority. Exchange of goods or services of the same nature without any cash consideration are not recognised as revenue.

Sale of goods

Revenue from the sale of goods is recognised upon delivery of goods to customers as this corresponds to the transfer of significant risks and benefits of ownership of the goods and the cessation of all involvement in those goods.

Interest income

Interest income is recognised using the effective interest method.

(e) Trade and other receivables

Trade and other receivables include amounts due from customers for goods sold in the ordinary course of business. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets.

Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any provision for impairment.

(f) Acquisition of assets

All assets acquired including plant and equipment and intangibles other than goodwill are initially recorded at their cost of acquisition at the date of acquisition, being the fair value of the consideration provided plus incidental costs directly attributable to the acquisition.

When equity instruments are issued as consideration, their market price at the date of acquisition is used as fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity subject to the extent of proceeds received, otherwise expensed.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(g) Goodwill

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- the consideration transferred;
- any non-controlling interest; and
- the acquisition date fair value of any previously held equity interest; over the acquisition date fair value of net identifiable assets acquired.

The acquisition date fair value of the consideration transferred for a business combination plus the acquisition date fair value of any previously held equity interest shall form the cost of the investment in the separate financial statements.

Fair value uplifts in the value of pre-existing equity holdings are taken to the statement of profit or loss and other comprehensive income. Where changes in the value of such equity holdings had previously been recognised in other comprehensive income, such amounts are recycled to profit or loss.

The amount of goodwill recognised on acquisition of each subsidiary in which the Group holds less than a 100% interest will depend on the method adopted in measuring the non-controlling interest. The Group can elect in most circumstances to measure the non-controlling interest in the acquiree either at fair value (full goodwill method) or at the non-controlling interest's proportionate share of the subsidiary's identifiable net assets (proportionate interest method). In such circumstances, the Group determines which method to adopt for each acquisition and this is stated in the respective notes to these financial statements disclosing the business combination.

Goodwill on acquisition of subsidiaries is included in intangible assets. Goodwill on acquisition of associates is included in investments in associates.

Goodwill is tested for impairment annually and is allocated to the Group's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

(h) Property, Plant and Equipment

- *Recognition and measurement*

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset. The cost of assets may include the cost of materials and direct labour, and any other costs directly attributable to bringing the assets to a working condition for its intended use, and the costs of dismantling and removing the items and restoring the site on which they are located.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment and are recognised net within "other income" in profit or loss.

- *Subsequent costs*

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Consolidated Entity and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the profit & loss as incurred.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

- *Depreciation*

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each of property, plant and equipment. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Consolidated Entity will obtain ownership by the end of the lease term. Land is not depreciated. Assets will be depreciated once the asset is in the condition necessary for it to be capable of operating in the manner intended by management.

The estimated useful lives for the current and comparative periods are as follows:

| | |
|------------------------------|--------------|
| Plant and equipment | 3 - 10 years |
| Motor vehicles | 10 years |
| Office furniture & equipment | 5 years |
| Building | 20 years |
| Leasehold improvements | 5 years |

Depreciation methods, useful lives and residual values are reviewed at each reporting date.

- *Impairment*

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Payables

Payables, including goods received and services incurred but not yet invoiced, are recognised at the nominal amount when the Consolidated Entity becomes obliged to make future payments as a result of a purchase of assets or receipt of services.

(k) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the tax office is included as a current asset or liability in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, or payable to, the tax office are classified as operating cash flows.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

(l) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(m) Operating Leases

Operating leases and the leased assets are not recognised on the Consolidated Entity's statement of financial position. Payments made under operating leases are recognised as an expense in the profit and loss.

(n) Recoverable amount of assets

At each reporting date, the Consolidated Entity assesses whether there is any indication that an asset may be impaired. Where an indicator of impairment exists, the Consolidated Entity makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the profit & loss when the liabilities are derecognised as well as through the amortisation process.

(p) Share-based payment transactions

The Consolidated Entity provides benefits to employees (including Directors) of the Consolidated Entity in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares ('equity-settled transactions').

The Company operates an incentive scheme to provide these benefits, known as the Vmoto Employee Share Option Plan (the "ESOP").

The cost of these equity-settled transactions with employees is measured by reference to the fair value at the date at which they are granted. The fair value is determined using a Black Scholes Option Valuation model.

In valuing equity-settled transactions, no account is taken of any performance conditions, other than conditions linked to the price of the shares of Vmoto Limited ("market conditions").

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

The cost of equity-settled transactions is recognised, together with a corresponding increase in equity, over the period in which the performance conditions are fulfilled, ending on the date on which the relevant employees become fully entitled to the award ("vesting date").

The cumulative expense recognised for equity-settled transactions at each reporting date until vesting date reflects (i) the extent to which the vesting period has expired and (ii) the number of awards that, in the opinion of the Directors of the Consolidated Entity, will ultimately vest. This opinion is formed based on the best available information at balance date. No adjustment is made for the likelihood of market performance conditions being met as the effect of these conditions is included in the determination of fair value at grant date.

No expense is recognised for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition.

Where the terms of an equity-settled award are modified, as a minimum an expense is recognised as if the terms had not been modified. In addition, an expense is recognised for any increase in the value of the transaction as a result of the modification, as measured at the date of modification.

Where an equity-settled award is cancelled, it is treated as if it had vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new award are treated as if they were a modification of the original award, as described in the previous paragraph.

The dilutive effect, if any, of outstanding weighted average number of options as at the reporting date is considered not material and accordingly the basic loss per share is the same as the diluted loss per share.

(q) Employee benefits

Liabilities for employee benefits for wages, salaries and annual leave represent present obligations resulting from employees' services provided to reporting date, calculated at undiscounted amounts based on remuneration, wage and salary rates that the Consolidated Entity expects to pay as at reporting date including related on-costs, such as workers compensation insurance and payroll tax.

(r) Income tax

Income tax expense recognised in the statement of profit or loss and other comprehensive income relates to current tax and deferred tax. Income tax expense is recognised in profit or loss except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for taxation purposes.

Deferred tax is not recognised for the following temporary differences:

- i. the initial recognition of assets or liabilities in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- ii. differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on a different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The Company and its subsidiaries have unused tax losses as at the reporting date. However, no deferred tax balances have been recognised, as it is considered that asset recognition criteria have not been met at this time.

(s) Trademarks, licenses and production rights

Trademarks, licenses and production rights are recognised at cost of acquisition. They have an indefinite life and are carried at cost less any accumulated impairment losses.

(t) Development Costs

Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably. Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project.

(u) Provisions

Provisions are recognised when the Consolidated Entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

(v) Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits available on demand with banks and other short-term highly liquid investments with maturities of 3 months or less.

(w) Comparative figures

This report relates to the year ended 31 December 2013. Comparatives are for the 6 months period ended 31 December 2012 as a result of the change in the Company's financial year end from 30 June to 31 December, effective 31 December 2012.

(x) Critical judgements in applying accounting policies and key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Contingent liabilities

The Company is currently a defendant in one proceeding brought against it by a former employee in relation to the employee's past employment. Having considered legal advice, the Directors believe that the claims can be successfully defended, without any losses (including for costs) being incurred by the Company.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

| | Year ended 31 December 2013 \$ | 6 months ended 31 December 2012 \$ |
|--|--------------------------------------|--|
| 2. REVENUES AND EXPENSES | | |
| (a) Other income | | |
| Interest income | 8,514 | 3,374 |
| Contributions from customers | 351,189 | 102,066 |
| Government subsidies | 29,660 | - |
| Net foreign exchange gain | - | 22,813 |
| Other income | 64,055 | 66,670 |
| | <u>453,418</u> | <u>194,923</u> |
| (b) Other expenses | | |
| Net foreign exchange loss | 1,002 | - |
| | <u>1,002</u> | <u>-</u> |
| (c) Employee benefits expense | | |
| Wages and salaries costs | 1,423,229 | 737,932 |
| | <u>1,423,229</u> | <u>737,932</u> |
| (d) Depreciation and amortisation | | |
| Depreciation | 484,112 | 254,360 |
| | <u>484,112</u> | <u>254,360</u> |
| 3. AUDITOR'S REMUNERATION | | |
| Audit services: | | |
| - audit of financial reports by William Buck Audit (WA) Pty Ltd (previous auditor) | 20,200 | 48,000 |
| - audit of financial reports by Bentleys Audit & Corporate (WA) Pty Ltd | 40,000 | - |
| | <u>60,200</u> | <u>48,000</u> |

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

| | Year ended 31 December 2013 \$ | 6 months ended 31 December 2012 \$ |
|---|--------------------------------------|--|
| 4. INCOME TAX | | |
| (a) Income tax expense | | |
| Current | - | - |
| Non-current | - | - |
| | <u>-</u> | <u>-</u> |
| (b) Numerical reconciliation between tax benefit and pre-tax net loss | | |
| Profit/(Loss) before income tax benefit | <u>404,460</u> | <u>(1,275,581)</u> |
| Income tax credit calculated at 30% | (121,338) | 382,674 |
| Tax effect on amounts which are not tax deductible: | | |
| Losses of foreign subsidiaries/operations not regarded as deductible | (6760) | (6,335) |
| Miscellaneous | (15,149) | (3,494) |
| Non-deductible items | - | - |
| Deferred tax asset utilised in current year | 143,246 | - |
| Deferred tax asset not brought to account | - | (372,845) |
| Income tax credit / (expense) | <u>-</u> | <u>-</u> |
| (c) Tax losses | | |
| Unused tax losses for which no deferred tax asset has been recognised (as recovery is currently not probable) | | |
| Potential at 30% (31 December 2012: 30%) | <u>4,724,255</u> | <u>4,867,501</u> |
| (d) Unrecognised temporary differences | | |
| Temporary differences for which deferred tax assets have not been recognised: | | |
| Employee benefits provision | - | - |
| Provision for doubtful receivables | 25,890 | 7,138 |
| Capital raising costs | 7,230 | 62,678 |
| Accrued superannuation | - | - |
| Unrecognised deferred tax assets relating to the above temporary differences | <u>33,120</u> | <u>69,816</u> |
| (e) Tax Rates | | |

The potential tax benefit at 31 December 2013 in respect of tax losses not brought into account has been calculated at 30% for Australian entities. This same rate applied for the six months ended 31 December 2012.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

| | 31 December 2013 \$ | 31 December 2012 \$ |
|---------------------------------------|------------------------|------------------------|
| 5. CASH AND CASH EQUIVALENTS | | |
| Cash and bank balances | 4,426,994 | 1,834,894 |
| 6. TRADE AND OTHER RECEIVABLES | | |
| <i>Current</i> | | |
| Trade receivables | 2,500,182 | 840,191 |
| Less: Provision for impairment loss | - | - |
| | 2,500,182 | 840,191 |
| Other receivables | 1,185,876 | 985,779 |
| Less: Provision for impairment loss | (46,300) | (23,794) |
| | 3,639,758 | 1,802,176 |

Impaired Trade Receivables

Trade receivables are non-interest bearing and are generally on 30-60 days terms. A provision for impairment loss is recognised when there is objective evidence that an individual trade receivable is impaired.

Movements in the provision for impairment of trade and other receivables were as follows:

| | | |
|--|---------|----------|
| At 1 January 2013 | 23,794 | 80,307 |
| Provision for impairment during the period | 17,159 | - |
| Write off | - | (56,816) |
| Translation difference | (5,347) | 303 |
| At 31 December 2013 | 46,300 | 23,794 |

At 31 December 2013, the ageing analysis of trade and other receivables is as follows:

| | | |
|------------------------------------|-----------|-----------|
| 0 - 30 Days | 2,458,491 | 530,373 |
| 31 - 60 Days | 28,783 | 475,694 |
| 61 - 90 Days past due not impaired | 278,519 | - |
| +90 Days past due not impaired | 873,965 | 796,109 |
| +90 Days considered impaired | 46,300 | 23,794 |
| | 3,686,058 | 1,825,970 |

As of 31 December 2013, trade and other receivables of \$1,152,484 (31 December 2012: \$796,109) were past due but not impaired. These relate to a number of independent customers for whom there is no recent history of default and export/import taxes recoverable arising from the China and Europe operations, which can be claimed / used to offset against future VAT payables.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

| | 31 December 2013 \$ | 31 December 2012 \$ |
|------------------------|------------------------|------------------------|
| 7. INVENTORIES | | |
| Raw materials | 3,598,785 | 2,295,920 |
| Semi-finished goods | 383,785 | 370,693 |
| Finished goods | 1,198,237 | 484,037 |
| | <u>5,180,807</u> | <u>3,150,650</u> |
| 8. OTHER ASSETS | | |
| Prepayments | 2,449,680 | 593,700 |
| | <u>2,449,680</u> | <u>593,700</u> |

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

9. PROPERTY, PLANT & EQUIPMENT

| | Plant & equipment | Motor vehicles | Office furniture & equipment | Land | Building | Leasehold improvement | Total |
|--|-------------------|----------------|------------------------------|---------|-----------|-----------------------|-------------|
| Period ended 31 December 2012 | | | | | | | |
| At 1 July 2012, net of accumulated depreciation | 1,256,640 | 16,417 | 1,301 | 785,363 | 3,807,522 | - | 5,867,243 |
| Additions | 29,186 | - | - | - | - | - | 29,186 |
| Disposals | (3,046) | - | - | - | - | - | (3,046) |
| Depreciation for the period | (215,732) | (2,292) | (868) | - | (35,467) | - | (254,359) |
| Exchange differences | 85,270 | (531) | - | (3,128) | (105,839) | - | (24,228) |
| At 31 December 2012, net of accumulated depreciation | 1,152,318 | 13,594 | 433 | 782,235 | 3,666,216 | - | 5,614,796 |
| At 31 December 2012 | | | | | | | |
| Cost | 2,497,336 | 18,927 | 82,886 | 782,235 | 3,839,736 | 278,041 | 7,499,161 |
| Accumulated depreciation | (1,345,019) | (5,333) | (82,453) | - | (173,519) | (278,041) | (1,884,365) |
| Net carrying amount | 1,152,317 | 13,594 | 433 | 782,235 | 3,666,217 | - | 5,614,796 |
| Year ended 31 December 2013 | | | | | | | |
| At 1 January 2013, net of accumulated depreciation | 1,152,317 | 13,594 | 433 | 782,235 | 3,666,217 | - | 5,614,796 |
| Additions | 87,940 | 19,545 | - | - | 265,590 | - | 373,075 |
| Depreciation for the period | (399,533) | (5,445) | (433) | - | (78,701) | - | (484,112) |
| Exchange differences | (27,732) | - | - | - | (2,843) | - | (30,575) |
| At 31 December 2013, net of accumulated depreciation | 812,992 | 27,694 | - | 782,235 | 3,850,263 | - | 5,473,184 |
| At 31 December 2013 | | | | | | | |
| Cost | 2,407,697 | 38,472 | 82,886 | 782,235 | 4,102,483 | 278,041 | 7,691,814 |
| Accumulated depreciation | (1,594,705) | (10,778) | (82,886) | - | (252,220) | (278,041) | (2,218,630) |
| Net carrying amount | 812,992 | 27,694 | - | 782,235 | 3,850,263 | - | 5,473,184 |

An impairment test has been performed in conjunction with intangible assets and the details of assumptions used are in Note 10.

Assets pledged as security

Land and buildings with a carrying amount of approximately \$4.6 million have been pledged to secure borrowings of the Group (see Note 12). The freehold land and buildings have been pledged as security for the bank operating facility under a mortgage. The Group is not allowed to pledge these assets as security for other borrowings or to sell them to another entity.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

10. INTANGIBLES

| | Goodwill | Licences, trademarks and production rights | Development costs | Total |
|---|--------------|--|----------------------|--------------|
| Half year ended 31 December 2012 | | | | |
| Balance at 1 July 2012 | 1,414,951 | 1,867,148 | - | 3,282,099 |
| Additions | - | 22,634 | - | 22,634 |
| Amortisation and impairment | - | - | - | - |
| Reclassification | - | - | - | - |
| Exchange differences | - | 283,799 | - | 283,799 |
| Balance at 31 December 2012 | 1,414,951 | 2,173,581 | - | 3,588,532 |
| At 31 December 2012 | | | | |
| Cost | 12,149,545 | 2,173,581 | 376,192 | 14,699,318 |
| Accumulated amortisation and impairment | (10,734,594) | - | (376,192) | (11,110,786) |
| Net carrying amount | 1,414,951 | 2,173,581 | - | 3,588,532 |
| Year ended 31 December 2013 | | | | |
| Balance at 1 January 2013 | 1,414,951 | 2,173,581 | - | 3,588,532 |
| Additions | - | 4,451 | - | 4,451 |
| Amortisation and impairment | - | - | - | - |
| Reclassification | - | - | - | - |
| Exchange differences | - | - | - | - |
| Balance at 31 December 2013 | 1,414,951 | 2,178,032 | - | 3,592,983 |
| At 31 December 2013 | | | | |
| Cost | 12,149,545 | 2,178,032 | 376,192 | 14,703,769 |
| Accumulated amortisation and impairment | (10,734,594) | - | (376,192) | (11,110,786) |
| Net carrying amount | 1,414,951 | 2,178,032 | - | 3,592,983 |

The goodwill on acquiring E-Max in January 2010 and licenses, trademarks and production rights, which are indefinitely live assets are allocated to the cash generating unit within the Chinese geographical location segment as the Company's manufacturing facility and main operations are located in China. The recoverable amount of the these intangible assets have been determined using value in use method based on the net present value of projected earnings before interest, tax and depreciation using cash flow projections based on financial budgets approved by senior management covering a three-year period and extrapolated to five years. The cash flow projections were prepared based on past experience and contracts that are in place.

The pre-tax, risk free discount rate applied to cash flow projections is 15% (31 December 2012: 15%) and an average growth rate used to extrapolate managements cash flow forecasts beyond three years is 3%. The calculated recoverable amount exceeds the carrying amount of the goodwill of E-Max such that no impairment of the goodwill on acquisition of E-Max has occurred. Sensitivity analysis was performed by varying the discount rate applied to the cash flow projections by 5%. The calculated recoverable amount still exceeds the carrying amount of these assets. Management believe that no reasonably possible change in any of the above key assumptions would cause the carrying amount of the goodwill on acquisition of E-Max to materially exceed its recoverable amount.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

| | 31 December 2013 \$ | 31 December 2012 \$ |
|---|------------------------|------------------------|
| 11. TRADE AND OTHER PAYABLES | | |
| <i>Current - unsecured</i> | | |
| Trade creditors | 796,451 | 848,307 |
| Other creditors and accruals | 713,548 | 1,235,027 |
| | <u>1,509,999</u> | <u>2,083,334</u> |
| 12. INTEREST BEARING LOANS AND BORROWINGS | | |
| <i>Current</i> | | |
| <i>Secured - Interest bearing</i> | | |
| Bank operating facility | 5,522,005 | 4,158,486 |
| | <u>5,522,005</u> | <u>4,158,486</u> |
| The carrying amounts of non-current assets pledged as security are: | | |
| Land and buildings | 4,632,497 | 4,448,451 |
| | <u>4,632,497</u> | <u>4,448,451</u> |
| Financing arrangements | | |
| The Consolidated Entity has access to the following facilities: | | |
| Total facilities available: | | |
| Bank operating facility | 6,279,203 | 5,248,858 |
| | <u>6,279,203</u> | <u>5,248,858</u> |
| Facilities utilised at end of the period: | | |
| Bank operating facility | 5,522,005 | 3,535,260 |
| | <u>5,522,005</u> | <u>3,535,260</u> |
| Facilities not utilised at end of the period: | | |
| Bank operating facility | 757,198 | 1,713,598 |
| | <u>757,198</u> | <u>1,713,598</u> |

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

12. INTEREST BEARING LOANS AND BORROWINGS (cont'd)

Bank operating facility

The Company secured a bank operating facility of RMB34 million (approximately AUD6.3 million) with China Rural Credit Cooperative in May 2011. The bank operating facility is secured by the Company's Nanjing Facility, including the land, Stage 1 and Stage 2 of the manufacturing facility. This bank operating facility is a revolving line of credit facility and the undrawn facility is available for draw down throughout the period.

The average interest rate for the bank operating facility is 7.8% per annum, payable quarterly.

13. ISSUED CAPITAL AND RESERVES

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|------------------------|------------------------|
| Issued capital | | |
| 1,221,196,804 (31 December 2012: 897,087,712) fully paid ordinary shares | 57,725,955 | 51,060,622 |

The following movements in issued capital occurred during the period:

| | Number of Shares 31 Dec 2013 | Number of Shares 31 Dec 2012 | Year ended 31 Dec 2013 \$ | 6 months ended 3 Dec 2012 \$ |
|---|------------------------------------|------------------------------------|------------------------------------|---------------------------------------|
| Balance at beginning of period | 896,087,712 | 720,938,456 | 51,060,622 | 48,603,643 |
| Issue of Shares at 4.0 cents each a) | - | 3,600 | - | 144 |
| Issue of Shares at 1.2 cents each b) | - | 54,070,654 | - | 648,848 |
| Issue of Shares at 2.0 cents each c) | - | 121,075,002 | - | 2,409,948 |
| Issue of Shares at 2.0 cents each d) | 75,000,000 | - | 1,500,000 | - |
| Issue of Shares at 2.8 cents each e) | 2,000,000 | - | 56,000 | - |
| Issue of Shares at 2.2 cents each f) | 54,545,455 | - | 1,200,000 | - |
| Issue of Shares at 2.2 cents each g) | 186,363,637 | - | 4,100,000 | - |
| Issue of Shares at 2.9 cents each h) | 5,200,000 | - | 150,800 | - |
| Issue of Shares at nil consideration i) | 2,000,000 | - | - | - |
| Share issue costs | - | - | (341,467) | (601,961) |
| Balance at end of period | 1,221,196,804 | 896,087,712 | 57,725,955 | 51,060,622 |

At the shareholders' meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

- a) 9 August 2012 - Issue 3,600 shares at \$0.04 cents each as a result of exercise of listed options.
- b) 27 September 2012 - Issue 54,070,654 shares at \$0.012 each as a result of completion of placement.
- c) 12 November 2012 - Issue 121,075,002 shares at \$0.02 (1.3 pence) each as a result of completion of AIM listing and placement.
- d) 30 August 2013 - Issue 75,000,000 shares at \$0.02 each as a result of completion of placement.
- e) 30 August 2013 - Issue 2,000,000 shares at a deemed price of \$0.028 each to Blair Sergeant for the provision of professional services in 2012.
- f) 11 October 2013 - Issue 54,545,455 shares at \$0.022 each as a result of completion of Tranche 1 of placement.
- g) 15 November 2013 - Issue 186,363,637 shares at \$0.022 each as a result of completion of Tranche 2 placement.
- h) 15 November 2013 - Issue 5,200,000 shares at a deemed price of \$0.029 each to employees of the Company in recognition of their efforts and contribution to the Company.
- i) 17 December 2013 - Issue 2,000,000 shares at nil consideration as a result of vesting of 2,000,000 performance rights.

NOTES TO THE FINANCIAL STATEMENTS
(cont'd)

13. ISSUED CAPITAL AND RESERVES (cont'd)

Options

The movements of options over unissued ordinary shares of the Company for the year ended 31 December 2013 were:

| | Expiry Date | Exercise Price | Balance at 1 Jan 2013 | Granted/ Issued | Exercised/ Forfeited | Held at 31 Dec 2013 |
|-----------------|------------------|----------------|-----------------------|-------------------|----------------------|---------------------|
| Class D options | 14 July 2013 | 9.0 cents | 3,241,527 | - | 3,241,527 | - |
| ESOP options | 1 September 2014 | 2.5 cents | 8,500,000 | - | - | 8,500,000 |
| Listed options | 31 December 2014 | 4.0 cents | 145,392,230 | 500,000 | - | 145,892,230 |
| ESOP options | 23 November 2015 | 3.0 cents | 11,500,000 | - | - | 11,500,000 |
| Class E options | 23 May 2018 | 4.0 cents | N/A | 5,000,000 | - | 5,000,000 |
| Class F options | 23 May 2018 | 8.0 cents | N/A | 5,000,000 | - | 5,000,000 |
| Total | | | 168,633,757 | 10,500,000 | 3,241,527 | 175,892,230 |

On 23 May 2013, 5,000,000 unlisted options (exercisable at \$0.04 and expiring on 23 May 2018) and 5,000,000 unlisted options (exercisable at \$0.08 and expiring on 23 May 2018) were issued to Mr Simon Farrell pursuant to shareholder approval at the Company's 2013 Annual General Meeting.

On 15 July 2013, 3,241,527 unlisted options remained unexercised on their expiry date and lapsed pursuant to the terms and conditions of the options.

On 15 November 2013, 500,000 listed options (exercisable at \$0.04 and expiring on 31 December 2014) were issued to an advisor in consideration for marketing services provided to the Company.

The fair value of the options granted to Mr Simon Farrell is deemed to represent the value of the services provided over the vesting period.

The weighted average fair value of options granted to Mr Simon Farrell during the year was \$48,720. These values were calculated using the Black-Scholes option pricing model applying the following inputs:

| | |
|--------------------------------------|-------------------|
| Weighted average exercise price: | \$0.04 and \$0.08 |
| Weighted average life of the option: | 5 years |
| Expected share price volatility: | 128% |
| Risk-free interest rate: | 3.19% |

The fair value of the options granted to advisor is deemed to represent the value of the marketing services provided to the Company.

The weighted average fair value of options granted during the half year was \$3,000. These values were calculated using the Black-Scholes option pricing model applying the following inputs:

| | |
|--------------------------------------|-------------|
| Weighted average exercise price: | \$0.04 |
| Weighted average life of the option: | 1.125 years |
| Expected share price volatility: | 74% |
| Risk-free interest rate: | 2.74% |

Historical volatility has been the basis for determining expected share price volatility as it is assumed that this is indicative of future movements.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Performance Rights

All performance rights convert to fully paid ordinary shares for nil cash consideration, subject to performance based vesting conditions.

The movements of performance rights over unissued ordinary shares of the Company for the year ended 31 December 2013 were:

| Performance rights series | Balance at 1 Jan 2013 | Vested | Forfeited | Held at 31 Dec 2013 |
|---------------------------|-----------------------|------------------|-----------|---------------------|
| Class A | 2,000,000 | 2,000,000 | - | - |
| Class B | 2,000,000 | - | - | 2,000,000 |
| Class C | 2,000,000 | - | - | 2,000,000 |
| Class D | 2,000,000 | - | - | 2,000,000 |
| Class E | 2,000,000 | - | - | 2,000,000 |
| Class F | 2,000,000 | - | - | 2,000,000 |
| Class G | 2,666,666 | - | - | 2,666,666 |
| Class H | 2,666,666 | - | - | 2,666,666 |
| Class I | 2,666,668 | - | - | 2,666,668 |
| Total | 20,000,000 | 2,000,000 | - | 18,000,000 |

The above performance rights issued under the Company's Performance Rights Plan (10,000,000 each to Mr Charles Chen and Mr Oliver Cairns) are subject to the following performance conditions:

| Number of Performance Rights per Director | Class | Performance Conditions | Time of vesting |
|---|-------|--|--|
| 1,000,000 | B | - The VWAP exceeds 3 cents at any time on or before 31 December 2013; and - the Participating Director remains a Director at the time of vesting. | The date 12 months after the date the VWAP first exceeds 3 cents |
| 1,000,000 | C | - The VWAP exceeds 3 cents at any time on or before 31 December 2013; and - the Participating Director remains a Director at the time of vesting. | The date 24 months after the date the VWAP first exceeds 3 cents |
| 1,000,000 | D | - The VWAP exceeds 4 cents at any time on or before 31 December 2014; and - the Participating Director remains a Director at the time of vesting. | The date the VWAP first exceeds 4 cents |
| 1,000,000 | E | - The VWAP exceeds 4 cents at any time on or before 31 December 2014; and - the Participating Director remains a Director at the time of vesting. | The date 12 months after the date the VWAP first exceeds 4 cents |
| 1,000,000 | F | - The VWAP exceeds 4 cents at any time on or before 31 December 2014; and - the Participating Director remains a Director at the time of vesting. | The date 24 months after the date the VWAP first exceeds 4 cents |

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

| | | | |
|-----------|---|--|--|
| 1,333,333 | G | - The VWAP exceeds 5 cents at any time on or before 31 December 2015; and - the Participating Director remains a Director at the time of vesting. | The date the VWAP first exceeds 5 cents |
| 1,333,333 | H | - The VWAP exceeds 5 cents at any time on or before 31 December 2015; and - the Participating Director remains a Director at the time of vesting. | The date 12 months after the date the VWAP first exceeds 5 cents |
| 1,333,334 | I | - The VWAP exceeds 5 cents at any time on or before 31 December 2015; and - the Participating Director remains a Director at the time of vesting. | The date 24 months after the date the VWAP first exceeds 5 cents |

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|------------------------|------------------------|
| Reserves | | |
| Reserves at the beginning of the period | (2,798,947) | (1,290,467) |
| Movements in share-based payment reserve | 110,744 | 67,802 |
| Transfer share-based payment reserve to accumulated losses | (173,745) | (869,291) |
| Movements in foreign currency translation reserve | 207,937 | (706,991) |
| Reserves at the end of the period | <u>(2,654,011)</u> | <u>(2,798,947)</u> |
| Comprises of: | | |
| Share-based payment reserve | 238,047 | 301,047 |
| Foreign currency translation reserve | <u>(2,892,058)</u> | <u>(3,099,994)</u> |
| Reserves at the end of the period | <u>(2,654,011)</u> | <u>(2,798,947)</u> |

The share-based payments reserve is used to recognise the fair value of options issued but not exercised and performance rights issued.

The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign operations.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

14. CAPITAL RISK MANAGEMENT

The Consolidated Entity manages its capital to ensure their ability to continue as a going concern and to achieve returns to the shareholders and benefits for other stakeholders through the optimisation of debt and equity balance. The capital structure of the Consolidated Entity is adjusted to achieve its goals whilst ensuring the lowest cost of the capital.

Management monitors capital on the basis of the gearing ratio (net debt / total capital). During the year ended 31 December 2013, the Consolidated Entity's strategy is to utilise its operating facility and also achieve its expansion program. The gearing ratios at 31 December 2013 and 31 December 2012 were as follows:

| | 31 December 2013 | 31 December 2012 |
|---|--------------------|--------------------|
| | \$ | \$ |
| Total borrowings & trade and other payables | 7,032,004 | 6,241,820 |
| Less: cash and cash equivalents | <u>(4,426,994)</u> | <u>(1,834,894)</u> |
| Net debt | 2,605,010 | 4,350,926 |
| Total equity | <u>17,731,402</u> | <u>10,342,928</u> |
| Total capital | <u>20,336,412</u> | <u>14,693,854</u> |
| Gearing ratio | 12.8% | 29.6% |

The gearing ratio of the Company has reduced from 29.6% to 12.8% during the year ended 31 December 2013.

15. ACCUMULATED LOSSES

| | Year ended | Six months ended |
|---|---------------------|---------------------|
| | 31 December 2013 | 31 December 2012 |
| | \$ | \$ |
| Accumulated losses at the beginning of the period | (37,918,747) | (37,512,457) |
| Profit/(Loss) for the period | 404,460 | (1,275,581) |
| Transfer from share-based payment reserve | 173,745 | 869,291 |
| Accumulated losses at the end of the period | <u>(37,340,542)</u> | <u>(37,918,747)</u> |

16. SEGMENT REPORTING

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision maker in order to allocate resources to the segments and to assess their performance.

The continuing operations of the Consolidated Entity are predominantly in the scooter including electric and petrol scooters and ATV manufacture and distribution industry.

In prior years, reported segments were based on the geographical segments of the Group, being Australia, Spain and China. This assessment of identifiable segments has not changed in the current period, as management accounts and forecasts submitted to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance are split into these same components.

The scooter, ATV and engine segments are managed on a worldwide basis, but operate in three principal geographical areas: Australia, China and Spain. In China, manufacturing facilities are operated in Nanjing.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

16. SEGMENT REPORTING (cont'd)

| Continuing Operations | Australia \$A | | China \$A | | Spain \$A | | Intersegment elimination \$A | | Consolidated \$A | |
|---|-----------------------------|---------------------------------|-----------------------------|---------------------------------|-----------------------------|---------------------------------|---------------------------------|---------------------------------|-----------------------------|---------------------------------|
| | Year ended 31/12/2013 | 6 months ended 31/12/2012 | Year ended 31/12/2013 | 6 months ended 31/12/2012 | Year ended 31/12/2013 | 6 months ended 31/12/2012 | Year ended 31/12/2013 | 6 months ended 31/12/2012 | Year ended 31/12/2013 | 6 months ended 31/12/2012 |
| Revenue | | | | | | | | | | |
| Segment revenue | - | 2,184 | 25,174,809 | 4,596,391 | - | 4,435 | - | - | 25,174,809 | 4,603,010 |
| Result | | | | | | | | | | |
| Segment result | (911,751) | (395,262) | 1,338,744 | (803,201) | (22,533) | (21,118) | - | - | 404,460 | (1,219,581) |
| Assets | | | | | | | | | | |
| Segment assets | 2,754,810 | 511,340 | 42,182,395 | 32,773,829 | 114,302 | 278,010 | (20,288,101) | (16,978,431) | 24,763,406 | 16,584,748 |
| Liabilities | | | | | | | | | | |
| Segment liabilities | (85,465) | (320,325) | (26,354,897) | (21,956,384) | (879,743) | (887,542) | 20,288,101 | 16,978,431 | (7,032,004) | (6,185,820) |
| Acquisition of non-current assets | 21,500 | - | 87,940 | 29,186 | - | - | - | - | 109,440 | 29,186 |
| Depreciation/impairment of non-current assets | (2,172) | (286) | (459,407) | (209,007) | (22,533) | (45,066) | - | - | (484,112) | (254,359) |

The principal activity of the continuing Consolidated Entity is the manufacture, marketing and distribution of:

- Scooter including electric and petrol scooters; and
- All terrain vehicles.

Information about major customers

Included in revenues arising from the sales of goods of \$25,174,809 (2012: \$4,603,010) are revenues of approximately \$13,843,527 (2012: \$1,030,563) which arose from sales to the group's largest customer. No other single customer contributed 10% or more to the group's revenue for 2013 and 2012.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Consolidated Entity's principal financial instruments comprise bank and other loans, cash and short-term deposits. The main purpose of these financial instruments is to raise finance for the Consolidated Entity's operations.

The Consolidated Entity has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations.

It is, and has been throughout the period under review, the Consolidated Entity's policy that no trading in derivative instruments shall be undertaken.

Fair values

The Directors consider that the carrying amount of financial assets and financial liabilities recorded in the financial statements approximates their fair values.

The following table details the fair value of financial assets and liabilities of the Consolidated Entity:

| | 31 December 2013 | | 31 December 2012 | |
|---|-----------------------|------------------|-----------------------|--------------------|
| | Carrying amount \$ | Fair Value \$ | Carrying amount \$ | Fair Value \$ |
| Financial assets | | | | |
| Cash and cash equivalents | 4,426,994 | 4,426,994 | 1,834,894 | 1,834,894 |
| Trade and other receivables | 3,639,758 | 3,639,758 | 1,802,176 | 1,802,176 |
| Total financial assets | 8,066,752 | 8,066,752 | 3,637,070 | 3,637,070 |
| Financial liabilities | | | | |
| Trade and other payables | 1,509,999 | 1,509,999 | 2,083,334 | 2,083,334 |
| Borrowings | 5,522,005 | 5,522,005 | 4,158,486 | 4,158,486 |
| Total financial liabilities | 7,032,004 | 7,032,004 | 6,241,820 | 6,241,820 |
| Net financial assets / (liabilities) | 1,034,748 | 1,034,748 | (2,604,750) | (2,604,750) |

The main risks arising from the Consolidated Entity's financial instruments are interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below.

Sensitivity analysis

In managing interest rate and currency risks, the Company endeavours to reduce the impact of short-term fluctuations on the Company's earnings. Over the longer term, however, permanent changes in foreign exchange and interest rates will have an impact on consolidated earnings, although the extent of that impact will depend on the level of cash resources held by the Consolidated Entity. A general increase of one percentage point in interest rates would not be expected to materially impact earnings.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Interest rate risk

The Consolidated Entity's exposure to market risk for changes in interest rates relates primarily to the Consolidated Entity's short term debt obligations.

Cash includes funds held in term deposits and cheque accounts during the year, which earned interest at rates ranging between 0% and 2.35%, depending on account balances.

The following annual interest rates apply to the Consolidated Entity's credit facilities:

| | |
|-------------------------|---------------|
| Bank operating facility | 7.8% variable |
|-------------------------|---------------|

All other financial assets and liabilities are non-interest bearing.

At balance date, the Consolidated Entity had the following mix of financial assets and liabilities exposed to variable interest rate risk that are not designated in cash flow hedges:

| | 31 December 2013 \$ | 31 December 2012 \$ |
|------------------------------|------------------------|------------------------|
| Financial assets | | |
| Cash and cash equivalents | 4,426,994 | 1,834,894 |
| Financial liabilities | | |
| Bank operating facility | (5,522,005) | (4,158,486) |
| Net exposure | <u>(1,095,011)</u> | <u>(2,323,592)</u> |

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date.

At 31 December, if interest rates had moved, as illustrated in the table below, with all other variables held constant, pre-tax profit and equity would have been affected as follows:

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|------------------------|------------------------|
| Judgements of reasonable possible movements: | | |
| <u>+1% (100 basis points)</u> | | |
| Pre-tax profit increase/(decrease) | (10,950) | (23,236) |
| Equity increase/(decrease) | (10,950) | (23,236) |
| <u>-1% (100 basis points)</u> | | |
| Pre-tax profit increase/(decrease) | 10,950 | 23,236 |
| Equity increase/(decrease) | 10,950 | 23,236 |

Foreign currency risk

The Consolidated Entity is exposed to foreign currency on sales, purchases and borrowings that are denominated in a currency other than Australian Dollars. The currency giving rise to this risk is primarily Euro dollars, US dollars and Chinese RMB.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

At balance date, the Consolidated Entity had the following exposure to Euro dollars, US dollars and Chinese RMB foreign currency that is not designated in cash flow hedges:

| | 31 December 2013 | 31 December 2012 |
|-----------------------------------|--------------------|--------------------|
| | \$ | \$ |
| Financial assets | | |
| Cash and cash equivalents (EUR) | 34,781 | 21,095 |
| Cash and cash equivalents (USD) | 567,188 | 43,395 |
| Cash and cash equivalents (GBP) | 18,754 | - |
| Cash and cash equivalents (RMB) | 1,621,449 | 1,727,335 |
| | <u>2,242,172</u> | <u>1,791,825</u> |
| Trade and other receivables (EUR) | 272,055 | 203,687 |
| Trade and other receivables (USD) | 30,168 | 43,753 |
| Trade and other receivables (RMB) | 2,932,528 | 1,149,003 |
| | <u>3,234,751</u> | <u>1,396,443</u> |
| Financial liabilities | | |
| Trade and other payables (EUR) | (109,091) | (452,113) |
| Trade and other payables (USD) | (403,079) | (390,528) |
| Trade and other payables (GBP) | (9,417) | - |
| Trade and other payables (RMB) | (912,364) | (864,367) |
| | <u>(1,433,951)</u> | <u>(1,707,008)</u> |
| Borrowings (RMB) | <u>(5,522,005)</u> | <u>(4,158,486)</u> |
| Net exposure | <u>(1,479,033)</u> | <u>(2,677,226)</u> |

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date.

At 31 December, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, equity would have been affected as follows:

| | 31 December 2013 | 31 December 2012 |
|--|------------------|------------------|
| | \$ | \$ |
| Judgements of reasonable possible movements: | | |
| <u>AUD/USD, AUD/EUR and AUD/RMB +20%</u> | | |
| Equity increase/(decrease) | 246,505 | 446,204 |
| <u>AUD/USD, AUD/EUR and AUD/RMB -20%</u> | | |
| Equity increase/(decrease) | (295,806) | (535,445) |

At this stage, the Consolidated Entity does not seek to hedge this exposure.

Credit risk

The credit risk on financial assets of the Consolidated Entity which have been recognised on the statement of financial position is generally the carrying amount, net of any provision for impairment losses.

The Consolidated Entity continuously monitors credit risks arising from its trade receivables which are principally with significant and reputable companies. It is the Consolidated Entity's policy that credit verification procedures, including assessment of credit ratings, financial position, past experience and industry reputation, are performed on new customers that request credit terms. Risk limits are set for each customer and regularly monitored. Receivable balances are monitored on an ongoing basis with the result that the Consolidated Entity's exposure to bad debts is not significant.



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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

The total credit risk exposure of the Consolidated Entity could be considered to include the difference between the carrying amount of the receivable and the realisable amount. At balance sheet date there were no significant concentrations of credit risk. The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet. Details with respect to credit risk of trade and other receivables are provided in Note 6.

Liquidity risk

Liquidity risk arises from the possibility that the Consolidated Entity might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Consolidated Entity manages this risk through the following mechanisms:

1. preparing forward-looking cash flow analyses in relation to its operational, investing and financing activities;
2. monitoring undrawn credit facilities;
3. obtaining funding from a variety of sources;
4. maintaining a reputable credit profile; and
5. managing credit risk related to financial assets.

The table below reflects an undiscounted contractual maturity analysis for financial liabilities.

Financial liability and financial asset maturity analysis

| | Within 1 Year | | 1 to 5 Years | | Over 5 Years | | Total | |
|---|---------------|----------------|--------------|------------|--------------|------------|--------------|----------------|
| | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 | 31/12/2013 | 31/12/2012 |
| Consolidated Group | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 | \$000 |
| Financial liabilities due for payment | | | | | | | | |
| Bank operating facility and loans | 5,522 | 4,158 | - | - | - | - | 5,522 | 4,158 |
| Trade and other payables | 1,510 | 2,083 | - | - | - | - | 1,510 | 2,083 |
| Total contractual outflows | 7,032 | 6,241 | - | - | - | - | 7,032 | 6,241 |
| Total expected outflows | 7,032 | 6,241 | - | - | - | - | 7,032 | 6,241 |
| Financial assets – cash flows realisable | | | | | | | | |
| Cash and cash equivalents | 4,427 | 1,835 | - | - | - | - | 4,427 | 1,835 |
| Trade and other receivables | 3,640 | 1,802 | - | - | - | - | 3,640 | 1,802 |
| Total anticipated inflows | 8,067 | 3,637 | - | - | - | - | 8,067 | 3,637 |
| Net (outflow)/ inflow on financial instruments | 1,035 | (2,604) | - | - | - | - | 1,035 | (2,604) |

Financial assets pledged as collateral

There are no financial assets that have been pledged as security for debt and their realisation into cash is not restricted.

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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

18. COMMITMENTS AND CONTINGENT LIABILITIES

| | 31 December 2013 \$ | 31 December 2012 \$ |
|--|------------------------|------------------------|
| Operating lease commitments | | |
| Future operating lease rentals not provided for in the financial statements and payable: | | |
| Not later than one year | 48,017 | 5,000 |
| Later than one year but not later than five years | 24,009 | - |
| | <u>72,026</u> | <u>5,000</u> |

Contingent liabilities

The Company is currently a defendant in a proceeding brought against the Company by a former employee in relation to the employee's past employment. Having considered legal advice, the Directors believe that the claim can be successfully defended, without any losses (including for costs) being incurred by the Company.

19. EARNINGS PER SHARE

The calculation of basic earnings per share at 31 December 2013 was based on the profit attributable to ordinary shareholders at \$404,460 (six months ended 31 December 2012: \$1,275,581 loss) and a weighted average number of ordinary shares outstanding during the year ended 31 December 2013 of 959,249,953 (31 December 2012: 751,746,826) calculated as follows:

| | Year ended 31 Dec 2013 Number | 6 months ended 31 Dec 2012 Number |
|---|-------------------------------------|---|
| Issued ordinary shares at beginning of period | 896,087,712 | 720,938,456 |
| Effect of shares issued on 9 August 2012 | - | 1,430 |
| Effect of shares issued on 27 September 2012 | - | 14,221,323 |
| Effect of shares issued on 12 November 2012 | - | 16,585,617 |
| Effect of shares issued on 30 August 2013 | 25,479,452 | - |
| Effect of shares issued on 30 August 2013 | 679,452 | - |
| Effect of shares issued on 11 October 2013 | 12,254,047 | - |
| Effect of shares issued on 15 November 2013 | 23,997,509 | - |
| Effect of shares issued on 15 November 2013 | 669,589 | - |
| Effect of shares issued on 17 December 2013 | 82,192 | - |
| Weighted average number of ordinary shares at 31 December | <u>959,249,953</u> | <u>751,746,826</u> |

The Company's potential ordinary shares are not considered dilutive and accordingly the basic loss per share is the same as the diluted loss per share.



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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

20. CONTROLLED ENTITIES

| | Country of Incorporation | Entity interest 31 December 2013 | Entity interest 31 December 2012 |
|--|-----------------------------|--|--|
| <i>Parent entity</i> | | | |
| Vmoto Limited | Australia | | |
| <i>Controlled entities</i> | | | |
| Vmoto Australia Pty Ltd (formerly Capital Pacific Pty Ltd) | Australia | 100% | 100% |
| Vmoto International Limited | Hong Kong | 100% | 100% |
| Vmoto E-Max International Limited | Hong Kong | 100% | 100% |
| Nanjing Vmoto Co, Ltd | China | 100% | 100% |
| Nanjing Vmoto Manufacturing Co, Ltd | China | 100% | 100% |
| Nanjing Vmoto E-Max Electric Vehicles Development Co, Ltd | China | 100% | 100% |
| Vmoto Europe Operations S.L. | Spain | 100% | 100% |

21. KEY MANAGEMENT PERSONNEL DISCLOSURES

Details of key management personnel

(i) Directors

| | |
|------------------|--|
| Mr Simon Farrell | Chairman (Non-Executive) – appointed 29 January 2013 |
| Mr Charles Chen | Managing Director (Executive) – appointed Executive Director 5 January 2007 and Managing Director 1 September 2011 |
| Mr Ivan Teo | Finance Director (Executive) – appointed Chief Financial Officer 17 June 2009 and Finance Director 29 January 2013 |
| Mr Oliver Cairns | Director (Non-Executive) – appointed 1 September 2011 |
| Mr Kaijian Chen | Director (Non-Executive) – appointed 1 September 2011 |

(ii) Executives

| | |
|-------------------|---|
| Mr Patrick Davin | President of Strategic Business Development – appointed 1 July 2012 |
| Mr Michael Fulton | International Sales Manager – appointed 1 July 2010 |
| Mr George Hou | General Manager – appointed 6 July 2012 |
| Mr Zhengjie Wu | Vice General Manager – appointed 5 October 2009 |



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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

Refer to the remuneration report contained in the Directors' Report for details of the remuneration paid or payable to each member of the Consolidated Entity's key management personnel for the year ended 31 December 2013.

The totals of remuneration paid to key management personnel of the Company and the Consolidated Entity during the period ended 31 December 2013 are as follows:

| | Year ended 31 Dec 2013 | 6 months ended 31 Dec 2012 |
|-------------------------------|------------------------------|----------------------------------|
| | \$ | \$ |
| Short-term employee benefits | 692,181 | 348,569 |
| Share-based payments | 56,188 | 77,307 |
| Total KMP compensation | 748,369 | 425,876 |

Share holdings and transactions of key management personnel

The movement during the year ended 31 December 2013 in the number of ordinary shares held, directly, indirectly or beneficially by each key management person, including their personally-related entities, is as follows:

| | Held at 1 Jan 2013 | Held at date of appointment | Net change ¹ | Granted as remuneration | Received on vest of performance rights | Held at date of resignation | Held at 31 Dec 2013 |
|-------------------|-----------------------|-----------------------------------|-------------------------|----------------------------|---|-----------------------------------|------------------------|
| Directors | | | | | | | |
| Mr S Farrell | N/A | - | 2,272,728 | - | - | N/A | 2,272,728 |
| Mr C Chen | 39,664,578 | N/A | 2,272,728 | - | 1,000,000 | N/A | 42,937,306 |
| Mr I Teo | N/A | 3,511,000 | 2,272,728 | - | - | N/A | 5,783,728 |
| Mr O Cairns | 9,488,888 | N/A | 2,727,274 | - | 1,000,000 | N/A | 13,216,162 |
| Mr K Chen | 2,777,777 | N/A | 2,727,273 | - | - | N/A | 5,505,050 |
| Executives | | | | | | | |
| Mr P Davin | 24,548,165 | N/A | (9,227,272) | - | - | N/A | 15,320,893 |
| Mr M Fulton | - | N/A | - | - | - | N/A | - |
| Mr G Hou | - | N/A | - | 1,000,000 | - | N/A | 1,000,000 |
| Mr Z Wu | - | N/A | - | - | - | N/A | - |

1. *Net change represents the acquisition and disposal of shares on market and/or participation in the placement undertaken by the Company.



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NOTES TO THE FINANCIAL STATEMENTS (cont'd)

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

Option holdings of key management personnel

The movement during the year ended 31 December 2013 in the number of options over ordinary shares held, directly, indirectly or beneficially by each key management person, including their personally-related entities, is as follows:

| | Held at 1 Jan 2013 | Held at date of appointment | Additions | Granted as remuneration | Expired | Held at date of resignation | Held at 31 Dec 2013 |
|-------------------|-----------------------|-----------------------------------|-----------|----------------------------|-----------|-----------------------------------|------------------------|
| Directors | | | | | | | |
| Mr S Farrell | N/A | - | - | 10,000,000 | - | N/A | 10,000,000 |
| Mr C Chen | 13,221,526 | N/A | - | - | - | N/A | 13,221,526 |
| Mr I Teo | N/A | 2,425,000 | - | - | - | N/A | 2,425,000 |
| Mr O Cairns | 8,141,527 | N/A | - | - | 3,141,527 | N/A | 5,000,000 |
| Mr K Chen | 2,777,777 | N/A | - | - | - | N/A | 2,777,777 |
| Executives | | | | | | | |
| Mr P Davin | - | N/A | - | - | - | N/A | - |
| Mr M Fulton | 2,100,000 | N/A | - | - | - | N/A | 2,100,000 |
| Mr G Hou | 1,500,000 | N/A | - | - | - | N/A | 1,500,000 |
| Mr Z Wu | 800,000 | N/A | - | - | - | N/A | 800,000 |

The options held by Mr Simon Farrell will vest on 23 May 2014. The options held by other specified directors are vested and exercisable.

Performance right holdings of key management personnel

The movement during the year ended 31 December 2013 in the number of performance rights held, directly, indirectly or beneficially by each key management person, including their personally-related entities, is as follows:

| | Held at 1 Jan 2013 | Held at date of appointment | Granted as remuneration | Vested as Shares | Forfeited | Held at date of resignation | Held at 31 Dec 2013 |
|-------------------|-----------------------|-----------------------------------|----------------------------|---------------------|-----------|-----------------------------------|------------------------|
| Directors | | | | | | | |
| Mr S Farrell | N/A | - | - | - | - | N/A | - |
| Mr C Chen | 10,000,000 | N/A | - | 1,000,000 | - | N/A | 9,000,000 |
| Mr I Teo | N/A | - | - | - | - | N/A | - |
| Mr O Cairns | 10,000,000 | N/A | - | 1,000,000 | - | N/A | 9,000,000 |
| Mr K Chen | - | N/A | - | - | - | N/A | - |
| Executives | | | | | | | |
| Mr P Davin | - | N/A | - | - | - | N/A | - |
| Mr M Fulton | - | N/A | - | - | - | N/A | - |
| Mr G Hou | - | N/A | - | - | - | N/A | - |
| Mr Z Wu | - | N/A | - | - | - | N/A | - |

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

21. KEY MANAGEMENT PERSONNEL DISCLOSURES (cont'd)

Other Key Management Personnel Transactions

There have been no related party transactions involving any of the Key Management Personnel identified in the table above during the year or the previous year.

| | Year ended 31 December 2013 \$ | 6 months ended 31 December 2012 \$ |
|--|--------------------------------------|--|
| 22. RECONCILIATION OF CASH FLOWS FROM/ (USED IN) OPERATING ACTIVITIES | | |
| Cash flows from operating activities | | |
| Profit/(Loss) for the year | 404,460 | (1,275,581) |
| Adjustments for: | | |
| - Depreciation and impairment | 484,112 | 254,360 |
| - Share based payment expenses | 159,596 | 27,724 |
| Operating loss before changes in working capital and provisions | 1,048,168 | (993,497) |
| (Increase)/ decrease in receivables | (1,837,582) | (85,858) |
| (Increase)/ decrease in inventories | (2,030,159) | (666,090) |
| (Increase)/ decrease in other assets | (1,855,979) | 34,554 |
| (Decrease)/ increase in payables | 850,155 | (390,048) |
| Net cash (used in) operating activities | (3,825,397) | (2,100,939) |

23. NON-DIRECTOR RELATED PARTIES

Non-director related parties are the Company's controlled entities. Details of the Company's interest in controlled entities are set out in Note 20. Details of dealings with these entities are set out below.

Transactions

The loans to controlled entities are unsecured, interest-free and of no fixed term. The loans are provided primarily for capital purchases and working capital purposes.

Receivables

Aggregate amounts receivable from non-director related parties:

| | Year ended 31 Dec 2013 \$ | Company 6 months ended 31 Dec 2012 \$ |
|--|---------------------------------|---|
| <i>Non-current</i> | | |
| Unsecured loans to controlled entities | 19,408,358 | 16,097,939 |
| Provision for non recovery | (19,408,358) | (16,097,939) |
| | - | - |

24. SUBSEQUENT EVENTS

Vesting of Performance Rights

On 21 January 2014, the Company issued 1,000,000 fully paid ordinary shares to Mr Yiting Chen and 1,000,000 fully paid ordinary shares to Mr Oliver Cairns as a result of vesting of Class D incentive performance rights as approved by shareholders on 31 July 2012.

NOTES TO THE FINANCIAL STATEMENTS (cont'd)

Exercise of Options

On 13 February 2014, the Company issued 40,400 fully paid ordinary shares following the exercise of 40,400 listed options exercisable at \$0.04 on or before 31 December 2014.

Apart from the above, there were no other significant events subsequent to year ended 31 December 2013 and prior to the date of this report that have not been dealt with elsewhere in this report.

25. PARENT ENTITY DISCLOSURES

| <i>Financial position</i> | 31 Dec 2013 | 31 Dec 2012 |
|-------------------------------------|--------------------|-----------------------|
| | \$ | \$ |
| Assets | | |
| Current assets | 2,678,947 | 453,934 |
| Non-current assets | 9,192,186 | 6,101,189 |
| Total assets | <u>11,871,133</u> | <u>6,555,123</u> |
| Liabilities | | |
| Current liabilities | 85,466 | 320,325 |
| Non-current liabilities | - | - |
| Total Liabilities | <u>85,466</u> | <u>320,325</u> |
| Equity | | |
| Issued capital | 57,725,955 | 51,060,622 |
| Accumulated losses | (46,007,404) | (45,126,871) |
| Reserves | | |
| Share based payment premium reserve | 238,048 | 301,047 |
| Total equity | <u>11,956,599</u> | <u>6,234,798</u> |
| Financial performance | Year ended | 6 months ended |
| | 31 Dec 2013 | 31 Dec 2012 |
| | \$ | \$ |
| Loss for the period | 880,533 | 383,066 |
| Other comprehensive income | - | - |
| Total comprehensive income | <u>880,533</u> | <u>383,066</u> |

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity has not entered into any guarantees in relation to the debts of its subsidiaries during the year ended 31 December 2013.

Commitments for the acquisition of property, plant and equipment by the parent entity

The parent entity has no commitments for any acquisition of property, plant and equipment.

26. Fair Value Measurement

In accordance with AASB 13, Fair Value Measurement, the group is required to disclose for each class of assets and liabilities measured at fair value, the level of the fair value hierarchy within which the fair value method is categorised. The group view that no assets or liabilities are measured at fair value, other than cash, trade and other receivables, trade and other payables and borrowings with carrying amounts assumed to approximate their fair value.



VMOTO LIMITED
ABN 36 098 455 460

DIRECTORS' DECLARATION

In the opinion of the Directors of Vmoto Limited:

- (a) the financial statements and notes, set out on pages 30 to 64, are in accordance with the Corporations Act 2001, including:
- (i) giving a true and fair view of the financial position of the Consolidated Entity as at 31 December 2013 and their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.
- (b) the attached financial statements also comply with International Financial Reporting Standards, as stated in Note 1 to the financial statements; and
- (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by Section 295A of the Corporations Act 2001 from the Managing Director and the Finance Director for the year ended 31 December 2013.

Signed in accordance with a resolution of the Directors:

Yiting (Charles) Chen
Managing Director

Dated at China, Western Australia this 28th day of March 2014.

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To The Board of Directors

Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

As lead audit director for the audit of the financial statements of Vmoto Ltd for the financial year ended 31 December 2013, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- any applicable code of professional conduct in relation to the audit.

Yours faithfully

BENTLEYS
Chartered Accountants

MARK DELAURENTIS CA
Director

DATED at PERTH this 28th day of March 2014



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- Accountants
- Auditors
- Advisors

Independent Auditor's Report

To the Members of Vmoto Ltd

We have audited the accompanying financial report of Vmoto Ltd ("the Company") and Controlled Entities ("the Consolidated Entity"), which comprises the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the Consolidated Entity, comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

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Directors Responsibility for the Financial Report

The directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standards AASB 101: *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Independent Auditor's Report

To the Members of Vmoto Ltd (Continued)



Independence

In conducting our audit, we followed applicable independence requirements of Australian professional ethical pronouncements and the *Corporations Act 2001*.

Auditor's Opinion

In our opinion:

- a. The financial report of Vmoto Ltd and Controlled Entities is in accordance with the *Corporations Act 2001*, including:
 - i. giving a true and fair view of the Consolidated Entity's financial position as at 31 December 2013 and of its performance for the year ended on that date; and
 - ii. complying with Australian Accounting Standards and the *Corporations Regulations 2001*;
- b. The financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in directors' report of the year ended 31 December 2013. The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion, the Remuneration Report of Vmoto Ltd for the year ended 31 December 2013, complies with section 300A of the *Corporations Act 2001*.

BENTLEYS
Chartered Accountants

MARK DELAURENTIS CA
Director

DATED at PERTH this 28th day of March 2014

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VMOTO LIMITED
ABN 36 098 455 460

ADDITIONAL SHAREHOLDER INFORMATION

The following information is current as at 14 March 2014:

Voting Rights

The voting rights attaching to ordinary shares are:

On a show of hands every member present in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Options and Performance Rights do not carry any voting rights.

Substantial Shareholders

The number of shares held by substantial shareholders and their associates who have provided the Company with substantial shareholder notices are set out below:

| <i>Name of Substantial Shareholder</i> | <i>Date Notice provided to the Company</i> | <i>Number of Shares</i> | <i>Number of Options</i> |
|--|--|-------------------------|--------------------------|
| Mr Bing Wu | 20 August 2012 | 37,664,114 | 12,554,705 |
| Mr Yiting (Charles) Chen | 20 August 2012 | 35,873,052 | 2,000,000 |
| Huimin Zhou | 28 August 2012 | 38,582,316 | 12,860,771 |

On-Market Buy Back

There is no current on-market buy back.

Distribution Schedules

Distribution schedules for each class of security as at 14 March 2014 are set out below. Where a person holds 20% or more of the securities in an unquoted class, the name of that holder and number of securities is also provided.

Fully paid ordinary shares

| Range | Holders | Units | % |
|------------------|----------------|----------------------|---------------|
| 1 - 1,000 | 44 | 11,936 | 0.00 |
| 1,001 - 5,000 | 102 | 410,350 | 0.03 |
| 5,001 - 10,000 | 238 | 2,076,063 | 0.17 |
| 10,001 - 100,000 | 1,762 | 83,226,095 | 6.81 |
| 100,001 - Over | 1,197 | 1,137,512,760 | 92.99 |
| Total | 3,343 | 1,223,237,204 | 100.00 |

Listed options exercisable at \$0.04 each expiring 31 December 2014

| Range | Holders | Units | % |
|------------------|----------------|--------------------|---------------|
| 1 - 1,000 | 0 | 0 | 0 |
| 1,001 - 5,000 | 66 | 230,227 | 0.16 |
| 5,001 - 10,000 | 39 | 314,694 | 0.22 |
| 10,001 - 100,000 | 132 | 5,180,417 | 3.55 |
| 100,001 - Over | 102 | 140,126,492 | 96.07 |
| Total | 339 | 145,851,830 | 100.00 |



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Class E unlisted options exercisable at \$0.04 each, expiring 23 May 2018

| Range | Holders | Units | % |
|------------------|-----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 1 ¹ | 5,000,000 | 100.00 |
| Total | 1 | 5,000,000 | 100.00 |

¹ Newcove International Inc holds 5,000,000 options comprising 100.0% of this class.

Class F unlisted options exercisable at \$0.08 each, expiring 23 May 2018

| Range | Holders | Units | % |
|------------------|-----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 1 ¹ | 5,000,000 | 100.00 |
| Total | 1 | 5,000,000 | 100.00 |

¹ Newcove International Inc holds 5,000,000 options comprising 100.0% of this class.

ESOP options exercisable at \$0.025 each, expiring 1 September 2014

| Range | Holders | Units | % |
|------------------|-----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 11 | 8,500,000 | 100.00 |
| Total | 11 | 8,500,000 | 100.00 |

ESOP options exercisable at \$0.03 each, expiring 23 November 2015

| Range | Holders | Units | % |
|------------------|-----------------|-------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 17 | 11,500,000 | 100.00 |
| Total | 17 | 11,500,000 | 100.00 |

Class B Incentive Performance Rights, subject to vesting criteria, expiring 17 December 2014

| Range | Holders | Units | % |
|------------------|-----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 2 | 2,000,000 | 100.00 |
| Total | 2 | 2,000,000 | 100.00 |



VMOTO LIMITED
A B N 3 6 0 9 8 4 5 5 4 6 0

¹ 1,000,000 Performance Rights held by each of Silverlight Holdings Pty Ltd <Cairns Investment A/C> and Mr Yiting (Charles) Chen, comprising 50.00% each.

Class C Incentive Performance Rights, subject to vesting criteria, expiring 17 December 2015

| Range | Holders | Units | % |
|------------------|----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 2 | 2,000,000 | 100.00 |
| Total | 2 | 2,000,000 | 100.00 |

¹ 1,000,000 Performance Rights held by each of Silverlight Holdings Pty Ltd <Cairns Investment A/C> and Mr Yiting (Charles) Chen, comprising 50.00% each.

Class E Incentive Performance Rights, subject to vesting criteria, expiring 21 January 2015

| Range | Holders | Units | % |
|------------------|----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 2 | 2,000,000 | 100.00 |
| Total | 2 | 2,000,000 | 100.00 |

¹ 1,000,000 Performance Rights held by each of Silverlight Holdings Pty Ltd <Cairns Investment A/C> and Mr Yiting (Charles) Chen, comprising 50.00% each.

Class F Incentive Performance Rights, subject to vesting criteria, expiring 21 January 2016

| Range | Holders | Units | % |
|------------------|----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 2 | 2,000,000 | 100.00 |
| Total | 2 | 2,000,000 | 100.00 |

¹ 1,000,000 Performance Rights held by each of Silverlight Holdings Pty Ltd <Cairns Investment A/C> and Mr Yiting (Charles) Chen, comprising 50.00% each.

Class G Incentive Performance Rights, subject to vesting criteria, expiring 31 December 2015

| Range | Holders | Units | % |
|------------------|----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 2 | 2,666,666 | 100.00 |
| Total | 2 | 2,666,666 | 100.00 |

¹ 1,333,333 Performance Rights held by each of Silverlight Holdings Pty Ltd <Cairns Investment A/C> and Mr Yiting (Charles) Chen, comprising 50.00% each.



VMOTO LIMITED
ABN 36 098 455 460

Class G Incentive Performance Rights, subject to vesting criteria, expiring 31 December 2015

| Range | Holders | Units | % |
|------------------|----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 2 | 2,666,666 | 100.00 |
| Total | 2 | 2,666,666 | 100.00 |

¹ 1,333,333 Performance Rights held by each of Silverlight Holdings Pty Ltd <Cairns Investment A/C> and Mr Yiting (Charles) Chen, comprising 50.00% each.

Class I Incentive Performance Rights, subject to vesting criteria, expiring 31 December 2015

| Range | Holders | Units | % |
|------------------|----------------|------------------|---------------|
| 1 - 1,000 | - | - | - |
| 1,001 - 5,000 | - | - | - |
| 5,001 - 10,000 | - | - | - |
| 10,001 - 100,000 | - | - | - |
| 100,001 - Over | 2 | 2,666,668 | 100.00 |
| Total | 2 | 2,666,668 | 100.00 |

¹ 1,333,334 Performance Rights held by each of Silverlight Holdings Pty Ltd <Cairns Investment A/C> and Mr Yiting (Charles) Chen, comprising 50.00% each.

Unmarketable Parcels

Holdings of less than a marketable parcel of ordinary shares (being 38,462 shares as at 14 March 2014):

| Holders | Units |
|----------------|--------------|
| 180 | 2,217,269 |

Top Holders

The 20 largest registered holders of quoted securities as at 14 March 2014 were:

Fully paid ordinary shares

| | Name | No. Shares | % |
|----|---|--------------------|--------------|
| 1 | COMPUTERSHARE CLEARING PTY LTD <CCNL DI A/C> | 144,093,625 | 11.78 |
| 2 | PERSHING AUSTRALIA NOMINEES PTY LTD <ARGONAUT ACCOUNT> | 82,519,622 | 6.75 |
| 3 | MR BING WU | 43,200,478 | 3.53 |
| 4 | PALIR PTY LTD <GILBERT S/F A/C> | 31,000,000 | 2.53 |
| 5 | MR BRENDAN DAVID GORE <GORE FAMILY A/C> | 26,200,000 | 2.14 |
| 6 | MR THOMAS JOSEPH FALVEY | 24,375,391 | 1.99 |
| 7 | MR YI CHEN | 23,369,911 | 1.91 |
| 8 | MR ER CHUAN ZHOU | 15,274,150 | 1.25 |
| 9 | MR PATRICK DENNIS DAVIN | 13,320,893 | 1.09 |
| 10 | MR YAO TIEMING | 13,143,200 | 1.07 |
| 11 | NATIONAL NOMINEES LIMITED | 12,581,471 | 1.03 |
| 12 | SILVERLIGHT HOLDINGS PTY LTD <CAIRNS INVESTMENT A/C> | 11,363,637 | 0.93 |
| 13 | YANG PTY LTD <YANG FAMILY A/C> | 11,000,000 | 0.90 |
| 14 | CAMBRIAN HOLDINGS PTY LTD | 10,306,110 | 0.84 |
| 15 | UBS NOMINEES PTY LTD | 10,000,000 | 0.82 |
| 16 | FITEL NOMINEES LIMITED | 9,044,536 | 0.74 |
| 17 | MR IAN KENNETH EDLIN & MRS NILA LEA EDLIN | 8,000,000 | 0.65 |
| 18 | CRISEREN INVESTMENTS LIMITED | 7,874,016 | 0.64 |
| 19 | EDLINS PROSPERITY PLUS PTY LTD <EDLINS PROSPERITY PLUS A/C> | 7,650,000 | 0.63 |
| 20 | COVERDOVE PTY LTD <COVERDOVE SUPER FUND A/C> | 7,409,009 | 0.61 |
| | | 511,726,049 | 41.83 |

Listed options exercisable at \$0.04 each, expiring 31 December 2014

| | Name | No. Options | % |
|----|--|--------------------|--------------|
| 1 | PERSHING AUSTRALIA NOMINEES PTY LTD <ARGONAUT ACCOUNT> | 26,082,297 | 17.88 |
| 2 | FISKE NOMINEES LTD | 16,666,667 | 11.43 |
| 3 | PALIR PTY LTD <GILBERT S/F A/C> | 14,500,000 | 9.94 |
| 4 | MR YI CHEN | 13,994,911 | 9.60 |
| 5 | MR BING WU | 12,554,705 | 8.61 |
| 6 | MR BRENDAN DAVID GORE <GORE FAMILY A/C> | 6,000,000 | 4.11 |
| 7 | SILVERLIGHT HOLDINGS PTY LTD <CAIRNS INVESTMENT A/C> | 5,000,000 | 3.43 |
| 8 | FINNCAP LTD | 3,725,385 | 2.55 |
| 9 | KAIJIAN CHEN | 2,777,777 | 1.90 |
| 10 | MR BENN ALEXANDER SPIERS | 2,500,000 | 1.71 |
| 11 | FIRST AVENUE ENTERPRISES PTY LTD <FIRST AVENUE A/C> | 2,132,915 | 1.46 |
| 12 | MAGALLANES CAPITAL LIMITED | 1,700,000 | 1.17 |
| 13 | MR GREGORY NEVILLE ARNOLD | 1,488,000 | 1.02 |
| 14 | MRS BARBARA SCHRODER & MR JASON WILLIAM SCHRODER <SCHRODER FAMILY SUPER A/C> | 1,470,000 | 1.01 |
| 15 | SHANDORA ONE PTY LTD <BENGER SUPER FUND A/C> | 1,055,000 | 0.72 |
| 16 | MR GREGORY NEVILLE ARNOLD | 1,012,000 | 0.69 |
| 17 | MR IAN KENNETH EDLIN & MRS NILA LEA EDLIN | 1,000,000 | 0.69 |
| 18 | SHIELA INVESTMENTS PTY LTD <GEORGE SUPER FUND A/C> | 1,000,000 | 0.69 |
| 19 | ACTION RENTALS PTY LTD <W F MONCRIEFF SUPER A/C> | 850,000 | 0.58 |
| 20 | SENTABOOL PTY LTD <UPFRONT SUPERFUND A/C> | 825,000 | 0.57 |
| | | 116,334,657 | 79.76 |