Optare plc

(Formerly known as Darwen Holdings plc)

REPORT AND FINANCIAL STATEMENTS

for the period ended 31 December 2008

Company Registration No. 06481690

Contents

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

For Optare 2008 was a year of acquisitions and restructuring, with the benefit of this intense period of review and planning coming through in 2009. Of course the economic climate has had an impact but we have taken appropriate actions to manage this. During 2008 we recruited a management team to combine some of the most experienced and skilled people in the industry with new talents from outside and together their collective efforts have put the Company in a strong position to deal with the challenges ahead.

Financial Performance

2008 was a variable year for the group as it completed the acquisition of Optare and secured significant orders whilst also experiencing some setbacks. The significant deterioration in Sterling against the Euro resulted in the Company incurring higher material import costs over the period. Margins in the last quarter were adversely affected on certain major contracts, which suffered from production delays and proved more time-consuming and costly to deliver, with a corresponding impact on operating profit. These issues, combined with significant levels of stock build up, resulted in a net debt position of approximately £9.4m at 31 December 2008.

Product and development

The Group continues to invest in major new product developments. The development of the Rapta integrated double-deck bus is ongoing. This bus will offer, amongst its market-leading selling points, significant improvements in fuel economy due to its weight-saving integrated design. The Solo EV, an all electric, zero emissions midi-bus was recently launched to press and customers. Initial market reaction is very positive and production will commence during the second half of 2009. There is also significant interest in the USA for this vehicle.

Our people

2008 saw us embark on training programmes across different levels of the organisation to ensure the appropriate skills are in place to support the implementation of the business strategy. The senior management team undertook a Leadership Development Programme to ensure the composition of this team strikes the right balance in terms of skills, experience and role. Complementing this, two groups from the Blackburn and Leeds sites commenced Team Leader NVQ2 training and a further group from Blackburn commenced NVQ3 in Management. These programmes have had a tangible impact on the organisation helping to achieve an increase in productivity at our Blackburn site.

Summary

Optare experienced an exciting year of change and evolution in 2008. We have brought together three distinct business heritages to form the most innovative bus manufacturer in the UK. We remain a market leader in bus production and our strategy will continue to focus on organic growth through increased sales of our popular, cost-effective product range and also through sales of new products. We are looking forward to a period of stability and consolidation in 2009 as we take this excellent company forward.

Although the Board anticipates significant growth for Optare through 2009, there are increasing signs of some weakness in the bus market and our main UK bus manufacturing competitors have recently announced significant redundancy programmes. Even though there is no indication of a downturn in passenger demand for bus travel, there is an element of caution amongst some of the major operators, whilst smaller operators are finding it more difficult to finance bus purchases. In addition, it would appear that some local authorities are receiving funding more slowly that expected. As a result, the Board is taking the necessary steps to re-align costs accordingly.

I would like to thank all our people for their efforts and all our stakeholders for their continued support.

John Fickling
Executive Chairman

Business and Financial Review

Within its first year the Optare Group has become a new force in UK bus building and has developed a portfolio with a distinct competitive advantage and which offers an alternative choice to bus operators. Optare's dynamic new portfolio has been made possible through a comprehensive review of the enlarged Group's capabilities along with an enhancement of our production processes.

Strategic Development

The Group was formed by the acquisition of the business and assets of East Lancashire Coachbuilders Ltd ("ELCB") in August 2007 from an administrator. This business comprised a body on chassis bus manufacturer based in Blackburn, principally focussed upon the manufacture of double-deck buses and a coach refurbishment and bus repair business in Blackburn, Lancashire which was sold for a nominal amount in April 2008.

In October 2007 the business and assets of Leyland Product Development Ltd ("LPD") were acquired to provide the group with an engineering and development capability.

The Group was floated on AIM in February 2008 as Darwen Holdings PLC. In July 2008 it completed a share placing and the acquisition of the Optare/Jamesstan group. This business comprised Leeds and Rotherham based operations specialising in the manufacture of integrated single-deck buses with an extensive nationwide after-sales operation. The strengths of the enlarged group following the acquisition are:

- Extent and quality of customer base – the Optare/Jamesstan Group supplied to a variety of major national and local bus operators, including Stagecoach and Arriva. This was complementary to the existing business' customers which included many local and regional bus operators;
- Extensive product range – the Optare/Jamesstan Group offered a diverse range of integrated products, notably in smaller and single deck vehicles. This complements the Group's existing range of large body on chassis double and single-deck buses to make the Group the only bus manufacturer in the UK able to supply such a full range;
- Critical mass - the acquisition brought a scale which made possible important new relationships to the enlarged Group. During the period to 31 December 2008, the Group has extended its trading relations with some of the major bus operating groups. The greater scale also brings enhanced buying power and technical resource;
- Distribution and geographical reach of the after-sales business – the Optare/Jamesstan Group had sites in Essex, Rotherham and Glasgow, which provide an extensive range of sales opportunities and the ability to provide better quality customer service across the UK and this has now been extended to customers of the Blackburn site;
- Brand strength – the Group adopted the Optare plc name because of the strength of the brand and its reputation for quality and reliability.

Operational Highlights

At the time of acquiring the double-deck manufacturing business, the Board recognised that as well as the significant opportunities of the business there were also significant challenges, as major changes in personnel and culture were required. During the year significant headway has been made into addressing these challenges. There has been a move away from a coach-built, craft-based approach towards an engineered, assembly based approach along with the introduction of leaner manufacturing techniques including the outsourcing of basic metalwork processes at the Blackburn site. Similar developments are underway at the Leeds site.

The Company has also increased efficiency through improved production planning and engineering and more effective supply chain management.

As announced in the trading update of 17th April 2009, the Company is no longer re-locating the Blackburn site to Walker Park. However, management have taken steps to maintain production at its existing facilities and are continuing to review their strategic options.

Financial Performance

The Group's financial performance for the 72 week period ended 31 December 2008 is reported in the Directors' report, which also includes the Group's income statement for the year ended 31 December 2008 and pro forma income statement for the year ended 31 December 2008.

This is the first reporting period of the Company and the first period that the Company has presented its consolidated financial statements under International Financial Reporting Standards ("IFRS"). The Company has reported under IFRS within its Admission document dated 20 June 2008 (the "Admission Document").

Outlook

At the end of 2008 the Group's order book was strong and the business expanded its manned capacity through overtime and the recruitment of contract labour to ensure production throughput. An increasingly weak demand for double deck vehicles has been highlighted in recent weeks as Optare's two main UK competitors announced significant redundancy programmes during the spring.
Bus manufacturing typically requires a three-month lead time, and so the Group announced on 23 April 2009 that, in the light of the recent downturn within the industry, it is reviewing its operations to match production capacity to the falling demand for double deck buses. A 90 day consultation process was initiated at its Blackburn plant. Although currently busy the Company is not expecting there to be sufficient work to sustain the current levels of employment when the existing orders have been completed. Accordingly, the Group has released all of the temporary workers it recruited in Blackburn at the peak of production. The Group's order book currently stands at £19.9 million.
Nevertheless, Optare remains committed to the double deck market and we continue to provide a further choice to operators not just for body on chassis vehicles but shortly an integral double deck vehicle also.
The Group continues to develop low- and zero-emissions vehicles, an area of increasing focus for operators.
The Board continues to review strategic options for its assembly facilities and will update the market as appropriate.

Current actions to improve the Group's operations and products will leave the Group in a strong position to grow to profitably as market conditions improve and we look to the future with cautious optimism.

Mike Dunn
Chief Financial Officer

Officers and Professional Advisers

Directors, Company Secretary and Advisers

DIRECTORS

John Fickling (Executive Chairman)

John Fickling has considerable experience in the transport industry as a former major shareholder in 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 of operations management and business development. With over 20 years experience within the Commercial Vehicle, Engineering and FMCG sectors of international businesses he was responsible for several significant business turnarounds delivering strong revenue and profit growth. Jim led business transformation processes at Leyland Trucks, CCL Industries Inc and Delta Fluids Ltd. Highly experienced in the implementation of lean manufacturing initiatives he has also overseen several new product innovations. Jim is a Chartered Engineer and a Fellow of the Institute of Engineering & Technology.

Mike Dunn (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 Bolden 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 last 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.

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, and acts as a pensions trustee for the Rolls Royce & Bentley Pension Fund.

Roy Stanley (Non-Executive Director)

Roy Stanley formed Darwen Group as chairman in 2007. A visionary entrepreneur, he has developed an enviable reputation within the business community as chairman of the AIM-listed Tanfield Group Plc, the world's leading manufacturer of zero emission commercial electric vehicles and aerial work platforms. He also holds directorships at Walkerwalls Limited, Training and Development Resource Limited, Obus Plc, Young Enterprise North East Limited and Lovely Bubbly Limited.

David Coulson Stonehouse FCA (Non-Executive Director)

David is currently Chief Executive of Technology Services Group Limited, a £35 million turnover business supplying IT services to SMEs. From 2002 to 2008, he was the Chairman at accountancy firm unw LLP. Prior to that, he was at Parkdean Holidays plc ("Parkdean"). He joined Parkdean as a consultant in 2001 and was instrumental in advising the company on its AIM flotation and £28 million fundraising in May 2002. Subsequently, he became the senior independent non-executive director and chair of the audit committee. Mr Stonehouse 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.

Registered Offices

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Company Secretary

Mike Dunn
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Auditors

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Registrar

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Directors' Report

The directors submit their report and the financial statements of Optare Group plc (formerly known as Darwen Holdings PLC) for the period ended 31 December 2008.

Principal Activities

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

Results and Dividends for 72 week period ended 31 December 2008

The results for the period shown in the Consolidated Income Statement on page 21 comprise the results of the group from the date of incorporation 9 August 2007 to 31 December 2008. That is, the results of our Blackburn-based body on chassis manufacturing operation for the sixteen month period from August 2007 to 31 December 2008 plus the results of our Leeds-based integrated bus operation for the five months from 15 July 2008 to 31 December 2008.

Turnover for the period was £53.5m and loss from operations before exceptional items was £5.5m.
The operating loss is reflective of the extremely difficult challenges associated with acquiring a failing business from administration and acquiring and integrating another business part way through the period. This has proved to be a more difficult and time consuming challenge than was originally envisaged. Further details are given in the Business and Financial Review on page 5

During the last quarter of the year the significant deterioration in Sterling against the Euro resulted in the Company incurring higher material import costs over the period with a corresponding impact on operating profit.

Exceptional items from ongoing activities were £8.3m, comprising: deal costs arising from fundraising during the period 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. In an effort to establish the Group's presence in the bus markets, some contracts were committed to which were burdensome particularly when compared to the Group's then established production capacity. These decisions are being reviewed and where feasible remedial action has been taken to address any adverse impacts on the business.

Net interest cost was £0.3m. Basic and fully diluted loss per share was 23.6p.

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

This is the first reporting period of the Company and the first period that the Company has presented its consolidated financial statements under International Financial Reporting Standards ("IFRS"). The Company has reported under IFRS within its Admission document dated 20 June 2008 (the "Admission Document").

Results for year ended 31 December 2008 and pro forma results

For the sake of good understanding, the trading results for the year ended 31 December 2008, along with pro forma results for the year ended 31 December 2008, are shown below.

The 2008 figures comprise the Blackburn operation for 12 months and the Leeds operation from the date of acquisition, 15 July 2008. The pro-forma results represent the results of all Group companies as if the Group had been composed of the Blackburn and Leeds operations for the entire year. Restructuring, other non-trading exceptions of costs and finance costs have been excluded from the pro forma statement.

Turnover for the year was £49.2m (pro forma £82.4m) and loss from operations was £4.0m (pro forma £3.0m). Exceptional items were £7.2m (pro forma £3.5m), comprising: deal costs arising from fundraising and acquisitions during the year of £1.4m (pro forma £nil); restructuring and redundancy costs including provision for the closure of the Rotherham facility of £1.7m (pro forma £nil); abortive move costs of £0.6m (pro forma £nil) and provisions against contracts of £3.5m (pro forma £3.5m). Net interest cost was £0.2m (pro forma £nil). Basic and fully diluted loss per share was 15.3p. Basic and fully diluted loss per share from ongoing activities before exceptional and restructuring costs was 4.7p (pro forma 2.5p)

Directors' Report (Continued)

Income Statement for the 12 month period to 31 December 2008

	2008 £'000	2008 Pro Forma £'000
Revenue	49,219	82,411
Cost of sales	(44,719)	(66,083)
Gross profit	4,500	16,328
Administrative expenses	(7,916)	(18,862)
Other Operating Income	-	82
Distribution Cost	(272)	(272)
Amortisation of Goodwill	(126)	(126)
Amortisation of Intangible Assets	(151)	(151)
Loss from operations	(3,965)	(3,001)
Restructuring and other exceptional costs	(7,208)	(3,500)
Finance costs	(449)	-
Finance income	254	-
Loss for the year from continuing operations	(11,368)	(6,501)
Discontinued Operations		
Loss for year from discontinued operations	(610)	-
Loss before tax	(11,978)	(6,501)
Tax	710	342
Loss for Year	(11,268)	(6,159)

Loss per share for the year	(15.3)p
Loss per share from continuing operations before exceptional costs for the year	(4.7)p
Pro-forma loss per share from continuing operations before exceptional costs for the year	(2.5)p

Cash flow and net debt

The cash flow statement shows the 72 week period ended 31 December 2008.

Delays to production schedules, combined with significant levels of stock build up, resulted in a net debt position of £9.4m at 31 December 2008. The stock build up is expected to unwind through the middle part of 2009 with a corresponding reduction in net debt.

£20.9m was raised from share issues, and £1.2m of debt was repaid. £7.7m was spent on acquisition of subsidiaries. Capital expenditure was £2.2m comprising £1.2m property, plant and equipment and £1.0m investment in new product development.

£2.4m was raised by the disposal of fixed assets – principally the sale and leaseback of the Whitebirk site in Blackburn. Operating cash outflow before exceptional items for the period was £13.4m.

Political and Charitable Contributions

There were no political contributions during the period. Charitable contributions were £41,000 in the period.

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.

Market Value of Land and Buildings

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 in line market value.

Research and Development

The group has one of the strongest product development teams in the industry. During the period the major developments included: the introduction and sale of the hybrid Tempo; the Rapta integrated double-deck unveiled at the Euro Bus Expo in November 2008; and the launch of the Solo EV, an all electric, zero emissions midi-bus recently launched to press and customers. Initial market reaction to the Solo EV has been very positive and production will commence during the second half of 2009. There is also significant interest in the USA for this vehicle.

Events Since the End of the Year

On April 22 2009 the Group commenced a 90-day consultation period with all staff at our Blackburn operation and have announced that based on our current best estimates of demand, half of the 320 jobs on the site might be lost. We are working hard with full participation of the employees potentially affected to mitigate any job losses and protect the Group's future profitability.

Directors' Report (Continued)

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 concerns to employees.

Directors

Directors who served in the year are as follows:

Roy Stanley	(Appointed 23rd January 2008)
John Fickling	(Appointed 23rd January 2008)
Andrew Brian	(Appointed 23rd January 2008, Resigned 4th December 2008)
Mike Dunn	(Appointed 14th July 2008)
David Maughan	(Appointed 25th September 2008)
David Stonehouse	(Appointed 9th October 2008)

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 2008 were 69 days.

Substantial Shareholdings

On 31 December 2008 the following held substantial shares in the Company. No other person has reported an interest of more than 3% in the ordinary shares.

Giltspur Nominees Ltd	3,458,527
Nortrust Nominees Ltd	4,198,333
Productive Nominees Ltd	32,833,333
Prudential Client HSBC GIS Nominee (UK) Ltd	15,500,000
R C Grieg Nominees Ltd	4,619,216

RRE Stanley holds 30.3% of the Company's ordinary shares through nominee companies.

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.

Key Risks

Extensive disclosure of the risks affecting the Group and the bus industry as a whole can be found in the Group's Admission document dated June 2008 which is available on the Optare plc website (www.Optare.com). 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 whise actions may affect the level of turnover of the Group.

Significance of major customers
A relatively small number of customers account for a significant proportion of the Group's turnover. The loss of one or more key customers, fewer or smaller orders from them or the under-performance of any of key customers could result in lower than expected turnover.

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.

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.

John Fickling
Executive Chairman

29th June 2009

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 the Executive Chairman and Chief Executive, one other Executive Director, and up to three independent Non-Executive Directors. Directors' dates of appointment and resignation are reported in the Director's 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 was one remuneration committee meeting in the period which was fully attended. The report on Directors' remuneration is set out on pages 16 to 17.

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 they 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 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 30 July 2009. The notice of the Annual General Meeting may be found on page 52

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
Executive Chairman
29 June 2009

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 and the Chief Financial 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;
- 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.

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 2008 totalled £220,000 and related to the successful completion of the flotation and fundraising.

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. None were issued during the year.

Pension arrangements

Executive directors are members of a money purchase pension scheme to which the Group contributes. Their dependants are eligible for dependants' pension and the payment of a lump sum in the event of death in service. 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.

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.

Aggregate Directors' Remuneration

The total amounts for director's remuneration were as follows:

	£'000
Emoluments	911
Money purchase pension contributions	24
Total	935

The remuneration of the highest paid director included in the above total was:

	£'000
Emoluments (inlcuding loss of office £166,000)	575
Money purchase pension contributions	15
Total	590

Approval

This report was approved by the board of directors and authorised for issue on 29 June 2009 and signed on its behalf by:

John Fickling
Chairman of Remuneration Committee
29 June 2009

Directors' Responsibilities In The Preparation Of Financial Statement

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

UK company law requires the directors to prepare Group and Company Financial Statements for each financial year. Under that law the directors are required to prepare Group Financial Statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the EU and have elected to prepare the company financial statements in accordance with UK GAAP.

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 1985 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.

The Company Financial Statements are required by law to give a true and fair view of the state of affairs of the Company.

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 estimates that are reasonable and prudent;

c. state whether they have been prepared in accordance with IFRS adopted by the EU;

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 proper accounting records which disclose with reasonable accuracy at any time the financial position of the company and to enable them to ensure that the financial statements comply with the requirements of the Companies Act 1985.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are also responsible for the maintenance and integrity of 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 which comprise the Consolidated Income Statement, the Consolidated and Company Balance Sheets, the Consolidated Cash Flow Statement, the Consolidated Statement of Recognised Income and Expense and the related notes.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, and the group financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union ("EU"), and for preparing the parent company financial statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

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

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the information given in the Directors' Report is consistent with the financial statements. The information given in the Directors' Report includes that specific information presented in the Business and Financial Review that is cross referenced from the section of the Directors' Report headed Results and Dividends for the 72 Week Period ended 31 December 2008.

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

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

Basis of audit opinion

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

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

Independent Auditor's Report to the Members of Optare plc (continued)

Opinion

In our opinion:

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

BAKER TILLY UK AUDIT LLP
Registered Auditor
Chartered Accountants
Leeds

29 June 2009

Consolidated Income Statement

for the period ended 31 December 2008

	Notes	Before Exceptional items	Exceptional items	Total
		2008 £'000	2008 £'000	2008 £'000
Revenue	1	53,490	-	53,490
Cost of sales		(48,625)	(3,007)	(51,632)
Gross profit		4,865	(3,007)	1,858
Administrative expenses		(9,796)	-	(9,796)
Distribution costs		(272)	-	(272)
Amortisation of intangible assets	13	(151)	-	(151)
Impairment of goodwill	12	(126)	-	(126)
Loss from operations	3	(5,480)	(3,007)	(8,487)
Restructuring and other exceptional costs		-	(5,260)	(5,260)
Finance costs	6	(529)	-	(529)
Finance income	6	254	-	254
Loss for the year from continuing operations		(5,755)	(8,267)	(14,022)
Loss for the year from discontinued operations	7	(198)	(412)	(610)
Loss On Ordinary Activities Before Taxation		(5,953)	(8,679)	(14,632)
Taxation	8	710	-	710
Profit Attributable to the Equity Holders of the Parent Company		(5,243)	(8,679)	(13,922)

Earnings per share (Note 10):

From continuing operations (Basic and Diluted)	(22.6)p
From continuing and discontinued operations (Basic and Diluted)	(23.6)p

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

Consolidated Balance Sheet
31 December 2008

	Notes	2008
		£'000
Non – Current Assets		
Goodwill	12	5,864
Other intangible assets	13	3,326
Property, plant and equipment	14	6,737
		15,927
Current Assets		
Inventories	15	17,223
Trade and other receivables	16	10,044
		27,267
Total Assets		43,194
Total Current Liabilities		
Trade and other payables	19	21,200
Bank loans and overdrafts	17	2,318
Current Provisions	20	2,301
Obligations under finance leases	21	249
		26,068
Non Current Liabilities		
Bank loans	17	6,799
Deferred tax liabilities	22	263
Provisions	23	1,529
Obligations under finance leases	21	33
		8,624
Total Liabilities		34,692
Net Assets		8,502
Equity		
Share capital	24	1,084
Share premium	26	15,798
Merger reserve	26	5,542
Retained loss	27	(13,922)
Total Equity Attributable To Equity Holders Of The Parent		8,502

The financial statements on pages 21 to 45 were approved by the board of directors and authorised for issue on 29 June 2009 and are signed on its behalf by:

Mike Dunn
Chief Financial Officer

Consolidated Cash Flow Statement
for the period ended 31 December 2008

	Notes	2008
		£'000
Operating Activities		
Cash absorbed by operations	29	(13,448)
Interest paid	6	(529)
Net Cash Used In Operating Activities		(13,977)
Investing Activities		
Acquisition of subsidiaries	18	(7,660)
Cash received from acquisitions	18	838
Disposal of subsidiaries	7	(235)
Purchase of property, plant and equipment	14	(1,169)
Proceeds on disposal of property, plant and equipment		2,420
Purchase of intangible assets	13	(1,069)
Loan Repayments		(1,184)
Interest received	6	254
Net Cash Used In Investing Activities		(7,805)
Financing Activities		
Proceeds from issuance of ordinary shares		20,946
Net Cash Generated From Financing Activities		20,946
Net Decrease In Cash And Cash Equivalents		(836)
Cash And Cash Equivalents At End Of Year		
Overdraft	17	(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 1985 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 October 2008. The Group's total committed banking and other committed finance facilities are £12.1m. The overdraft facility, which comprises £3.5m of this amount and is annually renewable, falls due for renewal in October 2009. The expiry of the remainder of the facility is between 3 and 12 years, as disclosed in note 17 and 21 to the accounts.

The Group has prepared trading forecasts through to December 2010 which include detailed cash flow calculations. The forecasts are based on detailed assumptions as to sales performance by month. The forecasts reflect a lower level of turnover for the second half of 2009 than the first half, but are based very largely upon order book for the third quarter and upon known prospects for the fourth quarter of 2009. The forecasts also reflect the implementation of a cost reduction programme, including reductions in the level of manpower by way of reduced temporary staff and redundancies amongst permanent employees. This programme has already commenced with our Blackburn plant currently in a 90-day consultation period. The forecasts reflect the benefit of savings already implemented during 2008.

During the first half of 2009, stock and work-in-progress were at high levels, partly due to the very high level of production activity during this period. The forecasts take into account some of the opportunities for the reductions in the level of working capital, particularly stock and work-in-progress. Actions have already been put in place to effect these reductions with good effect. Likewise, debtors are forecast to fall, principally due to a reduced operating level but also due to improved working capital management. Conversely, trade creditors are expected to fall due to reduced purchasing activity but also due to the current credit climate and its effect on the levels of credit insurance available to our suppliers.

There is inherent uncertainty in any forecast. Such uncertainties include the lack of visibility regarding sales beyond the third quarter of 2009 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 2009; 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 €1.15:£1. Technically, the bank has the right to reclassify all of the Group's borrowings as current, due to a post year end breach of covenants. The directors have been assured by the bank that no action is being taken, nor is intended to be taken, given the pending renewal of facilities, at which time it is expected that new more appropriate covenants will be set. 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 licencing or similar arrangements for Optare products in markets outside Europe which are currently under discussion; the sales opportunities in Europe, USA and other foreign territories for the Solo EV which has generated strong interest but for which only a modest level of sales have been assumed in the forecast; the impact of the launch of Optare Direct providing finance solutions to small and medium-sized operators; the impact of the launch of new environmentally friendly products and services to meet the current demands of the bus industry planned for launch in the second half of 2009; the acceleration of WIP and stock reduction plans beyond those assumed in the forecast and the realisation of surplus assets currently held for future operational growth.

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. Having taken the uncertainties into account the Board believes that it is appropriate to prepare the financial statements on the going concern basis. 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.

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 1	Presentation of financial statements: A revised presentation	1 January 2009
IFRS 2	Share-based payment: Vesting conditions and cancellations	1 January 2009
IFRS 8*	Operating segments	1 January 2009
IAS 23	Borrowing costs	1 January 2009
IAS 27	Consolidated and separate financial statements	1 July 2009
IFRS 3	Business Combinations	1 July 2009

International Financial Reporting Interpretations committee

IFRIC 12	Service Concession Arrangements	1 January 2008
IFRIC 13	Customer loyalty programmes	1 July 2008
IFRIC 14	IAS 19 – The limit on a defined benefit asset, minimuml funding requirements and their interaction	1 January 2008

** 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 balance sheet 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.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

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 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 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.

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 balance sheet 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.

Consolidated Financial Statements Summary of Significant Accounting Policies (continued)

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	-	25% 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.

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.

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.

3. **Impairment Reviews**
   Management perform impairment reviews annually on Goodwill and other intangible assets. There is an element of judgement required in assessing the potential future benefits to be derived from these assets.

4. **Provision For Onerous Contracts**
   Management has recognised the potential cost of onerous sales contracts entered into by the previous company in administration. There is an element of judgement required to estimate the financial impact of these contracts.

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.

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 realized in the income statement.

Notes To The Consolidated Financial Statements

for the period ended 31 December 2008

1. Business And Geographical Segments

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.

2. Restructuring And Other Exceptional Items

Exceptional items are costs and income that are not expected to recur in the normal course of business.	**2008 £'000**
Restructuring costs	3,442
Fundraising and acquisition expenses	723
Onerous contracts	3,479
Relocation costs	623
	8,267

Restructuring costs include redundancy, costs of closure of the Rotherham facility together with the write off of related fixed assets.

Fundraising and Acquisition costs include items 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.

Onerous contract costs relate to certain significant contracts and related penalty payments.

Relocation costs relate primarily to the planned move to Walker Park which has been aborted following the developer of the site being unable to complete required works within the required timeframe.

3. Loss From Operations

Loss from operations has been arrived at after charging/(crediting):	**2008 £'000**
Net foreign exchange losses	513
Cost of inventories recognised in cost of sales	37,861
Impairment of inventories	300
Depreciation	
– owned assets	614
– leased assets	17
Rental under operating leases	168
Staff costs (See Note 4)	15,401

3. Loss From Operations (Continued)

Amounts payable to Baker Tilly UK Audit LLP and their associates in respect of both audit and non-audit services.	**2008 £'000**
Audit services	
– statutory audit	118
Non Audit services:	
– Services relating to Corporate Finance	445
– Services relating to Tax Services - Advisory	33
– Services relating to Tax Services - Compliance	17
	613

4. Staff Costs

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

The aggregate remuneration for the above persons comprised:	**2008 £'000**
Wages and salaries	13,870
Social security costs	1,359
Other pension costs	172
	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 16 to 17.

5. Depreciation And Amortisation

	2008 £'000
Depreciation of property, plant and equipment	631
Impairment of goodwill	126
Amortisation of intangible fixed assets	151
Total depreciation and amortisation charge	908

Notes To The Consolidated Financial Statements (Continued)

for the period ended 31 December 2008

6. Finance Costs And Income

	2008 **£,000**
Interest on bank overdrafts and loans	510
Interest on obligations under finance leases	19
Total borrowing costs	529
Interest receivable	254

7. Discontinued Operations

During the period the Group sold the North West Bus and Coach Repairs business to NW Holdings 2008 Ltd for consideration of £1. The loss recognised in the accounts of Optare Plc relating to this transaction was £235,000.

The results of the business which have been included in the consolidated financial statements are as follows:

	2008 **£'000**
Revenue	557
Cost of sales	(516)
Gross profit	41
Administrative expenses	(651)
Loss before tax	(610)

8. Taxation

	2008 £'000
UK Corporation Tax (credit)	(109)
Total current tax	(109)
Deferred taxation:	
Current year	(458)
Other material items	(143)
Tax attributable to the Company and its subsidiaries	(710)

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 profit per the income statement as follows:

	2008 £'000
Loss on ordinary activities before tax	(14,022)
Tax at the domestic income tax rate 28%	(3,926)
Tax effect of expenses that are not deductible in determining taxable profit	419
Tax effect of utilisation of tax losses not previously recognised	(36)
Deferred tax asset not provided	2,976
Other material items	(143)
Tax credit and effective tax rate for the year	(710)

9. Dividends

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

Notes To The Consolidated Financial Statements (Continued)
for the period ended 31 December 2008

10. Loss Per Share
Including discontinued operations

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

	2008 **£'000**
Loss:	
Loss for the purposes of basic earnings per share (net profit for the year attributable to equity holders of the parent)	(13,922)
Effect of dilutive potential ordinary shares:	
- Interest on convertible loan notes (net of tax)	-
Loss for the purposes of diluted earnings per share	(13,922)

	Number
Weighted average number of ordinary share for the purposes of basic earnings per share	58,925,752
Effect of dilutive potential ordinary share:	
– Convertible loan notes	-
– Share options	-
Weighted average number of ordinary shares for the purposes of diluted earnings per share	58,925,752
Basic and fully diluted loss per share	(23.6)p

From Continuing Operations	**2008** **£'000**
Net loss for the year attributable to equity holders of the parent	(13,922)
Adjustment to exclude loss for the period from discontinued operations	610
Loss from continuing operations for the purposes of basic earnings per share	(13,312)
Effect of dilutive potential ordinary shares:	
– Interest on convertible loan notes (net of tax)	-
Loss from continuing operations for the purposes of diluted earning per share excluding discontinued operations	(13,312)
Basic and fully diluted loss per share	(22.6)p

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

11. 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%	Design and engineering of passenger vehicles
Optare Aftersales Ltd	UK	100%	100%	Supplier of bus parts and repair services
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

12. Goodwill

	2008 £'000
Cost	
Balance at start of period	-
Acquisition of subsidiary undertakings	5,990
	5,990
Impairment:	
Balance at start of period	-
Charge for the year	(126)
	(126)
Carrying amount as at 31 December 2008	5,864

Goodwill arose on the purchase of Jamesstan Limited, LPD Ltd and Darwen Holdings Ltd. Goodwill arising on the acquisitions of LPD Ltd have been treated as fully impaired in the accounts following the disposal of part of the business.

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 extrapolation for later years.

The key assumptions applied in the calculations were:	CGU
Gross profit (%)	14.0%
Growth rate (%)	2.0%
Discount rate	12.5%

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.

Notes To The Consolidated Financial Statements (Continued)

for the period ended 31 December 2008

13. Intangible Fixed Assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
Cost			
Balance at start of period	-	-	-
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
Amortisation			
Balance at start of period	-	-	-
Charge for the year	50	101	151
At 31 December 2008	50	101	151
Carrying amount			
At 31 December 2008	2,819	507	3,326

The vehicle related intangible assets include internally generated new product developments in the period which includes the Rapta, an integral deck vehicle. 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. The carrying value of vehicle designs was £1.75m as at 31 December 2008.

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.

14. Tangible Fixed Assets

	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
Depreciation					
Charge for the year	31	155	343	102	631
Disposals	-	-	(87)	-	(87)
As at 31 December 2008	31	155	256	102	544
Net book value at start of period	-	-	-	-	-
Net book value as at 31 December 2008	3,661	1,154	1,541	381	6,737

The net book value of assets held under finance leases and hire purchase agreements is £377,079.

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

15. Inventories

	2008 £'000
Raw materials and consumables	7,030
Work in progress	8,469
Finished goods	1,121
Demonstration fleet	603
Total	17,223

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

The demonstration fleet is held as security for finance for Mercedes Benz Finance Ltd.

Notes To The Consolidated Financial Statements (Continued)

for the period ended 31 December 2008

16. Trade and Other Receivables

	2008 £'000
Trade receivables	9,438
Allowance for estimated irrecoverable amounts	(203)
Other receivables and prepayments	809
	10,044

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.

17. Bank And Other Borrowings

	2008 £'000
Bank overdrafts	836
Bank loans	8,281
	9,117

The borrowings are repayable as follows:

On demand or within one year	2,318
In the second year	1,482
In the third to fifth year (inclusive)	4,446
After 5 years	871
	9,117

All loans were at floating interest rates, thus exposing the group to interest rate risks.
Analysis of borrowings by currency

Euro – cash balance	(257)
US Dollar – cash balance	(163)
Sterling – overdraft	1,256
Sterling – loans	8,281
	9,117

The fair value of borrowings is not significantly different to carrying value. Subsequent to the period-end the interest rate on certain of the loans was fixed.

18. Acquisitions During The Period

On 17 August 2007 Darwen Group Limited acquired the business and certain assets and liabilities of British City Bus Limited (in administration), East Lancashire Coachbuilders Limited (in administration), North West Bus and Coach Repairs Limited (in administration) together with the share capital of two dormant companies, East Lancashire Bus Builders Limited and Chalgrave Limited for a total cash consideration of £2.1m.

The trading activity of these companies has been incorporated into the continuing operations of the business as this acquisition was the cornerstone of the company's existence.

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

	Book Value	**Fair Value Adjustment**	**Fair Value**
			£'000
Assets and liabilities acquired:			
Intangibles – order book	34	-	34
Property, plant and equipment	2,515	-	2,515
Inventories	952	-	952
Receivables	226	-	226
Payables	(500)	-	(500)
Provisions	(704)	(250)	(954)
Deferred tax	(72)	70	(2)
Deferred tax	2,451	(180)	2,271
Consideration paid			
Cash			(2,100)
Costs of acquisition			(232)
			(2,332)
Goodwill			61

On 23 November 2007 Optare plc acquired, out of administration, the business and certain assets of Leyland Product Developments Limited (in administration) for a cash consideration of £315,000 via a newly formed and 100 per cent owned subsidiary, Cobco 862 Limited (renamed Darwen LPD Limited).

Details of the fair value of identifiable assets and liabilities acquired, purchase consideration and goodwill are as follows:

Notes To The Consolidated Financial Statements (Continued)

for the period ended 31 December 2008

	Book & Fair Value £'000
Assets And Liabilities Acquired:	
Property, plant and equipment	21
Inventories	17
Receivables	268
Provision	(50)
Deferred tax	(17)
	239
Consideration Paid:	
Cash	(315)
Costs of acquisition	(13)
	(328)
Goodwill	89

No fair value adjustments were made following this acquisition.

On 15th July 2008 Optare plc purchased 100% of the share capital of Jamesstan Investments Ltd and related subsidiaries for a consideration of £6.5 million. The transaction has been accounted for by the purchase method of accounting.

	Book Value £'000	Fair Value Adjustment £'000	Fair value £'000
Assets And Liabilities Acquired			
Property, plant and equipment	6,267	-	6,267
Inventories	11,972	(756)	11,216
Demo vehicles	1,016	-	1,016
Cash	838	-	838
Bank Loans & Overdraft	(9,747)	-	(9,747)
Provisions	(1,742)	-	(1,742)
Trade Creditors	(9,034)	(188)	(9,222)
Order Book	-	79	79
Customer Relationships	-	529	529
Vehicle Designs	-	1,800	1,800
Deferred Tax	-	(410)	(410)
Total	(430)	1,054	624
Consideration Paid			
Cash			(5,000)
Equity			(1,488)
Total consideration			(6,488)
Goodwill			5,864

All trade was acquired during the year, a pro forma income statement for the year ended 31 December 2008 is disclosed in the Directors' Report.
Goodwill relates to non-seperable intangible assets that do not meet the recognition criteria, and synergistic benefits expected to be achieved.

19. Trade And Other Payables

	2008 £'000
Trade payables	17,449
Social security and other taxes	1,102
Accruals and deferred income	2,649
	21,200

Creditor days as at 31 December 2008 were 69 days.
The directors consider that the carrying amount of trade payables approximates to their fair value.

20 Current Provisions

	Onerous Contracts 2008 £'000	Other Provisions 2008 £'000	Total Provisions 2008 £'000
Balance acquired on acquisition	-	1,050	1,050
Additional provision	2,301	-	2,301
Utilisation of provision	-	(1,050)	(1,050)
At 31 December 2008	2,301	-	2,301

During the period 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 has been made to reflect the onerous element of the outstanding commitments of these contracts.

21. Obligations Under Finance Leases

	Minimum lease payments 2008 £'000	Present value of minimum lease payments 2008 £'000
Amounts payable under finance leases:		
- within one year	249	224
- two to five years	33	28
	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 period ended 31 December 2008

22. Deferred Tax

	2008 £'000
Analysis for financial reporting purposes:	
Deferred tax liabilities	263
Net position at 31 December 2008	263

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

	2008 £'000
Credit to income for the year	(458)
Arising on acquisitions	721
At 31 December 2008	263

The following are the major deferred tax liabilities and assets recognised by the Group and the movements thereon during the period:

	Acquired £'000	Recognised in Income £'000	2008 £'000
Property plant and equipment	488	(488)	-
Intangible assets	684	(53)	631
Inventories	(10)	(202)	(212)
Provisions	(295)	261	(34)
Other items	(146)	93	(53)
Tax value of loss carry-forwards utilised	-	(69)	(69)
	721	(458)	263

At the balance sheet date, the Group has unused tax losses of £10,629,000 available for offset against future profits. A deferred tax asset of £2,976,000 has not been recognised in respect of these losses due to the unpredictability of future profit streams.

23. Provisions

	Warranty provision 2008 £'000	Total provision 2008 £'000
Balance acquired on acquisition	1,446	1,446
Additional provision	962	962
Utilisation of provision	(879)	(879)
At 31 December 2008	1,529	1,529

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.

24.Share Capital – Group

	2008 No.	2008 £
As At Incorporation		
Authorised:		
Ordinary shares of 1p each	60,000,000	600,000
Issued and fully paid:		
Ordinary shares of 1p each	4	0.04
As At 31 December 2008		
Authorised:		
Ordinary shares of 1p each	120,000,000	1,200,000
Issued and fully paid:		
Ordinary shares of 1p each	108,459,811	1,084,598

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 15th February 2008 - 49,293,141 new shares were issued at a price of 10p

On 15th July 2008 - 59,166,666 new shares were issued at a price of 30p

25. 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 £172,000 represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 December 2008, contributions of £50,000 due in respect of the current reporting period had not been paid over to the schemes.

Notes To The Consolidated Financial Statements (Continued)

for the period ended 31 December 2008

26. Capital Reserves

Fundraising expenses of £1,098,000 have been charged against the Share Premium account during the period.
The Merger Reserve was created when Optare plc acquired Darwen Ltd via a share for share transaction.

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
As at incorporation	-	-	-	-	-
Issue of ordinary share capital (net of expenses)	1,084	15,798	-	-	16,882
Created on acquisition of Darwen Group Limited	-	-	5,542		5,542
Net loss for the year	-	-	-	(13,922)	(13,922)
As at 31 December 2008	1,084	15,798	5,542	(13,922)	8,502

27. Retained Loss

	Group £'000
Net loss for the year	13,922
Balance as at 31 December 2008	13,922

28. Operating Lease Arrangements

The group as a lessee:

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

	Group £'000
Amounts due within one year	592
Amounts due between one and five years	505
Amounts due after five years	-
	1,097

29. Net Cash From Operating Activities

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

	Group £'000
Operating activities:	
Loss before tax	(14,632)
Adjustments for:	
Depreciation	631
Impairment of Goodwill	126
Amortisation of Intangible Assets	151
Net finance expense	274
Loss on disposal of fixed assets	135
Operating cash-flows before movements in working capital	(13,315)
Changes in working capital:	
Increase in inventories	(4,349)
Increase in trade and other receivables	(8,488)
Increase in trade and other payables	11,614
Increase in provisions	1,090
Total changes in working capital	(133)
Net cash absorbed in operating activities	(13,448)

30. Post Balance Sheet Events

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

31. Related Party Transactions

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

32. Contingent Liabilities

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

Company Balance Sheet

as at 31 December 2008

	Notes	2008 £'000
Fixed Assets		
Tangible assets	34	13
Investments	33	19,794
		19,807
Current Assets		
Debtors due within one year	35	4,309
		4,309
Current Liabilities		
Creditors: amounts falling due within one year	36	14,692
Net Current Liabilities		(10,383)
Net Assets		9,424
Capital and Reserves		
Share capital	37	1,084
Capital reserves	38	20,234
Retained loss	39	(11,894)
Total Equity		9,424

The financial statements on pages 46 to 49 were approved by the board of directors and authorised for issue on 29 June 2009 and are signed on its behalf by:

Mike Dunn
Chief Financial Officer

Company Financial Statements Summary of Significant Accounting Policies

for the period ended 31 December 2008

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the group'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.230 of the Companies Act 1985 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 period ended 31 December 2008

33. Investments

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

	Cost £'000	Impairment £'000	Carrying Value £'000
Optare Group Ltd	13,307	-	13,307
Jamesstan Investments Ltd	6,487	-	6,487
Optare UK Ltd	10,129	10,129	-
	29,923	10,129	19,794

Details of the Company's subsidiaries at 31 December 2008 are shown in Note 11.

34. Fixed Assets

Cost:	£'000
Fixtures & fittings acquired during period	16
Depreciation charge	(3)
Net book value at year end	13

35. Debtors Due Within One Year

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

36. Creditors: Amounts Falling Due Within One Year

	2008 £'000
Overdraft	589
Trade creditors	298
Amounts payable to subsidiary undertakings	13,492
Social security and other taxes	78
Accruals and deferred income	235
	14,692

37. Share Capital – Company

	2008 No.	2008 £
As At Incorporation		
Authorised:		
Ordinary shares of 1p each	60,000,000	600,000
Issued and fully paid:		
Ordinary shares of 1p each	4	0.04
AS AT 31 DECEMBER 2008		
Authorised:		
Ordinary shares of 1p each	120,000,000	1,200,000
Issued and fully paid:		
Ordinary shares of 1p each	108,459,811	1,084,598

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 15th February 2008, 49,231,141 new shares were issued at a price of 10p
On 15th July 2008, 59,166,666 new shares were issued at a price of 30p

38. Capital Reserves

	Share premium £'000	Merger reserve £'000	Total £'000
As at incorporation	-	-	-
Issue of ordinary share capital (net of expenses)	15,798	-	15,798
Created on acquisition of Darwen Group Limited	-	4,436	4,436
As at 31 December 2008	15,798	4,436	20,234

39. Retained Loss

	£'000
Net loss for the period	11,894
Balance as at 31 December 2008	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 July 2009, 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 (Executive Chairman)
Jim Sumner (Chief Executive Officer)
Michael James Dunn (Chief Financial Officer)
David Anthony Maughan (Non Executive Director)
Roy Robert Edward Stanley (Non Executive Director)
David Coulson Stonehouse FCA (Non Executive Director)

Registered Office:

Lower Philips Road
Whitebirk Industrial Estate
Blackburn
Lancashire
BB1 5UD

30 June 2009

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 first 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 July 2009 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 July 2009.

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 resolutions 1-6: Re-election of Directors

In line with the Company's articles of association (the "Articles"), 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 Company's first AGM, all directors must therefore retire and be put forward for re-election. Consequently, John Matthew Fickling, Jim Sumner, Michael James Dunn, David Anthony Maughan, Roy Robert Edward Stanley and David Coulson Stonehouse will retire and stand for re-election at this meeting. Brief biographical details of directors standing for re-election are included in the Annual Report 2008.

Ordinary resolution 7: Annual Report 2008

There will be a resolution to lay before members the Annual Report in respect of the year ended 31 December 2008 (the "Annual Report 2008"). Shareholders will have the opportunity to put questions on the Annual Report 2008 to the directors before the resolution is proposed to the Meeting.

Ordinary resolution 8: Re-appointment of auditors

Shareholders will be asked to confirm the re-appointment of Baker Tilly UK Audit LLP as the Company's auditors to hold office until the conclusion of the next annual general meeting of the Company and to grant authority to the directors to determine the auditors' remuneration.

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 July 2009. 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
Chairman

Notice Of Annual General Meeting

Notice is hereby given that an Annual General Meeting of Optare plc (the "Company") will be held at the offices of Optare Group Ltd, Manston Lane, Crossgates, Leeds, LS15 8SU on 30 July 2009 at 10:00 am for the following purpose:

Ordinary Resolutions

1 To re-elect as a director, Roy Robert Edward Stanley, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.

2 To re-elect as a director, John Matthew Fickling, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.

3 To re-elect as a director, Michael James Dunn, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.

4 To re-elect as a director, David Anthony Maughan, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.

5 To re-elect as a director, David Coulson Stonehouse, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.

6 To re-elect as a director, James Sumner, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.

7 To receive the directors' report and accounts of the Company for the period ended 31 December 2008, together with the reports of the directors and the auditors thereon.

8 To re-appoint Baker Tilly UK Audit LLP as auditors of the Company and to authorise the directors to determine their remuneration.

By Order of the Board

Mike Dunn
Company secretary
Dated [1] June 2009

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

Notes:

1 Copies of the following documents will be available for inspection at the Company's Registrar, Capita Registrar Limited, 34 Beckenham Road, Beckenham, Kent during usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this Notice until the conclusion of the Annual General Meeting and at the place of the Annual General Meeting itself from 15 minutes before the Annual General Meeting until the conclusion of the Annual General Meeting:

1.1 service contracts of John Matthew Fickling, James Sumner, Michael James Dunn;

1.2 letters of appointment between the Company and each of the non-executive directors of the Company.

2 Members are entitled to appoint a proxy to exercise all or any of their rights to attend and to speak and vote on their behalf at the meeting. A shareholder may appoint more than one proxy in relation to the Annual General Meeting provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. Where more than one proxy is appointed, a member must specify the number of shares the rights in respect of which each proxy is entitled to exercise. A proxy need not be a shareholder of the Company. A form of proxy which may be used to make such appointment and give proxy instructions accompanies this notice.

3 Completion and return of the form of proxy will not preclude shareholders from attending or voting at the meeting, if they so wish. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

4 To be effective, this proxy form must be lodged at Company's registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not later than 48 hours before the time of the meeting or any adjournment thereof, together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or, where the proxy form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed.

5 In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the register of members will be counted. Any alterations made to this proxy should be initialled.

6 If you submit more than one valid proxy appointment in respect of the same shares held by you, the appointment received last before the latest time for the receipt of proxies will take precedence.

7 In the case of a corporation this proxy must be given under its common seal or be signed on its behalf by an attorney or officer duly authorised.

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

9 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 10:00 am on 28 July 2009, (being not less than 48 hours prior to the time fixed for the meeting) or, if the meeting is adjourned, such time being not less than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time or within 48 hours of the adjourned meeting will be disregarded in determining the right of any person to attend, speak or vote at the meeting or at any such adjournment.

10 As at 26 June 2009 (being the latest practicable date prior to the publication of this document), the Company's issued share capital consists of 108,459,811 ordinary shares of 1p each and which each carry one vote. Therefore, the total voting rights in the Company as at 26 June 2009 are 108,459,811.

11 In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:

11.1 if a corporate shareholder has appointed the chairman of the meeting as its corporate representative to vote on a poll in accordance with the directions of all of the other corporate representatives for that shareholder at the meeting, then on a poll those corporate representatives will give voting directions to the chairman and the chairman will vote (or withhold a vote) as corporate representatives in accordance with those directions; and

11.2 if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative.

Corporate shareholders are referred to the guidance issued by the Institute of Chartered Company Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details on this procedure. The guidance includes a sample form of appointment letter if the chairman is being appointed as described above.

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

For use at the Annual General Meeting of the Company to be held on 30 July 2009

I/We, the undersigned, being (a) member(s) of the Company, appoint:

(a)	the chairman of the meeting OR
(b)	Name:
	Address:

(if you wish to appoint someone other than the chairman to be your proxy, please insert the name and full postal address of the proxy, who need not be a member of the Company, and delete row (a))
as my/our proxy to vote on my/our behalf as indicated below (or, if no such indication is given, at his/her discretion) at 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 July 2009 and at any adjournment thereof, on the Resolutions set out below and on any other business arising at the Annual General Meeting and at any adjournment thereof.

Resolutions	**For**	**Against**	**Vote Withheld**
Ordinary Resolutions			
To re-elect as a director, Roy Robert Edward Stanley, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.			
To re-elect as a director, John Matthew Fickling, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.			
To re-elect as a director, Michael James Dunn, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.			
To re-elect as a director, David Anthony Maughan, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.			
To re-elect as a director, David Coulson Stonehouse, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.			
To re-elect as a director, James Sumner, who is retiring in accordance with Article 85 of the Company's articles of association and who (being eligible) is offering himself for re-election.			
To receive the directors' report and accounts of the Company for the period ended 31 December 2008, together with the reports of the directors and the auditors thereon.			
To re-appoint Baker Tilly UK Audit LLP as auditors of the Company and to authorise the directors to determine their remuneration.			

Please indicate in which way you wish your proxy to vote by inserting "X" in the appropriate box. Unless otherwise instructed, the proxy will vote as he thinks fit or abstain from voting.

Optare Plc

Date:

Signature(s) or Common Seal:

Full name(s):

Address:

Notes

1 A member entitled to attend and vote at the meeting is also entitled to appoint one or more proxies in respect of the different shares held by him to attend and vote on a poll instead of him. A proxy may demand, or join in demanding, a poll. A proxy need not be a member of the Company.

2 Completion and return of the form of proxy will not preclude shareholders from attending, speaking or voting at the meeting or adjourned meeting, if they so wish. If you have appointed a proxy and attend the meeting in person, your proxy appointment will automatically be terminated.

3 To be effective, this proxy form must be completed, signed and lodged at the Company's registrar, Capita Registrars Limited, The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU, not less than 48 hours before the time of the meeting or any adjournment thereof, together, if appropriate, with the power of attorney or other authority (if any) under which it is signed or a notarially certified copy of such power or, where the proxy form has been signed by an officer on behalf of a corporation, a notarially certified copy of the authority under which it is signed or signed in some other way approved by the Board. Forms of proxy may not be submitted via the Company's website or via any email address set out on the Company's website.

4 In the case of a joint holding, a proxy need only be signed by one joint holder. If more than one such joint holder lodges a proxy only that of the holder first on the register of members will be counted. Any alterations made to this proxy should be initialled.

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

6 In the case of a corporation this proxy must be given under its common seal or be signed on its behalf by an attorney or officer duly authorised.

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

8 Pursuant to Regulation 41 of the Uncertificated Securities Regulations 2001, the time by which a person must be entered on the register of members in order to have the right to attend and vote at the Annual General Meeting is 6.00pm am on 28 July 2009, (being not less than 48 hours prior to the time fixed for the meeting) or, if the meeting is adjourned, such time being not less than 48 hours prior to the time fixed for the adjourned meeting. Changes to entries on the register of members after that time or within 48 hours of the adjourned meeting will be disregarded in determining the right of any person to attend, speak or vote at the meeting or at any such adjournment.