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Company Registration No 06339159

Optare UK Limited

Directors' report and financial statements
for the year ended
31 December 2010

Directors' report

The directors present their directors' report and financial statements for the year ended 31 December 2010

Principal activities

The company's principal activities are the manufacture and supply of passenger vehicles, the importation and distribution of coaches and the supply of service support including spare parts and repair facilities for these vehicles

Business review

Following on from the major scale changes made in 2009, when we halved the workforce, we reluctantly took the decision to cease manufacture of new buses in Blackburn, maintaining a relatively small workforce there only for refurbishment, repair, product development in 2010

The operating loss of £4 6 million reflects the extremely difficult challenges associated with the business in 2010 The results have been impacted by an exceptional item charge of £1 1million these costs relate to redundancy and restructuring costs in the year Further details are given in the Optare plc annual report for 2008 available from Companies House or from www optare com The results of the company are set out in the profit and loss account on page 5

Future Developments

The development of a number of buses has been undertaken in 2010 with considerable amount of milestones achieved within the year These new buses will offer, bio-methane, electric and hybrid buses that have significant improvements in fuel economy to the market

Principle risks and uncertainties

The principle risks and uncertainties that affect the company are disclosed in the Optare plc annual report 2010

Financial risk

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 company are inter-company debt The company has not established a formal policy on the use of financial instruments but assesses the risks faced

Proposed dividend

The directors do not recommend the payment of a dividend

Research and Development

The group has one of the strongest product development teams in the industry Despite challenging market conditions the following milestones were achieved during the year

- Introduction of Optare market leading Drive console to aid fuel efficient driving
- Launch of Optare Advanced Hybrid system
- Introduction of the UK's first Bio-methane and Electric buses
- Introduction of Optare new high-spec left-hand drive models for mainland Europe

Political and Charitable Contributions

The company made no charitable or political contributions during the year

Directors' report *(continued)*

Disabled Persons

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

Employee Involvement

The Company encourages the involvement of its employees through regular dissemination of information of particular concerns to employees

Directors Indemnity

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

Policy on Payment of Creditors

It is Company 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 2010 were 80 days

Directors and their interests

The directors are not required to resign by rotation The directors who held office during the financial year were as noted below

MJ Dunn
J M Fickling
J Sumner
G C Saint (appointed 3rd February 2010)

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 the steps that they ought to have taken as a director to make themselves aware of any relevant audit information and to establish that the Company's auditors are aware of that information

By order of the board

J Sumner
Director

16 June 2011

Statement of directors' responsibilities in respect of the Directors' Report and the financial statements

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

Company law requires the directors to prepare financial statements for each financial year Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law) Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period In preparing those 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 applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements,

d prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business

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

Independent Auditors Report to the Members of Optare UK Limited

We have audited the financial statements on pages 5 to 19 The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice)

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006 Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed

Respective responsibilities of directors and auditor
As more fully explained in the Directors' Responsibilities Statement set out on page 3 the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors

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

Opinion on financial statements
In our opinion the financial statements

- give a true and fair view of the state of the company's affairs as at 31 December 2010 and of its loss for the year then ended,
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, and
- have been prepared in accordance with the requirements of the Companies Act 2006

Opinion on other matter prescribed by the Companies Act 2006
In our opinion the information given in the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements

Matters on which we are required to report by exception
We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion

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

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

22 June 2011

Profit and loss account
for the year ended 31 December 2010

	Note	Before Exceptional Items	Exceptional Items 2010 *Note 8*	Total 2010	Total 2009
		£	£	£	£
Turnover	*2*	6,202,902	-	6,202,902	27,279,188
Cost of sales		(7,327,789)	-	(7,327,789)	(27,805,685)
Gross loss		(1,124,887)	-	(1,124,887)	(526,497)
Administrative expenses		(2,332,467)	(1,139,504)	(3,471,971)	(5,492,699)
Operating loss	*3*	(3,457,354)	(1,139,504)	(4,596,858)	(6,019,196)
Interest receivable	*6*	1,538	-	1,538	15,462
Interest payable	*7*	(61,061)	-	(61,061)	(2,678)
Loss on ordinary activities before taxation		(3,516,877)	(1,139,504)	(4,656,381)	(6,006,412)
Taxation on loss on ordinary activities	*9*	-	-	-	-
Loss for the period	*19*	(3,516,887)	(1,139,504)	(4,656,381)	(6,006,412)

There are no recognised gains or losses other than the loss for the period stated above

Registered number 06339159

Balance sheet
at 31 December 2010

	Note	2010	2009
		£	£
Fixed assets			
Intangible assets	*11*	1,976,283	1,533,414
Tangible assets	*12*	701,171	920,856
Investments	*10*	2	2
		2,677,456	2,454,272
Current assets			
Stocks	*13*	693,291	1,070,094
Debtors	*14*	545,639	732,212
Cash at bank and in hand		-	751,357
		1,238,930	2,553,663
Creditors: amounts falling due within one year	*15*	(8,467,948)	(4,616,650)
Net current liabilities		(7,229,018)	(2,062,987)
Total assets less current liabilities		(4,551,562)	391,285
Creditors. amounts due after 1 year	*25*	(23,581)	(34,899)
Provisions for liabilities	*16*	(174,038)	(449,186)
Net liabilities		(4,749,181)	(92,800)
Capital and reserves			
Called up share capital	*17*	4,929,314	4,929,314
Share premium account	*18*	1,105,783	1,105,783
Capital Reserve	*18*	11,200,000	11,200,000
Profit and loss account	*18*	(21,984,278)	(17,327,897)
Equity shareholders' deficit	*19*	(4,749,181)	(92,800)

These financial statements were approved by the board of directors on 16 June 2011 and were signed on its behalf by

J Sumner
Director

Notes to the financial statements

(forming part of the financial statements)

1 Accounting policies

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

Basis of preparation

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

The company is dependent for its working capital on funds provided to it by Optare plc, the company's parent undertaking Optare plc has provided the company with an undertaking that for at least 12 months from the date of approval of these financial statements, it will continue to make available such funds as are needed by the company and in particular Optare plc and other company subsidiaries will not seek repayment of the amounts currently made available

The going concern disclosure included in Optare plc's financial statements is repeated below

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 September 2010 The overdraft facility, which comprises £3 0m and is annually renewable, falls due for renewal in September 2011 The directors are confident that this will facility will be renewed
The Group has prepared trading forecasts through to December 2012 which include detailed cash flow calculations The forecasts are based on detailed assumptions as to sales performance by month The forecasts reflect a higher level of turnover for the second half of 2011 than the first half, but are based largely upon order book This includes an increased level of sales of Green Bus vehicles – both electric vehicles and hybrids The forecast assumes a moderate level of savings in material costs, achieved both through the company's own efforts and through joint initiatives with Ashok

During the first quarter of 2011, disruption was suffered due to restricted working capital The forecast is based on the current state of affairs, where these issues have been resolved Trade debtors and creditors are forecast to increase consistent with increased sales

There is inherent uncertainty in any forecast Such uncertainties include the risks involved in managing a rapid increase in output volumes, the risks involved in any site move, lack of visibility regarding sales beyond the current order book and the possibility that the external economic environment might worsen However the Company is taking measures to ensure that production management is strengthened to boost output, and experienced project management is heavily involved in planning and executing the site move Labour efficiency is key to important in achieving profitability, and the Directors have put in place strengthened operational management and procedures to ensure that this is achieved The Directors feel that a reasonably balanced approach has been taken to these risks in the forecast

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 further benefits of savings in material costs arising from joint initiatives with Ashok Sales opportunities exist in Europe and other foreign territories for our buses in excess of the forecast volumes

Notes to the financial statements

1 Accounting policies *(continued)*

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

Consolidation

Under section 400 of the Companies Act 2006, the company is exempt from the requirement to prepare consolidated financial statements The accounts present information about the company as an individual undertaking and not about its group

Related Party Transactions

As the Company is a wholly owned subsidiary of Optare plc, the Company has taken advantage of the exemption contained in FRS 8 and has therefore not disclosed transactions or balances with entities which form part of the group (or investees of the group qualifying as related parties) The consolidated financial statements of Optare plc within which this Company is included, can be obtained from Companies House

Cashflow Statement

Under Financial Reporting Standard 1 (Revised), the company is exempt from the requirement to prepare a cash flow statement, on the grounds that its ultimate parent undertaking, Optare plc (the "Group") includes the company in its own published consolidated financial statements

Turnover

Turnover represents the invoiced amount of goods sold and services provided, (stated net of value added tax) and originates entirely in the UK The turnover and pre tax profit are all attributable to the principal activities of the company

Tangible fixed asset

Depreciation is provided on all fixed assets, other than freehold land, at rates calculated to write off the cost or valuation, less estimated residual value, of each asset evenly over its expected useful life, as follows

Production tooling	-	33% per annum straight line
Plant, equipment and motor vehicles	-	25% per annum straight line
Fixtures and fittings	-	10% per annum straight line

The company's policy is to carry all assets at historical cost

Notes to the financial statements

1 Accounting policies *(continued)*

Research and development expenditure

Research expenditure is expensed in the period in which it is incurred

An internally-generated intangible asset arising from the Company's business 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, and
- The development cost of the asset can be measured reliably

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

Leasing and hire purchase contracts

Where the company enters into a lease which entails taking substantially all the risks and rewards of ownership of an asset, the lease is treated as a 'finance lease' The asset is recorded in the balance sheet as a tangible fixed asset and is depreciated over its estimated useful life or the term of the lease, whichever is shorter Future instalments under such leases, net of finance charges, are included within creditors Rentals payable are apportioned between the finance element, which is charged to the profit and loss account, and the capital element which reduces the outstanding obligation for future instalments

All other leases are accounted for as 'operating leases' and the rental charges are charged to the profit and loss account on a straight line basis over the life of the lease

Pension costs

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The amount charged against profits represents the contributions payable to the scheme in respect of the accounting period

Stocks

Stocks are stated at the lower of cost and net realisable value In determining the cost of raw materials, consumables and goods purchased for resale, the weighted average purchase price is used For work in progress and finished goods manufactured by the company, cost is taken as production cost, including labour and an appropriate proportion of attributable overheads

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

Foreign currency

Assets and liabilities in foreign currencies are expressed in sterling at the rate of exchange ruling at the balance sheet date, with exchange differences being dealt with in the profit and loss account

Notes to the financial statements

1 Accounting policies *(continued)*

Capital Contributions

Funds made available to the Company by its parent in the form of a non-returnable gift are deemed to be a capital contribution received The Company has no obligation to transfer economic benefits and the funds are taken direct to shareholders' funds Funds received in cash, cash equivalents or loan waivers are considered realised and taken to profit and loss reserves Funds received in unrealised form are taken to Other Reserves until realised

Provisions

Provisions are recognized 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

Notes to the financial statements

2 Analysis of turnover by geographical market

	2010 £	2009 £
United Kingdom	6,173,718	27,279,188
Other	29,184	-
	6,202,902	27,279,188

3 Loss on ordinary activities before taxation

	2010 £	2009 £
Loss on ordinary activities before taxatios is stated after charging/(crediting)		
Depreciation of owned assets	264,932	197,128
Depreciation of assets held under hire purchases and finance leases	13,680	12,780
Operating lease rentals – plant and machinery	230,382	245,561
Foreign exchange difference	19,802	32,679

Auditors remuneration borne by parent company Optare plc

4 Remuneration of directors

No Director received any remuneration from the company during the year

5 Staff numbers and costs

The average number of employees during the year was as follows

	Number of employees 2010 No	2009 No
Administration	73	65
Production	105	232
	178	297

The aggregate payroll costs of these persons were as follows

	2010 £	2009 £
Wages and salaries	4,455,980	6,911,930
Social security costs	522,544	698,623
Other pension costs	71,787	79,037
	5,050,311	7,689,590

Notes to the financial statements

6 Interest receivable

	2010	2009
	£	£
Other ınterest	1,538	15,462

7 Interest payable and similar charges

	2010	2009
	£	£
Interest on bank overdrafts and loans	61,061	2,678
	61,061	2,678

8 Exceptional Items

Exceptıonal ıtems are costs that are not expected to recur ın the normal course of busıness

	2010	2009
	£	£
Cost of sales		
Warranty Costs	-	354,000
Administratıve expenses		
Onerous contracts	-	271,580
Relocatıon costs	-	88,255
Restructurıng	1,139,504	1,236,665
	1,139,504	1,950,500

Onerous contract costs relate to certaın sıgnıficant contracts and related penalty payments The cost of sales cost relates to warranty provısıons to cover the vehıcles sold as part of the onerous contract

Relocatıon costs relate pnmanly to the planned move to Walker Park whıch has been aborted followıng the developer of the sıte beıng unable to complete requıred works wıthın the requıred tımeframe

Restructurıng costs related to redundancy costs whıch ıncludes the cost of employment of those effected durıng the consultatıon penod at the Blackburn plant to realıgn the busıness wıth the current market demand

Notes to the financial statements

9 Taxation

Factors affecting the tax charge for the current year

The current tax charge for the year is different to that calculated by applying the standard rate of corporation tax in the UK The differences are explained below

	2010	2009
	£	£
Current tax reconciliation		
Loss on ordinary activities before tax	(4,656,382)	(6,006,412)

	2010	2009
	£	£
Current tax at 28%	(1,303,787)	(1,681,795)
Effects of		
Expenses not deductible for tax purposes	-	27,038
Losses not utilised	1,303,787	1,654,757
Total current tax charge	-	-

Factors that may affect future tax charges

Future effective tax rates may vary due to short term timing differences

10 Investments and Subsidiaries

Name of subsidiary	*Place of incorporation & operation*	*Proportion of ownership interest*	*Proportion of voting power held*
Darwen LPD Ltd	UK	100%	100%
Chalgrove Ltd	UK	100%	100%
East Lancashire Busbuilders Ltd	UK	100%	100%

The investment in Darwen LPD Ltd is held at the nominal share value of £2

Notes to the financial statements

11 Intangible Fixed Assets

	Capitalised Development 2010 £	Total 2010 £
Cost		
At start of year	1,533,414	1,533,414
Additions in the period	442,869	442,869
At end of period	1,976,283	1,976,283
Amount written off	-	-
Charge for the period	-	-
At end of period	-	-
Net book value		
At 31 December 2010	1,976,283	1,976,283
At 31 December 2009	1,533,414	1,533,414

The capitalised intangible assets include internally generated new product development in the year The amortisation period is the anticipated useful economic life of the design up to 20 years Amortisation is charged using a straight line basis, once sale of the buses commences

Notes to the financial statements

12 Tangible Fixed Asset

	Production tooling £	Plant equipment and motor vehicles £	Fixtures and fittings £	Total
Cost				
At start of year	203,970	1,010,627	63,451	1,278,048
Additions	47,375	11,552	-	58,927
Disposals	-	-	-	-
At end of year	251,345	1,022,179	63,451	1,336,975
Depreciation				
At start of year	61,393	282,471	13,328	357,192
Charge for year	76,279	195,973	6,360	278,612
Eliminated on disposals	-	-	-	
At end of year	137,672	478,444	19,688	635,804
Net book value				
At 31 December 2010	**113,673**	**543,735**	**43,763**	**701,171**
Net book value				
At 31 December 2009	**142,577**	**728,155**	**50,123**	**920,856**

The net book value of assets held under finance leases and hire purchase agreements is £35,127 (2009 £47,907) Depreciation charged on assets held under finance leases/HP was £12,780 (2009 £12,780)

Notes to the financial statements

13 Stocks

	2010 £	2009 £
Raw materials and consumables	442,078	811,025
Work in progress	251,213	259,068
	693,291	1,070,094

14 Debtors

	2010 £	2009 £
Trade debtors	158,827	349,740
Due from fellow subsidiary companies	188,653	188,653
Other debtors	-	39,127
Prepayments and accrued income	198,159	154,692
	545,639	732,212

15 Creditors: amounts falling due within one year

	2010 £	2009 £
Bank overdraft	5,706,144	-
Trade creditors	763,713	1,686,775
Amount due to holding company	394,891	52,817
Amount due to fellow subsidiaries	452,629	2,180,898
Other taxes and social security	407,950	490,494
Accruals and deferred income	731,305	194,350
Obligations under hire purchase contracts and finance leases	11,316	11,316
	8,467,948	4,616,650

Notes to the financial statements

16 Provisions

	Onerous Contracts 2010 £	Warranty Provision 2010 £	Total 2010 £
Opening Balance	80,165	369,021	449,186
Additional provisions	-	37,931	37,931
Utilisation of provision	(56,165)	(256,914)	(313,079)
	24,000	150,038	174,038

17 Called up share capital

	2010 £	2009 £
Authorised		
300,000,000 Ordinary shares of 10p each	30,000,000	30,000,000
Allotted, called up and fully paid		
49,293,145 Ordinary shares of 10p each	4,929,314	4,929,314

18 Reserves

	Capital Reserve £	Share premium account £	Profit and loss account £
Opening Balance	11,200,000	1,105,783	(17,327,897)
Loss for financial period	-	-	(4,656,381)
At end of period	11,200,000	1,105,783	(21,984,278)

Notes to the financial statements

19 Reconciliation of movements in equity shareholders' deficit

	2010	2009
	£	£
Opening deficit	(92,800)	(86,388)
Capital contribution from parent company	-	6,000,000
Loss for the financial period	(4,656,381)	(6,006,412)
Closing equity shareholders' deficit	(4,749,181)	(92,800)

20 Contingent Liabilities

At the year end, the company had provided a cross guarantee to Bank of Scotland to secure the liabilities of Optare Group Ltd and Optare plc up to a value of £3,000,000

21 Commitments

Annual commitments under non-cancellable operating leases are as follows

	Plant and Machinery 2010	**Land and Buildings 2010**	**Total 2010**
	£	**£**	**£**
Operating leases which expire			
Within one year	13,060	165,000	178,060
In the second to fifth year inclusive	1,187	-	1,187
	14,247	165,000	179,247

22 Pension scheme

The company operates a defined contribution pension scheme The assets of the scheme are held separately from those of the company in an independently administered fund The pension cost charge for the year represents contributions payable by the company to the fund and amounted to £71,787 (2009 £79,037) No pension contributions were either prepaid or outstanding at the year end

23 Deferred Tax

At the report date, the company has unused tax losses of £20,458,965 (2009 £15,802,583) available for offset against future profits A deferred tax asset of £5,523,920 at a tax rate of 27% (2009 £4,424,723 at 28%) has not been recognised in respect of these losses due to the unpredictability of future revenue streams

Notes to the financial statements

24 Ultimate parent company

At the balance sheet date the Company's ultimate holding company was Optare plc a company incorporated in England and Wales The results of the company are consolidated in the group accounts prepared by Optare plc The consolidated accounts of Optare plc are available from the Company Secretary, Lower Philips Road, Whitebirk Industrial Estate, Blackburn, BB1 5UD

25 Creditors: amounts falling due after 1 year

	2010	2009
	£	£
Vehicle Finance	23,581	34,899
	23,581	34,899