



NEW REGULATIONS IN CHINA - LIGHT ELECTRIC TWO-WHEEL VEHICLE

ANNOUNCEMENT

12 SEPTEMBER 2012

Vmoto Limited ("Vmoto" or "Company") wishes to inform the market of the Chinese Government's announcement that, effective from 1 September 2012, light electric two-wheel vehicles with a speed of between 20 kph and 50 kph, and weighing more than 40kg, will be classified as scooter/motorcycle.

As a result of these new regulations:

- the light electric two-wheel vehicle (e.g. electric bicycle) will be subject to rules and regulations that would normally only apply to a scooter/motorcycle;
- the light electric two-wheel vehicle must have a registered number plate to be used on the road;
- the user of the light electric two-wheel vehicle may be required to have appropriate electric two-wheel vehicle "driving" licence; and
- the owner of the light electric two-wheel vehicle may be required to purchase insurance for their vehicle to be used on the road.

These new regulations will result in more light electric two-wheel vehicle being classified and regulated as scooter/motorcycle, which the Board believes will have positive implications for the business of Vmoto.

As announced on 3 July 2012, Vmoto has signed a Strategic Cooperation Agreement with Shanghai PowerEagle International Co Ltd ("PowerEagle"), a prestigious electric two-wheel vehicle company in China, to produce all of PowerEagle's electric two-wheel vehicle models, including electric motorcycles, electric scooters and electric bicycles, on an Original Equipment Manufacturer ("OEM") basis.

As the Chinese Government introduces more rules to regulate the light electric two-wheel vehicle market, Chinese companies that have only an electric bicycle manufacturing licence will need to cooperate with companies holding electric scooter/motorcycle manufacturing licences, such as Vmoto, to continue to manufacture their products.

The Company believes as a result there will be more scope for future cooperation arrangements, which may include engaging Vmoto to manufacture electric two-wheel vehicle products on OEM basis, joint ventures or even merger. Vmoto is well placed to participate in all of these opportunities.



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Classification of Electric Two-Wheel Vehicle

By way of background the electric two-wheel vehicle is broadly divided to three broad categories, which are:

- electric bicycles
- electric scooters
- electric motorcycles

The classification of electric bicycles, electric scooters, and electric motorcycles varies substantially across the globe.

Most countries define electric bicycles as vehicles that have pedals that propel the vehicle and can be human-powered as well as powered by a low-powered motor with limited speed capabilities. China, however, does not require electric bicycles to have pedals, but imposes designated speed limits on them. Vehicles that travel faster than the designated speed are classified as scooters or motorcycles, and have different licensing and usage rules.

Examples of Electric Two-Wheel Vehicles:



E-Bicycles



E-Scooters



E-Motorcycles

Sources: Pike Research

Prior to strategic cooperation with PowerEagle, Vmoto primarily manufactured and distributed electric scooter and electric motorcycle products. With the new strategic cooperation agreement with PowerEagle in place, Vmoto will manufacture approximately 10 models of light electric two-wheel vehicle on OEM basis for PowerEagle to sell into the massive Chinese domestic market for light electric two-wheel vehicle.

ELECTRIC TWO-WHEEL VEHICLE MARKET IN CHINA

Over the last few years China has been adopting electric bicycles and now has converted 140 million (of over 500 million bicycle commuters in China) to electric bicycles. Approximately 16 million ride electric scooters and electric motorcycles.



Picture: Millions of electric-assist bicycles, mopeds and electric scooters are sold every year in China, providing affordable transportation in already congested Chinese cities.

Electric bicycle sales have grown far faster than the sales of any other mode of transportation in China. The extraordinary growth of the electric bicycle market is mainly due to:

- improved electric bicycle technology, especially motor and battery technology;
- as an electric bicycle manufacturing licence is relatively easier to obtain compared to an electric scooter/motorcycle manufacturing licence, several hundreds of companies manufacturing electric bicycles in China have been formed;
- electric bicycles are a mode of transportation that provides a high level of personal mobility at low cost;
- reduction of electric bicycle prices over the years, rising gasoline prices and dropping electricity prices in rural areas, making electric bicycles more competitive economically;
- electric bicycles beat subways for convenience, buses for speed, and both when it comes to health concerns: the overcrowded transit system is feared for its potential to spread disease (e.g. SARS); and
- electric bicycles allow people to commute for longer distances and carry more cargo than normal bicycles.

With its strategic cooperation arrangement with PowerEagle, Vmoto will have access to more than 50 models of electric bicycle, electric scooter and electric motorcycle for Chinese market across approximately 130 distributors throughout the country. This Chinese domestic position balances nicely with Vmoto's existing E-Max electric scooter models for Europe, United States, South America and African markets.

In summary, the introduction of the new regulations by the Chinese Government for light electric two-wheel vehicles and the strategic cooperation between Vmoto and PowerEagle are expected to have the following direct positive impacts on Vmoto:

- as Vmoto has the comprehensive electric scooter/motorcycle manufacturing licence, more companies that only have the electric bicycles manufacturing licence or do not have manufacturing licence will turn to Vmoto to manufacture their electric two-wheel vehicle products on OEM basis, joint ventures or even merger;
- Vmoto is able to fast track its penetration into the massive Chinese domestic market for light electric two-wheel vehicle with PowerEagle's existing light electric two-wheel vehicle models; and
- Vmoto will increase its economies of scale as the production units increase, which in turn will result in lower costs to purchase parts, improved credit terms, increased stock turnover due to stock efficiency and faster delivery, and better quality in parts from suppliers.

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About Vmoto

Vmoto is a global integrated scooter manufacturing and distribution group with a state-of-the-art production facility situated in Nanjing, China. Vmoto specialises in high quality electric scooters and it has global customers in Europe, North and South America, South East Asia, Australia and New Zealand.