

eco city vehicles plc

# Report and Accounts

For the year ended 31st December 2008

Company 04998151

*eco city vehicles plc has evolved as an established specialist vehicle distributor and a leading after-sales service centre for the London Taxi owner-driver market and is focused on developing engineering solutions for city vehicles, and by distributing environmentally friendly vehicles through its existing and new channels to market, targeting local authorities, urban vehicle fleet owners and other business users.*

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## Directors and Advisers

**Directors:**

Timothy Yeo	<i>Non-Executive Chairman</i>
Peter DaCosta	<i>Chief Executive Officer</i>
Michael Troullis	<i>Chief Operating Officer</i>
Keith Marder	<i>Chief Technical Officer</i>
Jeremy Fenn	<i>Non-Executive Director</i>
John Swingewood	<i>Non-Executive Director</i>
Guy Saxton	<i>Non-Executive Director</i>

**Company Secretary:** Stephen Ryder

**Registered Office:** Hemming House  
Hemming Street  
London E1 5BL

**Registered in England:** Company number – 04998151

**Nominated Advisor & Broker:** Numis Securities Limited  
The London Stock Exchange Building  
10 Paternoster Square  
London EC4M 4TA

**Solicitors to the Company:** Holman Fenwick & Willan  
Marlow House  
Lloyds Avenue  
London EC3N 3AL

**Registered Auditors:** Grant Thornton UK LLP  
Grant Thornton House  
Melton Street  
London NW1 2EP

**Registrars:** Computer Share Investor Services PLC  
The Pavilions  
Bridgewater Road  
Bristol BS13 8AE

**Bankers:** HBOS Plc  
Level 7, 155 Bishops Gate  
London EC2M 3YB

Barclays Bank Plc  
Level 27, One Churchill Place  
London BX3 2BB

## Operational Highlights

- Revenue in the 12 month period ending December 2008 was £19.3m (15 months to December 2007: £41.9m).
- Operating loss before exceptional items in the 12 month period was in line with the company's expectations at £1.1m (15 months to December 2007: £1.0m profit).
- Agreements entered for the subletting of the distribution centre in Coventry.
- Development of 'green' vehicles are at an advanced stage.
- Poor performance in finance activity due to reduced rates in the market.
- Introduction of new Mercedes Vito taxi.
- Reduced sales of new TX4 taxi.

## Chairman's Statement

I am pleased to report the Company's results for the first full year of operation since our listing on AIM in October 2007. Trading conditions deteriorated significantly during 2008 and, in common with the vast majority of companies in the automotive industry, this had a serious impact on our profitability. However, the year was one of good progress for the Company, with the highlight being the successful introduction of the Mercedes Vito taxi in July.

The fall in turnover in 2008 reflected the general downturn in taxi sales which had a particularly serious effect on the sale of new TX4s and of second-hand cabs. TX4 sales were reduced in the first half of the year by rumours of the introduction of a new taxi and during the second half by the downturn in the economy. However, our servicing and parts business continued to trade satisfactorily and remains an important and profitable activity.

The new Mercedes Vito taxi, which is second stage manufactured to meet the requirements of the Public Carriage Office at our factory in Coventry, has been very warmly received by both drivers and passengers. As we announced earlier the Vito has gained a London market share of 25 per cent in the first seven months since its launch, a remarkable achievement for a new product from a standing start in a market long dominated by a well established leader. There are now in excess of 300 Mercedes Vito taxis available for hire on London's streets.

Drivers appreciate the greater economy and therefore lower operating costs, with some reporting fuel savings of up to a quarter compared with other cabs, as well as the increased comfort of the driving position. Passengers enjoy the superior refinement of the interior and the advantages of a sixth seat. The Vito is fast becoming the taxi of choice for many users, particularly in the corporate sector.

During the year negotiations continued for the import of a series hybrid electric delivery truck. We hope these will be concluded during 2009 and are optimistic about the prospects for this vehicle in view of increasing concern about carbon emissions from the transport sector.

The Company is also partnering Mercedes in response to an invitation to tender in a competition launched by the Mayor of London, Boris Johnson, for an electric taxi.

Transmedia Ltd experienced some growth in sales during the year but continued to incur losses. The board is reviewing the future of this business in light of these results.

The current year has started satisfactorily and prospects are encouraging although margins remain under pressure from discounting of prices by competitors. Increasing sales of the Vito reflect growing recognition of its advantages for drivers and passengers. Special efforts have also been made to reduce stocks of second hand cabs and the good progress achieved on this front together with continued sales of new TX4s have helped to conserve cash and limit the need for additional borrowing beyond that already advanced in the year just ended and renegotiation of which has just been concluded.

With a strong and growing product base, coupled with experienced and proven management, the Company is extremely well placed to take advantage of any improvement in the economy. In the long-term we remain very optimistic about the potential for growth.

I would like to thank our Chief Executive, Peter DaCosta, for his leadership during a difficult period. He and the other Executive Directors have done an excellent job for the Company and are ably supported by committed and hardworking staff who have coped with very challenging circumstances extremely well.

Tim Yeo  
Chairman

# Chief Executive Officer's Review

## Key Performance Indicators ('KPIs')

The Group monitors performance by reference to five key KPIs. The table below shows performance for the 12-month period to 31 December 2008 and the 15-month period to 31 December 2007. Further details of performance in these areas are included below and in the Directors Report.

	2008	2007
Revenue £m	19.3	41.9
Segment Revenue percentage:		
- Sales	63%	77%
- After-sales	37%	23%
New Vehicle Volumes	357	920
Used Vehicle Volumes	145	508

## Taxi distribution business – New, Second Hand and Trade vehicles

The year for 2008 saw a decrease in new vehicles sales from 920 in the 15 months to 31 December 2007 to 357 (total new vehicle sales in the 12 month calendar years were 357 in 2008 compared to 782 in 2007). This resulted from reduced demand in the first half due to the market anticipating the arrival of the Mercedes Vito Taxi prior to its launch. Whilst sales of the Vito Taxi rose through the second half the effects of the economic downturn started to impact overall sales.

Used vehicle sales decreased from 508 in the 15 months to 31 December 2007 to 145 which was in line with Group expectations, where the used market had been subject to the effects of the introduction of the new model.

## After Sales Division – Servicing, Body repairs, Parts and Accessories

Our after sales service results for the period were in line with expectations. The Group saw significant growth in the sale of spare parts.

## Cash balances and funding

The Group made significant progress during the course of the year in establishing a new product line in the Mercedes Vito taxi. Whilst it is often the case that new products can result in used stocks increasing the Vito Taxi introduction was achieved whilst reducing used vehicle stocks. This outcome avoided pressure on cash reserves. In addition the Board were able to negotiate funding facilities during the year through an overdraft arrangement with HBOS and a used vehicle stocking plan with Mercedes Benz. These funding arrangements along with income generated from operations were adequate for the level of trading during 2008. Production and delivery to market of new product lines will be subject to separately negotiated funding that is distinct from the current trading requirements.

## Transmedia

Pitches to blue chip clients continued to be made throughout the year against the backdrop of a worsening business environment for media based advertising. While repeat business was achieved, and new business won, the overall improvements the Group were looking for were not achieved.

Whilst the Cabvision system remains the only outdoor advertising medium that provides verifiable client feedback on viewing figures, it is nevertheless suffering as a result of reduced corporate advertising budgets.

The Group will consider the long term future of the business during 2009 and the Board is reviewing a number of options.

#### **Commercial contracts**

On 16 June 2008 the Group announced that its subsidiary KPM UK Taxis PLC had won an exclusive contract to distribute the new Mercedes Benz Vito Taxi within London. The new taxi for London was developed by KPM UK Taxis PLC and the Group's associated company, One80 Ltd. During the year the Vito Taxi received Europe wide whole type approval and also achieved London Public Carriage Office approval. Further approvals were also achieved with six other licensing authorities including Manchester and Coventry.

#### **Environmentally friendly vehicles**

The Group has now received its first low emission Mitsubishi Canter 3.5 ton truck in association with its partner in Italy. The truck is believed to be the first series hybrid truck in production in Europe. The vehicle runs on electric propulsion and is backed up by an onboard LPG generator

There have been many enquiries since the announcement of the truck especially from local councils. The Board expect significant levels of demand for it because of its versatility and range. With a full battery charge plus 25 litres of LPG the vehicle is capable of covering 125 miles. This gives drivers the confidence that they will get back to base, confidence which at present is lacking in most fully electric vehicles.

In view of the success of the 3.5 ton truck, and with the support of Mitsubishi, we have commenced development of a low emission 7.5 ton truck using the same series hybrid application. This project will be followed in 2010 with an eco cab using the Mercedes Vito Taxi platform.

#### **Coventry site acquisition**

The letting space in the Groups 43000sq ft facility adjacent to Coventry Airport is now fully committed. During the year negotiations reached a successful conclusion with a second tenant agreeing to a five year lease. The rental income on the facility now pays the buildings funding cost and loan repayments. The mortgage on the property is at a fixed rate considerably below the current market rate for such funding. One third of the building remains available for Group operations.

The Group acquired the premises on a 125 year lease for £2.15million in January 2008, following a valuation by third party surveyors and valuers Bache Treharne. The lease was wholly funded by a commercial mortgage.

#### **Dividend policy**

The Group's cash resources are required for investment in product development and delivery to market and therefore we do not propose to pay a dividend at this stage.

#### **Outlook for the current year**

The Group are satisfied with the progress made in 2008 during a very difficult trading period. A full year of Vito Taxi sales during 2009 and continued sales of the LTI TX4 lead the Board to anticipate a return to trading profit of subsidiary company KPM-UK Taxis PLC.

The Group has recently secured a renewal to its overdraft facility with HBOS until November 2009 and has successfully concluded negotiations with Barclay's Bank resulting in a full waiver of the covenant breaches.

The Group have appointed agents to sell the Vito Taxi in the midlands the north-west and Scotland and sales are expected to commence in the second half of 2009.

The Board anticipates, that having delivered the Mercedes Vito Taxi to market in difficult trading circumstances, with stronger nationwide sales growth anticipated in 2009, and in launching the hybrid Mitsubishi truck later this year, the Group's strategy for the business gives rise to cautious optimism.

Peter Dacosta  
Chief Executive Officer

30 June 2009

## Directors' Biographies

### **Timothy Yeo (Non-Executive Chairman)**

Tim Yeo has been MP for South Suffolk since 1983. He held various Ministerial posts under Margaret Thatcher and John Major, including Minister of State at the Department of the Environment. Between 1998 and 2005 he was a member of the Shadow Cabinet, shadowing a record seven different departments. Since 2005 he has been Chair of the Environmental Audit Committee. Tim holds a number of non-executive directorships in the energy, transport and health sectors including Groupe Eurotunnel SA, Univent plc, ITI Energy Ltd and AFC Energy plc.

### **Peter DaCosta (Chief Executive Officer)**

Peter DaCosta is a founder of KPM-UK and has been Chairman since 1975. Peter was responsible for London Taxis International making KPM-UK a Main Dealer. Peter is a prominent figure within the industry. Peter is a Freeman of the City of London, and a Fellow of both the Institute of Directors and the Institute of the Motor Industry. He is also Chairman of the Independent Taxi Dealers Association. Peter is a Founder member of Cabvision, the in-cab digital media network, where he was responsible for the design and gaining PCO approval.

### **Michael Troullis (Chief Operating Officer)**

Michael Troullis is a founder and Director of KPM-UK. Michael has significant coach building experience and is accredited with the following qualifications: Fellow for the Institute of the Motor Industry (FIMI), Member of the Institute of Directors, Thatcham's Certificates of Competence for welding including BS 1140 and BS 4872, VOSA nominated MOT Tester and VOSA authorised MOT Examiner. Michael headed the team that instituted ISO9001/2000 for KPM UK and is also head of KPM Group's Health and Safety Team.

### **Keith Marder (Chief Technical Officer)**

Keith Marder is a founder and Director of KPM-UK. Before setting up KPM UK, Keith served his apprenticeship with York Way Motors, a taxi fleet operator. Keith obtained his City and Guilds at Southgate Technical College and is accredited with the following qualifications: Fellow for the Institute of the Motor Industry (FIMI), Certified Automotive Engineer (CAE), National Craftsman Certificate and Authorised MOT Examiner. Keith is KPM's Senior Technical Director.

### **Jeremy Fenn (Non-Executive Director)**

Jeremy Fenn has been a director of the Company since February 2004, acting historically as Managing and Finance Director. Jeremy was Chief Executive of Sports Internet plc when it was sold to BskyB plc for £301 million in July 2000. He remained as an executive director of Skysports.com, a trading division of BskyB plc, until 11 January 2004. Before joining Sports Internet Group in July 1999 he was Managing Director of Leeds United Holdings plc for three years, and left them having reported record profits, minimal debt and a fourth place finish in the Premiership. Prior to this he held Finance Director positions at a number of media companies, having qualified as a chartered accountant with Coopers & Lybrand in 1988. He was a founding shareholder of DITG and TGC which were both sold to Yoomedia plc in December 2004. He is currently Managing Director of Mobile Tornado Group plc and a director of SSI Computer Services Limited.

### **Guy Saxton (Non-Executive Director)**

Guy Saxton is a director of a number of companies including the Board of Countermine plc and a leading Corporate Adviser with New World Capital Management which represents Equilateral Limited in the UK. He was previously a Director of Fidelity Brokerage, part of the world's largest fund management and brokerage firm. Mr Saxton has been involved in the financial sector since 1988 when he started work in the City of London with AXA, the world's second largest fund manager.

**John Swingewood (Non-Executive Director)**

John Swingewood has been a director of the Company since 2004, acting historically as Non-Executive Chairman. John founded both DITG and TGC in 2001 having previously been responsible for launching interactive TV sports betting whilst Director of New Media at Sky. Before joining Sky, he held a number of positions at British Telecom including Director of Internet and Multimedia, and General Manager, Broadcast TV Services. John was a founding shareholder of DTIG and TGC which were both sold to Yoomedia plc in December 2004. He is currently a Non-Executive Director of Mobile Tornado Group plc.

## Directors' Report

The Directors have pleasure in submitting this report together with the financial statements of eco city vehicles plc ("the Company") and its subsidiary undertakings (together "the Group") for the period ended 31 December 2008.

### Principal Activities

The principal activity of the Group is that of franchised motor main dealer for both London Taxis International and Mercedes-Benz.

### Preparations of accounts

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") including International Accounting Standards ("IAS") and International Financial Reporting Interpretations Committee ("IFRIC") interpretations and with those parts of company law applicable to companies reporting under accounting standards as adopted for use in the European Union ("EU"). The consolidated financial statements have been prepared under the historic cost convention, as modified to include the fair valuation of financial assets and derivative financial instruments with borrowings recognised initially at fair value, net of transaction costs incurred, and subsequently at amortised cost as required by IFRS.

### Business review and future developments

Details of the Group's performance and expected future developments are set out in the Chief Executive Officer's Review on page 6. The operating performance of the Group is covered in the Chief Executive's Review, including an analysis and commentary of Key Performance Indicators ('KPIs'), which are also below. The KPIs of the Group are Group revenue, segmental revenue and new and used vehicle volumes.

	2007	2007
Revenue £m	19.3	41.9
Segment Revenue percentage:		
- Sales	63%	77%
- After-sales	37%	23%
New Vehicle Volumes	357	920
Used Vehicle Volumes	145	508

### Results and Dividends

The Group made a loss before tax for the twelve months to 31 December 2008 of £1.27m (2007: loss of £2.69m) with a basic loss per share of 0.41 pence (2007: 1.07 pence).

No dividends have been paid or declared during the period by eco city vehicles plc.

The balance sheet shows that the Group's financial position remains strong with total assets of £10.37m (2007: £9.18m) and net assets of £1.35m (2007: £2.58m)

### Going concern

Based on the Group's plans for 2009 and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources available from funds generated from trading and from loan finance to continue operations for at least 12 months from the date of signing of these financial statements. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The Board have undertaken extensive detailed forecasting of Group activity through to December 2010. Based on actual sales in 2008 and early 2009 of the new Mercedes Vito Taxi, the LTI TX4, and used taxi sales, it has been possible to project vehicle sales and after sales revenue and profitability until the end of 2010.

The performance of the business within the current economic climate has been objectively assessed and reported upon internally over a period of ten months, and the Board has a clear view of the medium term trading conditions. In addition the market acceptance of the new Vito Taxi is a now known, given unit sales, customer feedback and press opinion. These two aspects lead the Board to have confidence in their forward projections of going concern.

Cash flow projections are based on conservative assumptions and whilst they pinpoint a requirement for external funding a new agreement has been successfully negotiated with HBOS regarding renewal of the overdraft facilities to 30 November 2009 (see note 16). The renewed facilities are at levels consistent with the Group's cash flow projections in that period. Discussions have also been concluded with Barclay's Bank plc resulting in a waiver of the mortgage covenant breach (see note 17). As a result of this, the Board do not envisage a shortfall in working capital during the coming twelve months.

The Eco Truck venture due to be launched in the second half of 2009 is the subject of separate negotiations for funding and did not form part of the detailed forecasting regarding going concern, save that it is the Board's opinion that it can not be funded from current working capital generated by the Group. The new venture therefore does not pose an additional working capital drain on currently projected resources derived from the core business. The Board are encouraged that funding institutions have expressed a willingness to support the launch of the new vehicle with additional facilities.

#### **Directors**

The Directors who held office since 1 January 2008 were as follows:

Timothy Yeo

Peter DaCosta

Michael Troullis

Keith Marder

Rob Smith (Resigned on 18 February 2008)

Jeremy Fenn

John Swingewood

Guy Saxton

Biographies of all the above current Directors are given on pages 9 and 10.

### Directors' Interests

The interests of Directors in the shares of the company were as follows:

	On 31 December 2008	On 1 January 2008
	Ordinary Shares of 1p each	Ordinary Shares of 1p each
Timothy Yeo	2,400,000	2,400,000
Peter DaCosta	80,001,600	80,001,600
Michael Troullis	80,001,600	80,001,600
Keith Marder	79,996,800	79,996,800
Jeremy Fenn	6,250,000	6,250,000
John Swingewood	6,250,000	6,250,000
Guy Saxton	2,400,000	2,400,000

The beneficial holdings disclosed above include, where applicable, the holdings of immediate family. None of the Directors had a material interest in any significant contracts undertaken by the Group during the year. None of the Directors had any beneficial interest in the shares of any subsidiary companies.

The Directors have undertaken that until 11 October 2009 they will only dispose of their interests in the Company through Numis Securities Limited, the Company's Nominated Adviser and Nominated Broker.

The Company has entered into deeds of indemnity for the benefit of each Director of the Company and for the benefit of each person who was a Director during the period under the review, in respect of liabilities to which they may become liable in their capacity as Director of the Company and of any company in the Group. These indemnities are qualifying third party indemnity provisions within the meaning given to that term by Section 309B of the Act, and all these indemnities remain in force.

### Directors Share Options

As at 31 December 2008 the Company had granted the following options to directors of the Company pursuant to the terms of the EMI Scheme and the Unapproved Scheme.

Option Holder	Exercise price per Ordinary Share	Number of Ordinary Shares under option	Option Type	Grant Date
Guy Saxton	5p	750,000	Unapproved Scheme	11 October 2007
Timothy Yeo	5p	750,000	Unapproved Scheme	11 October 2007

The share options granted to the directors are exercisable any time between three and ten years.

### Share capital

The authorised share capital of the Company is £6,000,000 divided into 600,000,000 ordinary shares of 1p each. 302,050,200 ordinary shares of 1p each are in issue fully paid. There were no changes in the share capital of the Company during the year under report.

### Substantial Shareholdings

As at 11 May 2009, the following interests in 3% or more of the issued ordinary share capital had been notified to the Company.

Shareholder	Number of shares	Percentage of issued share capital
Mr. P DaCosta	80,001,600	26.5%
Mr. M Troullis	80,001,600	26.5%
Mr. K Marder	79,996,800	26.5%
Giltspur Nominees Limited	17,647,268	5.8%

### Risks and uncertainties

The Board of Directors continuously identify, monitor and manage potential risks and uncertainties relating to the Group. The risks are inherent in all business. The list below sets out certain risk factors which could have an impact on the Group's long term performance. The list is not presumed to be exhaustive, and by its nature is subject to change:

The main risks arising from Group's operations are credit risk, interest rate risk, liquidity risk, competition risk, dependence on key personnel, loss of franchise dealerships, and breakdown of internal control due to fraud or error. The Directors review and agree policies for managing each of these risks and they are summarised below:

#### Credit risk

The Group's credit risk is primarily attributed to trade and other receivables. The maximum credit risk exposure of the Group comprises the amounts presented in the balance sheet that are stated net of provisions, where appropriate. A provision is made where there is an identified loss event which, based on previous experience, is evidence of a reduction in the recoverability of future cash flows. The Group does not consider these counterparties to be a significant credit risk.

#### Interest rate risk

The main risk arising from the Group's cash deposits is changes in interest rates. The Board's policy toward cash deposits is to deposit cash short term in interest bearing bank deposit accounts.

#### Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably.

Short term flexibility is achieved through overdraft facilities with HBOS.

#### Competition Risk

The dominant market sector for Group revenue is the selling and servicing of London taxis produced by London Taxi International and Mercedes Benz. Group subsidiary KPM-UK Taxis PLC (KPM) has exclusive rights to distribute the Mercedes Vito Taxi within London and this limits the extent of competition risk. Nevertheless should another manufacturer produce a vehicle that meets the Conditions of Fitness of the Public Carriage Office of Transport for London then KPM would face additional competition for London taxi sales. Given that 96% of Group revenue is generated by taxi sales such competition would represent a material risk. However the Board are not aware of any new entrant to the market place at the current time.

In addition the Group are in the process of bringing new products to market that will reduce the overall reliance on Taxi sales and so reduce the impact on the Group should a new taxi be brought to market by a competitor.

#### Dependence on key personnel

The Group depends upon the expertise and continued service of key executives and other personnel. The Group ensures that the key personnel are retained by offering competitive pay and provide long term incentives by granting them share options.

#### Loss of Franchise Dealership

During the year 96% of Group revenue was generated by Group subsidiary KPM UK Taxis PLC (KPM). KPM hold franchise dealerships with London Taxi International for the TX4 and with Mercedes Benz for the Vito Taxi. If either of these dealerships were lost then KPM could not continue to operate without substantial restructuring of operations.

#### Internal control

The Group does not employ an internal audit team but ongoing review of systems and adherence to these systems is undertaken by the finance team and reviewed by Directors.

#### **Creditors' payment policy**

It is policy of the Group to agree appropriate terms and conditions for its transactions with suppliers (ranging from standard written terms to individual negotiated contracts) and for payment to be made in accordance with these terms, provided the supplier has complied with its obligations. The average credit period taken for trade purchases is 74 days (2007 : 50 days).

#### **Environment**

The Group acknowledges the importance of environmental matters within its role in the community. The Group has established initiatives to reduce the impact on the environment from its operations and is working with key suppliers, partners and external agencies to ensure environmental concerns are considered in conjunction with economic factors. In particular, the Group seeks to provide services to environmentally friendly taxis.

#### **Employees**

The Group has continued to give full and fair consideration to applications made by disabled persons, having regard to their respective aptitudes and abilities, and to ensure that they benefit from training and career development programmes in common with all employees.

The Group has continued its policy of employee involvement by making information available to employees through the medium of frequent staff meetings, together with personal appraisals and feedback sessions.

#### **Disabled employees**

Applications for employment by disabled persons are given full and fair consideration for all vacancies in accordance with their particular aptitudes and abilities. In the event of employees becoming disabled, every effort is made to retrain them in order that their employment with the Group may continue.

It is the policy of the Group that training, career development and promotion opportunities should be available to all employees.

#### **Share options**

The Company's policy is to reward and provide long-term incentives to employees by granting them share options. Details of share options granted at the balance sheet date are provided in note 20 to the Group financial statements.

#### **Statement on Directors' Responsibilities**

The Directors are responsible for preparing the Annual Report and financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year which give a true and fair view of the state of affairs of the Company and Group as at the end of financial period and of the profit or loss of the Group for the financial period. The Company's shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange, the rules of which are that the Directors are required to prepare the Group's financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The Directors have elected to prepare the parent company financial statement in accordance with United Kingdom Generally Accepted Accounting Practice (UK GAAP). In preparing these financial statements, the Directors are required to:

- n select suitable accounting policies and then apply them consistently;
- n make judgements and estimates that are reasonable and prudent;
- n for the Group financial statements, state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements;
- n for the Parent Company financial statements, state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- n state whether applicable accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- n prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the company will continue in business.

The Directors are responsible for keeping proper accounting records which disclose with reasonable accuracy at any time the financial position of the Company and to enable them to ensure that the financial statements comply with the Companies Act 1985. They have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and company, and to prevent and detect fraud and other irregularities.

The Directors are responsible for maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

#### **Statement to Auditors**

The directors who held office at the date of approval of this Directors' Report confirm that, so far as they are each aware, there is no relevant audit information of which the Company's auditors are unaware, and each Director has taken all the steps that he ought to have taken as a Director to make him aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

#### **Auditors**

Grant Thornton UK LLP have expressed their willingness to continue in office. A resolution to appoint them will be proposed at the forthcoming Annual General Meeting.

**Annual General Meeting Business**

The resolutions to be proposed at the forthcoming Annual General Meeting are set out in the formal notice of the meeting, as set out on pages 65 to 70.

**Recommendation**

The Board considers that the resolutions to be proposed at the Annual General Meeting are in the best interests of the shareholders and, accordingly, recommends that the shareholders vote in favour of the resolutions, as the Directors intend to do in respect of their own beneficial shareholdings in the Company.

The Directors' report was approved by the Board on 30 June 2009 and signed on its behalf by:

Peter DaCosta  
Director

# Corporate Governance Statement

The Company's shares are traded on the Alternative Investment Market ("AIM") of the London Stock Exchange. The Company is therefore subject to the AIM Admission Rules of London Stock Exchange and is not consequently required to comply with the best practice governance provisions contained within the Combined Code appended to the Listing Rules of the Financial Services Authority. However, the Directors recognise the importance of sound corporate governance, as set out in the Combined Code, and the following are the company's current corporate governance procedures.

Timothy Yeo and Guy Saxton, Non-executive Directors, have been granted share options. The Board recognises that the holding of share options by Non-executive Directors is not consistent with the recommendations of the Combined Code. However, the Board considers that both the directors are independent in character and judgment and that there are no relationships or circumstances (including financial dependence on their relationships with the Company) which are likely to affect, or could appear to affect, their judgment as a Non-executive Director.

The Company has adopted a model code for Directors' dealings in securities of the Company which is appropriate for a Company quoted on AIM. The Directors will comply with Rule 21 of the AIM Rules relating to Directors' dealings and will take all reasonable steps to ensure compliance by the Company's "applicable employees" (as defined in the AIM Rules).

## Board of Directors

The Company is headed by an effective and objective Board which is collectively responsible for setting the Company's strategic aims. The Board has put in place a framework of prudent and effective controls which enables strategy, budget and risks to be assessed and analysed. All major decisions concerning the management of risk, the recruitment of key staff, investor communications, strategic investments and the entering into material contracts are approved by the Board in advance. On admission the Board constitution included four Executive and four Non-executive Directors. Since admission one of the executive Directors has resigned.

The Board considers all the Non-executive Directors to be independent in accordance with the requirements of the Code. All committees, as well as Directors individually, have the authority to access independent professional advice at the Company's expense. All the Directors have written letters of appointment that have been approved by the Board. The committees have written terms of reference which are reviewed annually. The Board meets on a regular basis, usually monthly, or otherwise as may be required to ensure the satisfactory execution of its duties.

## Board Meetings

10 board meetings were held during 2008. The director's attendance record during the period is as follows:

Timothy Yeo (Non-Executive Chairman)	10	
Peter DaCosta (Chief Executive Officer)	10	
Michael Troullis (Chief Operating Officer)	9	
Keith Marder (Chief Technical Officer)	5	
Rob Smith (ex Finance Director)	1	(Resigned 18 February 2008)
Jeremy Fenn (Non-Executive Director)	7	
John Swingewood (Non-Executive Director)	7	
Guy Saxton (Non-Executive Director)	7	

Steve Ryder (Company Secretary/Financial Controller) attended all board meetings by invitation to report upon financial matters.

### **Audit Committee**

An audit committee, comprising Jeremy Fenn, Timothy Yeo and John Swingewood, has been established to determine the application of the financial reporting and internal control principles, including reviewing the effectiveness of the Group's financial reporting, internal control and risk management procedures and the scope, quality and results of the external audit.

The Audit Committee is chaired by Jeremy Fenn and meetings are held on average twice a year and may also be attended, by invitation, by the Executive Directors and by the auditors.

The committee provides a forum for reporting by the Group's external auditors. It is also responsible for reviewing a number of other matters, including half-year and annual results before their submission to the Board and for monitoring the controls that are in force to ensure the integrity of information reported to shareholders. The committee also advises the Board on the appointment of external auditors and on their remuneration for both audit and non-audit work, and will review the nature, scope and results of the audit with the external auditors.

### **Remuneration Committee**

A remuneration committee, comprising Timothy Yeo, Guy Saxton and John Swingewood, has been established to review the performance of the executive directors and will set their remuneration and consider bonus and share option schemes.

The Remuneration Committee is chaired by Guy Saxton. Meetings are expected to be held on average twice a year. The committee is responsible for making recommendations to the Board, within agreed terms of reference, on the Company's framework of executive remuneration and its cost. The Remuneration Committee determines the contract terms, remuneration and other benefits for the Executive Directors, including performance related bonus schemes and compensation payments. No Director will take part in discussions concerning their own remuneration

The Board determines compensation for Non-executive Directors.

### **Board appointments**

The appointment of Directors is overseen by the full Board. There is no formal nominations committee, the appointment of new Directors being considered by the full Board.

### **Internal control**

The Directors are responsible for ensuring the Group maintains a system of internal control to provide them with reasonable assurance regarding the reliability of financial information used within the business and for publication and that the assets are safeguarded. The inherent limitations in any system of internal control and accordingly even the most effective system can provide only reasonable, but not absolute, assurance with respect to the preparation of financial reporting and the safeguarding of assets.

The Group, in administering its business, has put in place strict authorisation, approval and control levels within which senior management operates. These controls reflect the Group's organisational structure and business objectives. The control system includes clear lines of accountability and covers all areas of the organisation. The Board operates procedures which include an appropriate control environment through the definition of the above organisation structure and authority levels and the identification of the major business risks.

### **Internal financial reporting**

The Directors are responsible for establishing and maintaining the Group's system of internal reporting and as such have put in place a framework of controls to ensure that the ongoing financial performance is measured in a timely and correct manner and that risks are identified as early as is practicably possible. There is a comprehensive budgeting system and monthly management accounts are prepared which compare actual results against both the budget and the previous year. They are reviewed and approved by the Board, and revised forecasts are prepared on a regular basis.

**Relations with shareholders**

The Company reports to shareholders twice a year. The Company dispatches the notice of its Annual General Meeting, together with a description of the items of special business, at least 21 clear days before the meeting. Each substantially separate issue is the subject of a separate resolution and all shareholders have the opportunity to put questions to the Board at the Annual General Meeting. The chairman of the Audit and Remuneration Committees normally attend the Annual General Meeting and will answer questions which may be relevant to their work. The Chairman advises the meeting of the details of proxy votes cast on each of the individual resolutions after they have been voted on in the meeting.

The Chairman and the Non-executive Directors intend to maintain a good and continuing understanding of the objectives and views of the shareholders.

# Report of the Remuneration Committee

## Statement of compliance

This report does not constitute a Directors' Remuneration Report in accordance with the Directors' Remuneration Report Regulations 2002 which do not apply to the Company as it is not fully listed.

The Company has applied the principles relating to Directors' remuneration as described below.

## Remuneration Committee

The Committee comprises Timothy Yeo, Guy Saxton and John Swingewood. The Remuneration Committee has formal terms of reference.

At the invitation of the committee chairman, Executive Directors may attend the proceedings.

None of the committee members has any personal financial interests (other than as shareholders) or conflicts of interest arising from cross-directorships. The committee has access to professional advice from inside and outside the Company.

The Remuneration Committee is responsible, *inter alia*, for determining the remuneration of the Executive Directors, and the grant of share options. No external remuneration advisers were appointed during the year.

## Policy on Executive Directors' remuneration

Remuneration packages are designed to motivate and retain Executive Directors to ensure the continued development of the Company and to reward them for enhancing value to shareholders. The main elements of the remuneration package for Executive Directors are basic salary or fees, benefits, and share option incentives.

## Share incentives

The Directors believe that attracting, motivating and retaining employees of appropriate calibre is vital to the continued success of the Group. The continued incentivisation of key employees is very important, as their skills and experience, and their supplier and customer relationships are vital to the continued success of the Group. The eco city vehicles plc EMI Scheme and an unapproved share option plan have been put in place in order to incentivise and remunerate key employees and senior management, including the Directors, as the Board of the Company considers appropriate.

Outstanding options granted to Directors over the Company's ordinary shares of 1p are disclosed in the directors' report.

## Current terms of appointment

The terms of appointment currently in place for Directors are as follows:

### Timothy Yeo

On 17 September 2007 the Hon. Timothy Yeo entered into a letter of appointment with the Company to act as Non Executive Chairman for a fee of £40,000 per annum which may be terminated by either party giving 3 months notice. Following termination of his appointment Mr Yeo is subject to a non-compete restriction for a 6 month period. Mr Yeo had no letter of appointment or service agreement with the Company prior to the entering into of this appointment letter. Mr Yeo attended all the board meetings and accompanied the CEO in negotiations and meetings with suppliers, representatives and advisors.

**Peter DaCosta**

On 17 September 2007 Peter DaCosta entered into a service agreement with the Company to act as Chief Executive Officer for a salary of £130,671 per annum which may be terminated by either party giving 12 months notice. Following termination of his employment Mr DaCosta is subject to a non-compete restriction and non-solicitation restrictions (relating to the Company's clients and employees) for a 12 month period. Mr DaCosta had no service agreement with the Company prior to entering into this service agreement.

**Michael Troullis**

On 17 September 2007 Michael Troullis entered into a service agreement with the Company to act as Chief Operating Officer for a salary of £134,161 per annum which may be terminated by either party giving 12 months notice. Following termination of his employment Mr Troullis is subject to a non-compete restriction and non-solicitation restrictions (relating to the Company's clients and employees) for a 12 month period. Mr Troullis had no service agreement with the Company prior to the entering into this service agreement.

**Keith Marder**

On 17 September 2007 Keith Marder entered into a service agreement with the Company to act as Technical Officer for a salary of £134,341 per annum which may be terminated by either party giving 12 months notice. Following termination of his employment Mr Marder is subject to a non-compete restriction and non-solicitation restrictions (relating to the Company's clients and employees) for a 12 month period. Mr Marder had no service agreement with the Company prior to the entering into this service agreement.

**Rob Smith**

On 17 September 2007 Rob Smith entered into a service agreement with the Company to act as Technical Officer for a salary of £60,000 per annum which may be terminated by either party giving 12 months notice. Rob Smith resigned his position on 18 February 2008 and is subject to a non-compete restriction and non-solicitation restrictions (relating to the Company's clients and employees) for a 12 month period. Mr Smith had no service agreement with the Company prior to the entering into this service agreement.

**Jeremy Fenn**

On 17 September 2007 Jeremy Fenn entered into a letter of appointment with the Company to act as Non Executive Director for a fee of £18,000 per annum which may be terminated by either party giving 3 months notice. Following termination of his appointment Mr Fenn is subject to a non-compete restriction for a 6 month period. Before entering into this appointment letter, Mr Fenn had a service contract with the Company which provided for him to act as managing and finance director of the Company at an initial salary of £15,000 per annum which could be terminated by either party giving 12 months notice.

**John Swingewood**

On 17 September 2007 John Swingewood entered into a letter of appointment with the Company to act as Non Executive Director for a fee of £18,000 per annum which may be terminated by either party giving 3 months notice. Following termination of his appointment Mr Swingewood is subject to a non-compete restriction for a 6 month period. Before entering into this appointment letter, Mr Swingewood had a letter of appointment with the Company which provided for him to act as a Non Executive Director of the Company for an initial fee of £15,000 per annum which could be terminated by either party giving 12 months notice.

**Guy Saxton**

On 17 September 2007 Guy Saxton entered into a letter of appointment with the Company to act as Non Executive Director for a fee of £18,000 per annum which may be terminated by either party giving 3 months notice. Following termination of his appointment Mr Saxton is subject to a non-compete restriction for a 6 month period. Mr Saxton had no letter of appointment or service agreement with the Company prior to the entering into of this appointment letter.

**Outside appointments**

Executive Directors who are not full-time are permitted to accept appointments outside the Company and to retain payments from those sources.

**Non-executive Directors**

The remuneration of Non-executive Directors is determined by the Board, and is based upon fees paid to Non-executive Directors of similar companies.

**Details of Directors' remuneration**

This report should be read in conjunction with note 6 to the financial statements which constitutes part of this report. Details of Directors' interests in ordinary shares, share options and warrants are set out in the Directors' Report.

By order of the Board

**Guy Saxton**

Remuneration Committee Chairman

30 June 2009

# Report of the Independent Auditor to the Members of eco city vehicles plc

We have audited the group financial statements (the 'financial statements') of Eco City Vehicles plc for the year ended 31 December 2008 which comprise the principal accounting policies, the consolidated income statement, the consolidated balance sheet, the consolidated cash flow statement, the consolidated statement of changes in equity and notes 1 to 26. These financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the parent company financial statements of Eco City Vehicles plc for the year ended 31 December 2008. That report is modified by the inclusion of an emphasis of matter.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the Annual Report and the group financial statements in accordance with United Kingdom law and International Financial Reporting Standards (IFRSs) as adopted by the European Union are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. This other information comprises only the Chairman's Statement, the Chief Executive Officer's Statement, the Directors' Report and the Report of the Remuneration Committee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

#### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the group's and company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements.

#### **OPINION**

In our opinion:

- § the financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended
- § the financial statements have been properly prepared in accordance with the Companies Act 1985
- § the information given in the Directors' Report is consistent with the financial statements.

#### **Separate opinion in relation to IFRSs**

As explained in note 2 to the financial statements, the group in addition to complying with its legal obligation to comply with IFRSs as adopted by the European Union, has also complied with the IFRSs as issued by the International Accounting Standards Board.

In our opinion the group financial statements give a true and fair view, in accordance with IFRSs, of the state of the group's affairs as at 31 December 2008 and of its loss for the year then ended.

GRANT THORNTON UK LLP  
REGISTERED AUDITOR  
CHARTERED ACCOUNTANTS

LONDON  
30 June 2009

# eco city vehicles plc

## Consolidated Income Statement

For the year ended 31 December 2008

		2008	Period ended 31 December 2007
	Notes	£000	£000
Revenue	3	19,345	41,893
Cost of sales		(15,593)	(35,805)
<b>Gross profit</b>		<b>3,752</b>	<b>6,088</b>
Administrative expenses		(5,216)	(10,155)
Other operating income		318	1,129
<b>Operating loss</b>	<b>4</b>	<b>(1,146)</b>	<b>(2,938)</b>
<b>Operating (loss)/profit, analysed as:</b>	<b>4</b>		
Before exceptional items		<b>(1,146)</b>	<b>1,044</b>
Amounts receivable from Cabvision Limited written off		-	(2,372)
Deemed reverse acquisition cost		-	(845)
Flotation costs and associated costs including abortive costs		-	(765)
<b>Operating loss after exceptional items</b>		<b>(1,146)</b>	<b>(2,938)</b>
Finance income	7	316	389
Finance costs	7	(347)	(135)
Loss attributable to associate company		(90)	-
<b>Loss before taxation</b>		<b>(1,267)</b>	<b>(2,684)</b>
Taxation	8	20	(6)
<b>Loss for the period after taxation</b>		<b>(1,247)</b>	<b>(2,690)</b>
<b>Loss per share</b>		<b>Pence</b>	<b>Pence</b>
Basic and diluted	10	(0.41)	(1.07)

# eco city vehicles plc

## Consolidated Balance Sheet

As at 31 December 2008

	Notes	2008 £000	2007 £000
<b>Non current assets</b>			
Property, plant and equipment	11	2,837	2,516
Investments	12	1,110	955
		<u>3,947</u>	<u>3,471</u>
<b>Current assets</b>			
Inventories	13	4,228	2,527
Trade and other receivables	14	2,148	1,916
Cash at bank and in hand	15	47	1,262
		<u>6,423</u>	<u>5,705</u>
<b>Total assets</b>		<u><b>10,370</b></u>	<u><b>9,176</b></u>
<b>Current liabilities</b>			
Borrowings	17	(2,129)	(61)
Trade and other payables	16	(6,867)	(6,489)
		<u>(8,996)</u>	<u>(6,550)</u>
<b>Non current liabilities</b>			
Borrowings	17	(9)	(8)
Deferred tax liability	19	(14)	(34)
		<u>(23)</u>	<u>(42)</u>
<b>Total liabilities</b>		<u><b>(9,019)</b></u>	<u><b>(6,592)</b></u>
<b>Net assets</b>		<u><b>1,351</b></u>	<u><b>2,584</b></u>
<b>Equity</b>			
Share capital	20	3,021	3,021
Share premium		1,922	1,922
Share based payment reserve		17	3
Reverse acquisition reserve		(1,709)	(1,709)
Retained deficit		(1,900)	(653)
<b>Total shareholders equity</b>		<u><b>1,351</b></u>	<u><b>2,584</b></u>

The financial statements were approved and authorised for issue by the Board on 30 June 2009.

Timothy Yeo  
Non-Executive Chairman

Peter DaCosta  
Chief Executive Officer

# eco city vehicles plc

## Consolidated Statement of Changes in Equity

As at 31 December 2008

	Share capital £000	Share premium £000	Share based payment reserve £000	Reverse acquisition reserve £000	Retained deficit £000	TOTAL £000
At 1 October 2006	50	-	-	-	2,337	2,387
Loss for the period	-	-	-	-	(2,690)	(2,690)
Total recognised income and expense	-	-	-	-	(2,690)	(2,690)
Share capital and share premium as recognised on reverse acquisition	571	1,922	-	-	-	2,493
Issue of share capital	2,400	-	-	-	-	2,400
Reverse acquisition arising	-	-	-	(1,709)	-	(1,709)
Share based payment	-	-	3	-	-	3
Dividends	-	-	-	-	(300)	(300)
At 31 December 2007	3,021	1,922	3	(1,709)	(653)	2,584
At 1 January 2008	3,021	1,922	3	(1,709)	(653)	2,584
Loss for the period	-	-	-	-	(1,247)	(1,247)
Total recognised income and expense	-	-	-	-	(1,247)	(1,247)
Share based payment	-	-	14	-	-	14
At 31 December 2008	3,021	1,922	17	(1,709)	(1,900)	1,351

# eco city vehicles plc

## Consolidated Cash Flow Statement

For the year ended 31 December 2008

		Period ended 31 December	
	Notes	2008 £000	2007 £000
<b>Operating activities</b>			
Loss before tax		(1,267)	(2,684)
Loss attributable to associate company		90	-
Finance costs		347	135
Finance Income		(316)	(389)
Deemed reverse acquisition cost		-	845
Depreciation		185	131
Share based payments		14	3
(Increase)/decrease in trade and other receivables		(232)	247
(Decrease)/Increase in trade and other payables		(603)	3,895
Increase in inventories		(1,701)	(1,428)
Profit on disposal of property, plant and equipment		-	(1)
		<b>(3,483)</b>	<b>754</b>
<b>Investing activities</b>			
Interest received		316	389
Purchase of property, plant and equipment		(577)	(2,280)
Proceeds from sale of property, plant and equipment		71	63
Acquisition of parent through reverse acquisition, net cash generated		-	2,339
Purchase of equity investments		(245)	(955)
		<b>(435)</b>	<b>(444)</b>
<b>Financing activities</b>			
Dividends paid		-	(300)
Interest paid		(347)	(135)
Repayments of mortgages		(119)	-
Proceeds from mortgages		2,150	-
Repayments of finance leases		(61)	(116)
Proceeds from finance leases		99	-
		<b>1,722</b>	<b>(551)</b>
<b>Net decrease in cash and cash equivalents</b>		<b>(2,196)</b>	<b>(241)</b>
<b>Cash and cash equivalents at beginning of period</b>		<b>1,262</b>	<b>1,503</b>
<b>Cash and cash equivalents at end of period</b>	<b>24</b>	<b>(934)</b>	<b>1,262</b>

# eco city vehicles plc

## Notes to the Group Financial Statements

For the year ended 31 December 2008

### 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 financial year 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.

These financial statements are 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 associates companies as set out in the Note 3 of the Parent Company's financial statements.

### 2. Accounting policies

The principal accounting policies adopted in preparation of the Group's financial statements are set out below.

#### *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 Acts 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 Board (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.

#### **Going concern**

Based on Group's plan for 2009 and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The Board have undertaken extensive detailed forecasting of Group activity through until December 2010. Based on actual sales in 2008 and early 2009 of the new Mercedes Vito Taxi, the LTI TX4, and used taxi

sales, it has been possible to project vehicle sales and after sales revenue and profitability until the end of 2010.

The performance of the business within the current economic climate has been objectively assessed and reported upon internally over a period of ten months, and the Board has a clear view of the medium term trading conditions. In addition the market acceptance of the new Vito Taxi is an established fact having obtained a 25% share of the London taxi market in the first seven months since its launch. These two aspects lead the Board to have confidence in their forward projections of going concern.

Cash flow projections are based on conservative assumptions and whilst they pinpoint a requirement for external funding a new agreement has been successfully negotiated with HBOS regarding renewal of the overdraft facilities to 30 November 2009 (see note 16). The renewed facilities are at levels consistent with the Group's cash flow projections in that period. Discussions have also been concluded with Barclay's Bank plc resulting in a waiver of the mortgage covenant breach (see note 17). As a result of this, the Board do not envisage a shortfall in working capital during the coming twelve months.

The Eco Truck venture due to be launched in the second half of 2009 is the subject of separate negotiations for funding and did not form part of the detailed forecasting regarding going concern, save that it is the Board's opinion that it can not be funded from current working capital generated by the Group. The new venture therefore does not pose an additional working capital drain on currently projected resources derived from the core business. The Board are encouraged that funding institutions have expressed a willingness to support the launch of the new vehicle with additional facilities.

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

#### ***Basis of consolidation***

The financial statements incorporate the financial statements of the Company and subsidiaries controlled by the Company made up to the year ended 31 December 2008.

Control is achieved where the Company has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the financial statements from the date that control commences until the date that control ceases.

On acquisition, the assets and liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired (i.e. discount on acquisition) is credited to profit and loss in the period of acquisition.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

All intra-Group transactions, balances, income, expenses and unrealised gains are eliminated when preparing the historical financial information. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### *Reverse acquisition accounting*

The prior year acquisition of KPM Autos Limited and its subsidiaries by eco city vehicles plc (formerly known as Pannal Plc) on 11 October 2007 has been accounted for using the principles of reverse acquisition accounting. Although the Group financial statements have been prepared in the name of the legal parent, eco city vehicles plc, they are in substance a continuation of the consolidated financial statements of the legal subsidiary, KPM Autos Limited. The following accounting treatment has been applied in respect of the reverse accounting:

The assets and liabilities of the legal subsidiary, KPM Autos Limited are recognised and measured in the consolidated financial statements at the pre-combination carrying amounts, without restatement of fair value.

The retained earnings and other equity balances recognised in the consolidated financial statements reflect the retained earnings and other equity balances of KPM Autos Limited immediately before the business combination and the results of the period from 1 October 2006 to the date of the business combination are those of KPM Autos Limited. However, the equity structure appearing in the Group financial statements reflects the equity structure of the legal parent, eco city vehicle plc, including the equity instruments issued in order to effect the business combination.

### *Business combinations*

The prior year acquisition of subsidiaries is accounted for using the purchase method. The cost of the acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3 are recognised at their fair value at the acquisition date.

The Group has elected not to apply IFRS 3 "Business Combinations" retrospectively to business combinations prior to the date of transition.

Goodwill arising on acquisition is recognised as an asset and initially measured at cost, being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. If after reassessment, the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities exceed the cost of the business combination, the excess is recognised immediately in the Income Statement.

### *Associates*

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investment in associates includes goodwill identified on acquisition, net of any accumulated impairment loss.

The Group's share of its associates' post-acquisition profits or losses is recognised in the income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

#### *Revenue recognition*

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

Sales of goods comprise new and used taxi sales and related parts. These sales are recognised when goods are delivered and title has passed.

Sales of services comprise servicing and repairs of taxis. These sales are recognised when the service has been completed.

Interest income is accrued by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount.

Dividend income from investments is recognised when the shareholders' rights to receive payment have been established.

#### *Costs of refurbishment*

Costs of refurbishment and repairs to used taxis for up to 3 months after sale are accrued, and are included in accrued expenses within trade and other payables.

#### *Leased assets*

In accordance with IAS 17, the economic ownership of a leased asset is transferred to the lessee if the lease bears substantially all the risks and rewards related to the ownership of the leased assets.

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability to the lessor is included in the balance sheet as a finance lease obligation. Lease payments are apportioned between finance charges and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of liability. Finance charges are charged directly against income. Depreciation on the relevant assets is charged to the income statement.

All other leases are treated as operating leases. Their annual rentals are charged to the income statement on a straight line basis over the term of the lease.

Benefits received and receivable as an incentive to enter into an operating lease are also spread on a straight line basis over the lease term.

### *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is charged so as to write off the cost of property, plant and equipment by annual instalments over their estimated useful economic lives less estimated residual values, using either the straight line method or reducing balance method depending on the class of asset. The periods generally applicable are:

Leasehold property	- over the term of the lease
Improvements to property	- over the term of the lease
Plant and machinery	- 20% on reducing balance
Fixtures and fittings	- 15% on reducing balance
Motor vehicles	- 25% on reducing balance

Residual values and useful economic lives are reviewed annually. Property, plant and equipment are assessed for impairment annually or more often if events or changes in circumstances indicate that the carrying value may not be recoverable. Where an impairment review is deemed necessary it is performed in accordance with the policies set out below.

### *Impairment of assets other than goodwill and intangible assets with an indefinite life*

At each balance sheet date, the Directors review the carrying amounts of the Group's tangible and intangible assets, other than goodwill and intangible assets with an indefinite life, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amounts of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher 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 the money and the risks specific to the asset which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Impairment losses recognised for cash-generating units, to which goodwill has been allocated, are credited initially to the carrying amount of goodwill. Any remaining impairment loss is charged pro rata to the other assets in the cash-generating unit.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash generating unit) increases to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior period. A reversal of an impairment loss is recognised in the income statement immediately.

### *Inventories and work in progress*

Inventories and work in progress are stated at the lower of cost and net realisable value. Cost is calculated on a first in and first out basis and includes attributable overheads, where appropriate. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in

marketing, selling and distribution. Where necessary, provision is made for slow moving and obsolete stock. Stocks on consignment and their related obligations are recognised in current assets and creditors respectively on adoption of the consignment stock where the risks and rewards of ownership pass to the Group.

#### *Financial instruments*

Financial assets and financial liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

#### *Capital risk management*

The Group manages its capital to ensure that the entities in the Group will be able to continue as going concerns while maximising its return through the optimisation of the debt and equity balance. In addition, the Group monitors its forecast net debt to EBITDA ratio with the aim of maintaining these within the banking covenant ratio maximum of 1.25. The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 17, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, and reserves.

#### *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. Loans and receivables are initially recognised at cost, being the fair value of consideration together with any associated issue costs. After initial recognition, interest bearing loans are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated taking into account any issue costs and discount or premium on settlement.

#### *Financial liability and equity*

Financial instruments issued by the Group are treated as equity (i.e. forming part of shareholders' funds) only to the extent that they meet the following two conditions:

- n they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and
- n where the instrument will or may be settled in the company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the company's own equity instruments or is a derivative that will be settled by the company exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the company's own shares, the amounts presented in the historical financial information for called up share capital and share premium account exclude amounts in relation to those shares.

The finance cost on the financial liability component is correspondingly higher over the life of the instrument.

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Equity comprises the following:

- "Share capital" represents the nominal value of equity shares.
- "Share premium" represents the excess over nominal value of the fair value of consideration received for equity shares, net of expenses of the share issue.
- "Other reserve" represents equity-settled share-based employee remuneration until such share options are exercised.
- "Reverse acquisition reserve" represents the excess of the fair value of the deemed cost of acquisition over the issued share capital and share premium of the combined entity.

#### *Bank borrowings*

Interest-bearing bank loans and overdrafts are recorded as the proceeds received, net of direct issue costs. Finance charges, including premiums payable on settlement or redemption and direct issue costs, are accounted for on an accruals basis to the profit and loss account using the effective interest method and are added to the carrying amount of the instrument to the extent that they are not settled in the period in which they arise.

#### *Trade and other payables*

Trade payables are initially measured at fair value and subsequently measured at amortised cost using the effective interest rate method.

#### *Dividends*

Equity dividends are recognised when they become legally payable. In the case of interim dividends to equity shareholders, these are recognised when they are paid. In the case of final dividends, this is approved by the shareholders at the Annual General Meeting.

#### *Taxation*

The tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit, and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

#### *Retirement benefits*

The company contributes to personal pension schemes of certain Directors and employees. Contributions to these schemes are charged to the income statement in the year in which the contributions are payable.

Neither the Company nor any of its subsidiaries operate a defined contribution pension scheme.

#### *Share based payments*

The Group has applied the requirements of IFRS 2 Share based payments. IFRS 2 has been applied to all grants of equity instruments after 7 November 2002 that had not vested at 1 January 2005, in accordance with the exemptions of IFRS 1.

The Group issues equity settled share-based payments to employees. Equity-settled share payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that is eventually vest and adjusted for the effect of non market-based vesting conditions.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

#### *National insurance on share options*

To the extent that the share price at the balance sheet date is greater than the exercise price on options granted under unapproved schemes, provision for any National Insurance Contributions have been based on the prevailing rate of National Insurance. The provision is accrued over the performance period attaching to the award.

### *Accounting Standards issued but not yet effective and/ or adopted.*

Listed below are new or amended Accounting Standards, or new interpretation guidelines that are not yet effective and/ or adopted that may have an impact on the Group, together with the year in which they become applicable to our financial statements.

n	IAS 1 Revised:	Presentation of Financial Statements	2009 Financial Year
n	IAS 23 Revised:	Borrowing costs	2009 Financial Year
n	IAS 27 Amended:	Consolidated and Separate Financial Statements	2009 Financial Year
n	Amendment to IAS 32	Financial instruments: Presentation and IAS 1 Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation	2009 Financial Year
n	IAS 32 Amended:	Financial Instruments: Presentation	2009 Financial Year
n	IAS 39 Amended:	Financial Instruments: Recognition and Measurement	2009 Financial Year
n	IFRS 1 Amended:	First-time of International Reporting Standards	2009 Financial Year
n	IFRS 2 Amended:	Share based payments	2009 Financial Year
n	IFRS 3 Revised:	Business combinations	2009 Financial Year
n	IFRS 7:	Financial Instruments Disclosures	2009 Financial Year
n	IFRS 8:	Operating Segments	2009 Financial Year
n	IFRIC 9 Amended:	Embedded Derivatives	2009 Financial Year
n	IFRIC 13:	Customer loyalty programmes	2009 Financial Year
n	IFRIC 15:	Agreements for the Construction of Real Estate	2009 Financial Year
n	IFRIC 16:	Hedges of a Net Investment in a Foreign Operation	2009 Financial Year
n	IFRIC 17:	Distributions of Non-cash Assets to Owners	2009 Financial Year
n	IFRIC 18:	Transfers of Assets from Customers	2009 Financial Year

The adoption of these interpretations has not yet led to any changes in the Group's accounting policies, however under IFRS 8 'Operating Segments' the number of segments reported by the Group may increase and under IAS 1 "Presentation of Financial Statements" some items recognised under equity may be recognised in a new primary statement – 'Statement of comprehensive income'. It is not anticipated that adoption of the remaining standards will significantly alter the reported earnings of the Group.

### *Exceptional Items*

These are non-recurring items which are presented separately due to their nature, size or incidence. The separate reporting of such items helps provide a better indication of the Group's underlying business performance

### *Significant judgements and estimates*

In the process of applying the Group's accounting policies the subjects requiring management estimation and judgement that have the most significant risk of causing material adjustments to the amounts recognised in the financial statements are described below:

#### Impairment of investments

The determination of whether investments are impaired requires an estimation of the future sales of units and the use of a suitable discount rate.

#### Write-down of used vehicle stock

In calculating the write-down of used vehicle stock to net realisable value of used stock the management exercises judgement based on market experience.

### 3. Segmental analysis

#### Primary segmental reporting format

The group's primary segment information is based on its operating divisions:

	<b>New vehicles</b>	<b>Second hand and trade vehicles</b>	<b>Parts and accessories</b>	<b>Services and other</b>	<b>Group</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Year ended 31 December 2008</b>					
<b>Revenue</b>					
Total segment revenue	10,385	1,841	2,471	4,827	19,524
Inter-segment revenue	-	-	(125)	(54)	(179)
	<u>10,385</u>	<u>1,841</u>	<u>2,346</u>	<u>4,773</u>	<u>19,345</u>
<b>Period ended 31 December 2007</b>					
<b>Revenue</b>					
Total segment revenue	26,226	5,911	3,934	6,254	42,325
Inter-segment revenue	-	-	(161)	(271)	(432)
	<u>26,226</u>	<u>5,911</u>	<u>3,773</u>	<u>5,983</u>	<u>41,893</u>

Based on risks and returns the directors consider the primary reporting format is by business segment. The secondary reporting format is by geographical analysis. Based on risks and returns the directors consider that there is only one geographical segment being the United Kingdom. All external revenues are earned from customers in the United Kingdom and it is the United Kingdom as a whole that dictates the level of geographical risk and return facing the Group.

The above disclosures are consistent with how management reports information internally for the purpose of evaluating the Group's performance and for making decisions about future allocations of resources to the Group. Consequently no further business segmentation information is provided.

#### 4. Operating loss

Operating loss has been arrived at after charging/ (crediting):

	<b>2008</b>	<b>Period ended 31 December 2007</b>
	<b>£000</b>	<b>£000</b>
Staff costs (see note 5)	2,613	4,120
Depreciation of property, plant and equipment		
- Owned	141	66
- Leased	44	65
Profit on disposal of property, plant and equipment	-	(1)
Share based payment	14	3
Operating lease expenditure:		
- plant and machinery	25	21
- property	384	449
Auditors' remuneration for following services:		
- Fees payable to the Company's auditors for the audit of the financial statements	50	57
- Fees payable to the Company's auditors for the audit of the company's subsidiaries pursuant legislation	6	8
Total audit fees	<u>56</u>	<u>65</u>
- Services relating to corporate finance transactions	<u>-</u>	<u>150</u>

The prior year operating loss of £2.9m is after exceptional items totaling £3.9m, which included a write off of amounts receivable from Cabvision Limited due to the failure of the business totaling £2.3m, costs incurred in the listing on the AIM stock market of £765k, and deemed reverse acquisition costs incurred on the reverse acquisition of eco city vehicles plc of £845k.

#### 5. Staff costs

Staff costs (including Directors) consist of:

	<b>2008</b>	<b>Period ended 31 December 2007</b>
	<b>£000</b>	<b>£000</b>
Wages and salaries	2,384	3,857
Social security costs	215	260
Share based payment	14	3
	<u>2,613</u>	<u>4,120</u>
	<b>Number</b>	<b>Number</b>
Engineering and technical	66	65
Distribution and sales	9	9
Administration	<u>25</u>	<u>27</u>
	<u>100</u>	<u>101</u>

## 6. Directors' emoluments

	Basic 2008 £000	Pension and benefits 2008 £000	Total 2008 £000	Total period ended 31 December 2007 £000
<b>Non-executive directors</b>				
Timothy Yeo	40,000	-	40,000	10,000
Jeremy Fenn	18,000	-	18,000	27,500
John Swingewood	18,000	-	18,000	19,000
Guy Saxton	18,000	-	18,000	4,500
<b>Executive directors</b>				
Peter DaCosta	130,671	66,871	197,542	263,764
Micheal Troullis	134,161	66,871	201,032	237,241
Keith Marder	134,341	66,871	201,212	239,425
Rob Smith (resigned in February 2008)	6,425	-	6,425	15,045
	<u>499,598</u>	<u>200,613</u>	<u>700,211</u>	<u>816,475</u>

## 7. Finance income and costs

	2008 £000	Period ended 31 December 2007 £000
<b>Finance income</b>		
Bank interest received	316	389
	<u>316</u>	<u>389</u>
<b>Finance costs</b>		
Bank interest paid	122	2
Loan Interest	18	-
Consignment stock interest	198	120
Finance lease interest	9	13
	<u>347</u>	<u>135</u>

## 8. Tax credit

	<b>2008</b>	<b>Period ended</b>
	<b>£000</b>	<b>31 December</b>
		<b>2007</b>
		<b>£000</b>
<b>Taxation credit comprises:</b>		
Current tax	-	-
Deferred tax (Note 19):	(20)	6
<b>Total taxation (credit)/charge</b>	<b>(20)</b>	<b>6</b>

### Factors affecting the tax credit for the year

The tax assessment for the year is lower than the standard UK corporate tax rate of 28% due to the following factors:

	<b>2008</b>	<b>Period ended</b>
	<b>£000</b>	<b>31 December</b>
		<b>2007</b>
		<b>£000</b>
Loss on ordinary activities before taxation	(1,267)	(2,684)
Loss on ordinary activities at the standard rate of corporation tax in the UK of 28% (2007 - 30%)	(355)	(805)
Effects of:		
Expenses that are not deductible in determining taxable profit	47	412
Deemed reverse acquisition cost	-	253
Change of tax rate	-	13
Unrecognised deferred tax assets	288	133
<b>Total tax (credit)/charge</b>	<b>(20)</b>	<b>6</b>

There is no provision for UK Corporation tax due to tax losses incurred during the period, subject to agreement with HM Revenue & Customs. Accumulated tax losses of approximately £1,879,000 (2007 - £872,000) have not been recognised as deferred tax assets due to uncertainty over the timing of future profits.

## 9. Dividends

	<b>2008</b>	<b>Period ended</b>
	<b>£000</b>	<b>31 December</b>
		<b>2007</b>
		<b>£000</b>
Amounts recognised as distributions to equity holders in the year:		
Interim dividends	-	300

The 2007 interim dividends were paid by KPM Autos Limited to its shareholders before the reverse acquisition. There was no interim dividend in 2008, and the Directors do not recommend payment of a final dividend.

## 10. Loss per share

	Period ended 31 December	
	2008	2007
	£000	£000
<b>Earnings</b>		
Loss for the purpose of basic and diluted earnings per share	<u>(1,247)</u>	<u>(2,690)</u>
<b>Numbers</b>		
Weighted average number of ordinary shares for the purpose of basic loss per share	<u>302,050,000</u>	<u>252,410,000</u>
Basic and diluted loss per share	<u>(0.41)</u>	<u>(1.07)</u>

## 11. Property, plant and equipment

	Leasehold property £000	Improvements to property £000	Plant and machinery £000	Fixtures and Fittings £000	Motor vehicles £000	Total £000
<b>Cost</b>						
At 30 September 2006	41	151	397	226	570	1,385
Additions	2,150	-	119	-	11	2,280
Disposals	-	-	-	-	(211)	(211)
At 31 December 2007	<u>2,191</u>	<u>151</u>	<u>516</u>	<u>226</u>	<u>370</u>	<u>3,454</u>
Additions	111	164	13	19	270	577
Disposals	-	-	-	-	(116)	(116)
At 31 December 2008	<u>2,302</u>	<u>315</u>	<u>529</u>	<u>245</u>	<u>524</u>	<u>3,915</u>
<b>Depreciation</b>						
At 30 September 2006	38	101	326	172	319	956
Charge for year	1	12	46	10	62	131
Eliminated on disposals	-	-	-	-	(149)	(149)
At 31 December 2007	<u>39</u>	<u>113</u>	<u>372</u>	<u>182</u>	<u>232</u>	<u>938</u>
Charge for year	18	40	33	10	84	185
Eliminated on disposals	-	-	-	-	(45)	(45)
At 31 December 2008	<u>57</u>	<u>153</u>	<u>405</u>	<u>192</u>	<u>271</u>	<u>1,078</u>
<b>Carrying amount</b>						
At 31 December 2008	<u>2,245</u>	<u>162</u>	<u>124</u>	<u>53</u>	<u>253</u>	<u>2,837</u>
At 31 December 2007	<u>2,152</u>	<u>38</u>	<u>144</u>	<u>44</u>	<u>138</u>	<u>2,516</u>

The net book value of motor vehicles includes an amount of £133,000 (2007 : £173,000) in respect of assets held under finance leases and hire purchase. The related depreciation charge on these assets for the period was £44,000 (2007: £65,000). The net book value of leasehold property is secured against a mortgage held with Barclays Bank plc.

## 12. Investments

<b>Investment in associate</b>	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
At 1 January 2008	955	-
- Additions	245	955
- Share of loss of associate	(90)	-
	<u>1,110</u>	<u>955</u>

The investment in associate represents the investment made by the Group in One80 Limited. The Group acquired ordinary shares in One80 Limited in 3 stages. On 28 December 2006 the Group acquired an 11% interest for a consideration of £50k. On 31 December 2007 the Group increased its shareholding to 28.5% for an additional consideration of £905k. On 7 February 2008 the Group again increased its shareholding, to 33.3%, for a further consideration of £245k. One80 Limited specialises in vehicle engineering and its shares are not publicly listed. Financial information of the associate can be summarised as follows:

### **Financial information of the associate as at 31 December 2008**

	<b>2008</b>
	<b>£000</b>
Assets	1,168
Liabilities	(304)
Revenue	438
Loss	(271)
Loss attributable to the Group	<u>(90)</u>

### 13. Inventories

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Raw materials	293	295
Consignment stock	3,240	1,704
Finished goods and goods for resale	695	528
	<u>4,228</u>	<u>2,527</u>

All vehicles stocks held under consignment stock agreements are deemed to be assets of the Group and are included on the balance sheet from the point of consignment. The corresponding liabilities to the manufacturer are included within trade and other payables. Stocks are held on consignment until sold. Interest is payable to Mercedes Benz and Lloyds UDT at rates linked to the Base Rate. The liability for consignment creditors are secured on the asset to which they relate.

The amount of inventories recognised as an expense during the year was £14,829,000 (2007 - £35,276,000).

Raw materials, which includes vehicles parts, is stated after provision for obsolescence of £27,000 (2007 - £22,000). Finished goods, which includes used vehicles, is stated at its fair value less costs to sell, which includes a write-down for slow moving vehicles.

The Directors consider that the carrying value of the inventories are stated at the lower of cost and net realisable value.

### 14. Trade and other receivables

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Trade receivables	1,766	1,164
Other receivables	196	504
Prepayments and accrued income	186	248
	<u>2,148</u>	<u>1,916</u>

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. Included in trade receivables above are provisions for impairment of receivables of £19,000 (2007: £34,000). All receivables are due within the next 12 months.

In addition, some of the unimpaired trade receivables are over due as at the reporting date. The age of the financial assets over due date but not impaired is as follows:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Not more than 3 months past due	458	234
More than 3 months but not more than 1 year	103	67
	<u>561</u>	<u>301</u>

The Group has no significant concentration of credit risk, with exposure spread over a large number of customers.

## 15. Cash and cash equivalents

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Cash and cash equivalents	47	1,262

The Directors consider that the carrying amount of cash and cash equivalents approximates to their fair value.

## 16. Trade and other payables

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Trade payables	4,599	5,669
Other taxation and social security	370	265
Other payables	87	161
Overdraft	981	-
Accrued expenses and deferred income	830	394
	<u>6,867</u>	<u>6,489</u>

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases is 74 days (2007 : 50 days).

Included in trade payables are amounts of £3.2m (2007: £1.7m) representing motor vehicle consignment stock liabilities.

The Directors consider that the carrying value of trade and other payables approximates to their fair value. All trade and other payables are payable within the next 12 months.

The overdraft facility with HBOS has been renewed at £800,000 until 31 July 2009 and at £600,000 through to 30 November 2009. This overdraft facility is subject to security from group companies in the form of cross guarantees and debentures.

## 17. Borrowings

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Current portion of long term borrowings</b>		
Mortgages	2,031	-
Obligations under finance leases	98	61
<b>Non-current long term borrowings</b>		
Mortgages	-	-
Obligations under finance leases	9	8
<b>Total borrowings</b>	<u>2,138</u>	<u>69</u>

Mortgages are secured against the production facility in Coventry. The first three years are interest only and full repayment will be made over the following twelve years. Interest is 1% over Barclays Bank Base Rate. The mortgage has been classified as fully repayable within one year due to the banking covenants on

the mortgage facility being breached during 2008. The Group has recently concluded negotiations with Barclay's resulting in a formal waiver of the covenant breach.

#### 18. Financial instruments – Risk management

The Group in principal does not use or trade in derivative financial instruments.

The Group's financial instruments comprise hire purchase and finance leases, mortgages, cash and cash equivalents and various other items such as trade receivables, other receivables and creditors that arise directly from its operations. The main purpose of these financial instruments is to provide finance for the Group's operations. The assets and liabilities that comprise the financial instruments of the Group are as follows:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Financial assets catergorised as loans and receivables</b>		
Trade receivables	1,766	1,164
Other receivables	196	504
Cash and cash equivalents	47	1,262
	<u>2,009</u>	<u>2,930</u>
<b>Financial liabilities measured at amortised cost</b>		
Trade payables	4,599	5,669
Other payables	87	161
Accruals and deferred income	830	394
Overdraft	981	-
Mortgages	2,775	-
	<u>9,272</u>	<u>6,224</u>

The main risks arising from Group's financial instruments are credit risk, interest rate risk and liquidity risk. The Board reviews and agrees policies for managing these risks and they are summarised below. These policies have remained unchanged throughout the financial period.

#### *Credit risk*

The Group's exposure to credit risk is limited to the carrying values of financial assets recognised at the balance sheet date, as summarised below:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Classes of financial assets - carrying amount		
Cash and cash equivalents	47	1,262
Trade and other receivables	1,962	1,668
	<u>2,009</u>	<u>2,930</u>

The maximum exposure to credit risk in relation to trade receivables is equivalent to the period end balance. It is the Group's policy to assess the credit risk of its customers. The Group closely monitors the credit worthiness of customers and other counterparties, and will require an advance payment if necessary. The Group will terminate business with customers who have a poor credit history.

The directors consider that all the above financial assets that are not impaired for each of the reporting dates under review are of good credit quality, based on financial information and past trading history, including those that are past due.

The Group is not exposed to any significant credit risk exposure to any single counterparty or group of counterparties having similar characteristics. The credit risk for cash and cash equivalents is considered negligible since the counterparties are reputable banks with high quality external credit ratings.

#### *Liquidity risk*

The group's objective is to maintain a balance between continuity of funding and flexibility through cash pooling and shareholder funding. The Group monitors its liquidity risk on an ongoing basis by undertaking rigorous cash flow forecasting procedures.

As at 31 December 2008, the Group's financial liabilities have contracted maturities, which are summarised below:

	Current		Non-Current	
	Within 6 Months £000	6 to 12 Months £000	2 to 5 Years £000	Later Than 5 Years £000
Obligations under finance leases	9	89	9	-
Mortgages	2,031	-	-	-
Trade payables	4,599	-	-	-
	<u>6,639</u>	<u>89</u>	<u>9</u>	<u>-</u>

This compares to the maturity of the Group's financial liabilities in the previous reporting period as follows:

	Current		Non-Current	
	Within 6 Months £000	6 to 12 Months £000	2 to 5 Years £000	Later Than 5 Years £000
Obligations under finance leases	30	31	8	-
Mortgages	-	-	-	-
Trade payables	5,669	-	-	-
	<u>5,699</u>	<u>31</u>	<u>8</u>	<u>-</u>

#### *Interest rate risk*

The Group finances itself by making use of overdraft and mortgage facilities, as well as using its own cash balances which comprise cash and short-term deposits. The Group monitors its use of these facilities through cash flow forecasting to ensure the exposure to interest rate risk is kept to a minimum.

The carrying value of all other financial instruments equate to their fair value.

## 19. Deferred taxation

Deferred tax is calculated in full on temporary differences under the liability method using a tax rate of 28% (2007 : 30%). The movement on the deferred tax accounts is shown below:

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Balance at the start of the period	34	28
Income statement (credit)/charge	(20)	6
<b>Balance at the end of the period</b>	<u>14</u>	<u>34</u>

### Details of the deferred tax liability are as follows:

Accelerated capital allowances	<u>14</u>	<u>34</u>
--------------------------------	-----------	-----------

At the period end deferred tax assets of £532,000 (2007 : £262,000) were not recognised.

## 20. Share capital

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Authorised</b>		
600,000,000 (2007 - 600,000,000) Ordinary shares of 1p each	<u>6,000</u>	<u>6,000</u>
	<u>6,000</u>	<u>6,000</u>
<b>Alloted, called up and fully paid</b>		
302,050,200 (2007 - 302,050,200) ordinary shares of 1p each	<u>3,021</u>	<u>3,021</u>
	<u>3,021</u>	<u>3,021</u>

### Share options

The Group has established a share option scheme that entitles key management and senior employees to purchase shares in the entity.

The Group has established a scheme under the Enterprise Management Incentive (EMI) code (set out in Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003). The options granted under EMI scheme may be exercised between three and ten years of the anniversary of the date of the grant.

Qualifying employees are invited to apply for the grant of a contingent right to acquire shares under the plan. Subject to the rules of the Plan, options will enable employees to receive a number of eco city vehicles plc ordinary shares three years after the Option is granted, subject to meeting any performance targets set by the Remuneration Committee.

The Group has also granted share options to two directors under the unapproved scheme. Those granted under unapproved scheme may be exercised between three and ten years of the anniversary of the date of the grant.

The number and weighted average exercise price of the Group's entire share options are as follows:

	<b>Weighted average exercise price 2008</b>	<b>Number of options 2008</b>
Outstanding at the beginning of the period	£0.05	4,755,000
Granted during the period	-	-
Forfeited during the period	£0.05	150,000
	<hr/>	<hr/>
Outstanding at the end of the period	£0.05	4,605,000
	<hr/> <hr/>	<hr/> <hr/>
	<b>Weighted average exercise price 2007</b>	<b>Number of options 2007</b>
Outstanding at the beginning of the period	-	-
Granted during the period	£0.05	4,755,000
Forfeited during the period	-	-
	<hr/>	<hr/>
Outstanding at the end of the period	£0.05	4,755,000
	<hr/> <hr/>	<hr/> <hr/>

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services is measured on a Black-Scholes model in respect of the schemes using the following assumptions:

	<b>2008</b>	<b>2007</b>
<b>Fair value of share options and assumptions</b>		
Fair value at grant date	-	£0.05
Share price at grant date	-	£0.05
Average exercise price	-	£0.05
Expected volatility	-	40%
Option life	-	3 years
Expected dividend yield	-	0%
Risk-free interest rate	-	5%

The expected volatility has been calculated using the historical volatility of comparable listed companies. There are no share options exercisable at 31 December 2008, or at 31 December 2007.

## 21. Key Staff Remuneration

	<b>Period ended 31 December</b>	
	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Key Staff - Directors of subsidiary companies</b>		
Salaries	115	183
Pension and benefits	-	-
Share based payments	5	1
	<hr/>	<hr/>
	120	184
	<hr/> <hr/>	<hr/> <hr/>

The Group considers the directors of the subsidiary company KPM-UK Taxis Plc to be key personnel, due to their knowledge of the taxi market and their expertise with the products.

## 22. Leases

### Finance leases

Total future lease commitments expire as follows:

	<b>Minimum lease payments 2008 £000</b>	<b>Interest 2008 £000</b>	<b>Present Value 2008 £000</b>	<b>Minimum lease payments 2007 £000</b>	<b>Interest 2007 £000</b>	<b>Present Value 2007 £000</b>
<b>Leases ending</b>						
Not later than one year	100	2	98	70	9	61
Later than one year and not later than five years	10	1	9	9	1	8
	<u>110</u>	<u>3</u>	<u>107</u>	<u>79</u>	<u>10</u>	<u>69</u>

The present value of future lease payments is analysed between current and non-current liabilities in Note 17.

### Operating leases

The Group has operating leases on all its properties. The terms of the property leases vary although they all tend to be tenant repairing with rent reviews every three and five years and many have break clauses. The totals of future minimum lease payments are due as follows:

	<b>2008 £000</b>	<b>2007 £000</b>
Not later than one year	368	393
Later than one year and not later than five years	1,470	1,347
Later than five years	2,442	2,908
	<u>4,280</u>	<u>4,648</u>

### 23. Related party transactions

The Group entered into the following material transactions with related parties:

The Group has taken advantage of the exemption contained within IAS 24 – Related Party Disclosures from the requirement to disclose transactions between group companies as these have been eliminated on consolidation.

During the year, rent of £201,000 (2007: £207,000) was paid to KPM-UK Taxis Plc Discretionary Pension Scheme of which directors P.H. DaCosta, M.Troullis and K.L. Marder are the beneficiaries.

During the year the Group made arm length transactions with One80 Limited, a company in which KPM-UK Taxis Plc is a shareholder. Sales during the period amounted to £169,000 (2007 - £nil), purchases during the period amounted to £525,000 (2007 : £nil) and the year end net balance owed to One80 Limited is £85,000 (2007 : £nil).

During the year the Group made arm length transactions with Global Meter Systems Limited, a company in which three of the directors are shareholders. Sales during the period amounted to £66,000 (2007 - £87,000), purchases during the period amounted to £221,000 (2007 : £219,000) and the year end net balance owed to Global Meter Systems Limited is £114,000 (2007 : £33,000 owed by Global Meter Systems Limited).

During the year, loans have been made to the following connected parties at an arms length basis:

	<b>P.DaCosta Director £000</b>	<b>M.Troullis Director £000</b>	<b>K.Marder Director £000</b>	<b>A.Emilianou Manager £000</b>	<b>S.McCarthy Manager £000</b>	<b>Total £000</b>
<b>Loans to connected parties</b>						
At 1 January 2008	-	-	-	-	-	-
Maximum during the year	27	2	3	3	-	35
At 31 December 2008	27	2	3	3	-	35

Of these, the loans to P.DaCosta, M.Troullis and K.Marder had been repaid in full by the date of signing the accounts.

### 24. Notes supporting cash flow statement

	<b>2008 £000</b>	<b>2007 £000</b>
Cash available on demand	47	1,262
Overdraft	(981)	-
	<u>(934)</u>	<u>1,262</u>

There were no significant non-cash transactions, which would be classified as a financing activity, for the assets acquired under the finance leases.

### 25. Capital commitments

The Group had no capital commitments at 31 December 2008 (2007 : £245,000).

**26. Contingent liabilities**

There are no material contingent liabilities at 31 December 2008 or 31 December 2007.

# Report of the Independent Auditor to the Members of eco city vehicles plc

We have audited the parent company financial statements of Eco City Vehicles plc for the year ended 31 December 2008 which comprise the principal accounting policies, the balance sheet and notes 1 to 12. These parent company financial statements have been prepared under the accounting policies set out therein.

We have reported separately on the group financial statements of Eco City Vehicles plc for the year ended 31 December 2008. That report is modified by the inclusion of an emphasis of matter.

This report is made solely to the company's members, as a body, in accordance with Section 235 of the Companies Act 1985. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## **RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The directors' responsibilities for preparing the Annual Report and the parent company financial statements in accordance with United Kingdom law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent company financial statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent company financial statements give a true and fair view and whether the parent company financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent company financial statements.

In addition we report to you if, in our opinion, the company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read other information contained in the Annual Report and consider whether it is consistent with the audited parent company financial statements. This other information comprises only the Chairman's Statement, the Chief Executive Officer's Statement, the Directors' Report and the Report of the Remuneration Committee. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent company financial statements. Our responsibilities do not extend to any other information.

## **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the parent company financial statements. It also includes an assessment of the significant estimates and judgments made by the directors in the preparation of the parent company financial statements, and of whether the accounting policies are appropriate to the company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent company financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the parent company financial statements.

**OPINION**

In our opinion:

- § the parent company financial statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the company's affairs as at 31 December 2008;
- § the parent company financial statements have been properly prepared in accordance with the Companies Act 1985; and
- § the information given in the Directors' Report is consistent with the financial statements.

GRANT THORNTON UK LLP  
REGISTERED AUDITOR  
CHARTERED ACCOUNTANTS

LONDON  
30 June 2009

# eco city vehicles plc

## Parent Company Balance Sheet

As at 31 December 2008

	Notes	2008 £'000	2007 £'000
<b>Fixed assets</b>			
Tangible assets	2	2,243	2,150
Investments	3	2,782	2,782
		<u>5,025</u>	<u>4,932</u>
<b>Current assets</b>			
Debtors	4	4,718	2,482
Cash at bank and in hand		-	1
		<u>4,718</u>	<u>2,483</u>
<b>Current liabilities</b>			
Creditors: amounts falling due within one year	5	(3,552)	(3,166)
		<u>1,166</u>	<u>(683)</u>
<b>Net current assets/(liabilities)</b>			
		<u>6,191</u>	<u>4,249</u>
<b>Capital and reserves</b>			
Called up share capital	6	3,021	3,021
Share premium	7	1,922	1,922
Share based payment reserve	7	17	3
Profit and loss account	7	1,231	(697)
		<u>6,191</u>	<u>4,249</u>
<b>Shareholders' funds</b>			
	8	<u>6,191</u>	<u>4,249</u>

The financial statements were approved and authorised for issue by the Board on 30 June 2009.

Timothy Yeo  
Non-Executive Chairman

Peter DaCosta  
Chief Executive Officer

# Notes to the Parent Company Financial Statements

## 1. Accounting policies of the Parent Company

The financial statements have been prepared under the historical cost convention and in accordance with Companies Act 1985 and United Kingdom Generally Accepted Accounting Practice ("UK GAAP").

The principal accounting policies of the company are as follows:

### *Going concern*

Based on Group's plan for 2009 and after making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue operations for the foreseeable future. For this reason they continue to adopt the going concern basis in preparing the financial statements.

The Board have undertaken extensive detailed forecasting of Group activity through until the December 2010. Based on actual sales in 2008 and early 2009 of the new Mercedes Vito Taxi, the LTI TX4, and used taxi sales, it has been possible to project vehicle sales and after sales revenue and profitability until the end of 2010.

The performance of the business within the current economic climate has been objectively assessed and reported upon internally over a period of ten months, and the Board has a clear view of the medium term trading conditions. In addition the market acceptance of the new Vito Taxi is now known. These two aspects lead the Board to have confidence in their forward projections of going concern.

Cash flow projections are based on conservative assumptions and whilst they pinpoint a requirement for external funding a new agreement has been successfully negotiated with HBOS regarding renewal of the overdraft facilities to 30 November 2009 (see note 5). The renewed facilities are at levels consistent with the Group's cash flow projections in that period. Discussions have also been concluded with Barclay's Bank plc resulting in a waiver of the mortgage covenant breach (see note 5). As a result of this, the Board do not envisage a shortfall in working capital during the coming twelve months.

The Eco Truck venture due to be launched in the second half of 2009 is the subject of separate negotiations for funding and did not form part of the detailed forecasting regarding going concern, save that it is the Board's opinion that it can not be funded from current working capital generated by the Group. The new venture therefore does not pose an additional working capital drain on currently projected resources derived from the core business. The Board are encouraged that funding institutions have expressed a willingness to support the launch of the new vehicle with additional facilities.

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

### *Basis of consolidation*

Consolidated financial statements are prepared for the group and are filed separately. These financial Statements therefore present information about the company as an individual entity and not about it as a group.

### *Profit and loss account*

As permitted by Section 230 of the Companies Act 1985, a separate profit and loss account for the parent company is not presented. The Company's profit for the period was £1,928,000 (2007 : £544,000 loss)

### *Tangible fixed assets and depreciation*

All fixed assets are initially recorded at cost. Depreciation is provided on all tangible fixed assets, other than freehold land, at rates calculated to write off the cost, less estimated residual value, of each asset evenly over its expected useful life, as follows:

Leasehold property - over the term of the lease

### *Fixed asset Investments*

All investments are included at cost, less any provision for impairment. Cost represents the amount of ordinary shares issued by the Company at a nominal value after taking account of merger relief available under Section 131 of the Companies Act 1985 plus related acquisition costs capitalised at fair value.

### *Operating lease agreements*

Rentals applicable to operating leases where substantially all the benefits and risks of the ownership remain with the lessor are charged against profits on a straight line basis over the period of the lease.

### *Financial instruments*

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that evidences a residual interest in the assets of the entity after deducting all of its financial liabilities.

Where the contractual obligations of financial instruments (including share capital) are equivalent to a similar debt instrument, those financial instruments are classed as financial liabilities. Financial liabilities are presented as such in the balance sheet. Finance costs and gains and losses relating financial liabilities are included in the profit and loss account. Finance costs are calculated so as to produce a constant rate of return on the outstanding liability.

Where the contractual terms of share capital do not have any terms meeting the definition of a financial liability then this is classed as an equity instrument. Dividends and distributions relating to equity instruments are debited direct to equity.

### *Share based payments*

The company has applied the requirements of FRS 20 Share based payments. FRS 20 has been applied to all grants of equity instruments after 7 November 2002 that were unvested at 1 January 2005.

The company issues equity settled share-based payments to employees. Equity-settled share payments are measured at fair value (excluding the effect of non market-based vesting conditions) at the date of grant. The fair value determined at the grant date of the equity-settled share based payments is expensed on a straight line basis over the vesting period, based on the Group's estimate of shares that is eventually vest and adjusted for the effect of non market-based vesting conditions.

Upon exercise of share options the proceeds received net of attributable transaction costs are credited to share capital, and where appropriate share premium.

### *Deferred taxation*

Deferred tax is provided in full in respect of taxation deferred by material timing differences between the treatment of certain items for taxation and accounting purposes. Recognition of a deferred tax asset is limited to the extent that the company anticipates making sufficient taxable profits in the future to absorb the reversal of the underlying timing differences. The deferred tax balance has not been discounted.

## 2. Tangible fixed assets

	<b>Long Leasehold property £000</b>
<b>Cost</b>	
At 1 January 2008	2,150
Additions	111
At 31 December 2008	<u>2,261</u>
<b>Depreciation</b>	
At 1 January 2008	-
Charge for year	18
At 31 December 2008	<u>18</u>
<b>Carrying amount</b>	
At 31 December 2008	<u>2,243</u>
At 31 December 2007	<u>2,150</u>

### 3. Investments

	<b>Investment in subsidiary undertakings</b>
	£000
At 1 January 2008	2,782
Additions	-
At 31 December 2008	<u>2,782</u>

Following an impairment review it is the opinion of the Directors, the aggregate value of the Company's investment in subsidiary undertaking is not less than the amount included in the balance sheet.

#### Holdings of more than 20%

The company holds more than 20% of the share capital of the following companies:

Name of Company	Proportion Held	Class of shareholding	Nature of Business
<b>Subsidiary undertakings</b>			
KPM Autos Limited	100%	Ordinary	Intermediate holding company
UK Taxi (Agency) Limited	100%	Ordinary	Dormant
UK Taxi Services Limited	100%	Ordinary	Dormant
KPM-UK Taxis Plc	100%	Ordinary	Taxi cab dealer
KPM-UK Knowledge School Limited	100%	Ordinary	Education Services
KPM Taxi Advertising Direct Limited	100%	Ordinary	Dormant
Cabline Limited	100%	Ordinary	Dormant
Transmedia Limited trading as Cabvision	100%	Ordinary	Digital advertising in taxis
Modec (City) Limited	100%	Ordinary	Dormant
London Taxi Auctions Limited	100%	Ordinary	Dormant
Pannal Limited	100%	Ordinary	Dormant
KPM-UK Finance Limited	100%	Ordinary	Dormant
Eco City Vehicles UK Limited	100%	Ordinary	Eco friendly vehicles

#### Associate

one80 Limited*	33%	Ordinary	Vehicle engineering
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\* Indirectly Held

### 4. Debtors

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Trade Debtors	63	-
Amounts owed by group undertakings and undertakings in which the company has a participating interest	4,640	1,993
Other debtors	-	462
Prepayments and accrued income	15	27
	<u>4,718</u>	<u>2,482</u>

## 5. Creditors

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
Trade creditors	40	2,567
Overdraft	981	-
Mortgage	2,031	-
Amounts owed to group undertakings and undertakings in which the company has a participating interest	392	568
Accruals and deferred income	108	31
	<u>3,552</u>	<u>3,166</u>

The overdraft facility with HBOS has been renewed at £800,000 until 31 July 2009 and at £600,000 through to 30 November 2009. This overdraft facility is subject to security from group companies in the form of cross guarantees and debentures.

The repayment of the capital element of the Mortgage on the property at Woodhams Road, Coventry, is repayable in the following timescale:

	<b>Current</b>		<b>Non-Current</b>	
	<b>Within 6 Months £000</b>	<b>6 to 12 Months £000</b>	<b>2 to 5 Years £000</b>	<b>Later Than 5 Years £000</b>
Mortgages	<u>2,031</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>2,031</u>	<u>-</u>	<u>-</u>	<u>-</u>

The mortgage has been classified as fully repayable within one year due to the banking covenants on the mortgage facility being breached during 2008. The Company has recently concluded negotiations with Barclay's resulting in a formal waiver of the covenant breach.

## 6. Share capital

	<b>2008</b>	<b>2007</b>
	<b>£000</b>	<b>£000</b>
<b>Authorised</b>		
600,000,000 ordinary shares of 1p each	<u>6,000</u>	<u>6,000</u>
<b>Alloted, called up and fully paid</b>		
302,050,200 ordinary shares of 1p each	<u>3,021</u>	<u>3,021</u>

On 10 October 2007 the company's authorised share capital was increased from £563,069 to £6,000,000 by creation of additional 543,693,060 ordinary shares of 1p ranking pari passu with existing shares. Furthermore 260,000,000 ordinary shares of 1p each were issued at a premium of 4p to effect the reverse takeover and associated fund raising.

The company has established a share option scheme that entitles key management and senior employees to purchase shares in the entity.

The company has established a scheme under the Enterprise Management Incentive (EMI) code (set out in Schedule 5 to the Income Tax (Earnings and Pensions) Act 2003). The options granted under EMI scheme may be exercised between three and ten years of the anniversary of the date of the grant.

Qualifying employees are invited to apply for the grant of a contingent right to acquire shares under the plan. Subject to the rules of the Plan, options will enable employees to receive a number of eco city vehicles plc ordinary shares three years after the Option is granted, subject to meeting any performance targets set by the Remuneration Committee.

The company has also granted share options to two directors under the unapproved scheme. Those granted under unapproved scheme may be exercised between three and ten years of the anniversary of the date of the grant.

The number and weighted average exercise price of the Group's entire share options are as follows:

Outstanding at the beginning of the period	£0.05	4,755,000
Granted during the period	-	-
Forfeited during the period	£0.05	150,000
	<hr/>	<hr/>
Outstanding at the end of the period	£0.05	4,605,000
	<hr/> <hr/>	<hr/> <hr/>
	<b>Weighted average exercise 2007</b>	<b>Number of options 2007</b>
Outstanding at the beginning of the period	-	-
Granted during the period	£0.05	4,755,000
Forfeited during the period	-	-
	<hr/>	<hr/>
Outstanding at the end of the period	£0.05	4,755,000
	<hr/> <hr/>	<hr/> <hr/>

The fair value of services received in return for share options granted are measured by reference to the fair value of share options granted. The estimate of the fair value of the services is measured on a Black-Scholes model in respect of the schemes using the following assumptions:

	<b>2008</b>	<b>2007</b>
<b>Fair value of share options and assumptions</b>		
Fair value at grant date	-	£0.05
Share price at grant date	-	£0.05
Average exercise price	-	£0.05
Expected volatility	-	40%
Option life	-	3 years
Expected dividend yield	-	0%
Risk-free interest rate	-	5%

## 7. Statement of movement on reserves

	Share based payment reserve £000	Share premium £000	Retained earnings £000
At 1 January 2008	3	1,922	(697)
Profit for the year	-	-	1,928
Share based payment	14	-	-
At 31 December 2008	17	1,922	1,231

## 8. Reconciliation of movement in shareholders' funds

	2008 £000	2007 £000
Profit/(loss) for the year	1,928	(544)
Share based payment	14	3
Proceeds from share issue (net of issue costs)	-	3,343
Net addition to shareholders' funds	1,942	2,802
Opening shareholders' funds	4,249	1,447
	6,191	4,249

## 9. Employees and employment cost

### Employees

There were no employees apart from the directors.

### Employment cost

	2008 £000	2007 £000
Emoluments to Directors for qualifying services	115	49

## 10. Capital commitments

The Company had no capital commitments at 31 December 2008 or 31 December 2007.

## 11. Related party transactions

The Company has taken advantage of the exemption in Financial Reporting Standard No 8 from the requirement to disclose transactions with Group companies eliminated on consolidation.

## 12. Contingent liabilities

There are no material contingent liabilities at 31 December 2008 or 31 December 2007.

# ECO CITY VEHICLES PLC

## CONSOLIDATED FIVE YEAR RECORD

	Period ended 31 December				
	2008 £000	2007 £000	2006 £000	2005 £000	2004 £000
Revenue	19,345	41,893	27,268	27,766	20,581
Cost of sales	(15,593)	(35,805)	(23,299)	(23,418)	(16,888)
<b>Gross profit</b>	<b>3,752</b>	<b>6,088</b>	<b>3,969</b>	<b>4,348</b>	<b>3,693</b>
Administrative expenses	(5,216)	(10,155)	(4,876)	(5,229)	(3,745)
Other operating income	318	1,129	663	700	385
<b>Operating loss</b>	<b>(1,146)</b>	<b>(2,938)</b>	<b>(244)</b>	<b>(181)</b>	<b>333</b>
<b>Operating (loss)/profit, analysed as:</b>					
Before exceptional items	(1,146)	1,044	275	916	333
Accounts receivable from Cabvision Limited written off	-	(2,372)	(519)	(1,097)	-
Reverse acquisition costs	-	(845)	-	-	-
Flotation costs and associated costs including abortive costs	-	(765)	-	-	-
<b>Operating loss after exceptional items</b>	<b>(1,146)</b>	<b>(2,938)</b>	<b>(244)</b>	<b>(181)</b>	<b>333</b>
Finance income	316	389	42	131	96
Finance costs	(347)	(135)	(119)	(112)	(139)
loss attributable to associate company	(90)	-	-	-	-
<b>Loss before taxation</b>	<b>(1,267)</b>	<b>(2,684)</b>	<b>(321)</b>	<b>(162)</b>	<b>290</b>
Taxation	20	(6)	34	8	(99)
<b>Loss for the period after taxation</b>	<b>(1,247)</b>	<b>(2,690)</b>	<b>(287)</b>	<b>(154)</b>	<b>191</b>
<b>Loss per share</b>	<i>Pence</i>	<b>Pence</b>	Pence	Pence	Pence
Basic and diluted	(0.41)	(1.07)	(0.12)		

### Notes to the consolidated income statement five year record

1. Information for 12 months ended 31 December 2008, the 15 months ended 31 December 2007 and the 12 months ended 30 September 2006 is presented under IFRS.
2. Information for the 12 months ended 30 September 2005 and the 12 months ended 30 September 2004 is presented under UK GAAP.
3. The five year record has been prepared on the same basis as the financial statements for the 12 months ended 31 December 2008, as set out in Note 1, Basis of preparation, of the consolidated financial statements. In particular, the principles of reverse acquisition accounting have been adopted.

# **NOTICE OF ANNUAL GENERAL MEETING OF ECO CITY VEHICLES PLC**

## **THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION**

If you are in any doubt as to what action you should take, you are recommended to seek your own financial advice from your stockbroker or other independent adviser authorised under the Financial Services and Markets Act 2000.

If you have sold or transferred all of your shares in Eco City Vehicles plc, please forward this document, together with the accompanying documents, as soon as possible either to the purchaser or transferee or to the person who arranged the sale or transfer so they can pass these documents to the person who now holds the shares.

**NOTICE IS HEREBY GIVEN that the 2nd Annual General Meeting of Eco City Vehicles Plc will be held at the offices of Holman Fenwick Willan, Friary Court, 65 Crutched Friars, London EC3N 2AE on 31st July 2009 at 11.00 am. You will be asked to consider and vote on the resolutions below. Resolutions 1 to 4 will be proposed as ordinary resolution and resolutions 5 to 7 will be proposed as special resolutions.**

## **ORDINARY BUSINESS**

### **Resolution 1**

That the Accounts for the financial year ended 31 December 2008 together with the reports of the directors and auditors be received.

### **Resolution 2**

That Tim Yeo who retires by rotation be re-elected as a director of the Company

### **Resolution 3**

That Guy Saxton who retires by rotation be re-elected as a director of the Company

### **Resolution 4**

That Grant Thornton UK LLP be re-appointed as auditors to the Company to hold office until the conclusion of the next general meeting and that the directors are authorised to fix the remuneration of the auditors

## **SPECIAL BUSINESS**

### **Resolution 5**

That the directors be and they are generally and unconditionally authorised for the purposes of section 80 of the Companies Act 1985 (**Act**) to exercise all the powers of the Company to allot relevant securities (within the meaning of that section) up to an aggregate nominal amount of £1,006,834, provided that this authority shall expire on the date of the Company's next AGM, but the Company may before such expiry make an offer or agreement which would or might require relevant securities to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired. This resolution is in substitution for all subsisting authorities, to the extent unused.

## **Resolution 6**

That, subject to the passing of Resolution 5 the directors be and they are empowered pursuant to section 95 of the Act to allot equity securities (within the meaning of section 94(2) to section 94(3A) of the Act) wholly for cash pursuant to the authority conferred by Resolution 5 above as if section 89(1) of the Act did not apply to any such allotment, provided that this power shall be limited to the allotment of equity securities:

- (a) in connection with an offer of such securities by way of rights to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings of such shares, but subject to such exclusions or other arrangements as the directors may deem necessary or expedient in relation to fractional entitlements or any legal or practical problems under the laws of any territory, or the requirements of any regulatory body or stock exchange, and
- (b) otherwise than pursuant to paragraph (a) above up to an aggregate nominal amount of £151,025.10;

and shall expire on the date of the Company's next AGM, save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

## **Resolution 7**

That with effect from 1 October 2009 the Company:

- (a) amends its articles of association by deleting provisions of the Company's memorandum of association which due to Section 28 Companies Act 2006 would be treated as provisions of the articles of association.
- (b) adopts new articles of association <sup>1</sup>.

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<sup>1</sup> We are adopting new articles of association to take account of the Companies Act 2006. The main differences between the existing articles and the new articles, as well as a copy of the new articles showing the proposed changes, can be found at [www.ecocityvehicles.com/index.php/constitutional-information](http://www.ecocityvehicles.com/index.php/constitutional-information)

## NOTES TO THE NOTICE OF ANNUAL GENERAL MEETING

### Entitlement to attend and vote

1. Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the Company specifies that only those members registered on the Company's register of members at:

11.00 am on 31<sup>st</sup> July 2009; or,

if this meeting is adjourned, at 6.00 pm on the day two days prior to the adjourned meeting,

shall be entitled to attend and vote at the meeting.

### Appointment of proxies

2. If you are a member of the Company at the time set out in note 1 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the meeting and you should have received a proxy form with this notice of meeting. You can only appoint a proxy using the procedures set out in these notes and the notes to the proxy form.
3. If you are not a member of the Company but you have been nominated by a member of the Company to enjoy information rights, you do not have a right to appoint any proxies under the procedures set out in this "Appointment of proxies" section. Please read the section "Nominated persons" below.
4. A proxy does not need to be a member of the Company but must attend the meeting to represent you. Details of how to appoint the Chairman of the meeting or another person as your proxy using the proxy form are set out in the notes to the proxy form. If you wish your proxy to speak on your behalf at the meeting you will need to appoint your own choice of proxy (not the Chairman) and give your instructions directly to them.
5. You may appoint more than one proxy provided each proxy is appointed to exercise rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please contact Computershare Investor Services Plc at The Pavilions, Bridgewater Road, Bristol BS99 3FA.
6. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If you either select the "Discretionary" option or if no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

### Appointment of proxy using hard copy proxy form

7. The notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote.

To appoint a proxy using the proxy form, the form must be:

completed and signed;

sent or delivered to Computershare Investor Services Plc at The Pavilions, Bridgewater Road, Bristol BS99 3FA; and

received by Computershare Investor Services Plc at The Pavilions, Bridgewater Road, Bristol BS99 3FA no later than 29<sup>th</sup> July 11.00am or 48 hours before the meeting is convened.

In the case of a member which is a company, the proxy form must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company.

Any power of attorney or any other authority under which the proxy form is signed (or a duly certified copy of such power or authority) must be included with the proxy form.

#### **Appointment of proxy by joint members**

8. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first-named being the most senior).

#### **Changing proxy instructions**

9. To change your proxy instructions simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also apply in relation to amended instructions; any amended proxy appointment received after the relevant cut-off time will be disregarded.

Where you have appointed a proxy using the hard-copy proxy form and would like to change the instructions using another hard-copy proxy form, please contact Computershare Investor Services Plc at The Pavilions, Bridgewater Road, Bristol BS99 3FA.

If you submit more than one valid proxy appointment, the appointment received last before the latest time for the receipt of proxies will take precedence.

#### **Termination of proxy appointments**

10. In order to revoke a proxy instruction you will need to inform the Company using the following method:

By sending a signed hard copy notice clearly stating your intention to revoke your proxy appointment to Computershare Investor Services Plc at The Pavilions, Bridgewater Road, Bristol BS13 8AE. In the case of a member which is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the company or an attorney for the company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice.

In either case, the revocation notice must be received by Computershare Investor Services Plc at The Pavilions, Bridgewater Road, Bristol BS99 3FA no later than 29<sup>th</sup> July 11.00am.

If you attempt to revoke your proxy appointment but the revocation is received after the time specified then, subject to the paragraph directly below, your proxy appointment will remain valid.

Appointment of a proxy does not preclude you from attending the meeting and voting in person. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

#### **Corporate representatives**

11. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:
  - (a) if a corporate member has appointed the Chairman of the meeting as its corporate representative with instructions to vote on a poll in accordance with the directions of all the other corporate representatives for that member at the meeting, then, on a poll, those corporate representatives will give voting directions to the Chairman and the Chairman will vote (or withhold a vote) as corporate representative in accordance with those directions; and
  - (b) if more than one corporate representative for the same corporate member attends the meeting but the corporate member has not appointed the Chairman of the meeting as its corporate representative, a

designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate members are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives - [www.icsa.org.uk](http://www.icsa.org.uk) - for further details of this procedure. The guidance includes a sample form of representation letter to appoint the Chairman as a corporate representative as described in (i) above.

#### **Nominated persons**

12. If you are a person who has been nominated under section 146 of the Companies Act 2006 to enjoy information rights (**Nominated Person**):

You may have a right under an agreement between you and the member of the Company who has nominated you to have information rights (**Relevant Member**) to be appointed or to have someone else appointed as a proxy for the meeting.

If you either do not have such a right or if you have such a right but do not wish to exercise it, you may have a right under an agreement between you and the Relevant Member to give instructions to the Relevant Member as to the exercise of voting rights.

Your main point of contact in terms of your investment in the Company remains the Relevant Member (or, perhaps, your custodian or broker) and you should continue to contact them (and not the Company) regarding any changes or queries relating to your personal details and your interest in the Company (including any administrative matters). The only exception to this is where the Company expressly requests a response from you.

#### **Documents on display**

13. The following documents will be available for inspection at Eco City Vehicles PLC Hemming House Hemming Street London E1 5BL from 1st July 2009 until the time of the meeting and for at least 15 minutes prior to the meeting and during the meeting:

Copies of the service contracts of executive directors of the Company.

Copies of the letters of appointment of the non-executive directors of the Company.

#### **Communication**

14. Except as provided above, members who have general queries about the meeting should use the following means of communication (no other methods of communication will be accepted):

Steve Ryder, Company Secretary on 020 7377 2182; or

email [sryder@ecvplc.com](mailto:sryder@ecvplc.com)

You may not use any electronic address provided either:

in this notice of annual general meeting; or

any related documents (including the chairman's letter and proxy form),

to communicate with the Company for any purposes other than those expressly stated.

## PROXY FORM

**ECO CITY VEHICLES PLC ("the Company")**

**Annual General Meeting**

NAME \_\_\_\_\_

ADDRESS \_\_\_\_\_

REFERENCE DETAILS \_\_\_\_\_

**Before completing this form, please read the explanatory notes attached to the Notice**

I /We being a member of the Company appoint the Chairman of the meeting or (see note 3)

--

as my/our proxy to attend, speak and vote on my/our behalf at the Extraordinary General Meeting of the Company to be held on 31st July 2009 at 11.00 am at Holman Fenwick Willan, Marlow House, London, EC3N 3AL and at any adjournment of the meeting.

I/We direct my/our proxy to vote on the following resolutions as set out in the notice of annual general meeting dated 31st July 2009 as I/we have indicated by marking the appropriate box with an 'X'. If no indication is given, my/our proxy will vote or abstain from voting at his or her discretion and I/we authorise my/our proxy to vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is properly put before the meeting.

RESOLUTION	For	Against	Vote withheld	Discretionary
Resolution 1				
Resolution 2				
Resolution 3				
Resolution 4				
Resolution 5				
Resolution 6				
Resolution 7				

<b>Signature</b>	<b>Date</b>
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