

28 September 2010

Eco City Vehicles PLC
("Eco City", "ECV" or "the Group")

Results for the six months ended 30 June 2010

Eco City Vehicles PLC, a developer and supplier of eco-friendly commercial vehicles and the London licensed taxi, announces its results for the six months ended 30 June 2010.

Financial highlights

- Total revenues increased by 3.4% to £12.8m (H1 2009: £12.4m) reflecting continued growth in sales of the Mercedes Vito taxi while offsetting the impact of the planned exit from the TX4 market
- Gross margin up to 17.7% (H1 2009: 15.7%) as Vito sales increased with price levels maintained
- New Vito taxi sales rose 34.2% to £7.1m driven by growth in regional sales and continued market share gain in London
- Parts & Accessories division net revenue increased by 10.7% to £1.6m (H1 2009: £1.4m)
- Operating profit from continuing operations before non-recurring items increased to £0.05m from £0.02m
- Finance costs of £0.2m include a £0.1m fair value movement on the interest rate swap relating to the mortgage on the Coventry property
- Loss per share from continuing operations before non-recurring items of 0.06 pence (H1 2009 Earnings Per Share: 0.05 pence)

Operating highlights

- Total new Vito units sales increased to 234 from 167 units with share of London new taxi market up to approximately 27% from 20% in the first half of 2009
- Ramped up production of Vito taxis in Coventry from eight to 12 units per week
- Development of left-hand drive Vito taxi and production of a fully operational prototype completed in response to strong interest from overseas markets
- Appointed as central London's only Mercedes-Benz Light Commercial Vehicles (LCV) after sales dealership, further strengthening ECV's relationship with Mercedes-Benz
- David Trendle appointed Finance Director in April 2010

Commenting on the results, Peter DaCosta, Chief Executive, said: "Despite challenging trading conditions, Eco City has delivered a satisfactory first half result with continued revenue growth and market share gains for the increasingly popular Vito taxi, as drivers and customers alike recognise its superior performance, comfort and efficiency compared with other taxis.

"The Group is on track for a stronger second half result as the Vito gains traction with total new unit sales well on the way to crossing the 1,000 milestone soon. Co-developed and second tier manufactured in Coventry, this modern Mercedes-branded taxi not only continues to increase its market share but is also receiving strong interest from overseas markets".

"Despite difficult conditions for the automotive sector, the Group looks to the future with cautious optimism."

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Overview

Eco City Vehicles is pleased to report an encouraging first half result, driven by continued solid demand for the Vito taxi, together with a robust performance by the parts business. Group revenue increased 3.4% to £12.8m (H1 2009: £12.4m), despite the impact of the volcanic ash cloud and airline strikes on the London taxi trade, which caused a 7.5% reduction in total new London taxi licences issued year on year.

Overall gross profit margins improved significantly from 15.7% to 17.7% as the Group benefited from the planned move away from LTI vehicles to the Vito, providing an improved contribution. The decline in the Group's TX4 business has long been anticipated and planned for by the Group through the development of the Vito taxi and a diversification into light commercial and low emission vehicles.

Operating profit before non-recurring items for the six months increased to £0.05m from £0.02m as higher administrative costs were offset by several factors, including improved gross margins and an increase in other income. Administrative costs are in line with the last financial year as a whole and are expected to remain at the same level in the second half of 2010.

In early September 2010, the Group expanded its relationship with Mercedes-Benz with the launch of its first Mercedes-Benz LCV after-sales dealership, the only such Central London outlet available for Mercedes-Benz LCV owners. The launch is part of ECV's strategy to diversify into complementary sectors of the light commercial vehicle market and opens a new revenue stream for the Group.

Operational Review

New Taxis

Sales of new Vito taxis increased by 34.2% to £7.1m (H1 2009: £5.2m) reflecting an increase in sales of new Vito taxis to 234 in the first half (H1 2009: 167 units). This result was achieved despite sluggish demand in London due to the impact of air travel disruptions. The Group has now sold over 850 Vito taxis since it was launched as the latest iteration of the London licensed taxi in mid 2008.

The Vito accounted for 99% of total new sales by revenue and, as expected, continued to achieve significantly higher margins than the heavily discounted TX4 models, resulting in improved gross margins from new vehicle sales rising from 8.7% to 10.7%.

Based on Public Carriage Office Licence data, the Group estimates that the Vito has captured a 27% (H1 2009: 20%) market share of new taxi sales in London in the first half of 2010, a further increase from the 24% share announced for 2009. The Group expects this upward trend to continue as awareness and acceptance of the Vito increase and more taxi drivers recognise its benefits, value and low total ownership costs. Eco City has also enjoyed regional success with sales of the Vito outside London. Regional sales accounted for 18.3% of total new sales revenue since its launch outside London in Q4 2009.

The Group also continued to make good progress in developing potential export markets. In view of strong market interest, Eco City has developed a left hand drive Vito taxi and produced a fully operational prototype.

LTI taxis

As anticipated, new sales of the LTI manufactured TX4 declined from fifty to three as taxi drivers increasingly recognise the benefits of the Vito. As planned, Group sales of new TX4 were phased down in preparation for the expiry of the LTI dealership in July 2010. However, ECV has agreed contracts with LTI to provide parts and warranty repairs of LTI vehicles on an ongoing basis.

Used taxis

Used vehicle sales remained resilient with improving margins. Revenue from this source increased by 6% in the first half to £2.4m (H1 2009: £2.2m). Used vehicle sales increased to 198 units from 158 last year with margins increasing from a loss of 3.5% to a profit of 1.2%.

After-Sales Division – Parts and Service

The parts business showed good growth with net revenue up 10.7% to £1.6m (H1 2009: £1.4m) with gross margins remaining broadly similar at around 24%.

Revenues from after sales service were £1.6m (H1 2009: £1.7m) with operating profit of £0.1m (H1 2009: £0.2m). This was due to lower revenue per job, as volumes were constant, reflecting price pressure from local ‘under the arches’ garages. The after sales division is expected to show growth from the second half of 2010 following the start up of the LCV after-sales dealership in Central London, the only approved Mercedes-Benz site available to LCV owners in the area. The move into LCV is complementary to ECV’s taxi business as both are based on the same automotive platform technology and leverage the Group’s extensive track record in the owner-driver commercial market in London.

Low Emission Commercial Vehicles

The Group continued to execute its strategy to diversify into the market for environmentally friendly light commercial vehicles.

Encouraging feedback was received on the Group’s prototype 3.5 tonne Mitsubishi hybrid truck. The Group is reviewing its manufacturing capability to start production in the UK. This will enable ECV to leverage its experience gained in the manufacture of the Vito in Coventry as well as its relationship with Mercedes Benz, which distributes the Mitsubishi branded trucks in the UK.

Following the launch of a prototype electric taxi, eVito, by a consortium including ECV in February 2010, discussions continue with the Mayor of London’s office and with Mercedes Benz for the production of a low emission Vito all-electric taxi as well as a hybrid version. The Group believes the development of such vehicles is consistent with the Mayor's strategy to improve air quality in the capital city and would be enhanced with the provision of incentives to taxi owners/drivers.

New Appointment

In April 2010, David Trendle was appointed as Finance Director to strengthen the Group's board and management team as part of its growth strategy.

Non-recurring items

The Group has incurred one-off non-recurring items of £0.15m relating to review and advice on corporate governance matters as disclosed in March 2010 and costs associated with the refinancing.

Related Party transaction

On March 11th this year the Group informed The Stock Exchange that the existence of some previously undisclosed related party transactions had come to light. Although these have not had any adverse impact on our cash or on current trading, an investigation is under way into how these transactions occurred. The results of this investigation, initiated by Eco City Vehicles, will be announced to the market as soon as possible.

Finance income & Costs

The Group had no interest receivable in the period and incurred higher finance costs due to interest on the fixed rate swap at 5.12% relating to the mortgage, increase in bank interest margins and interest on production stock. The Group, under IFRS, has provided for the fair value liability associated with the fixed rate swap. A liability of £194,000 was recognised in December 2009 and a further liability of £106,000 has been recognised in June 2010. The fair value liability is estimated based on the differential between the fixed rate of 5.12% and the expected market rates until the termination of the swap in 2023.

Inventory

Inventory levels were reduced in the second half of the last financial year to £2.7m and have reduced further to £2.6m, due to used stock levels reducing from £0.8m to £0.6m. The Group continues to limit its exposure to LTI stock with the majority of vehicles sold to the trade. Demand for used Mercedes-Benz Vito taxis is high resulting in a quick stock turn and resultant low stock levels.

Cash balances and funding

Cash balances at 30 June 2010 were £0.03m (2009: £0.3m) while borrowings increased from £2.4m to £2.9m, due to refinancing with a new 5-year loan of £0.85m, which was utilized to repay the £0.6m overdraft with HBOS and provide working capital to the Group. The Loan agreement with KPM-UK Taxis Plc Discretionary Pension Scheme was completed on 2 June 2010, as disclosed in the 2009 annual report and accounts.

The cash outflow net of proceeds from the loan is mainly due to financing activities. This is a result of mortgage repayments and associated interest at 5.12%, the level of the fixed rate swap, and an increase in bank margins. Interest on the stocking loan has also risen as allocations have increased to meet the

ramp up in production levels. The increase in repayment of finance leases is due to sale of demo stock which is financed with Mercedes-Benz.

The Group is trading within its banking facilities and covenants.

Outlook

The Group has successfully managed the transition of its London licensed new taxi sales business with the continued growth of the Mercedes Vito taxi, which has more than offset the planned run off of the legacy TX4 taxi business.

Current trading remains encouraging with demand for the Vito taxi continuing to grow in the second half, leading to a further market share gain with total unit sales expected to reach the 1000 milestone by the end of 2010. In addition, the Group is actively pursuing potential exports orders following excellent market feedback and the development of a left hand drive version of the Vito taxi.

Margins also continue to harden, reflecting an improved revenue mix as the Vito achieves better prices while sales of new TX4 taxis ceased as of July 2010.

The Group also expects to benefit from a new revenue stream with the start-up of its first Mercedes-Benz LCV after-sales dealership, the only approved Central London site, from September 2010.

As a result, the Group remains on track to achieve a stronger second half and looks forward to the future with cautious optimism.

Condensed Consolidated Statement of Comprehensive Income - unaudited
For the period ended 30 June 2010

		Period ended 30 June 2010 £000	Period ended 30 June 2009 £000	Year ended 31 December 2009 £000
	Notes			
Revenue		12,818	12,396	24,672
Cost of sales		(10,546)	(10,456)	(20,544)
Gross profit		2,272	1,940	4,128
Administrative expenses		(2,338)	(1,983)	(4,717)
Other operating income		118	66	661
Operating profit before non-recurring items		52	23	72
Non-recurring items	3	(155)	-	(207)
Operating (loss)/profit		(103)	23	(135)
Finance income	4	-	204	127
Finance costs	4	(241)	(96)	(345)
Share of profit/(loss) from equity accounted		4	18	(40)
(Loss)/profit before taxation		(340)	149	(393)
Taxation		-	-	14
(Loss)/profit for the period from continuing operations		(340)	149	(379)
Profit/(Loss) for the year from discontinued activities		17	(280)	(415)
Total comprehensive loss for the period		(323)	(131)	(794)
Loss per share		Pence	Pence	Pence
Basic and diluted earnings per share :				
(Loss)/Profit from continuing operations		(0.11)	0.05	(0.13)
Profit/(Loss) from discontinued operations		0.01	(0.09)	(0.14)
Total loss per share	5	(0.10)	(0.04)	(0.27)

Non-GAAP measure

Adjusted loss per share from continuing operations before non-recurring items

5	(0.06)	0.05	(0.06)
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Condensed Consolidated statement of financial position - unaudited

As at 30 June 2010

	Notes	As at 30 June 2010 £000	As at 30 June 2009 £000	As at 31 December 2009 £000
Assets				
Non current				
Property, plant and equipment		2,582	2,687	2,616
Investments accounted for using the equity method		1,074	1,128	1,070
Total non-current assets		3,656	3,815	3,686
Current				
Inventories		2,628	3,556	2,689
Trade and other receivables		2,445	3,822	2,386
Cash and cash equivalents		32	-	256
Total current assets		5,105	7,378	5,331
Total assets		8,761	11,193	9,017
Equity and liabilities				
Equity				
Equity attributable to owners of the parent:				
Share capital		3,021	3,021	3,021
Share premium		1,922	1,922	1,922
Share based payment reserve		31	17	31
Reverse acquisition reserve		(1,709)	(1,709)	(1,709)
Retained deficit		(3,017)	(2,031)	(2,694)
Total equity		248	1,220	571
Current liabilities				
Borrowings	6	2,213	2,077	2,657
Trade and other payables		5,607	7,853	5,768
Total current liabilities		7,820	9,930	8,425
Non current liabilities				
Borrowings	6	693	29	21
Deferred tax liability		-	14	-
Total non-current liabilities		693	43	21
Total liabilities		8,513	9,973	8,446
Total equity and liabilities		8,761	11,193	9,017

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Condensed Consolidated statement of changes in equity- unaudited

As at 30 June 2010

	Share capital £000	Share premium £000	Share payment reserve £000	Reverse acquisition reserve £000	Retained deficit £000	TOTAL £000
At 1 January 2009	3,021	1,922	17	(1,709)	(1,900)	1,351
Total comprehensive loss for the period	-	-	-	-	(794)	(794)
Share based payment	-	-	14	-	-	14
At 31 December 2009	<u>3,021</u>	<u>1,922</u>	<u>31</u>	<u>(1,709)</u>	<u>(2,694)</u>	<u>571</u>
At 1 January 2010	3,021	1,922	31	(1,709)	(2,694)	571
Total comprehensive loss for the period	-	-	-	-	(323)	(323)
Share based payment	-	-	-	-	-	-
At 30 June 2010	<u>3,021</u>	<u>1,922</u>	<u>31</u>	<u>(1,709)</u>	<u>(3,017)</u>	<u>248</u>

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Condensed Consolidated statement of cash flows- unaudited

For the period ended 30 June 2010

		Period ended 30 June 2010 £000	Period ended 30 June 2009 £000	Year ended 31 December 2009 £000
	Notes			
Operating activities				
Loss before tax		(340)	(131)	(393)
Adjustments	7	281	(52)	391
Net changes in working capital	7	(77)	115	1,476
		<u>(136)</u>	<u>(68)</u>	<u>1,474</u>
Investing activities				
Interest received		-	204	127
Purchase of property, plant and equipment		(10)	(139)	(52)
Proceeds from sale of property, plant and equipment		-	215	-
		<u>(10)</u>	<u>280</u>	<u>75</u>
Financing activities				
Interest paid		(134)	(96)	(345)
Proceeds from loan		850	-	-
Repayments of mortgages		(76)	(75)	(150)
Repayments of finance leases		(84)	(26)	(98)
Proceeds from finance leases		-	50	-
		<u>556</u>	<u>(147)</u>	<u>(593)</u>
Cash and cash equivalents at beginning of period		(369)	(934)	(934)
Net change in cash and cash equivalents from continuing operations		410	65	956
Net change in cash and cash equivalents from discontinued operations		(9)	(127)	(391)
Cash and cash equivalents at end of period		<u>32</u>	<u>(996)</u>	<u>(369)</u>

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Notes to the Condensed Consolidated Interim Report

1. General Information

eco city vehicles plc is a company incorporated in the United Kingdom and listed on the AIM market. The address of the registered office is Hemming House, Hemming Street, London, E1 5BL.

The Group is engaged in the sale and service of new and used taxicabs to owner operators of licensed taxis in London and the provision of related services and the sale and service of low emissions vehicles to business users. During the interim period the Group continued to operate from a single site in East London from where it conducted all operations. The premises in Coventry is partially sublet to two tenants, with the remaining area to be used to facilitate geographic expansion.

This unaudited condensed consolidated interim report is presented in British Pounds Sterling, the currency of the primary economic environment in which the Group operates. The Group comprises eco city vehicles plc and its subsidiary and associated companies as set out in the Note 3 of the Parent Company's financial statements, for the year ended 31 December 2009.

This unaudited condensed consolidated interim report does not constitute statutory accounts of the Group within the meaning of Section 434 of the Companies Act 2006. The financial information for the year ended 31 December 2009 has been extracted from the statutory accounts for that year, which have been filed with the Registrar of Companies. The auditor's report on those accounts was unqualified and did not contain a statement under Section 237(3) of the Companies Act 2006.

2. Basis of preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS and IFRIC Interpretations) issued by the International Accounting Standards Board (IASB) as adopted by the European Union and with those parts of the Companies Act applicable to companies preparing their financial statements under IFRS. Practice is continuing to evolve on the application and interpretations of IFRS. Further standards may be issued by the International Accounting Standards (IASB) and standards currently in issue and endorsed by the EU may be subject to interpretations issued by IFRIC.

The financial statements have been prepared using the measurement basis specified by IFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the detailed accounting policies below.

The preparation of financial statements, in conformity with general accepted accounting principles under IFRS, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Although these estimates are based on management's best knowledge of the amount, event or actions, actual results may ultimately differ from those estimates.

The accounting policies have been applied consistently throughout the Group for the purposes of preparation of these consolidated financial statements.

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Notes to the Condensed Consolidated Interim Report

3. Non-recurring items

	Period Ended 30 June 2010 £000	Period Ended 30 June 2009 £000	Year Ended 31 December 2009 £000
Provision against amounts receivable from Cabvision Limited	-	-	(504)
Insurance claim re loss of revenue	-	-	297
Corporate governance review	(108)	-	-
Restructuring of debt	(40)	-	-
Other	(7)	-	-
	<u>(155)</u>	<u>-</u>	<u>(207)</u>

4. Finance income and costs

	Period Ended 30 June 2010 £000	Period Ended 30 June 2009 £000	Year Ended 31 December 2009 £000
Finance income			
Interest received	-	66	127
	<u>-</u>	<u>66</u>	<u>127</u>
Finance costs			
Interest paid on borrowings	74	44	63
Fair value movement on interest rate swap	107	-	194
Consignment stock interest	59	50	85
Finance lease interest	1	1	3
	<u>241</u>	<u>95</u>	<u>345</u>

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Notes to the Condensed Consolidated Interim Report

5. Earnings per share

	Period Ended 30 June 2010 £000	Period Ended 30 June 2009 £000	Year Ended 31 December 2009 £000
Earnings			
Total Comprehensive loss for the year, used in the calculation of total basic earnings per share	(323)	(131)	(794)
Profit/(loss) for the year from discontinued operations used in the calculation of total basic earnings per share from discontinued operations	17	(280)	(415)
(Loss)/profit for the year used in the calculation of total basic earnings per share from continuing operations	<u>(340)</u>	<u>149</u>	<u>(394)</u>
Non-recurring items	155	-	207
Adjusted (loss)/profit for the year	<u>(185)</u>	<u>149</u>	<u>(172)</u>
Weighted average number of ordinary shares for the purpose of basic and adjusted loss per share	302,050,000	302,050,000	302,050,000
<u>Earnings per share</u>			
Continuing operations	<u>(0.11)</u>	<u>0.05</u>	<u>(0.13)</u>
Discontinued operations	<u>0.01</u>	<u>(0.09)</u>	<u>(0.14)</u>
Adjusted for non-recurring items	<u>(0.06)</u>	<u>0.05</u>	<u>(0.06)</u>

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Notes to the Condensed Consolidated Interim Report

6. Borrowings

	Period Ended 30 June 2010 £000	Period Ended 30 June 2009 £000	Year Ended 31 December 2009 £000
Current portion of long term borrowings			
Mortgages	1,805	1,956	1,881
Obligations under finance leases	238	102	151
Loans	170	-	-
Overdraft	-	19	625
Total	2,213	2,077	2,657
Non-current long term borrowings			
Obligations under finance leases	13	29	21
Loans	680	-	-
Total	693	29	21

7. Adjustments to cashflow

	Period Ended 30 June 2010 £000	Period Ended 30 June 2009 £000	Year Ended 31 December 2009 £000
Adjustments:			
(Profit)/Loss attributable to associate company	(4)	(18)	40
Finance costs	241	96	345
Finance Income	-	(204)	(127)
Depreciation	44	74	119
Share based payments	-	-	14
Total adjustments	281	(52)	391
Net changes in working capital:			
Increase in trade and other receivables	(77)	(1,394)	(238)
(Increase) / decrease in trade and other payables	(61)	813	(129)
Decrease in inventories	61	696	1,843
Total changes in working capital	(77)	115	1,476

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Notes to the Condensed Consolidated Interim Report

8. Segment revenues and results

The following is an analysis of the Group's revenue and results from continuing operations by reportable segment.

	Segment Revenue			Segment Profit		
	Period Ended 30 June 2010 £'000	Period Ended 30 June 2009 £'000	Year Ended 31 2009 £'000	Period Ended 30 June 2010 £'000	Period Ended 30 June 2009 £'000	Year Ended 31 2009 £'000
Vehicle Sales	9,567	8,905	18,516	394	246	650
Parts Sales	1,617	1,421	2,938	241	223	415
After-sales	1,634	1,706	3,208	89	230	239
Non-allocated	-	364	10	-	-	10
Total for continuing operations	12,818	12,396	24,672	724	699	1,314
Other operating income				118	66	315
Finance income				-	204	127
Finance costs				(75)	(52)	(265)
Non-recurring items				(155)	-	(207)
Central administration				(849)	(786)	(1,623)
(Loss)/profit before tax per management information				(237)	131	(339)
Reconciliation to statutory accounts:						
- Share of profit/(loss) of associate				4	18	(40)
- Fair value movement on interest rate				(107)	-	-
- Share based payments				-	-	(14)
(Loss)/Profit before tax per statutory accounts				(340)	149	(393)