Optare plc

REPORT AND FINANCIAL STATEMENTS

for the year ended 31 December 2009

Company Registration No. 06481690

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Forward-Looking Statements

This document contains statements that are not historical facts, but forward-looking statements that involve risks and uncertainties, including the timing and results of vehicles trials, product development and commercialisation risks. These forward looking statements are based on knowledge and information available to the Directors at the date the Directors' Report was prepared, and are believed to be reasonable at the time of preparation of the Directors' Report, though are inherently uncertain and difficult to predict. Actual results or experience could differ materially from the forward-looking statements.

Chairman's Statement

I am pleased to be able to report that although 2009 proved to be a challenging year it has also been a year of great change and progress. I believe that the Group is now well positioned to capitalise on any uptick in the market and look to the future with confidence.

Following a period of significant management change it became apparent that the challenges facing the business were greater than had previously been appreciated. The decision not to relocate meant that large contractual commitments had to be met using the Group's existing manufacturing facilities. Subsequently, the credit crunch hit the bus industry hard and forward visibility of orders declined markedly from the second quarter of 2009 onwards. We reacted promptly by commencing a series of cost and debt reduction actions.

The appointment of Jim Sumner as Chief Executive Officer in June 2009 was a major coup for us, bringing with him a wealth of experience of strategic development in the commercial vehicle manufacturing industry.

As a result of these actions we have been able to reposition the Group strategically, particularly on green issues, and I believe the business is now in a strong position to take advantage of changes in the market.

Strategic Development

Our aim is to be:

- A European leader in green bus technologies by the development of the full range of options from hybrids to electric and dual fuel vehicles;
- The UK leader in the midi-bus market;
- Offering a product portfolio with the full range of buses that is demanded by the UK bus market;
- A significant exporter of buses;
- A business with complementary income streams including coach sales, after-sales and refurbishment.

The board is very pleased with the progress that has been made on all these fronts during the year, as detailed in the Business and Financial Review.

Our people

Despite the very challenging market conditions I am proud to say that management and workforce have combined their efforts to ensure that Optare has come through the current recession fitter and stronger to take advantage of the anticipated recovery in market demand. The workforce has shown great flexibility in accepting short-term working to minimise the impact of redundancies whilst retaining jobs and skills.
I am pleased to report that all staff are once again working a full working week, and I would like to take this opportunity to thank all employees for their continued dedication.

Summary

2009 was a year of change, challenges and enormous progress. The £13m recent order for advanced hybrid buses received from Greater Manchester Integrated Transport Authority is a vindication of both our strategy and our technology. We can now look forward to improved trading in the second half of 2010 and in 2011 and 2012 as market demand recovers.

John Fickling
Non-Executive Chairman

Business and Financial Review

Operational Highlights

2009 has been about restructuring and cost reduction as part of the turnaround of Optare. Vigorous actions were taken to significantly reduce the cost base and business break-even point in order to align manufacturing capacity with the downturn in the UK bus market. Headcount reductions were made from a peak of 913 full-time equivalents in February 2009 to 474 in December 2009 resulting in £2.5m of non-recurring redundancy costs. Although short time working was required at the Company's Blackburn and Leeds plants in the second half of 2009, the recent strengthening of the order book reported in the trading update in December 2009 has facilitated both plants returning to standard working patterns. Restructuring in 2009 included the consolidation of production from three sites to two. The closure of the Rotherham manufacturing facility in July 2009 and the Cumbernauld service centre in November 2009 resulted in total one-off impairment costs of £1.0m. In total £6.7m of exceptional costs were incurred in 2009 to support the turnaround, the costs which are now substantially behind us. A sale of the Rotherham property has been agreed subject to contract which will help further reduce net debt.

Overall these actions resulted in more than a 40% reduction in revenue break-even levels over the year. In addition, the adoption of lean manufacturing processes has resulted in a 60% reduction in bus assembly times at both the Leeds and Blackburn facilities and increased capacity potential at Leeds by 30%. This has enabled short lead time response to customer demand at a time when the market has continued to lack visibility. These changes also supported significant working capital reduction with a 57% reduction in inventory of £16.8m to £7.2m by the end of the year.

Optare has successfully developed a new business unit at its Blackburn facility focused on refurbishment and low-carbon upgrades of existing buses. The Board sees this as an increasing revenue stream, not only from the growing interest among operators to improve the carbon footprint of buses over their whole life, but also from the counter-cyclical trends towards refurbishment and upgrade, rather than replacement of buses.

The Company has also made good progress on implementation of the global automotive quality standard TS16949 which will set a new quality standard for the bus manufacturing industry.

Product and Business Development

The funds from the share placing completed in September 2009 have supported significant achievements in positioning Optare as an industry leader in Green Bus technology. Milestones achieved to date include:

- the introduction of the UK's first bio-methane and electric buses into service.
- the launch of Optare's market leading driver console to aid fuel-efficient driving.
- successful integration of the latest diesel-electric technology with Optare's driver console and Actia telematics system to produce the most advanced hybrid system currently available as demonstrated by winning the £13m Greater Manchester order for 66 hybrid buses announced on 13 May 2010.
- design completion of Optare's new integrated double-decker.
- commencement of a low cost mechanical hybrid system development for the bus industry as part of the Flybus consortium with Ricardo, Allison, and Torotrak Additionally, the placing funds were used to support the building of demonstration units and for restructuring costs and working capital to support the turnaround of the business.

Order Book and Market Conditions

During 2009 the Company saw pressure on the supply chain due to economic factors and lower industry volumes which weakened the supply chain and culminated in a sudden major supplier failure in Q4 2009 which affected the business and disrupted production in the early part of 2010. The Board remains mindful of this and continues to closely monitor 'at-risk' suppliers, and is vigilant for potential supplier failure, taking advanced action where necessary. Suppliers have also exerted additional pressures due to restrictions in available credit insurance.
As highlighted in the Company's trading update in December 2009, the Company's order book increased from a low of £8.8m to £11.7m at the end of 2009. This trend has continued through 2010 with the order book now standing at £25.3m. This has been achieved against a background of continued difficult market conditions.

To mitigate the expected downturn in the UK bus market Optare has continued to focus on development of export opportunities, with initial 'seed' orders from Benelux, Italy, Germany, Malta, Israel, South Africa and New Zealand. The Board expects to be in a position to announce positive news on orders in the coming months following the success of demonstration fleet trials.

Board and Management Changes

Following my appointment as CEO on the June 1st 2009, the Board has been further strengthened with the appointment of Glenn Saint as Commercial Director on January 29th 2010. Glenn brings 28 years of experience in the transport sector and has held executive posts at Optare over the past 12 years as Technical Director and Manufacturing Director.

2009 has seen a significant strengthening and development of the wider management team focused on creating a culture of flexibility and customer focus, underpinned by a dynamic team ethic.

Strategic partnership

As reported in the December trading update, the Board has been progressing discussions with potential strategic partners and is at an advanced stage of talks with one of these potential partners and expects to make a further announcement on this before the end of June. The Board continues to believe that entering into such a partnership will be a key part of Optare's strategy to realise the full potential of the business by benefiting from joint sales activity, new distribution channels, low cost sourcing and potential technology sharing.

Financial Performance

The Group's financial performance for the year ended 31 December 2009 is reported in the Directors' Report.

Outlook

Despite the current market downturn in 2010, Optare's sales order book has gradually increased during 2010. Order levels of £25.3m in May 2010 are at a 12 month high with order prospects continuing to grow as a result of the product and market development initiatives taken. Although the order book is strengthening, there still continues to be low visibility in the market place as a whole which requires the business to operate on short lead time responses.

The Board is actively working to reduce net debt. The proceeds of the planned sale of the Rotherham site will be applied to reduce debt.

While the general bus markets remain uncertain, the Board anticipates stronger UK demand particularly for single-deck buses in 2011 and 2012. This is driven by an expected pre-buy of existing Euro 5 emission buses to avoid the additional cost burdens of Euro 6 legislation compliance due in 2013 along with compliance with the Disability Discrimination legislation which is required for all single-decker buses by 2014. In addition it is anticipated that there will be a recovery of the replacement cycle for buses as the UK economy climbs out of recession.

The Company is confident that its investment in green bus technology is well-timed as the trend toward low carbon technology gathers momentum.

The Board believes that significant progress has been achieved in the turnaround of the business with the complementary strategies of reducing the business break-even point and investing in green bus technology. This has positioned the business very strongly to take advantage of the anticipated market recovery.

Jim Sumner
Chief Executive Officer

Officers and Professional Advisers

Directors, Company Secretary and Advisers

DIRECTORS

John Fickling (Non-executive Chairman)

John Fickling has over 25 years' experience in the transport industry as a former major shareholder and executive director of Northumbria Buses and Kentish Bus. He was chief executive of Sunderland AFC for 11 years, where he oversaw the building of the Stadium of Light and the new training academy and had significant involvement in its full stock market listing in the late 1990s. John has a keen interest in green issues in public transport.

Jim Sumner (Chief Executive Officer)

Jim Sumner has a strong track record in lean manufacturing management and international business development, with over 20 years' experience within the Commercial Vehicle and Engineering sectors of global businesses. In the past decade Jim has led the transformation of Leyland Trucks, following its acquisition by PACCAR, into an acknowledged world class manufacturer which gained Queen's Award recognition for exporting to 44 countries world-wide. Jim is a chartered Engineer, Fellow of the Institute of Engineering & Technology and completed the Stanford Executive Program in 2005.

Mike Dunn FCA (Chief Financial Officer)

Mike Dunn is a chartered accountant with nearly 20 years' experience since qualifying with KPMG. Most of his career has been spent in manufacturing businesses, with stints at Boliden Brass and 3i-backed engineer, Hydratight. He also spent five years at Gartland Whalley and Barker plc, a corporate developer. During that period, he was also Finance Director of AIM-listed Airbath Group plc, a GWB-backed bathroom equipment manufacturer. Mike's previous role was as Finance Director of Lynx Technology Ltd, an IT services company that was returned to profit before being sold to BT plc in September 2007.

Glenn Saint (Commercial Director)

Glenn Saint has over 28 years' experience in the transport sector. He gained experience with Rolls Royce followed by a number of years in the rail industry before joining Optare in 1997. During his time at Optare he has also held the posts of Technical Director and Manufacturing Director. Glenn is held in high esteem amongst British bus operators and has a strong commercial and technical knowledge of the bus industry. He was appointed to the Board on 29 January 2010.

David Maughan (Non-Executive Director)

David Maughan is a highly experienced automotive purchase leader with a wide range of management experience, including new business introduction, strategic sourcing, major cost reduction and supplier development. Previously Purchase Director at VW Group in the UK, Ireland and Scandinavia, David was formerly Purchase Director at Bentley Motor Cars, where he was responsible for all production and non-production purchasing, and was directly responsible for a 26 per cent net reduction on the material cost per car. David currently holds directorships at Medical Equipment Supplies and Management Ltd, the North West Automotive Alliance and the North West Industrial Development Board.

David Stonehouse FCA (Non-Executive Director)

David trained as a chartered accountant at Arthur Young, moving to Price Waterhouse in 1985. He remained there for 10 years, becoming a partner in 1989. Following a period as Chief Executive of Newcastle United he became senior independent non-executive director of Parkdean Holidays plc, where he was involved in their AIM flotation and £28m fundraising in 2002. From 2002 to 2008, he was the Chairman at accountancy firm unw LLP. He is currently Chief Executive of Technology Services Group Limited, a £35 million turnover business supplying IT services to SMEs. He is chairman of the audit committee.

Officers and Professional Advisers (continued)

Registered Offices

Lower Philips Road
Whitebirk Industrial Estate
Blackburn
Lancashire
BB1 5UD

Company Secretary

Mike Dunn
Lower Philips Road
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Blackburn
Lancashire
BB1 5UD

Nominated Adviser and Broker

Cenkos Securities plc
6.7.8. Tokenhouse Yard
London
EC2R 7AS

Solicitors to the Company

Ward Hadaway
Sandgate House,
102 Quayside,
Newcastle upon Tyne
NE1 3DX

Auditors

Baker Tilly UK Audit LLP
2 Whitehall Quay
Leeds
LS1 4HG

Registrar

Capita Registrars Limited
Northern House
Woodsome Park
Fenay Bridge
Huddersfield
HD8 0LA

Directors' Report

The directors submit their report and the financial statements of Optare Group plc for the year ended 31 December 2009.

Principal Activities

The Company is engaged in bus design, manufacture, sales, coach sales, aftermarket support and bus reburbishment.

Results and Dividends for Year Ended 31 December 2009

The results for the year shown in the Consolidated Income Statement on page 18 comprise the results of the Group for the year. The comparative period comprises the results of the Group for the 72-week period from the date of incorporation 9 August 2007 to 31 December 2008. That is, the results of the Blackburn-based body on chassis manufacturing operation for the sixteen month period from August 2007 to 31 December 2008 plus the results of the Leeds-based integrated bus operation for the five months from 15 July 2008 to 31 December 2008.

Turnover for the year was £79.8m (2008:£53.5m) and loss from operations before exceptional items was £4.9m (2008:£5.5m) The operating loss reflects a very difficult year in which legacy issues from the date of acquisition and from the previous management team had to be resolved. A significant portion of the turnover for the year comprised buses sold under an onerous contract reported in the 2008 annual report, on which no margin was achieved. During the year, the level of market demand fell rapidly and the company had to reduce its cost base in order to reset the level of capacity to this lower level of activity. Price competition became very severe in some market sectors, particularly in the London double-deck market, and the company refused to be drawn into the very low price levels that were being set. Therefore volumes suffered further, particularly for double deck buses.

However significant cost savings have been achieved, and the workforce has been reduced from a peak of 913 to a low point of 450 full-time equivalents.

It became apparent during 2009 that serious flaws in the Company's quality management systems had been allowed to develop by previous operational management. This has been tackled on two fronts: restoration of quality systems and quality control within the factories leading to a significant improvement in the quality of new buses; secondly, after-sales campaigns have been run to resolve the issues customers have faced in the field in order to successfully restore Optare's quality reputation. The extent to which these costs exceed the expected run-rate for warranty costs has been charged to exceptional costs.

The Company terminated production at its Rotherham site mid-2009 a sale for the building has been agreed subject to contact. An impairment provision of £1,185,000 has been made.

Exceptional items were £6.9m (2008: £8.3m,) comprising: restructuring and redundancy costs £2.8m; warranty costs £1.6m; fundraising and associated costs of renegotiating bank facilities £0.2m; fixed asset impairment of £1.2m including Rotherham site £1m; additional costs relating to 2008's onerous contracts £0.9m, and costs of £0.1m relating to the termination of the proposed move to Walker Park. (2008: deal costs arising from fundraising during the year of £0.7m; restructuring and redundancy costs including the closure of the Rotherham facility of £3.5m; abortive move costs mentioned below of £0.6m and provisions against contracts of £3.5m.)

Net interest cost was £0.3m (2008:£0.3m). Basic and fully diluted loss per share was 8.4p (2008: basic and fully diluted loss per share 23.3p). Loss per share before exceptional items was 3.6p (2008:9.6p)

No dividends were paid during the year and the Board does not propose the payment of any dividend in respect of the year.

During the post-acquisition measurement period following the acquisition of Jamesstan Investments Ltd, the fair values of certain assets and liabilities have been re-revaluated. This has resulted in the changes to fair values shown in Note 27.

Directors' Report (continued)

Cash Flow and Net Debt

The cash flow statement shows the year ended 31 December 2009. The comparative period is the year ended 31 December 2008.

Management has put significant efforts into the reduction of working capital, with good effect. Stock and WIP were reduced by £9.6m (2008: increase of £4.3m), trade and other receivables were cut by £5.4m (2008: increase of £8.5m). Trade and other payables fell by £7.0m (2008: increase of £11.6m). Overall, working capital reductions generated £4.7m cash (2008: consumed £0.1m cash). This contributed to a reduction in net debt.

Operating cash outflow before movements in working capital for the year was £9.5m (2008: £13.3m.)

£8.1m was raised from share issues via a share placing in September 2009 (2008: £20.9m). £1.7m of debt was repaid (2008: £1.2m). There was no spending on the acquisition of subsidiaries in the year (2008: £7.7m). Capital expenditure was £1.3m (2008: £2.2m) comprising £0.5m investment in new product development (2008: £1.0m), and £0.8m on plant and equipment (2008: £1.2m).

The net movement in cash and cash equivalents was a reduction in overdrafts of £17,000.

Net debt fell by £2.6m from £10.3m in June 2009 to £7.7m (2008:£9.1m). The Directors are confident that net debt will fall further by applying the proceeds of the anticipated sale of the Rotherham property for mortgage repayment. During the year the Company renegotiated its banking facilities and covenants, based on the view of trading taken early in the second half of the year.

Political and Charitable Contributions

There were no political contributions during the year. Charitable contributions were £nil in the year (2008:£41,000)

Financial Instruments

The Group's financial instruments comprise cash, finance leases and short term debtors and creditors arising from its operations. The principal financial instruments used by the Group are loans and mortgages which, together with cash raised from share issues by the company are applied in financing the Group's fixed assets. The Group has not established a formal policy on the use of financial instruments but assesses the risks faced by the Group as economic conditions and the Group's operations develop. Further disclosures relating to financial instruments are included in the Summary of Significant Accounting Policies.

Market Value of Land and Buildings

The company's sole freehold site at Hellaby Way, Rotherham has been actively marketed for sale. It has therefore been reclassified from fixed assets to asset held for sale. In the current economic circumstances the commercial property market is somewhat uncertain. With due regard to this the book value of land and building's is believed to be broadly in line with market value of £2.4m. A sale of the property has been agreed subject to contract.

Research and Development

The Group has one of the strongest product development teams in the industry. During the year the major developments included: the launch of the Solo EV, an all electric, zero emissions midi-bus; the development of the Optare eco-dash, a dashboard that integrates all of a bus's electronic systems bringing added benefits that include remote diagnostics and enabling significant improvements in fuel economy by instant driver feedback; and the development of the Optare Olympus double-deck built on our own chassis.

Events Since the End of the Year

On 21 January 2010 the Company raised £2.1m from institutional shareholders by way of a placing of 37,010,712 ordinary shares.

Disabled Persons

It is the policy of the Group that disabled people should have the same consideration as others for all job vacancies for which they apply as suitable candidates.

Employee Involvement

The Group encourages the involvement of its employees through regular dissemination of information of particular concern to employees, including a weekly newsletter.

Directors

Directors who served in the year are as follows:

John Fickling	
Mike Dunn	
David Maughan	
David Stonehouse	
Jim Sumner	(appointed 1 June 2009)
Roy Stanley	(resigned 30 July 2009)

Policy on Payment of Creditors

It is Group policy to agree and clearly communicate the terms of payment as part of the commercial arrangements negotiated with suppliers and then to pay according to those terms based on the timely receipt of an accurate invoice.

Trade creditor days based on creditors at 31 December 2009 were 76 days (2008 69 days.)

Substantial Shareholdings

Information on substantial shareholdings and shares not in public hands is reported on our website www.optare.com in accordance with Rule 26 of the AIM Rules (June 2009).

Directors' Interest in Contracts

No director had a material interest at any time during the year in any contract of significance, other than a service contract, with the company or any of its subsidiary undertakings.

Going Concern

The directors have made enquiries into the adequacy of the Group's financial resources, through a review of the current financial projections, which includes capital expenditure plans and cash flow forecasts and the funding facilities available. Accordingly, the directors have satisfied themselves that the Group will continue in operational existence for the foreseeable future and therefore have continued to adopt the going-concern basis in preparing the Group's financial statements. Further disclosures are made on the matters considered by the directors and related uncertainties in the 'basis of preparation' section in Note 1 to the financial statements.

Directors' Report (continued)

Key Risks

The key risks that might materially affect the financial performance of the Group are:

Changes in legislation
Legislative changes may require investment in new product developments or adaptations which will incur cost.

Decrease in market demand
Market demand, whilst underpinned by strong long-term drivers, may fluctuate over the short- to medium-term.

Introduction of new technologies
Introduction of new technologies such as hybrid technology carries a technical and execution risk.

Competition
The Group operates in a market where there are a number of competitors whose actions may affect the level of turnover of the Group.

Supply chain
The Group is currently dependent upon key suppliers to ensure continuity of production. Interruption of such supply may have a detrimental effect on the Group's revenue stream and resultant operating results.

Customer relationships
Optare plc continues to trade with a number of customers, the future business of which cannot be guaranteed beyond the terms and conditions of existing contracts as referred to by separate disclosure.

Credit, liquidity, foreign currency and cash flow risks are discussed within the Consolidated Financial Statements Summary of Significant Accounting Policies.

Auditors

The directors elect Baker Tilly UK Audit LLP to continue as the Group's auditors. Baker Tilly UK Audit LLP has indicated its willingness to continue in office.

Statement as to Disclosure of Information 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 steps that he ought to have taken as a director to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Directors' Indemnity

Every Director shall be indemnified by the Company out of its own funds.

Mike Dunn FCA
Chief Financial Officer
28 May 2010

Corporate Governance

Principles of Corporate Governance

The company is committed to high standards of corporate governance. The Board is accountable to the company's shareholders for good corporate governance. The company has partially complied throughout the year with the code of best practice set out in Section 1 of the Combined Code 2006 (effective for periods commencing on or after 1 November 2006) appended to the Listing Rules of the Financial Services Authority whilst voluntary for AIM companies.

The role of the Board is to provide entrepreneurial leadership of the company within a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the company's strategic aims, ensures that the necessary financial and human resources are in place for the company to meet its objectives and reviews management performance. The Board sets the company's values and standards and ensures that its obligations to its shareholders and others are understood and met.

Board Structure

During the year the Board comprised initially the Executive Chairman and interim Chief Executive, with three independent Non-Executive Directors. Following the appointment of Jim Sumner as Chief Executive the board comprised two Executive Directors, the Executive Chairman and up to three independent Non-Executive directors. Following a period of settling in for the new chief executive, John Fickling stepped down to Non-Executive Chairman and for the remainder of the year the Board comprised two Executive Directors, the Non-Executive Chairman plus two other independent Non-Executive Directors. Following the year-end a further Executive Director was added. Directors' dates of appointment and resignation are reported in the Directors' Report.

Board Role

The Board is responsible to shareholders for the proper management of the Group. The Non-Executive Directors have a particular responsibility to ensure that the strategies proposed by the Executive Directors are fully considered. To enable the Board to discharge its duties, all Directors have full and timely access to all relevant information and there is a procedure for all Directors, in furtherance of their duties, to take independent professional advice, if necessary, at the expense of the Group. The Board has a formal schedule of matters reserved to it. It is responsible for overall Group strategy, approval of major capital expenditure projects and consideration of significant financing matters. The Board met on ten separate occasions in the year.

Appointment and Induction of Directors

The composition of the Board is kept under review with the aim of ensuring that the directors collectively possess the necessary skills and experience to direct the Group's business activities.

Board Committees

The Board delegates certain matters to its two principal committees, which deal with remuneration and audit.

Remuneration Committee

The Remuneration Committee comprises John Fickling, David Maughan and David Stonehouse. The Remuneration Committee determines and agrees with the Board the framework of remuneration for the Executive Directors. The Board itself determines the remuneration of the Non-Executive Directors. There were two remuneration committee meetings in the year which were fully attended. The report on Directors' remuneration is set out on pages 15 to 16.

Corporate Governance (continued)

Audit Committee

The Audit Committee comprises Non-Executive Directors David Stonehouse and David Maughan. Meetings are also attended by invitation by the Chief Financial Officer.

The Audit Committee is responsible for:

- Reviewing the scope of external audit, to receive regular reports from Baker Tilly UK Audit LLP.
- Reviewing the half-yearly and annual accounts prior to their recommendation to the Board.
- Reviewing the Group's internal financial controls and risk management systems and processes.
- Making recommendations on the appointment, re-appointment and removal of external auditors and approving the terms of engagement.
- Reviewing the nature of the work and level of fees for non-audit services provided by the external auditors.
- Assessing the independence, objectivity and effectiveness of the external auditor.

The committee met on two occasions during the year and the meetings were fully attended.

Internal Control

The Board has overall responsibility for the Group's system of internal control and risk management and for reviewing the effectiveness of this system. Such a system can only be designed to manage, rather than eliminate, the risk of failure to achieve business objectives and can therefore only provide reasonable, and not absolute, assurance against material misstatement or loss. The Board are of the view that due to the current size and composition of the Group it is not necessary to establish an internal audit function.

Relations with Shareholders

The Company values its dialogue with both institutional and private investors. Effective two-way communication with fund managers, investors and analysts is actively pursued and this encompasses issues such as performance, policy and strategy. During the year the directors had many meetings with institutional investors. Private investors are encouraged to participate in the Annual General Meeting at which the Non-Executive Chairman presents a review of the results and comments on current business activity. The Chairmen of the Audit and Remuneration Committees will be available at the Annual General Meeting to answer any shareholder questions. This year's Annual General Meeting will be held on 29 June 2010. The notice of the Annual General Meeting may be found on page 50.

Going Concern

The directors confirm that they are satisfied that the Company and Group have adequate resources to continue in business for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements. Further disclosures are made in Note 1.

John Fickling
Non-Executive Chairman
28 May 2010

Directors' Remuneration Report

The Company has established a Remuneration Committee which is constituted in accordance with the recommendations of the Combined Code. The members of the committee are John Fickling, David Maughan and David Stonehouse and the committee is chaired by John Fickling.

In determining the directors' remuneration for the year, the committee consulted the Chief Executive Officer about its proposals.

Remuneration Policy

The policy of the committee is to reward executive directors in order to recruit, motivate and retain high quality executives within a competitive market place.

There are four main elements of the remuneration packages for executive directors and senior management:

- Basic annual salary (including directors' fees) and benefits;
- Annual bonus payments which cannot exceed 100% of salary;
- Share option incentives; and
- Pension arrangements.

Basic salary

Basic salary is reviewed annually in March with increases taking effect from 1 April. In addition to basic salary, the executive directors also receive certain benefits in kind, principally private medical insurance. No pay rises were awarded during the year.

Annual bonus

The purpose of the bonus is to reward executive directors and other senior employees for achieving above average performance which also benefits shareholders. Incentive payments for the year ended 31 December 2009 totalled £100,000 (2008: £220,000) and related to the successful steps taken in the turnaround of the business as measured by specific quarterly objectives.

Share option incentives

The Group offers share options to executive directors and other senior employees to facilitate the recruitment of candidates of appropriate experience and qualification. Details of the share options issued in the year are shown below. The exercise of the options issued in the year ended 31 December 2009 is not dependent on performance criteria, as they were issued in respect of commitments made at the time of recruitment. The company is reviewing its policy on performance criteria in respect of future tranches of share options.

Pension arrangements

One executive director is a member of a money purchase pension scheme to which the Group contributes at 10% of salary. No other payments to directors are pensionable.

Directors' Contracts

It is the company's policy that executive directors should have contracts with an indefinite term providing for a maximum of one year's notice. In the event of early termination, the directors' contracts provide for compensation up to a maximum of basic salary for the notice period. In respect of Glenn Saint, the only director proposed for re-election at the forthcoming AGM, the unexpired period of his contract is 12 months.

Non-Executive Directors

The fees of non-executive directors are determined by the board as a whole having regard to the commitment of time required and the level of fees in similar companies. Non-executive directors are employed by letter of appointment. Non-executive directors are not entitled to participate in the Company's pension scheme.

Directors' Remuneration Report (continued)

Directors' emoluments and compensation

	Notes	Salary £	Benefits £	Bonuses £	Other £	2009 Total £	2008 Total £
Exec Directors							
James Sumner		150,862	6,011	100,000	0	256,873	0
Mike Dunn	a	145,000	13,513	0	14,500	173,013	101,982
Andrew Brian	b	0	0	0	0	0	590,505
Non Executive Directors							
John Fickling	c	86,625	0	0	0	86,625	64,768
David Maughan		30,000	0	0	0	30,000	7,960
David Stonehouse		30,000	0	0	0	30,000	6,954
Roy Stanley		17,500	0	0	0	17,500	163,036
Total		459,987	19,524	100,000	14,500	594,011	935,205

Notes

a M Dunn's emoluments for the year include £87,600 in respect of Interim CEO role (2008:£19,131)

b During the year payments of £100,000 were made to A Brian, a former director of the Company, by instalment, under a compromise agreement which terminated his employment in December 2008. The cost of these payments is included in the 2008 costs shown above. In April 2009 it became apparent that Mr Brian had been disqualified as a director in March 2009, following proceedings relating to his conduct at other companies prior to his employment by the Group. The company halted instalment payments and is currently engaged in legal action to recover the amounts paid to Mr Brian. He is taking legal action to recover the unpaid instalments.

c J Fickling's emoluments for the year include £66,250 in relation to his period as Executive Chairman (2008: £6,250).

Directors share options

	Options at 1.1.09	Options granted in year	Options at 31.12.09	Exercise price (pence)	Market price at date of exercise (pence)	Exercise period	Expiry date
J Sumner	-	1,000,000	1,000,000	4.15p	na	10 years	03/07/2019
M Dunn	-	250,000	250,000	1.00p	na	10 years	03/07/2019
M Dunn	-	500,000	500,000	4.15p	na	10 years	03/07/2019
J Fickling	-	250,000	250,000	1.00p	na	10 years	03/07/2019
J Fickling	-	250,000	250,000	4.15p	na	10 years	03/07/2019

The market price of shares at 31 December 2009 was 5.88p and the range during the year was 13.00p to 3.38p.

Approval

This report was approved by the board of directors and authorised for issue on 28 May 2010 and signed on its behalf by:

John Fickling
Chairman of Remuneration Committee
28 May 2010

Directors' Responsibilities In The Preparation Of Financial Statement

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

Company law requires the directors to prepare group and company financial statements for each financial year. The directors are required by the AIM Rules of the London Stock Exchange to prepare group financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the European Union ("EU") and have elected under company law to prepare the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law).

The group financial statements are required by law and IFRS adopted by the EU to present fairly the financial position and performance of the group; the Companies Act 2006 provides in relation to such financial statements that references in the relevant part of that Act to financial statements giving a true and fair view are references to their achieving a fair presentation.

Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the group and the company and of the profit or loss of the group for that period.

In preparing each of the group and company financial statements, the directors are required to:

a. select suitable accounting policies and then apply them consistently;

b. make judgements and accounting estimates that are reasonable and prudent;

c. for the group financial statements, state whether they have been prepared in accordance with IFRSs adopted by the EU and for the company financial statements state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the company financial statements;

d. 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 adequate accounting records that are sufficient to show and explain the group's and the company's transactions and disclose with reasonable accuracy at any time the financial position of the group and the company and enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the group and the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for the maintenance and integrity of the corporate and financial information included on the Optare plc website.

Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent Auditor's Report to the Members of Optare plc

We have audited the group and parent company financial statements ("the financial statements") on pages 19 to 45. The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. 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

As more fully explained in the Directors' Responsibilities Statement set out on page 17, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the audit of the financial statements

A description of the scope of an audit of financial statements is provided on the APB's website at www.frc.org.uk/apb/scope/UKNP.

Opinion on the financial statements

In our opinion

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2009 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Opinion on other matters prescribed by the Companies Act 2006

In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Richard King (Senior Statutory Auditor)
For and on behalf of BAKER TILLY UK AUDIT LLP, Statutory Auditor
Chartered Accountants
2 Whitehall Quay
Leeds
LS1 4HG

28 May 2010

Consolidated Income Statement

For the year ended 31 December 2009

	Notes	Before Exceptional items	Exceptional items	Total	Before Exceptional items	Exceptional items	Total
		Year ended 31 Dec 2009 £'000	Year ended 31 Dec 2009 £'000	**Year Ended 31 Dec 2009 £'000**	72 Weeks ended 31 Dec 2008* £'000	72 Weeks ended 31 Dec 2008 £'000	**72 Weeks ended 31 Dec 2008* £'000**
Revenue		79,831	-	**79,831**	53,490	-	**53,490**
Cost of sales		(73,270)	(2,236)	**(75,506)**	(48,625)	(3,007)	**(51,632)**
Gross profit		6,561	(2,236)	**4,325**	4,865	(3,007)	**1,858**
Administrative expenses		(10,696)	-	**(10,696)**	(9,796)	-	**(9,796)**
Distribution costs		(558)	-	**(558)**	(272)	-	**(272)**
Amortisation of intangible assets	12	(173)	-	**(173)**	(151)	-	**(151)**
Impairment of goodwill	11	-	-	**-**	(126)	-	**(126)**
Loss from operations	3	(4,866)	(2,236)	**(7,102)**	(5,480)	(3,007)	**(8,487)**
Restructuring and other exceptional costs	2	-	(4,648)	**(4,648)**	-	(5,260)	**(5,260)**
Finance costs	6	(303)	-	**(303)**	(529)	-	**(529)**
Finance income	6	41	-	**41**	254	-	**254**
Loss for the year from continuing operations		(5,128)	(6,884)	**(12,012)**	(5,755)	(8,267)	**(14,022)**
Loss for the year from discontinued operations		-	-	-	(198)	(412)	**(610)**
Loss on ordinary activities before taxation		(5,128)	(6,884)	**(12,012)**	(5,953)	(8,679)	**(14,632)**
Taxation	7	28	-	**28**	271	-	**271**
Loss attributable to the equity holders of the parent company		(5,100)	(6,884)	**(11,984)**	(5,682)	(8,679)	**(14,361)**

Loss per share (Note 9):

	2009	**2008**
From continuing operations (basic and diluted)	(8.4)p	(24.4)p
From continuing and discontinued operations (basic and diluted)	(8.4)p	(23.3)p
Before exceptional items (basic and diluted)	(3.6p)	(9.6)p

There are no other recognised items of income and expense other than those presented above.

*Comparatives have been restated for the finalisation of the far value exercise on the acquisition of Jamesstan Investments Ltd. See note 27.

Consolidated Statement of Changes in Equity
For the year ended 31 December 2009

	Share capital	Share premium	Merger reserve	Retained earnings	Share based payment reserve	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at incorporation	-	-	-	-	-	-
Profit for the period	-	-	-	(14,361)		(14,361)
Total comprehensive income for the period	-	-	-	(14,361)	-	(14,361)
Transactions with owners in their capacity as owners:-						
Issue of shares	1,084	15,798	-	-	-	16,882
Created on acquisition of Darwen Group Ltd	-	-	5,542	-	-	5,542
Total transactions with owners in their capacity as owners	1,084	15,798	5,542	-	-	22,424
Share-based payment	-	-	-	-	-	-
Balance at 31 December 2008	1,084	15,798	5,542	(14,361)	-	8,063
Loss for the year	-	-	-	(11,984)	-	(11,984)
Total comprehensive income for the year	-	-	-	(11,984)		(11,984)
Transactions with owners in their capacity as owners:-						
Issue of shares	1,240	6,822	-	-	-	8,062
Total transactions with owners in their capacity as owners	1,240	6,822	-	-	-	8,062
Share-based payment	-	-	-	-	27	27
Balance at 31 December 2009	2,324	22,620	5,542	(26,345)	27	4,168

The merger reserve was created when Optare plc acquired Darwen Ltd via a share for share transaction.

Consolidated Balance Sheet
at 31 December 2009

	Notes	2009	2008*
		£'000	£'000
Non – Current Assets			
Goodwill	11	8,574	8,574
Other intangible assets	12	3,953	3,326
Property, plant and equipment	13	3,680	6,676
		16,207	18,576
Current Assets			
Inventories	14	7,175	16,823
Trade and other receivables	15	4,456	9,810
		11,631	26,633
Assets held for sale	16	2,400	-
Total Assets		30,238	45,209
Current Liabilities			
Trade and other payables	18	14,198	21,200
Bank loans and overdrafts	17	2,301	2,318
Provisions	19	1,958	3,928
Obligations under finance leases	20	35	249
		18,492	27,695
Non Current Liabilities			
Bank loans	17	5,287	6,799
Provisions	22	2,247	2,619
Obligations under finance leases	20	44	33
		7,578	9,451
Total Liabilities		26,070	37,146
Net Assets		4,168	8,063
Equity			
Share capital	23	2,324	1,084
Share premium		22,620	15,798
Share based payment reserve		27	-
Merger reserve		5,542	5,542
Retained loss		(26,345)	(13,361)
Total equity attributable to equity holders of the parent		4,168	8,063

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan Investments Ltd. See note 27.

The financial statements on pages 19 to 45 were approved by the board of directors and authorised for issue on 28 May 2010 and are signed on its behalf by:

Mike Dunn FCA
Chief Financial Officer

Consolidated Cash Flow Statement

for the year ended 31 December 2009

	Note	2009 £'000	2008 £'000
Operating activities			
Cash absorbed by operations	28	(4,203)	(13,448)
Interest paid	6	(303)	(529)
Net cash used in operating activities		(4,506)	(13,977)
Investing Activities			
Acquisition of subsidiaries		-	(7,660)
Cash received from acquisitions		-	838
Disposal of subsidiaries		-	(235)
Purchase of property, plant and equipment	13	(1,065)	(1,169)
Proceeds on disposal of property, plant and equipment		-	2,420
Purchase of intangible assets	12	(800)	(1,069)
Interest received	6	41	254
Net cash used in investing activities		(1,824)	(6,621)
Financing activities			
Proceeds from issuance of ordinary shares		8,062	20,946
Loan repayments		(1,715)	(1,184)
Net cash generated from financing activities		6,347	19,762
Net increase /(decrease) in cash and cash equivalents		17	(836)
Cash and cash equivalents at end of year			
Overdraft	17	(819)	(836)

Consolidated Financial Statements Summary of Significant Accounting Policies

Basis of Preparation

Optare plc is a company incorporated and domiciled in the UK.

The historical financial statements consolidate those of Optare plc and its subsidiaries.

The historical financial statements have been prepared in accordance with International Financial Reporting Standards and IFRIC interpretations issued by the International Accounting Standards Board (IASB) and adopted by the European Union ("Endorsed IFRS") and with those parts of the Companies Act 2006 applicable to companies preparing their accounts under Endorsed IFRS.

The financial statements have been prepared on the going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. The Group's banking facilities were renegotiated in November 2009. The Group's total committed banking and other committed finance facilities are £9.3m. The overdraft facility, which comprises £2.5m of this amount and is annually renewable, falls due for renewal in November 2010. The expiry of the remainder of the facility is between 3 and 12 years, as disclosed in note 17 and 20 to the accounts. The anticipated proceeds of the sale of the Rotherham site will be applied in reduction of debt.

The Group has prepared trading forecasts through to December 2011 which include detailed cash flow calculations. The forecasts are based on detailed assumptions as to sales performance by month. The forecasts reflect a higher level of turnover for the second half of 2010 than the first half, but are based largely upon order book for the third quarter and known prospects for the fourth quarter. This includes an increased level of sales of Green Bus vehicles – both electric vehicles and hybrids – based on announced Green Bus awards.

During the first quarter of 2010, disruption was suffered due to problems with the supply chain including the failure of a major supplier of bus doors to both our manufacturing sites. The forecast is based on the current state of affairs, where these issues have been resolved. Trade debtors and creditors are forecast to increase consistent with increased sales.

The impact of this disruption was such that the Group would have breached one of its banking covenants at 31 March had a waiver not been received from its bank. All the conditions of that waiver are either completed or in hand. Because of disruption faced in Q1 the Directors are currently forecasting the Group to breach its cumulative Interest Cover bank covenant at the end of Q2. The forecast shows no other covenant breaches and the Directors are already in negotiations with the bank about the forecast breach and fully expect to obtain a waiver for the breach.

There is inherent uncertainty in any forecast. Such uncertainties include the lack of visibility regarding sales beyond the third quarter of 2010 in the current economic and financial climate, however the level of orders taken and known prospects is more than adequate to support the forecast sales for 2010; and the possibility that the external economic environment might worsen. Furthermore the Company faces additional uncertainties: the risk that the actions that are planned and being put into effect might take more time to complete than forecast; the uncertainty arising from the renewal of overdraft facilities; and the movement in the euro exchange rate below €1.13:£1. The Directors feel that a reasonably balanced approach has been taken to these risks in the forecast. In particular, the directors are satisfied with the ongoing discussions they are having with their bank such that they are confident that they will be able to renew their facilities in the ordinary course of business.

Additionally, against these uncertainties, there are upside opportunities which are not reflected in the forecast but which would offset or mitigate the impact of downside risks which might occur. These include the opportunity to achieve significant one-off and/or ongoing cash inflows from a potential strategic investor; significant export contracts currently under tender; agreement of long-term repair and maintenance contracts for the support of future bus sales; the sales opportunities in Europe and other foreign territories for our hybrid and electric buses which has generated strong interest but for which only a modest level of sales have been assumed in the forecast.

The Directors are confident that the assumptions underlying their forecasts are reasonable and that the Group will be able to operate within its overdraft limit. The Board believes that it is appropriate to prepare the financial statements on the going concern basisand that the uncertainties referred to above, when considered toether with the upside opportunities, do not represent a material uncertainty. The financial statements do not include any adjustment to the value of the balance sheet assets or provisions for further liabilities, which would result should the going concern concept not be valid.

The financial statements have been prepared on a historical cost basis.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

Basis of consolidation

Subsidiaries are entities controlled by Optare plc. Control exists when Optare plc has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Group reorganisations that fall outside the scope of IFRS 3 are accounted for in accordance with FRS 6 Acquisitions and mergers whereby fair value adjustments are not required and the results of the combined entities are included from the beginning of the period.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated.

New IFRS and amendments to IAS and interpretations not applied

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period. The following have not been adopted by Optare plc.

International Financial Reporting Standards		Effective for accounting periods starting on or after
IAS 27*	Consolidated and separate financial statements	1 July 2009
IFRS3*	Business Combinations	1 July 2009
IAS39*	Financial Instruments: recognition and Measurements	1 July 2009
IAS24	Revised IAS24 Related Party Disclosures	1 January 2011
IFRS9	Financial Instruments	1 January 2013

International Financial Reporting Interpretations committee		
IFRIC 17*	Distributions of Non-cash Assets to owners	1 July 2009
IFRIC 18*	Transfers of Assets from Customers	1 July 2009

** These standards and interpretations have been endorsed by the European Union.*

The application of these standards and interpretations are not anticipated to have a material effect on Optare plc's financial statements except for additional disclosure.

The following principal accounting policies have been applied consistently in the preparation of the financial statements:

Revenue

The Company's revenue arises from the sale of vehicles and parts and the provision of repairs and is stated at the invoiced amount net of VAT. Revenue is recognised upon the transfer of all risks and rewards in relation to the Company's products. For the sale of vehicles and parts revenue is recognised on delivery of the goods and for repairs it is recognised on completion of the relevant repair.

Foreign Currency

Transactions entered into in a currency other than the currency of the primary economic environment (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the reporting date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in the income statement.

Functional and Presentation Currency

The functional and presentation currency for Optare plc is sterling.

Goodwill

Goodwill, being the difference between the fair value of the assets acquired and the fair value of the consideration paid, arising on business combinations is capitalised as an intangible asset with any impairment in carrying value being charged to the income statement. The asset is reviewed for impairment at least annually.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

Intangible Assets

Externally acquired intangible assets are initially recognised at cost and subsequently amortised over their useful economic lives.

Intangible assets are recognised on business combinations if they are identifiable and their fair value can be reliably measured. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques.

The significant intangibles recognised by the Company, their useful economic lives and the methods used to determine the cost of intangibles acquired in a business combination are as follows:

1. **Vehicle Design**

   Vehicle designs are valued at the estimated cost of generating vehicle designs including internal and external engineering and testing costs. The amortisation period is the anticipated useful economic life of the design up to 20 years. Amortisation is incurred using a straight line basis.

2. **Customer Relationships**

   Customer relationships are valued using the multi-period excess earnings model. The customer relationships are amortised over ten years using a straight line basis.

3. **Order Book**

   The order book is valued at estimated cost of developing the order book acquired based on resources used to generate the orders. The order book has a finite useful life and is carried at cost less accumulated amortisation. The order book is amortised in line with the delivery of the orders acquired.

Research and Development

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

An internally-generated intangible asset arising from development is recognised only if all of the following conditions are met:

- an asset is created that can be identified
- it is probable that the asset created will generate future economic benefits;
- the development cost of the asset can be measured reliably;
- the product or process is technically and commercially feasible; and
- sufficient resources are available to complete the development and to either sell or use the asset.

Where no internally-generated intangible asset can be recognised, development expenditure is recognised as an expense in the period in which it is incurred. Internally-generated intangible assets are amortised on a straight-line basis over their useful lives.

Impairment of non-financial assets:

Impairment tests on goodwill and other intangible assets with indefinite useful economic lives are undertaken annually. Other non-financial assets including tangible fixed assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit (i.e., the lowest group of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included as a separate line item in the income statement, except to the extent they reverse gains previously recognised directly in equity.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

Financial Assets

Loans and receivables
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of goods and services to customers (trade receivables, cash and cash equivalents), but also incorporate other types of contractual monetary asset. They are carried at amortised cost less any provision for impairment.

Cash and Cash Equivalents
Cash and cash equivalents comprise cash on hand less bank overdrafts.

Bank Borrowings
Interest-bearing bank loans and overdrafts are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges, including premiums payable on settlement or redemption, are recognised in the income statement over the term of the instrument using an effective rate of interest.

Other Financial Liabilities

Other financial liabilities comprise trade payables and other short-term monetary liabilities, which are recognised at amortised cost.

Retirement Benefits: Defined Contribution Schemes

Contributions to defined contribution pension schemes are charged to the income statement in the period to which they relate. The group has no further payment obligations once the contributions have been paid.

Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are retained by the lessor (an "operating lease"), the total rentals payable under the lease are charged to the income statement on a straight-line basis over the lease term.

Deferred Taxation

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs to its tax base, except for differences arising on:

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantively enacted by the reporting date and are expected to apply when the deferred tax liabilities/ (assets) are settled/ (recovered).

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority.

Property, Plant and Equipment

Items of property, plant and equipment are initially recognised at cost. Depreciation is provided on all items of property, plant and equipment so as to write off the carrying value of items over their expected useful economic lives. It is applied at the following rates:

Plant and machinery	-	25% per annum straight line
Fixtures, fittings and equipment	-	10 – 33% per annum straight line
Motor vehicles	-	17% to 25% per annum straight line

Demonstration fleet

Vehicles manufactured and held principally for customer demonstrations which are intended at the date of entering service to remain in such use for twelve months or more are capitalised at cost as part of our demonstration fleet. When no longer required as a sales aid they are transferred into stock at net book value. When sold the proceeds are treated as revenue. Demonstration fleet vehicles are depreciated at 17% per annum straight line.

Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Work in progress and finished goods include labour and attributable overheads.

Provisions

Provisions are recognised for liabilities of uncertain timing or amount that have arisen as a result of past transactions and are discounted at a pre-tax rate reflecting current market assessments of the time value of money and the risks specific to the liability.

Share-based payment transactions

The Group issues equity-settled share-based payment transactions to certain employees. Equity-settled share-based payment transactions are measured at fair value at the date of grant. The fair value determined at the grant date of equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of the number of instruments that will eventually vest with a corresponding adjustment to equity. Fair value is measured by use of a binomial model. The expected life used in the model has been adjusted, based on management's best estimate, for the effect of non-transferability, exercise restrictions, and behavioural considerations.

Non vesting and market vesting conditions are taken into account when estimating the fair value of the option at grant date. Non-market vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.
Cancelled options are accounted for as an acceleration of vesting. The unrecognised grant date fair value is recognised in profit or loss in the year that the options are cancelled.

Critical Judgements And Estimates

The preparation of historical financial information in conformity with Endorsed IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

1. **Valuation Of Intangibles Acquired In Business Combinations**
   Determining the fair value of intangibles acquired in business combinations requires estimation of the cost or value of the cash-flows related to the identified intangibles and a suitable discount rate in order to calculate the present value.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

2. Provision For Warranty Claims

Management has estimated the cost of potential warranty claims arising on acquisition of the various businesses; this requires an element of judgement about the likely level of claims and their financial impact upon the business. The key factors affecting the level of warranty cost are: the number of buses sold; the length in years and the breadth in cover of the terms of the warranty given with the bus; the ability of the Company to obtain suitable back-to-back warranties from its suppliers; the efficacy of the quality processes applied in designing and building the buses; the strictness with which warranty claims from customers are vetted, and the extent to which goodwill claims are allowed. Judgements on the level of warranty provision that is required are based on the number of buses in service and their remaining warranty life, and an assessment of the likely warranty cost per bus. That is based on historical trends of warranty cost per bus, the effect of any known service issues or campaigns, and a judgement of the impact of any changes to design, quality processes and policy for dealing with claims and goodwill.

3. Impairment Reviews

Management perform impairment reviews annually on goodwill and other intangible assets. These involve comparing the estimated future cashflows of the business over the next ten' years discounted at the weighted average cost of capital, to the carrying value of the Group's tangible and intangible fixed assets. Where the net present value of the forecast cashflows exceeds the carrying value, no impairment is required. As required by IFRS, no assumption is made that profits growth can exceed national, market or product averages without justification. Clearly, there is an element of judgement required in assessing the potential future benefits to be derived from these assets.

Financial Instruments – Risk Management

The Company is exposed through its operations to one or more of the following financial risks:

- Liquidity risk
- Market risk
- Credit risk

Policy for managing these risks is set by the Board following recommendations from the Chief Financial Officer. The policy for each of the above risks is described in more detail below.

Principal Financial Instruments

The principal financial instruments used by the Company, from which financial risk arises, are as follows:

- Trade receivables
- Trade and other payables

Liquidity Risk

The liquidity risk of the Company is managed centrally. Liquidity risk arises from the Company's management of working capital and the finance charges and principal payments on debt financing. It is the risk that the Company will have difficulty in meeting its financial obligations as they fall due. The Company currently has sufficient liquid resources to meet the liquidity requirements of the business and its future plans. The Board monitors the cash flow forecasts on a regular basis.

Market Risk

Market risk arises from the use of interest bearing, tradable and foreign currency financial instruments. It is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in interest rates, currency rates or other market factors.

Fair Value And Cash Flow Interest Rate Risk

Management has a policy to obtain long term debt at fixed rates and short term debt at flexible rates. Although the Board accepts that this policy neither protects the Company entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks.

Foreign Currency Risk

Management's primary foreign currency risk arises from suppliers who invoice in Euros, US dollars and Swiss Francs. The Company monitors exchange rate movements and considers the utilization of forward contracts to manage this risk. The Company bulk purchases of stock enable management of the overall pricing of materials, and monitoring of exchange rates ensures that the Company makes payments against trade payables at an appropriate time to reduce the effect of exchange rate fluctuations. Expected foreign currency receipts from export sales are taken into consideration in assessing the net foreign currency exposure.

Credit Risk

Credit risk is managed on a Group basis. Optare plc's credit risk is primarily derived from its trade receivables. This risk is managed daily by the Company's credit control function who monitor recovery and ensure that outstanding debts are identified when these become overdue and appropriate action is taken to recover the amounts outstanding.

Optare plc's customers are also the main major bus operators who have significant resources and facilities in place to fund their vehicle acquisitions thus limiting Optare plc's exposure to credit risk. Credit checks are also made for new customers and appropriate credit limits are set from this information. Credit limits may only be exceeded with the express authorisation of the Directors.

Capital

Optare plc considers its capital to comprise its ordinary share capital, share premium and accumulated retained earnings.

It is Optare plc's policy to maintain its gearing ratios at a level that balances risks and returns and ensures that Optare plc has sufficient liquidity in the business.

Sensitivity Analysis

Whilst Optare plc takes steps to minimise its exposure to cash-flow interest rate risk and foreign exchange risk as described above, changes in interest and foreign exchange rates may have an impact on profit and cash flow. Optare plc's foreign exchange risk is dependent on the movement in the Euro, US dollar and Swiss franc to sterling exchange rate. Any significant foreign currency denominated assets or liabilities at the period end are translated using exchange rates applicable at the time with any exchange rate difference being realised in the income statement. It is estimated that a one per cent increase/decrease in interest rates would increase/reduce losses and reduce/increase equity by approximately £50,000, and that a one per cent weakening/strengthening of sterling against the euro would increase/reduce losses and reduce/increase equity by approximately £50,000.

Notes To The Consolidated Financial Statements

for the year ended 31 December 2009

1. Business And Geographical Segments and Customer Concentration

The directors consider that the Company has only one business segment being bus manufacture, other income is ancillary and does not constitute a segment in its own right. The Company operates solely in the UK and hence has only one geographical segment.

During the year more than 10% of revenue was generated from one customer. That customer was one of the large UK bus operating groups and it comprised 19.8% of turnover, purchasing new buses and parts from the Group.

2. Restructuring And Other Exceptional Items

Exceptional items are costs and income that are not expected to recur in the normal course of business.	**2009 £'000**	**2008 £'000**
Cost of sales	2,236	3,007
Restructuring costs	4,648	5,260
Discontinued activity	-	412
	6,884	8,679
Warranty	1,560	-
Redundancy and other restructuring costs	2,765	3,442
Impairment	1,224	-
Onerous contracts	858	3,479
Refinancing	245	723
Relocation costs	232	623
Discontinued activity	-	412
	6,884	8,679

The Group has been in a turnaround situation since mid-2009. Many decisive actions have had to be taken to remedy both legacy issues and the market downturn. The nature of those issues is reflected in the high level of exceptional costs incurred in the year, and which the Directors consider to be an overall cost of the turnaround effort.

Restructuring costs: The Group has been through a very turbulent period of restructuring, with the workforce reduced from a peak of 913 to a low-point of 470 full-time equivalents, during a period of rapid reduction in the order book. That necessitated implementing 90-day consultation periods at both manufacturing sites. Restructuring costs include the costs of redundancy and notice periods of £1,051,000 and wage costs of periods of consultation which are deemed by management to have been unproductive of £1,388,000. 2008 costs include the costs of closure of the Rotherham facility together with the write off of related fixed assets.

Warranty costs: it became apparent during 2009 that serious flaws in the Company's quality systems had been allowed to develop by previous operational management. This has been tackled on two fronts: restoration of quality systems and quality control within the factories leading to a significant improvement in the quality of new buses; secondly, after-sales campaigns have been run to resolve the issues customers have faced in the field in order to successfully restore Optare's quality reputation. The extent to which these costs exceed the expected run-rate for warranty costs has been charged to exceptional costs.

Fundraising and Acquisition costs: in the year relate to the costs of renegotiating bank facilities. In 2008 it comprises costs relating to the admission to AIM, the share capital placing and the costs of acquisition for East Lancashire Coachbuilders Ltd, Leyland Product Developments Ltd and Jamesstan Ltd that were not capable of being charged to share premium or capitalised as part of the cost of investment.

Fixed asset impairment: is an impairment provision against the Rotherham site now held as an asset for sale of £1,185,000

Onerous contract costs: relate to certain significant contracts taken in 2008 and delivered during 2008 and 2009, and related penalty payments. The 2009 costs relate to further costs incurred on those contracts in the year. There were no new onerous contracts entered into in the year.

Relocation costs: relate to the planned 2008 move to Walker Park which has been aborted following the developer of the site being unable to complete required works within the required timeframe. In order to escape certain contractual and lease obligations relating to that site, further costs were incurred in 2009.

3. Loss From Operations (Continued)

Loss from operations has been arrived at after charging/(crediting):	**2009** £'000	**2008** £'000
Net foreign exchange (gains)/ losses	(123)	513
Cost of inventories recognised in cost of sales	54,373	37,861
Amounts charged in respect of share options	27	-
Depreciation		
– owned assets	2,243	675
– leased assets	40	17
Rental under operating leases	583	384
Staff costs (See Note 4)	18,706	15,401
Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services.		
Audit services		
– statutory audit including audit of subsidiary companies	78	118
Non Audit services:		
– Services relating to Corporate Finance	42	445
– Services relating to Tax Services - Advisory	8	33
– Services relating to Tax Services - Compliance	12	17
	140	613

4. Staff Costs

	2009 No.	**2008** No.
The average monthly number of persons (including directors) employed by the Group's principal divisions was as follows		
Production	563	364
Head office and administration	153	145
	716	509

The aggregate remuneration for the above persons comprised:	**2009** £'000	**2008** £'000
Wages and salaries	16,758	13,870
Social security costs	1,669	1,359
Other pension costs	279	172
	18,706	15,401

Details of Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes are given in the Directors' Remuneration Report on pages 15 to 16.

Notes To The Consolidated Financial Statements (continued)
for the year ended 31 December 2009

5. Depreciation and Amortisation

	2009 £'000	2008 £'000
Depreciation of property, plant and equipment	2,287	692
Impairment of goodwill	-	126
Amortisation of intangible fixed assets	173	151
	2,460	969

6. Finance Costs and Income

	2009 £,000	2008 £,000
Interest on bank overdrafts and loans	294	510
Interest on obligations under finance leases	9	19
Total borrowing costs	303	529
Interest receivable	41	254

7. Taxation

	2009 £'000	2008* £'000
UK Corporation Tax (credit)	(28)	(109)
Total current tax	(28)	(109)
Deferred taxation:		
Current year	-	(19)
Other material items	-	(143)
Tax attributable to the Company and its subsidiaries	(28)	(271)

Domestic income tax is calculated at 28 per cent of the estimated assessable profit for the year.

The charge for the period can be reconciled to the loss per the income statement as follows:

	2009 £'000	2008* £'000
Loss on ordinary activities before tax	(12,012)	(14,022)
Tax at the domestic income tax rate 28%	(3,363)	(3,926)
Tax effect of expenses that are not deductible in determining taxable profit	639	419
Tax effect of utilisation of tax losses not previously recognised	-	(36)
Deferred tax asset not provided	2,696	3,415
Other		(143)
Tax credit for the year	(28)	(271)

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan Investments Ltd.

8. Dividends

In respect of the current year, the Directors do not propose the payment of a dividend.

9. Loss Per Share

Including discontinued operations

The calculation of the basic and diluted earnings per share is based on the following data:

	2009 £'000	2008* £'000
Loss:		
Loss for the purposes of basic earnings per share (net profit for the year attributable to equity holders of the parent)	(11,984)	(14,361)

	Number	Number
Weighted average number of ordinary share for the purposes of basic earnings per share	142,760,280	58,925,752
Basic and fully diluted loss per share	(8.4)p	(24.4)p

From Continuing Operations	2009 £'000	2008* £'000
Net loss for the year attributable to equity holders of the parent	(11,984)	(14,361)
Adjustment to exclude loss for the year from discontinued operations	-	610
Loss from continuing operations for the purposes of basic earnings per share	(11,984)	(13,751)
Basic and fully diluted loss per share	(8.4)p	(23.3)p

From Discontinued Operations	2009 £'000	2008* £'000
Basic and fully diluted loss per share	-	(1.0)p

Excluding Exceptional Items	2009 £'000	2008 £'000
Net loss for the year attributable to equity holders of the parent	(11,984)	(14,361)
Adjustment to exclude exceptional costs	6,884	8,679
Loss from continuing operations for the purposes of basic earnings per share	(5,100)	(5,682)
Basic and fully diluted loss per share	(3.6)p	(9.6)p

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan Investments Ltd.

There are no dilutive potential ordinary shares in issue. Potentially dilutive share options in issue are detailed in the Directors Remuneration Report.

Subsequent to the year-end a share issue took place which would have affected the number of shares in issue if had taken place prior to the year-end. Details are disclosed in Note 23.

Notes To The Consolidated Financial Statements (continued)
for the year ended 31 December 2009

10. Subsidiaries

Name of subsidiary	Place of incorporation & operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Optare UK Ltd	UK	100%	100%	Manufacturer of passenger vehicles
Optare Group Ltd	UK	100%	100%	Manufacturer of passenger vehicles
Darwen LPD Ltd	UK	100%	100%	Dormant
Optare Aftersales Ltd	UK	100%	100%	Dormant
Jamesstan Investments Ltd	UK	100%	100%	Holding Company
Optare Holdings Ltd	UK	100%	100%	Holding Company
Optare (Leeds) Ltd	UK	100%	100%	Dormant
Autotec Vehicles Ltd	UK	100%	100%	Dormant
Autobus Classique Ltd	UK	100%	100%	Dormant
Optare PCV Ltd	UK	100%	100%	Dormant
Chalgrove Ltd	UK	100%	100%	Dormant
East Lancashire Busbuilders Ltd	UK	100%	100%	Dormant

11. Goodwill

	2009 £'000	2008* £'000
Cost		
Balance at start of the year/period	8,700	-
Acquisition of subsidiary undertakings	-	8,700
At end of the year/period	8,700	8,700
Impairment:		
Balance at start of the year/period	126	-
Charge for the year/period	-	126
At end of the year/period	126	126
Carrying amount at the end of the year/period	8,574	8,574

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan Investments Ltd.

Goodwill arose on the 2008 purchase of Jamesstan Investments Limited, Darwen LPD Ltd and Darwen Group Ltd (now Optare UK Ltd). Goodwill arising on the acquisitions of Darwen LPD Ltd has been treated as fully impaired in the accounts following the disposal of part of the business in 2008.

The Directors consider there is only one cash generating unit (CGU).

The recoverable amount of the CGU has been determined by "value in use" calculations. The calculations used pre-tax cash flow projections over the next ten year period based on current management forecasts to December 2010 and 2011 and extrapolation for later years.

The growth assumptions used in these forecast are, for the next twelve months, the same as those used in the forecasts referred to in the Basis of Preparation. For the remainder of 2011, they reflect management's view that there will be modest growth in the UK bus market as it emerges from the recent period of severely restricted purchasing activity. Growth is expected through 2012 as the pressures on operators mount: to update their fleets to comply with the Disability Discrimination Act; to address the increased average age of their buses following a period during 2009-2010 of low investment; and through a desire to avoid the extra costs that will be incurred if they delay replacements until Euro 6 emissions regulations come into force. In addition the Directors anticipate that increased sales of green buses and success in exports markets will contribute to healthy growth.

11. Goodwill (continued)

The key assumptions applied in the extrapolations were:

Growth rate (%)	2.0%
Discount rate	9.47%

Management determined the gross margin rate based on past performance, future trading conditions and expected margins.

The discount rate used is the weighted average cost of capital calculated for the Company. A period of ten years has been used in the impairment review because of the relatively product life cycle of bus designs.

12. Intangible Fixed Assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
Cost			
At incorporation	-	-	-
Additions – internally generated	1,069		1,069
Acquisition of subsidiary undertakings	1,800	608	2,408
At 31 December 2008	2,869	608	3,477
Additions – internally generated	800	-	800
At 31 December 2009	3,669	608	4,277
Amortisation			
At incorporation	-	-	-
Charge for the period	50	101	151
At 31 December 2008	50	101	151
Charge for the year	120	53	173
At 31 December 2009	170	154	324
Carrying amount			
At 31 December 2009	3,499	454	3,953
At 31 December 2008	2,819	507	3,326

Notes To The Consolidated Financial Statements (continued)
for the year ended 31 December 2009

Of the vehicle related intangible assets' carrying amount at the year-end, £1,870,000 (2008:£1,070,000) related to internally generated assets and £1,629,000 (2008:£1,749,000) related to assets recognised on acquisition.

The vehicle related intangible assets include internally generated new product developments in the year which includes the Optare Olympus, the Solo EV and the Optare Eco-Dash. Also included are vehicle designs included in the acquisition of Jamesstan Investments Ltd.

Customer related intangible assets relate to customer relationships and order book included in the acquisition of Jamesstan Investments Ltd

Customer related intangible assets are amortised over periods of between six months and ten years. Vehicle designs are amortised over a period of 20 years on a straight line basis.

13. Property, Plant and Equipment

	Land & building £'000	Production tooling £'000	Plant & equipment & motor vehicles* £'000	Fixtures & fittings £'000	Total £'000
Cost					
Acquired through business combination	6,017	1,115	1,214	409	8,755
Additions	101	194	799	75	1,169
Disposals	(2,426)	-	(216)	(1)	(2,643)
As at 31 December 2008	3,692	1,309	1,797	483	7,281
Additions	-	219	846	-	1,065
Disposals	-	-	(80)	-	(80)
Transferred	(3,692)	-	603	-	(3,089)
As at 31 December 2009	-	1,528	3,166	483	5,177
Depreciation					
Charge for the period	31	155	404	102	692
Disposals	-	-	(87)	-	(87)
As at 31 December 2008	31	155	317	102	605
Charge for the year	1,261	381	616	29	2,287
Disposals	-	(28)	(75)	-	(103)
Transferred	(1,292)	-	-	-	(1,292)
As at 31 December 2009	-	508	858	131	1,497
Net book value					
As at 31 December 2009	-	1,020	2,308	352	3,680
As at 31 December 2008	3,661	1,154	1,480	381	6,676

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan investments ltd.

The net book value of assets held under finance leases and hire purchase agreements is £112,000 (2008: £377,000). Fixed assets are held as security for the Group loan and overdraft facilities with Bank of Scotland plc.

Depreciation charged in the year includes an exceptional charge for the impairment of the Rotherham site of £1,185,000.

14. Inventories

	2009 £'000	2008* £'000
Raw materials and consumables	4,284	6,630
Work in progress	2,891	8,469
Finished goods	-	1,121
Demonstration	-	603
Total	7,175	16,823

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan Investments Ltd. This comprised a £400,000 reduction in the value of raw materials and consumables due to concerns over the realisable value of that stock.

Inventories are held as security for the Group loan and overdraft facilities with Bank of Scotland.

15. Trade and Other Receivables

	2009 £'000	2008* £'000
Trade receivables	3,946	9,338
Allowance for estimated irrecoverable amounts	(283)	(203)
Other receivables and prepayments	793	675
	4,456	9,810

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan investments ltd.

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value. The Group's credit risk relates primarily to its trade receivables.

16. Assets held for sale

	2009 £'000	2008 £'000
Assets held for sale	2,400	-

The Company's freehold land and buildings in Rotherham have been classified as non-current assets held for sale as management were committed to a plan to sell them at the reporting date and they were being actively marketed at a price which is considered to be reasonable given the age and condition of the assets. A sale has been agreed subject to contact.

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2009

17. Bank And Other Borrowings

	2009 £'000	2008 £'000
Bank overdrafts	819	836
Bank loans	6,769	8,281
	7,588	9,117
The borrowings are repayable as follows:		
On demand or within one year	2,301	2,318
In the second year	1,482	1,482
In the third to fifth year (inclusive)	2,194	4,446
After 5 years	1,611	871
	7,588	9,117
Analysis of borrowings by currency		
Euro – cash balance	(73)	(257)
US Dollar – cash balance	(1)	(163)
Sterling – overdraft	822	1,256
Sterling – loans	6,769	8,281
Swiss Francs – overdraft	71	-
	7,588	9,117

The fair value of borrowings is not significantly different to carrying value. On 10 February 2009 the LIBOR rate payable on certain of the loans was fixed at a rate of 1.78% for two years on £5,253,000 of the loans, the fixed amount diminishing in line with the scheduled repayments over that period. At the balance sheet date, £4,181,000 of the loans was on that fixed rate. The remainder were floating rate.

18. Trade And Other Payables

	2009 £'000	2008 £'000
Trade payables	9,314	17,449
Social security and other taxes	2,360	1,102
Accruals and deferred income	2,524	2,649
	14,198	21,200

Creditor days as at 31 December 2009 were 76 days (2008: 69 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. Of the trade creditors outstanding at the year-end that were denominated in foreign currencies was £1,540,000, principally in Euros.

19. Current Provisions

	Warranty Provision £'000	Onerous Contracts £'000	Other Provisions £'000	Total Provisions £'000
Balance acquired on acquisition	1,627	-	1,050	2,677
Additional provision	745	2,301	-	3,046
Utilisation of provision	(745)	-	(1,050)	(1,795)
At 31 December 2008	1,627	2,301	-	3,928
Additional provision	1,878	272	-	2,150
Utilisation of provision	(1,627)	(2,493)	-	(4,120)
At 31 December 2009	1,878	80	-	1,958

During the period ended 31 December 2008 the Group entered into some contracts to increase its presence in specific markets. The terms under which certain of these contracts were agreed have proved to be onerous so provision was made to reflect the onerous element of the outstanding commitments of these contracts. Certain further costs in respect of those contracts were incurred during 2009. No new onerous contracts were entered into during the year.

20. Obligations Under Finance Leases

	Minimum lease payments	Present value of lease payments	Minimum lease payments	Present value of lease payments
	2009	2009	2008	2008
	£'000	£'000	£'000	£'000
Amounts payable under finance leases:				
- within one year	35	31	249	224
- two to five years	44	32	33	28
	79	63	282	252

It is the Group's policy to lease certain equipment under finance leases. Obligations under finance leases are secured on the assets to which they relate.

Notes To The Consolidated Financial Statements (continued)
for the year ended 31 December 2009

21. Deferred Tax

	2009 £'000	2008* £'000
Analysis for financial reporting purposes:		
Deferred tax liabilities	-	-
Net position at 31 December 2009	-	-

The movement in the year in the Group's net deferred tax position was as follows:

	2009 £'000	2008 £'000
At start of year/period	-	-
Credit to income for the year/period	-	(19)
Arising on acquisitions	-	19
At end of year/period	-	-

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan Investments ltd.

At the reporting date, the Group has unused tax losses of £18,975.000 (2008:£10,629,000) available for offset against future profits. A deferred tax asset of £5,437,040 (2008:£2,976,000) has not been recognised in respect of these losses due to the unpredictability of future profit streams.

22. Provisions

	Warranty provision 2009 £'000	Total provision 2009 £'000	Warranty provision 2008* £'000	Total provision 2008* £'000
At 1 January 2009	2,619	2,619	-	-
Balance acquired on acquisition	-	-	2,536	2,536
Additional provision	2,570	2,570	962	962
Utilisation of provision	(2,942)	(2,942)	(879)	(879)
At 31 December 2009	2,247	2,247	2,619	2,619

*Comparatives have been restated for the finalisation of the fair value exercise on the acquisition of Jamesstan investments ltd.

The warranty provision represents management's best estimate of the Group's liability under warranties granted on passenger vehicles manufactured, based on past experience for defective products.

23. Share Capital – Group

	No.	£
Authorised share capital: Ordinary shares of 1p each		
As at incorporation:	60,000,000	600,000
As at 31 December 2008	120,000,000	1,200,000
As at 31 December 2009	310,000,000	3,100,000
Issued and fully paid shares capital: ordinary shares of 1p each		
As at incorporation	4	0.04
Shares issued in the year	108,459,811	1,084,598
As at 31 December 2008	108,459,807	1,084,598
Shares issued in the year	123,957,142	1,239,572
As at 31 December 2009	232,416,953	2,324,170

The Company has one class of ordinary share which carry no right of fixed income.

The premium net of related charges on the issue of shares has been credited to the share premium account.

On 22 September 2009 123,957,142 new shares were issued at a price of 7p.Subsequent to the year-end, on 21 January 2010, 37,010,712 new shares were issued at a price of 6p via a placing. Each placee received the promise of one warrant for each new share subscribed, exercisable at the price of 6p per warrant for a period of up to 24 months after issue.

24. Retirement Benefits

Defined contribution plans

The Group operates defined contribution retirement benefit plans for employees. The assets of the schemes are held separately from those of the Group in funds under the control of trustees. Where there are employees who leave the scheme prior to vesting fully in the contributions, the contributions payable by the Group are reduced by the amount of forfeited contributions.

The total cost charged to income of £279,000 (2008:£172,000) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2009, contributions of £87,000 (2008:£50,000) due in respect of the current reporting year had not been paid over to the schemes.

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2009

25. Share Based Payments

Equity-settled share option plan

The Group plan provides for a grant price equal to the average quoted market price of the Group shares in the five days prior to the date of grant. If options remain unexercised after a period of 10 years from the date of grant, the options expire. Furthermore, options may be forfeited if the employee leaves the Group before the options vest, depending on the circumstances.

	2009		2008	
	Options	**Weighted average exercise price**	**Options**	**Weighted average exercise price**
	No. '000	Pence	No.'000	Pence
Outstanding at 1 January	-	n/a	-	n/a
Granted during the year	2,250	3.45	-	n/a
Outstanding at 31 December	2,250	3.45	-	n/a
Exercisable at 31 December	2,250	3.45	-	n/a

No options were exercised during the year. The options outstanding at 31 December 2009 had an exercise price between 1p and 4.15p, and a weighted average remaining contractual life of 9.5 years.

The fair value of options granted in the year was £27,000 (2008: £nil).

The inputs into the Binomial model are as follows:

	2009 £'000	**2008 £'000**
Weighted average share price	4.63p	n/a
Weighted average exercise price	3.45p	n/a
Expected volatility	98.21%	n/a
Expected life	2 years	n/a
Risk free rate	1%	n/a
Expected dividends	0%	n/a

Expected volatility was determined by calculating the historical volatility of the Group's share price since listing on AIM in February 2008. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

The Group recognised total expenses of £5,000 (2008: £nil) relating to equity-settled share-based payment transactions.

26. Operating Lease Arrangements

The Group as a lessee:

The minimum lease payments under non-cancellable operating lease rentals are in aggregate as follows:

	Group 2009 £'000	Group 2008 £'000
Amounts due within one year	653	592
Amounts due between one and five years	467	505
	1,120	1,097

27. Review of provisional fair values

In accordance with IFRS 3 "Business Combinations" the Company has revised the fair values of the assets acquired on 15 July 2008 via the acquisition of the Jamesstan/Optare Group. The Company has revised its estimate of the realisable value of various balance sheet items as of that date. The effect of the revision is set out below

As at 15 July 2008

	Book Value £'000	Fair Value Adjustments £'000	Fair Value £'000
Plant, Property & Equipment	6,267		6,267
Inventories	11,972	(756)	11,216
Trade & Other Receivables	46		46
Demo Vehicles	1,016		1,016
Cash & cash equivalents	838		838
Trade & Other Payables	(9,080)	(188)	(9,268)
Bank Loans & Overdraft	(9,747)		(9,747)
Deferred Tax Liability	(292)	(410)	(702)
Warranty Provision	(1,450)		(1,450)
Order Book		79	79
Customer Lists & Relationships		529	529
Vehicle Designs		1,800	1,800
	(430)	1,054	624

Notes To The Consolidated Financial Statements (continued)

for the year ended 31 December 2009

27. Review of provisional fair values (continued)

	Provisional £000	Adjustment £000	Revised £000
Goodwill	5,864	2,710	8,574
Trade and other receivables	46	(234)	(188)
Inventories	11,216	(400)	10,816
Demo vehicles	1,016	(61)	955
Warranty provision	(1,450)	(2,717)	(4,167)
Deferred tax liability	(702)	702	-

The principle adjustment has been in respect of warranty provisions. Based on a detailed review of the costs of warranty costs on buses to which the Company was committed prior to acquisition, management has decided that extra provision was required. These extra costs included warranties on buses sold to certain customers that were for a five-year period rather than the standard two-year warranty period.

The consolidated income statement for the period ended 31 December 2008 has been adjusted to reflect a decrease in the deferred tax credit for the period of £439,000.

28. Net Cash From Operating Activities

Reconciliation of loss from operations to net cash used in operating activities:

	Group 2009 £'000	**Group 2008** £'000
Operating activities:		
Loss before tax	(12,012)	(14,632)
Adjustments for:		
Share based payments	27	-
Depreciation	2,287	631
Impairment of goodwill	-	126
Amortisation of intangible assets	173	151
Net finance expense	262	274
(Profit)/loss on disposal of fixed assets	(23)	135
Operating cash-flows before movements in working capital	(9,286)	(13,315)
Changes in working capital:		
Decrease/(increase) in inventories	9,045	(4,349)
Decrease/(increase) in trade and other receivables	5,354	(8,488)
(Decrease)/increase in trade and other payables	(6,974)	11,614
Increase/(decrease) in provisions	(2,342)	1,090
Total changes in working capital	5,083	(133)
Net cash absorbed in operating activities	(4,203)	(13,448)

29. Post Year End Events

Post balance sheet events are disclosed in the Directors' Report.

30. Related Party Transactions

Transactions between the Company and its subsidiaries, which are related parties to the Company, have been eliminated on consolidation.

31. Contingent Liabilities

There are no contingent liabilities of which the Directors are aware.

Company Balance Sheet

as at 31 December 2009

	Notes	2009 £'000	2008 £'000
Fixed Assets			
Tangible assets	33	8	13
Investments	32	19,794	19,794
		19,802	19,807
Current Assets			
Debtors due within one year	34	4,401	4,309
		4,401	4,309
Current Liabilities			
Creditors: amounts falling due within one year	35	14,316	14,692
Net Current Liabilities		(9,915)	(10,383)
Net Assets		9,887	9,424
Capital and Reserves			
Share capital	36	2,324	1,084
Capital reserves	37	27,056	20,234
Share based payment reserve	38	27	-
Retained loss	39	(19,520)	(11,894)
Total Equity		9,887	9,424

The Company's Loss After Tax for the year was £7,626,000 (2008:£11,984,000)

The financial statements on pages 46 to 49 were approved by the board of directors and authorised for issue on 28 May 2010 and are signed on its behalf by:

Mike Dunn FCA
Chief Financial Officer

Company Financial Statements Summary of Significant Accounting Policies

for the year ended 31 December 2009

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements.

Basis Of Preparation

The financial statements have been prepared in accordance with applicable accounting standards under UK GAAP and under the historical cost accounting rules.

The Directors have taken advantage of the exemption available under s.408 of the Companies Act 2006 and have not presented an income statement of the Company.

Under FRS 1 the Company is exempt from the requirement to prepare a cash flow statement on the grounds that a parent undertaking includes the Company in its own published consolidated financial statements.

Taxation

The charge for taxation is based on the profit for the year and takes into account taxation deferred because of timing differences between the treatment of certain items for taxation and accounting purposes. Deferred tax is recognised, without discounting, in respect of all timing differences between the treatment of certain items for taxation and accounting purposes which have arisen but not reversed by the balance sheet date, except as otherwise required by FRS 19.

Investments

Investments are carried at historical cost less provision for impairments in carrying value. Impairments are calculated by reference to the expected recoverable amount

Notes To The Company Financial Statements

for the year ended 31 December 2009

32. Investments

Details of investments held in the Company accounts are as follows:

	Cost	Impairment	Carrying Value
	£'000	£'000	£'000
Optare Group Ltd	13,307	-	13,307
Jamesstan Investments Ltd	6,487	-	6,487
Optare UK Ltd	16,129	16,129	-
	39,923	16,129	19,794

Details of the Company's subsidiaries at 31 December 2009 are shown in Note 10.

33. Fixed Assets

	Fixtures & Fittings	Total
	£'000	£'000
Cost:		
At 1 January 2009	16	1
Additions		
At 31 December 2009	16	16
Depreciation:		
At 1 January 2009	3	3
Charged during year	5	5
At 31 December 2009	8	8
Net book value as at 31 December 2009	8	8
Net book value as at 31 December 2008	13	13

34. Debtors Due Within One Year

	2009 £'000	2008 £'000
Prepayments and other debtors	344	389
Amounts due from subsidiary undertakings	4,057	3,920
	4,401	4,309

35. Creditors: Amounts Falling Due Within One Year

	2009 £'000	2008 £'000
Overdraft	128	589
Trade creditors	376	298
Amounts payable to subsidiary undertakings	11,307	13,492
Social security and other taxes	93	78
Accruals and deferred income	412	235
	12,316	14,692

36. Share Capital – Company

Details of the Company's share capital are disclosed in Note 23

37. Capital Reserves

	Share premium £'000	Merger reserve £'000	Total £'000
As at 1 January 2009	15,798	4,436	20,234
Issue of ordinary share capital (net of expenses)	6,822	-	6,822
As at 31 December 2009	22,620	4,436	27,056

38. Share based payment reserve

	2009 £'000	2008 £'000
As at start of year	-	-
Charge for year	27	-
Balance as at 31 December 2009	27	-

39. Retained Loss

	2009 £'000	2008 £'000
As at start of year	(11,894)	-
Net loss for the year	(7,626)	(11,894)
Balance as at end of year	(19,520)	(11,894)

THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION.

If you are in any doubt as to the action you should take, you should immediately consult your stockbroker, solicitor or accountant or other professional adviser authorised under the Financial Services and Markets Act 2000. If you have sold or transferred all your shares in Optare plc, please hand this document, together with accompanying form of proxy, to the (intended) purchaser or transferee, or to the bank, stockbroker or other agent through whom the sale or transfer was effected, for transmission to the (intended) purchaser or transferee.

Company Number 06481690

Notice Of Annual General Meeting
OPTARE PLC
(the "Company")

Notice of an Annual General Meeting of the Company to be held at the offices of Optare Group Ltd, Manston Lane, Crossgates, Leeds, LS15 8SU at 10:00 am on 30 June 2010, is set out in this document. To be valid, the form of proxy accompanying this document for use at the Annual General Meeting must be completed and returned, in accordance with the instructions thereon, so as to be received by the Company's registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU not later than 48 hours before the appointed time of the Annual General Meeting.

OPTARE PLC

(Incorporated and registered in England and Wales with registered number 06481690)

Directors:

John Matthew Fickling (Non-Executive Chairman)
Jim Sumner (Chief Executive Officer)
Michael James Dunn (Chief Financial Officer)
Glenn Craig Saint (Commercial Director)
David Anthony Maughan (Non Executive Director)
David Coulson Stonehouse FCA (Non Executive Director)

Registered Office:

Lower Philips Road
Whitebirk Industrial Estate
Blackburn
Lancashire
BB1 5UD

5 June 2010

To holders of ordinary shares of 1p each in the capital of the Company ("Ordinary Shares")

Dear Shareholder

Annual General Meeting of Optare PLC (the "Company")

1. Introduction

I am pleased to be writing to you with details of the Company's annual general meeting ("Annual General Meeting" / "AGM") which we are holding at the offices of Optare Group Ltd, Manston Lane, Crossgates, Leeds, LS15 8SU on 30 June 2010 at 10:00 am. The formal notice of Annual General Meeting is enclosed with this document.

If you would like to vote on the resolutions but cannot attend the Annual General Meeting, please fill in the form of proxy enclosed with this document and return it as soon as possible to the Company's registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU. The Company's Registrar must receive the completed form of proxy by 10.00am on 28 June 2010.

2. Business to be transacted at the AGM

Details of the resolutions which are to be proposed at the Annual General Meeting are set out below.

Ordinary Resolution 1 – Reports and Accounts
The Directors of the Company are required under the Companies Act 2006 to lay the audited accounts and reports before the Company in General Meeting.

Ordinary Resolution 2 – Re-election of Glenn Saint
In line with the Company's articles of association, all directors must retire as directors at the next AGM following their appointment and thereafter at the annual general meeting held in the third calendar year following the year in which such director was elected or re-elected. As this is the first AGM following his appointment, Glenn Saint will retire and be put forward for re-election.

Ordinary Resolution 3 – Reappointment and Remuneration of Auditor
In accordance with the Companies Act 2006, it is proposed to reappoint Baker Tilly UK Audit LLP as auditor of the Company at the Annual General Meeting and it is normal practice for a company's directors to be authorised to agree the auditor's fees.

Special Resolution 4 - Authority to Allot Shares
An ordinary resolution will be proposed to allow the Directors of the Company to allot unissued ordinary shares of the Company up to a maximum aggregate nominal amount equal to £898,092.22, which represents approximately one third of the issued share capital. In addition, resolution 4 will also allow the directors to issue the share warrants referred to in the announcement by the Company made on 22 January 2010 subsequently to allot ordinary shares upon their conversion up to a maximum of 37,010,712 ordinary shares of 1p each. Unless renewed, revoked or varied by the Company in general meeting, the authority will last from the date of the passing of the resolution until the conclusion of the Annual General Meeting of the Company held in 2011.

Special Resolution 5 - Disapplication of Pre-emption Rights
A special resolution will be proposed, conditional on the passing of resolution 4, to give the Directors power to make allotments of ordinary shares of the Company for cash without reference to statutory pre-emption rights up to a maximum aggregate nominal amount equal to £404,414.50, which represents approximately 15% of the issued share capital at the date of the Notice of Meeting. The power would also waive pre-emption rights in relation to the issue of share warrants announced by the Company on 22 January 2010. The power would also enable the Directors of the Company to implement a rights issue or other pre-emptive offer and will last from the date of the passing of the resolution until the conclusion of the Annual General Meeting of the Company held in 2011 unless the authority of the Directors of the Company to allot unissued ordinary shares is previously revoked.

Special Resolution 6 – Ratification of previous allotment
A special resolution is proposed that would retrospectively disapply statutory pre-emption rights in relation to the allotment of 1,100,000 ordinary shares of 1p each in the Placing that took place in January 2010, and ratify an administrative error whereby the previous power to disapply pre-emption rights was accidentally exceeded in relation to that Placing.

Special Resolution 7 - Amendment of Articles of Association
A special resolution will be proposed to adopt new Articles of Association of the Company (the "New Articles"). A new set of Articles of Association has been drafted to take into account changes brought in by the final implementation of the Companies Act 2006, which changes came into force on 1st October 2009. References to the Companies Act 1985 have been amended and updated to reference the appropriate corresponding provision of the Companies Act 2006. Additionally, the following substantive changes have been made:

i. The Company's objects
The Companies Act 2006 significantly reduces the constitutional significance of a company's memorandum of association. The Companies Act 2006 provides that a memorandum will record only the names of subscribers and the number of shares each subscriber has agreed to take in the company. Under the Companies Act 2006, with effect from 1 October 2009, a company's objects clause and all other provisions which were contained in a company's memorandum are deemed to be contained in a company's Articles of Association but a company can remove these provisions by special resolution.

Furthermore, the Companies Act 2006 states that unless a company's articles provide otherwise, a company's objects are unrestricted. This abolishes the need for companies to have objects clauses. For this reason the Company is proposing to remove its objects clause together with all other provisions of its memorandum which, by virtue of the Companies Act 2006, are to be treated as forming part of the Company's Articles of Association as of 1 October 2009. Resolution 7 confirms the removal of these provisions for the Company. As the effect of this resolution will be to remove the statement currently in the Company's memorandum of association regarding limited liability, the new Articles of Association also contain an express statement regarding the limited liability of the shareholders.

ii. Authorised share capital and unissued shares
The Companies Act 2006 abolishes the requirement for a company to have an authorised share capital and the New Articles reflect this (Article 3 of the current articles of association of the Company ("the Current Articles") has been removed). The Directors will still be limited as to the number of shares they can at any time allot because an allotment authority from the shareholders continues to be required under the Companies Act 2006, save in respect of employee share schemes.

iii. Closing of the register of share transfers
The Current Articles permit the Directors to suspend the registration of transfers. Under the Companies Act 2006 share transfers must be registered as soon as practicable and the previous statutory provisions allowing a company to close its register of members for any time or times not exceeding 30 days have been repealed. Accordingly, the power in the Current Articles to suspend the registration of transfers (Article 33) has been removed and is not provided for in the New Articles.

iv. Change of name
Previously, under the Companies Act 1985, a company could only change its name by special resolution. Under the Companies Act 2006 a company will be able to change its name by other means provided for by its articles. To take advantage of this provision, the New Articles enable the Directors to pass a resolution to change the Company's name.

v. Authority to consolidate and sub-divide shares and reduce share capital
Under the previous law a company required specific enabling provisions in its articles to consolidate or sub-divide its shares and to reduce its share capital or other undistributable reserves as well as shareholder authority to undertake the relevant action. Under the Companies Act 2006 a company only requires shareholder authority to do any of these things and it is no longer necessary for articles to contain enabling provisions. Accordingly the relevant enabling provisions (as contained in Article 43 of the Current Articles) have been removed in the New Articles.

vi. Written Resolutions
The Companies Act 2006 sets out that a resolution of the members (or a class of member) of a public company must be passed at a meeting of the members. Therefore the provisions in the Current Articles (Article 50.2) that purported to allow the Company's members to pass written resolutions have been removed.

vii. Chairman's Casting vote at General Meetings
The New Articles do not contain a provision giving the chairman a casting vote in the event of an equality of votes as this is no longer permitted under the Companies Act 2006.

viii. Time for deposit of Proxy Forms
The Current Articles set out that forms of proxy in relation to any general meeting of the Company must be deposited no less than two days before the time appointed for that meeting. In accordance with new provisions introduced by the Companies Act 2006, the New Articles change this by adding the qualification that non-working days do not count in calculating the two day time period.

ix. Board Authorisation of Conflicts of Interests
The Companies Act 2006 introduced a statutory duty for directors to avoid conflicts of interest. Section 175 of the Companies Act 2006 sets out that a public company may authorise conflicts of interest by resolution of the board of directors only where there is an express provision in the Articles enabling them to do so. Such a provision has been included in the New Articles so that the directors may have that power.

x. Use of seals
A company previously required authority in its articles to have an official seal for use abroad. After 1 October 2009 such authority is no longer required. Accordingly the relevant authorisation has been removed in the New Articles.

The New Articles provide an alternative option for execution of documents (other than share certificates). Under the New Articles, when the seal is affixed to a document it may be signed by one authorised person in the presence of a witness, whereas previously the requirement was for signature by either a Director and the Secretary or two Directors

xi. Voting by proxies on a show of hands
The Companies (Shareholders' Rights) Regulations 2009 have amended the Companies Act 2006 so that it now provides that each proxy appointed by a member has one vote on a show of hands unless the proxy is appointed by more than one member in which case the proxy has one vote for and one vote against if the proxy has been instructed by one or more members to vote for the resolution and by one or more members to vote against the resolution.

3. Action to be taken

You are entitled to appoint one or more proxies to attend and vote at the Annual General Meeting on your behalf. You will find enclosed with this document a form of proxy for use in connection with the Annual General Meeting. Whether or not you propose to attend the Annual General Meeting in person, you are requested to complete and return the Form of Proxy to the Company's Registrar, Capita Registrar Limited, The Registry, 34 Beckenham Road, Kent BR3 4TU as soon as possible and, in any event, so as to be received no later than 10.00am on 28 June 2010. Completion and return of a Form of Proxy will not stop you from attending the Annual General Meeting and voting in person should you so wish.

4. Recommendation

The directors consider that all of the resolutions to be proposed at the AGM are in the best interests of the Company and its shareholders as a whole and unanimously recommend that shareholders vote in favour of all of the resolutions, as the directors intend to do in respect of their own beneficial holdings.

Yours faithfully

John Fickling
Non-Executive Chairman

Notice Of Annual General Meeting

Notice is hereby given that the Annual General Meeting of the Company will be held at the offices of Optare Group Ltd, Manston Lane, Crossgates, Leeds, LS15 8SU on 30 June 2010 at 10am for the following purposes:

Ordinary Business

To consider and, if thought fit, to pass the following resolutions as Ordinary Resolutions of the Company:

1. To receive the directors' report and accounts for the period ended 31st December 2009 together with the reports of the directors and auditors thereon.

2. To re-elect as a director, Glenn Saint, who is retiring in accordance with the Company's articles of association and who (being eligible) is offering himself for re-election.

3. To reappoint Baker Tilly UK Audit LLP as auditor of the Company and to authorise the directors to determine their remuneration.

Special Business

To consider and, if thought fit, to pass resolution 4 as an Ordinary Resolution of the Company and resolutions 5 to 7 (inclusive) as Special Resolutions of the Company:

4. That the Directors of the Company be and are hereby generally and unconditionally authorised (in substitution for any previous authority) for the purposes of Section 551 of the Companies Act 2006 (as amended) (the "Act") to exercise all the powers of the Company to allot shares in the Company, or to grant rights to subscribe for or to convert any security into shares in the Company (such shares and such rights to subscribe for or to convert any security into shares in the Company being "relevant securities") on such terms and in such manner as they shall think fit, provided that this authority shall be limited to:

- the issue of share warrants by the Company convertible into a maximum of 37,010,712 ordinary shares of 1p each in the capital of the Company and the subsequent allotment of all or any of such ordinary shares of 1p each ("the Share Warrants"); and
- the allotment otherwise than pursuant to paragraph 4.1 of this resolution of relevant securities up to a maximum aggregate nominal amount of £898,092.22;

at any time (unless and to the extent previously renewed, revoked or varied by the Company in general meeting) during the period from the date hereof until 31st December 2011 or, if earlier, the conclusion of the Company's annual general meeting held in 2011, provided that the Directors of the Company may make an offer or enter into an agreement which would or might require relevant securities to be allotted, offered or otherwise dealt with or disposed of after the expiry of such authority and the Directors of the Company may allot any relevant securities after the expiry of such authority in pursuance of any such offer or agreement as if this authority had not expired.

5. That, subject to and conditional upon the passing of resolution 4 above, the Directors of the Company be given power pursuant to Sections 570 and 573 of the Act to allot equity securities (as defined in Section 560 of the Act) of the Company for cash pursuant to the authority conferred by resolution 4 above as if Section 561 of the Act did not apply to any such allotment, such power to expire (unless the authority conferred by resolution 4 above is previously renewed, revoked or varied) on 31st December 2011 or, if earlier, the conclusion of the Company's annual general meeting held in 2011 provided that before such expiry the Directors of the Company may make an offer or enter into an agreement which would or might require equity securities to be allotted after the expiry of such power and the Directors of the Company may allot equity securities after such expiry under this power in pursuance of any such offer or agreement as if this power had not expired. This power is limited to:

- the allotment of equity securities for cash in connection with a rights issue or other pre-emptive offer to holders of ordinary shares of 1p each in the capital of the Company where the equity securities respectively attributable to the interests of such holders are proportionate (as nearly as may be practicable) to the respective numbers of ordinary shares of 1p each in the capital of the Company held by them but subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient to deal with any fractional entitlements or any legal or practical problems under the laws of, or the requirements of any regulatory body or any recognised stock exchange in, any territory;
- the issue of the Share Warrants and the conversion rights thereunder; and
- the allotment (other than pursuant to paragraphs 5.1 or 5.2 of this Special Resolution) of equity securities up to a maximum aggregate nominal amount of £404,414.50.

This power applies in relation to any sale of shares which is an allotment of equity securities by virtue of Section 560(3) of the Act as if in the first paragraph of this resolution the words "pursuant to the authority conferred by resolution 4 above" were omitted.

6. That Section 561 of the Act shall be retrospectively disapplied to the allotment by the Directors on 25th January 2010 of 1,100,000 ordinary shares of 1p each in the capital of the Company in the Placing announced on 22nd January 2010 by the Company, such allotment, in breach of Section 561 of the Act, being hereby approved for all purposes and the actions of the Directors hereby ratified.

7.That with effect from the conclusion of the meeting:

the articles of association of the Company be amended by deleting all the provisions of the Company's memorandum of association (including the Company's objects clause) which, by virtue of section 28 of the Act, are to be treated as provisions of the Company's articles of association; and

the articles of association presented to the meeting and initialled for identification purposes by the Chairman (the "New Articles") be and the same are hereby approved and adopted as the articles of association of the Company in substitution for and to the exclusion of the existing articles of association of the Company (the "Current Articles").

By Order of the Board

Mike Dunn
Company Secretary

Registered Office:
Lower Philips Road,
Whitebirk Industrial Estate,
Blackburn,
Lancashire,
BB1 5UD

5 June 2010

Notes:

Entitlement to Attend and Vote

Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001 (as amended), the Company specifies that only those holders of ordinary shares of 1p each in the capital of the Company registered in the Company's Register of Members at:

10 am on 28 June 2010; or

1.2 if this meeting is adjourned, at 5.00 pm two working days prior to the adjourned meeting;

shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 1p each in the capital of the Company registered in their name at that time. Subsequent changes to entries in the Register of Members as at 10am on 28 June 2010 shall be disregarded in determining the rights of any person to attend or vote at the meeting.

2. Appointment of Proxies

2.1 If you are a member of the Company at the time set out in 1.1 or 1.2 above, you are entitled to appoint a proxy to exercise all or any of your rights to attend, speak and vote at the Meeting (whether on a show of hands or on a poll) 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 your proxy form.

2.2 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.

2.3 The notes to the proxy form explain how to direct your proxy to vote on each resolution or withhold their vote. To appoint a proxy using the proxy form, the form must be:

2.3.1 completed and signed;

2.3.2 sent or delivered to Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham Kent BR3 4TU; and

2.3.3 received by Capita Registrars Limited no later than at 10 am on 28 June 2010 or two working days prior to any adjourned meeting or, in the case of a poll taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll.

2.4 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.

3. Attending in Person

The sending of a completed form of proxy to the Company’s Registrar will not preclude members from attending and voting at the meeting, or any adjournment thereof, in person, should they so wish.

4. Documents on Display

Copies of the directors' service contracts with the Company or any of its subsidiary undertakings will be available:

4.1 for at least 15 minutes prior to the meeting; and

4.2 during the meeting.

5. Articles of Association

A copy of the new articles of association proposed to be adopted at the meeting will be available for inspection at the Company's registered office from the date of this notice up to and including the date of the meeting. A copy will also be available:

5.1 for at least 15 minutes prior to the meeting; and

5.2 during the meeting.

Company Number 06481690
OPTARE PLC
(the "Company")
Form of Proxy

I/We ______________________________

being a member of the Company, hereby appoint the Chairman of the Meeting or ______________________________

____

as my/our proxy to attend and vote for me/us on my/our behalf at the Annual General Meeting of the Company to be held at 10am on Wednesday 30 June 2010 and at any adjournment thereof.

I/We direct my/our vote as indicated below in respect of the resolutions which are referred to in the Notice convening the Meeting (see note 1 below).

Resolutions	**For**	**Against**	**Withheld**
Ordinary Resolutions			
1. To receive the directors' report and accounts for the period ended 31st December 2009 and the reports of the directors and auditors thereon			
2. To elect Glenn Saint as a director			
3. To reappoint Baker Tilly UK Audit LLP as auditor of the Company and authorise the directors to fix their remuneration			
4. To authorise the directors to allot relevant securities including the issue of share warrants.			
Special Resolutions			
5. To disapply statutory pre-emption rights including in relation to share warrants.			
6. To retrospectively disapply statutory pre-emption rights in relation to the allotment of shares in January 2010 and to ratify the actions of the directors			
7. To adopt new articles of association of the Company			

Signature ______________________ Date ______________

Please tick here you are appointing more than one proxy. ☐

Number of shares proxy appointed over. ☐

Notes

1. Every holder has the right to appoint some other person(s) of their choice, who need not be a shareholder as his proxy to exercise all or any of his rights, to attend, speak and vote on their behalf at the meeting. If you wish to appoint a person other than the Chairman, please insert the name of your chosen proxy holder in the space provided (see over). If the proxy is being appointed in relation to less than your full voting entitlement, please enter the number of shares in relation to which they are authorised to act as your proxy. If left blank your proxy will be deemed to be authorised in respect of your full voting entitlement (or if this proxy form has been issued in respect of a designated account for a shareholder, the full voting entitlement for that designated account).

2. To appoint more than one proxy you may photocopy this form. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.

3. The right to appoint a proxy does not apply to persons whose shares are held on their behalf by another person and who have been nominated to receive communication from the Company in accordance with section 146 of the Companies Act 2006 ("nominated persons"). Nominated persons may have a right under an agreement with the registered shareholder who holds shares on their behalf to be appointed (or to have someone else appointed) as a proxy. Alternatively, if nominated persons do not have such a right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the person holding the shares as to the exercise of voting rights.

4. The 'Vote Withheld' option is provided to enable you to abstain on any particular resolution. However, it should be noted that a 'Vote Withheld' is not a vote in law and will not be counted in the calculation of the proportion of the votes 'For' and 'Against' a resolution.
5. Entitlement to attend and vote at the meeting and the number of votes which may be cast thereat will be determined by reference to the Register of Members of the Company at 10am on 28 June 2010 Changes to entries on the Register of Members after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting.

6. The completion and return of this form will not preclude a member from attending the meeting and voting in person. If you attend the meeting in person, your proxy appointment will automatically be terminated.

7. The Form of Proxy over must arrive at Capita Registrars, 34 Beckenham Road, Beckenham, BR3 4TU during usual business hours accompanied by any Power of attorney under which it is executed (if applicable) no later than 10am on 28 June 2010

8. If you prefer, you may return the proxy form to the Registrar in an envelope addressed to FREEPOST RSBH-UXKS-LRBC, PXS, 34 Beckenham Road, Beckenham, BR3 4TU.