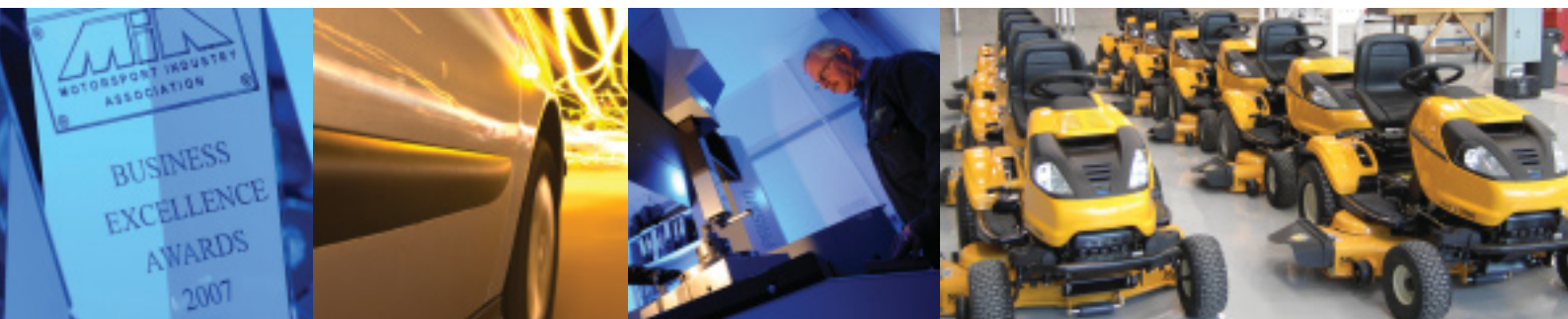


Annual Report 2008



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Annual Report and Financial Statements 2008

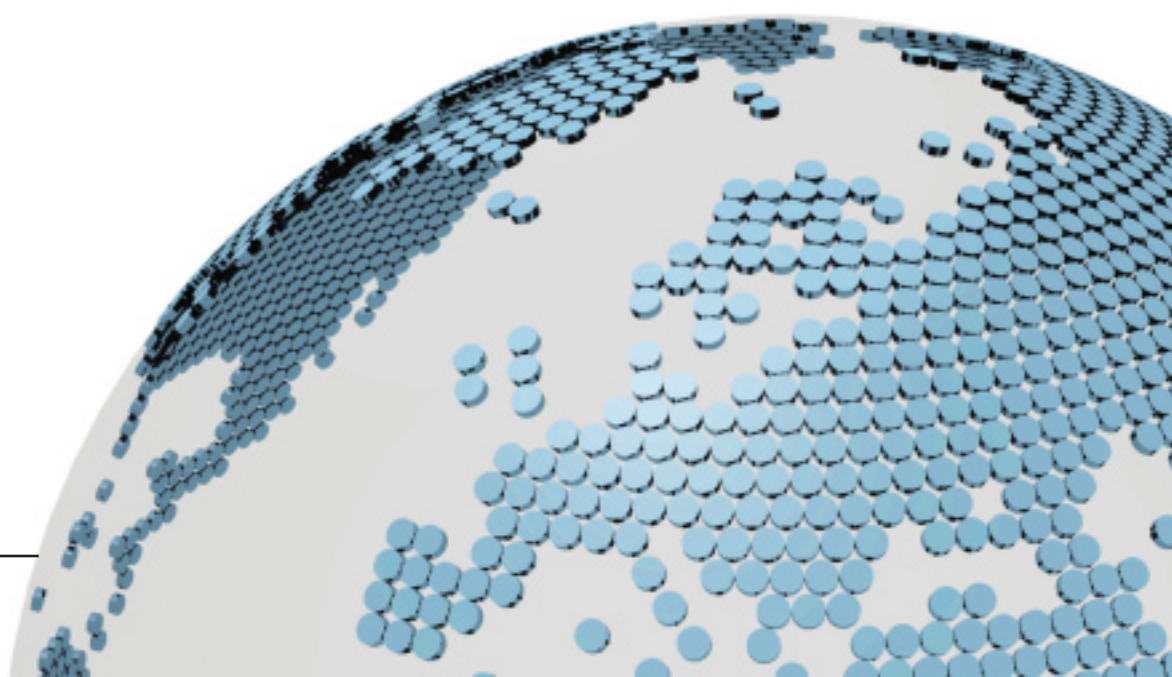
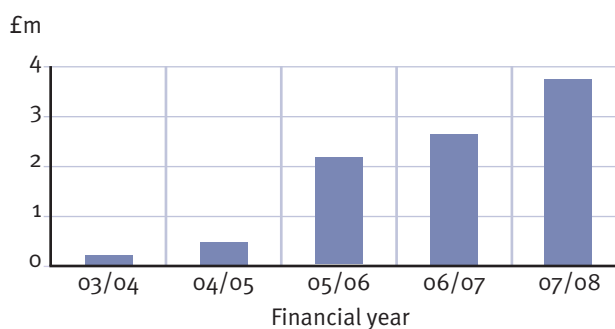
Torotrak is the world leader in full-toroidal traction-drive transmission technology, focused on the development of IVT (Infinitely Variable Transmission) and TCVT (Toroidal Continuously Variable Transmission) systems which deliver outstanding levels of performance, functionality and commercial advantage in automotive, truck, bus, outdoor power equipment, agricultural and off highway applications.

Financial Highlights

| | 2008 £m | 2007 £m |
|----------------------------------|------------|------------|
| Revenue | 3.7 | 2.7 |
| Operating cash inflow/ (outflow) | 0.5 | (3.5) |
| Year end net cash | 11.5 | 4.3 |
| Operating loss | (2.8) | (3.7) |

- 37% increase in revenues to £3.7m
- 26% reduction in operating loss to £(2.8)m
- £5.4m cash received from licence agreements
- £0.5m positive operating cash generated during the year
- £6.7m net proceeds raised from Placing and Open Offer
- Robust balance sheet - £11.5m cash at year end

Revenue growth over 5 years



Chairman's Review

Operational Highlights

- Substantial new licensee in the truck and bus market secured as part of licence and engineering development agreements valued at £7m over three to four years
- Tata Motors confirmed as an active new licensee following Indian Government approval
- Production and sales of first transmissions commenced at Infinitrak in April 2008, as envisaged in our February Interim Management Statement
- Two new licensees in motorsport

Financial Strengthening and Results

We have seen a substantial flow of cash into the business from new equity funds raised from the Placing and Open Offer in August 2007 and also from new licensees secured in the second half of the year. As a result, our balance sheet has been materially strengthened, with £11.5m cash resources at 31 March 2008. We end the year in a robust financial position.

Revenues have continued to build significantly, with a 37% increase in the year to £3.7m (2007: £2.7m). We have contained operating costs at 2007 levels and hence have reduced operating losses by 26% to £(2.8)m (2007: £(3.7)m).

Largely as a consequence of the significant licence fees received from new licence deals during the year, operating cash flow turned positive and we generated a £0.5m net inflow (2007: £(3.5)m outflow).

Commercial Progress

New licensees and strengthening of business prospects

Substantial progress has been made in securing major new customers and licensees, significantly enhancing business prospects and delivering financially and commercially valuable agreements for the Group.

The benefits of the new equity funds that we raised are clear to see in the quality of outcome of negotiations that we concluded in December 2007 with our new customer, a major European manufacturer of trucks and buses, who signed licence agreements and development contracts valued at some £7m when realised over the next three to four years. We are also delighted to confirm that our licence agreement with Tata Motors became unconditional in March 2008 following its approval by the Indian Government. Additionally, we have secured two further new licensees during the year; Xtrac (a leading manufacturer of specialised motorsport driveline systems) and also an undisclosed Formula 1 team who are licensed to develop and use our technology in the fields of general motorsport and Formula 1 respectively.

Together, these four new licensees have paid a total of £5.4m in licence fees and stage payments during the year. To command such fees at this stage of the development of Torotrak's business is a strong endorsement of the growing value recognised in our technology. This unprecedented level of licence income has more than compensated for some other areas of our plan which have been impacted by more difficult trading and market conditions, for example with our tractor licensees who, as we reported in November 2007, are now expected to start series production in 2010.

Infinitrak

For any technology business, the transition from development into manufacture of its first product is always a challenging time and our joint venture (JV) Infinitrak has been no exception. This initial step into series production, and with a low-cost product, has been at times a demanding process for us and MTD, our JV partner in Infinitrak and one of the leaders in the global outdoor power equipment (OPE) market. I am pleased to report, however, that we have overcome the final obstacles to low-cost volume production that we previously reported and in April 2008 Infinitrak commenced the manufacture of the first saleable Twin Toroidal Transmissions (TTT) at its production facility in the USA.

As this is the first series production of Torotrak technology, the importance of delivering

“Substantial progress has been made in securing major new customers and licensees, significantly enhancing business prospects and delivering financially and commercially valuable agreements for the Group.”



complete product robustness and reliability is paramount. This requirement has driven us to be very cautious with the manufacturing launch process where we have placed priority on the delivery of a capable and repeatable manufacturing process, rather than on initial launch volumes. Our view is that the reputation of Infnittrak’s first products will have a significant influence on subsequent adopters. I am pleased to report that, although the development, validation and launch process has taken longer than we anticipated, our caution has been rewarded with Infnittrak’s first third-party customer order for transmission units, which will be featured in a specialised, commercial-grade lawn mower.

The delay in the start of Infnittrak production as reported in our February Interim Management Statement, together with current market conditions in the USA where there is evidence of softening consumer demand for product in the OPE sectors, is likely to result in approximately a year’s delay compared to our

original sales plan. We therefore expect significantly lower Infnittrak sales than initially planned for the year to 31 March 2009. However, we are confident that we will realise significant medium to long term value in this sector. Through our JV we now have a fully validated first product (the TTT) and an active programme to develop a second, lower cost product to address higher volume sectors within the OPE market.

Business Strategy

Torotrak’s strategy is to deliver sustainable growth in shareholder value through profitable expansion in its core markets of outdoor power equipment, off highway, automotive and truck and bus. This span of markets is represented by a growing product and market portfolio which has been developed to broaden Torotrak’s original and sole focus on the automotive market. Torotrak has also

diversified its operating model from being a pure licensing business to one which seeks to gain value from its technology at each stage of customer engagement. This diversity of markets and earnings has been shown to be important in securing new customers and opportunities.

We aim to secure a repeatable pattern of earnings from our technology. This pattern covers the entire product lifecycle from initial engineering activity with a new customer through to production related income. Typically, engineering services revenue is accompanied by income arising from associated licence fees, leading ultimately to a realisation of value in our technology from production royalties or through a share in the profits from joint venture arrangements. This year has seen the results of considerable business development activity which has generated significant financial contribution from both initial licence fees and staged payments. We also continued to use our engineering resources to drive engineering services income, albeit at a lower level than last year due to the greater emphasis this year on business development activities and on building up customer relationships in new market areas. However, as we win new business, we are also establishing a more predictable earnings pattern.

Legislation and the Environment

It is clear that growing global pressures to reduce CO₂ emission levels are creating significant opportunities for our business development activity and have helped to take us into new markets. This has been particularly evident in areas such as the truck and bus market, where there are now newly proposed pressures on manufacturers to meet stringent emissions targets and to make improvements in fuel economy.

Similarly, environmental pressures have also provided impetus to our business development activities, particularly in the area of motorsport where we have made a central contribution to the development of mechanical hybrid Kinetic Energy Recovery Systems (KERS). This initial focus on motorsport has

already led to new opportunities for applying this technology in more mainstream areas within the automotive market.

Torotrak's credentials as a provider of accessible and efficient variable drive technology are continuing to be recognised as we work to raise our profile amongst government and legislators alike. We were very pleased to be featured in the newly published Government "King Review" on Automotive CO₂ as a key British enabling technology for CO₂ reduction. More recently, in May 2008, we have been successful in securing support from the Government's Technology Strategy Board (TSB) relating to our participation in a project to develop a mechanical hybrid KERS with Jaguar Cars Ltd and other partners.

We were also delighted to have received two awards during the year for our contribution to the development of mechanical hybrids in motorsport:

- Motor Industry Association Teamwork Award
- Professional MotorSport World Technology Award

Outlook

Torotrak's ability to command significant licence fees in several different market sectors demonstrates growing awareness of, and confidence in, the value and relevance of our technology. We can now look forward to the further benefits that will be generated from our new long-term relationships in our new target markets, such as truck and bus, where we have commenced a substantial multi-year engineering development programme.

Whilst it is very encouraging to have delivered a year of positive operating cash flow, earlier than planned, this achievement needs to be seen in the context of our three year plan, where the substantial initial licence payments secured during this year are likely to be balanced by lower levels of cash inflow next year. Overall, our objective is to generate sustainable and recurring positive operating cash flow from the year ending 31 March 2010 onwards.

Chief Executive's Review

“The increased strength of our portfolio is reflected in the high quality of our client and licensee base which continues to grow as customers draw confidence from the commercial viability of our technology.”



Introduction

The value of a technology business, such as Torotrak, is principally determined by the quality of its intellectual property (IP) and engineering capability but also depends upon its ability to convert its know-how and application skills into robust and commercially attractive propositions. In this context, the start of production and sales of our first products at Infinitrak, our JV business in the USA, for use in a highly cost-competitive market, is a major achievement for the Torotrak team and demonstrates that our technology is capable of series production and of delivering strong competitive advantage.

This first production also validates the broad reach of our technology into multiple markets and demonstrates that our diversification strategy is delivering results. The increased strength of our portfolio is reflected in the high quality of our client and licensee base which continues to grow as potential customers, as well as existing clients, draw confidence from this ultimate proof of the commercial viability of our technology.

Our strategy to diversify our markets compensates for inevitable shifts in market outlook, most of which are outside of Torotrak's direct control. The highly significant £7m licence and engineering services deal in our new market of truck and bus is an example



of this. With our major new customer in this market, we have secured both short and medium-term contribution, although the ultimate prize is the potential for longer term value from royalty fees from high value transmissions. Contribution from this and from anticipated new business in other markets including fork lift trucks will help offset delays that may occur in other areas.



Market and Sector Review

Outdoor Power Equipment (OPE)

Torotrak's entry to this market is through Infnittrak which has been established to design, develop and manufacture transmissions for the OPE market. MTD, our JV partner and lead customer, enjoys a substantial share of the OPE market and has the capacity to take significant quantities of Infnittrak's transmissions, over a period of time, as the Infnittrak transmissions are adapted for use in more of the MTD product range.

Infnittrak has developed Torotrak's technology and the manufacturing process to produce toroidal transmissions which compete effectively on cost and performance against hydrostatic drives, the incumbent technology in the market. We reported in our Interim Management Statement in February that final testing and validation of Infnittrak's first unit, the Twin Toroidal Transmission (TTT), had highlighted a small number of production conformity issues which we expected to have resolved around the end of our financial year. We are pleased to report that our development and validation process has been successfully

concluded and that, as a consequence, series production and sales of transmissions commenced in April 2008, representing an important milestone for Torotrak and Infnittrak. In this first series production run 500 transmissions will be built and will be incorporated into MTD's Cub Cadet range as an end of season introduction, and will also satisfy Infnittrak's first order from a previously undisclosed third party customer.

This first external customer for Infnittrak is the UK based Advanced Turf Technology (ATT), which is a developer of highly specified, specialist mowers for use on golf courses. ATT has developed its new "Infnicut" range of commercial grade mowers using Infnittrak's TTT. We are delighted that Infnittrak is supplying this new client in such a demanding application and, although the initial order is modest (around 300 units), we expect to build on this as ATT's requirements become clearer and as it builds market share in this sector.



It is clearly encouraging that our work at Infnittrak has overcome the previously reported barriers to manufacturing implementation and has also secured the first external customer for the JV business. However, we recognise that the time to start production has taken longer than originally anticipated and that the ramp-up of series production will be more gradual than assumed in Infnittrak's original plan. With the 2008 build season for mowers drawing to a close at MTD, we expect to recommence series production in the fourth calendar quarter of 2008 when transmissions will begin to be built for incorporation in mowers for sale in 2009. At this stage it is difficult to predict MTD's order requirement due to an overall softening of consumer demand for OPE equipment resulting from the well publicised recent credit 'squeeze'. As a consequence, we expect the first year's production volumes to be significantly reduced compared to the initial JV plan representing a year's delay, but the longer-term market potential remains as strong as we first thought, and the prospects for success have improved markedly as a result of progress during the year.

This positive outlook is illustrated by MTD's appetite to progress with our joint plans for a second, lower cost Infnittrak transmission, which is expected to be competitive in a high

volume area of the OPE market. This new unit, now in the design and early prototyping phase, has benefited substantially from the experience gained in the TTT development programme. Subject to MTD's product plans, Infnittrak expects to introduce this transmission during the 2009 calendar year.

Truck and Bus

This year we secured one of the most important deals in Torotrak's history entering into licence and engineering development agreements with a major European truck and bus manufacturer. Whilst the initial financial value of these agreements is significant, we are also delighted to be carrying out a substantial development programme with this client, one of the world's finest commercial vehicle manufacturers who brings significant potential for future volume sales and royalties. Although lead times in this sector are long, the impact of this deal for Torotrak is immediate. The major engineering programme is already underway and will continue to form a substantial part of our forward engineering services order book for several years.

The combined value of the licence and engineering development agreements is in excess of £7m over the next three to four years. This deal has been transformational for Torotrak as it:

- Recognises the value of our technology in the form of a significant financial commitment from a respected industry player following two years of joint work and due diligence;
- Illustrates the scalability of Torotrak's technology (from application in mowers through to heavy trucks and buses);
- Provides a new route to market with Torotrak's technology being incorporated in a high value transmission;
- Combines Torotrak's engineering resources with those of a recognised world leading commercial vehicle manufacturer to develop our technology for heavy-duty application.

Off Highway

Tractors

The market for small to medium sized tractors has continued to be Torotrak's bridgehead into the wider agricultural market. This area is a strategic focus for us because the cost and performance benefits of our technology enable variable ratio transmissions to be offered in a sector of the market where existing technologies cannot currently be afforded.

The market potential for Torotrak's technology in small to medium tractors remains very strong. In back-to-back tests with vehicles drawn from our clients and their competitors, our technology clearly outclasses current powershift transmissions (the sector norm for premium transmissions) and even demonstrates superior driving characteristics when compared to the best of hydrostatic drives – the benchmark technology for larger, more sophisticated tractors.

We have used these advantages to good effect to build our profile in the agriculture sector. We have made good progress, for example, in rapidly growing economies such as India where the potential for new technology, offering the benefits of variable drive but at

affordable levels, has been welcomed. We have also been very active with in-market demonstration of our two in-house tractors which are configured to demonstrate the full capability of our technology and the benefits it can provide for these markets.

We currently have three licensees in the off highway tractor market. Iseki and Carraro are actively progressing with the development of our technology in their respective transmissions. Both continue to demonstrate their commitment to series production, with each of them having prototype vehicles undertaking test and development work in preparation for market introduction.

The third licensee, Uzel, was initially a key part of our planned market introduction in small to medium tractor transmissions. However, as has become public knowledge, the Uzel group (based in Istanbul in Turkey and with major trading operations formerly quoted and managed out of the Netherlands) is experiencing financial difficulty. The general consensus amongst other companies trading with Uzel is that the underlying business remains strong and we are hopeful that a restructuring or re-financing of Uzel will be found and that they will be able to recommence their projects with us. Although this is a timing setback for us in the off highway market, it neither diminishes the value of our technology in this sector nor prevents us from proceeding with a revitalised Uzel.





Working in close co-operation with our customers and prospects in this market has enriched our knowledge of the industry needs and, as a result, during the year we have been able to better target the development of specific features and general capability of our technology in this sector. With this additional knowledge and confidence in our competitive advantages, we are seeking to develop this sector further in the year ahead and we continue to prospect for new clients, including potential JV partners, as we seek to have more control over the route to production in this market.

Fork lift trucks

We have made very promising progress within this new sector in the last year through our programme of work with a world-leading fork lift truck (FLT) manufacturer. This is an important strategic sector for our IVT technology which is a near-ideal fit with the requirements of a fork lift truck transmission, being capable of providing exceptional driveability, very smooth shuttling (rapid forward to reverse shifting) and precise low speed control – the key attributes sought by premium FLT manufacturers.

We now have a prototype transmission under internal evaluation in our lead customer's vehicle. We are due to deliver this initial prototype back to the customer shortly to enable them to carry out their own trials of this Infinitely Variable Transmission (IVT) equipped vehicle. This customer is keen to look at technologies which can provide cost-effective alternatives to the mainstream-sector norm of torque convertor powershift transmissions and the premium-sector hydrostatic drive. Early evaluation of our first prototype has confirmed

that our IVT provides the competitive advantages as already described, and that it also delivers fuel economy benefits which are of value in the current and future FLT market.

The commercial case for our technology in this sector appears to be strong, with the cost of a transmission expected to be in the range between a powershift and a hydrostatic drive. This is a promising new market for Torotrak where we have clear competitive advantages and where we are working with a customer with a very strong market position.

Automotive

Main drive transmissions

Torotrak's principal activities in the market for main drive automotive transmissions are with the major Japanese tier-1 manufacturer, Aisin AW (Aisin), with whom we continue to work on engineering development programmes. As a market, automotive remains highly valuable, but our path to success requires a strong degree of cost competitiveness. In this respect, our credentials are now supported equally from progress in our other markets, such as low cost OPE, as much as from the original Torotrak foundations in premium car IVT.

Aisin has shown longstanding support for Torotrak's technology. Until recently, this has been focused primarily on premium automotive applications. The last 12 months, however, have seen a number of changes and developments in the automotive market. With growing pressures for fuel economy improvement and greenhouse gas emission reductions, there has been a shift of emphasis in interest in our technology towards higher volume, smaller car applications. As reported

in November, Aisin has asked us to conduct a design study to apply our technology to mainstream small and medium sized cars, and this initial study has now commenced. We are delighted that Aisin's appetite for developing our technology is now also directed towards smaller cars, a strategic target area for Torotrak and a prime focus in emerging economies.

This new work on small car applications is in addition to continuing prototype test and development work on the Epicycloidal Roller Control (ERC) configuration that we are completing for Aisin on a consultancy basis. Work on this ERC module, which we regard as a technology suited primarily to large car and sports utility vehicle (SUV) transmissions, is now being handled by Aisin on an independent basis as a result of their target customer deciding not to commit to a prototype development programme for a larger car IVT. ERC's success in large car and SUV applications therefore remains speculative, but we continue to invest in business and technical development for the premium car main drive transmission market with the support of Aisin.

Emerging economies

The Indian government's approval of the Tata Motors licence agreement at the end of March 2008, as envisaged in our February Interim Management Statement, has opened the way for starting technology transfer to Tata's engineers. This process, where Torotrak provides training for the client in our technology and know-how, is taking place both in the UK and in India. We are very excited to be starting our relationship with this ambitious, far-sighted and high-profile company at a time when its reach is growing substantially.

Tata is licensed to use Torotrak's technology across a broad range of their products from small cars to full sized trucks and construction equipment. The nature of the first application to a Tata product is yet to be determined but their selection process is underway. Once Tata decides on its first application, which is likely to be client confidential, we expect to provide engineering and technical support to the company's engineers as they progress through the full prototype and production process.

New technology - mechanical hybrids

This emerging area of the automotive market has generated considerable awareness of, and enthusiasm for, Torotrak's technology. Our traction drive technology is a key element in a mechanical KERS system where our transmission connects the vehicle's drivetrain to a flywheel energy storage device.

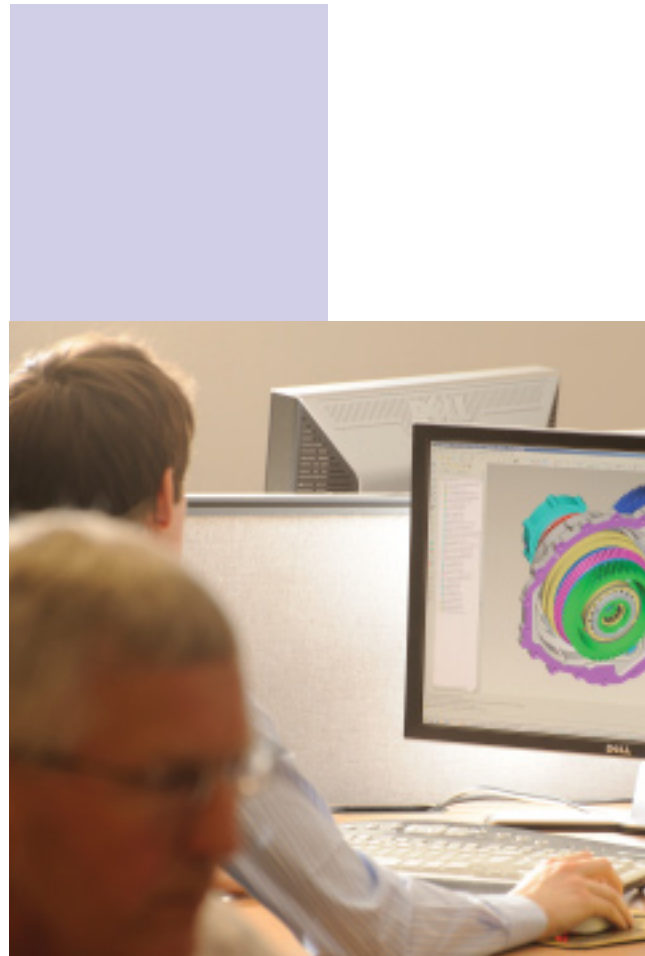
Our work with our licensee Xtrac and with flywheel system provider Flybrid Systems has facilitated the development of a mechanical hybrid system for automotive application. The initial market for this technology is the motorsport industry where Xtrac enjoys a prominent reputation as a specialist driveline and component manufacturer. In the working arrangement, Flybrid Systems provides the flywheel technology and overall system integration and Xtrac supplies variable drive CVTs based on Torotrak's technology. A number of these transmission units have already been supplied for test and development purposes to two Formula 1 teams for which Torotrak has received licence fees and royalty payments. Whilst all Formula 1 teams work in secrecy, it is clear that several different types of system are being evaluated for the 2009 season when a change in the sport's regulations allows hybrids to be introduced for the first time.

At the time of reporting, the intentions of the two Formula 1 teams working with our technology cannot be confirmed although we know from test results that the system delivers the performance that we anticipated. Whilst future applications in Formula 1 remain speculative, we have already benefited from significant commercial exposure through our affiliation with the sport and from the high level of technical expertise surrounding this industry. The "profile" that we have secured has already opened doors in other areas of motorsport which we are pursuing jointly with Xtrac and Flybrid Systems.

The strategic, long term value of this sector to Torotrak remains speculative but it is an important area for us to target. The benefits of this mechanical hybrid system, including low-weight, compact size and high efficiency, are already recognised by the mainstream car

industry to the extent that we are discussing potential applications with a number of target clients.

Our investment to date has been rewarded with our inclusion in a project being funded by the TSB with Jaguar Cars as the project leader and potential end customer. The consortium will design and develop the mechanical hybrid kinetic energy recovery system for use in a premium segment passenger car; the mechanical system is viewed as a power-dense and cost competitive alternative to other hybrid types. Torotrak's involvement in the project will include granting the other consortium members (Flybrid Systems LLP, Ford Motor Company Ltd, Prodrive, Ricardo UK Ltd and Xtrac Ltd) access to the Company's IP and know-how for the purpose of carrying out the project. In addition, we will support the project with analysis and design expertise relating to our variable drive technology which is central to the function and performance of the proposed system.



Financial Review

Overview

This is our third successive year of very strong revenue growth. Revenues increased by 37% to £3,685k (2007: £2,691k, representing 31% growth over 2006). The reduction of £1.1m in our operating cost base achieved in 2007 has been maintained during the year, with total operating costs remaining broadly at the same level. Underlying loss after tax reduced by £994k as set out below, a 32% improvement. Including the impact of last year's non-recurring, exceptional income of £225k in relation to the de-merger claim, overall loss after tax reduced by £769k to £(2,130)k.

Torotrak has had a strong year in terms of cash generation, with £5,378k cash received from licence agreements that included our four new licensees in the truck and bus, automotive and motorsport markets. In addition, we received strong support from our Placing and Open Offer which raised £6,741k net of expenses in August 2007. We ended the financial year with £11,549k cash resources (2007: £4,307k). This provides us with substantial medium term financial capacity to progress our strategic objectives at this critical point in time where the climate for funding has tightened considerably and as we progress on our path to commercialisation.

| Year on year improvements | Year ended 31.03.08 change over prior year £000 |
|--|---|
| Increased revenues | 994 |
| Increased development and administrative costs | (28) |
| Improvement in year on year underlying operating performance | 966 |
| Increase in finance income (interest income) | 89 |
| Decrease in tax receipt (mainly Research and Development credits) | (61) |
| Improvement in year on year underlying loss after tax | 994 |
| Decrease in exceptional income (de-merger refund claim) | (225) |
| Reduction in loss after tax | 769 |

“This is our third successive year of very strong revenue growth. Revenues increased by 37% to £3,685k.”





Placing and Open Offer

We were delighted to have received the backing of existing and new institutional shareholders in August 2007 by way of a £5,000k firm placing (net of expenses) and that of our private and other shareholders who supported a £1,741k open offer (net of expenses), which was almost twice oversubscribed. This was not an easy time for the Company to raise capital, or indeed for investors to support that capital raising, but the success of this exercise has allowed the Group to pursue its business plan with confidence and has strengthened considerably our ability to secure substantial new business.

The raising of new cash gives us very real responsibilities to manage our cash resources wisely and to focus on growing Torotrak's value. A technology company, with a portfolio of products and opportunities at different stages on the path to potential commercialisation, will never be able to predict the future financial outcome of each of its opportunities with certainty. However, what is important is that the portfolio and range of market opportunities is sufficiently wide to allow the chances of overall success to progressively increase. This is the strategy that we set out in the July 2007 Prospectus and a key objective of the fundraising. It is worth reminding shareholders of those key Prospectus commitments and how we are progressing against them:

| Target | Progress |
|--|---|
| To strengthen our financial position and to conclude an agreement with a major new truck and bus manufacturer (two thirds of the funds raised were to be directed at this objective) | Licence and development agreements were signed in December 2007 worth £7m and with over 50% received up front in cash |
| Seek to form a new joint venture, focusing initially on the agriculture sector | Market and customer specific conditions have been unfavourable to conclude any deal this financial year. This remains a target provided the opportunity and terms are right |
| Accelerate product development in Infnittrak to access wider OPE volumes | Development programme for a second, low cost product is substantially complete and has opened up a new area of the OPE market for significant future sales potential |



Key Performance Indicators (KPIs)

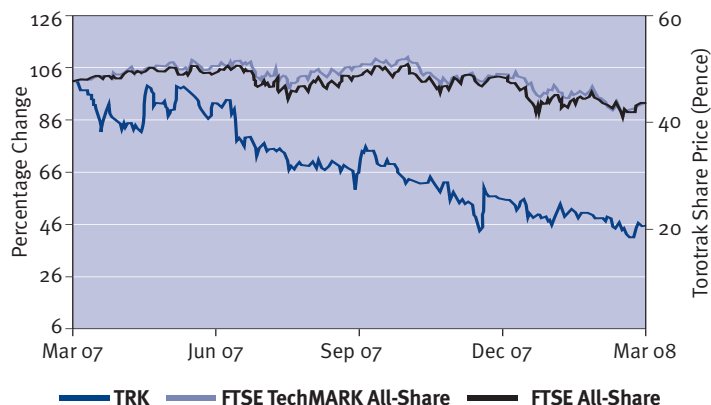
Good progress has been made during the year in terms of the Group’s KPIs which are used by the Board to review business performance. The KPIs and progress are described below with further commentary included in this section and in the Chief Executive’s Review.

| Financial | Progress |
|--|---|
| Revenue growth | 37% growth |
| Increased efficiency of operating costs relative to revenues | Operating cost leverage is improving being at 175% of revenues compared to 238% in 2007 |
| Progression towards profitability | 27% reduction in loss after tax |
| Progression towards positive operating cash flow | 115% improvement in operating cash flow. Positive operating cashflow achieved one year ahead of target |
| Growth in shareholder return | During the year, the FTSE Techmark All-Share index fell by 11% and Torotrak’s share price fell by 55%, a significant under performance relative to that index |

| Non financial | Progress |
|--|---|
| Progression to start of production and growth in sales thereafter | Infinitrak start of series production commenced, but later than planned and with the build of volumes likely to be more gradual |
| Signing up new licensees | Four new licensees and £5.4m cash payments received |
| Development of new intellectual property | Continuing development in low cost areas and new market applications |
| Utilisation of engineering resources to secure revenue or business development opportunities | 68% utilisation of engineering resource on customer and business development projects (2007: 65%) |

Total Shareholder Return (TSR)

Our strategic objectives are focused on the delivery of long term value to shareholders as measured by TSR. This requires demonstrable progress in our financial and non financial KPIs as reported above. In this respect, we have made strong progress in the year, although the delay in start of production at Infinitrak and the related uncertainties, clearly have had a negative impact on TSR. As we build volumes and confidence in Infinitrak in the forthcoming year to 31 March 2009, and develop the strong prospects from our enhanced customer lists, we hope this will be reflected in Torotrak’s perceived value and TSR.



We strive to reduce uncertainty and potential share price volatility by providing a regular flow of information to investors, although market specific factors and short term price movements are clearly outside of our control. The release of information to investors, however, must be balanced with the need for us to progress negotiations and other developments with a realistic level of commercial sensitivity to both Torotrak and third parties.

Our lead times to potential production in our key markets extend from the 'now' in the OPE sectors to 'within three years' in the off highway sectors through to 'greater than five years' in truck and bus and automotive markets. Our objective is to progressively increase confidence, and therefore value, of the longer term Torotrak markets and sectors by reinforcing and delivering success in the shorter term sectors and markets. In this respect, Infnittrak's importance in supporting our first product to market cannot be underestimated.

Revenue

| | Year ended 31.03.08 £000 | Year ended 31.03.07 £000 |
|---------------------------------|--------------------------------|--------------------------------|
| Engineering services | 698 | 1,757 |
| Licence and option fees | 2,978 | 147 |
| Sale of IP rights to Infnittrak | – | 787 |
| Royalties | 9 | – |
| Total | 3,685 | 2,691 |

Engineering services

Our engineering resources are valuable and indeed expensive assets, not just in terms of the annual cost of maintaining them, but also in terms of the significant level of accumulated experience and the opportunity cost as to where they are directed. With competing demand on those resources, it is vital that we balance the needs of generating immediate income with the need to build business development opportunities and to invest in future technology and intellectual property. 31% of engineering available time was directed towards business development opportunities

(2007: 10%). 37% was employed on fee paying, engineering services (2007: 55%) and the balance was spent on projects to commercialise and develop our technology, mainly in conjunction with customers.

Engineering services income fell by £1,059k to £698k as a result of the higher activity on business and customer development described above and related to four main areas: the substantial completion of the fork lift prototype programme for a major customer; work on automotive development activity in conjunction with Aisin; continued support for certain of our off highway customers; and services into the motorsport sector. This profile of higher activity on business and technical development was anticipated when we reported last year and the impact has had significant pay back in terms of securing new licence agreements.

The substantial development programme with our truck and bus customer which commenced in February 2008 underpins the engineering services order book going into the year ending 31 March 2009. This is a three to four year programme and no engineering revenues have yet been recognised, in line with our accounting policy (see page 47) where we have taken a prudent view as to the stage of completion in these very early stages of this contract.

Licence and option fees

Revenue from licence and option fees increased by £2,831k to £2,978k. This reflects the substantial activity during the year and the material licence downpayments as described in more detail below. Of the £5,378k cash received from licensees during the year, £1,520k has been deferred to be recognised in future years.

Other

Income from the sale of IP rights to Infnittrak of £787k last year represented the completion of obligations under the Infnittrak JV agreements and hence no income was recognised in 2008. Immaterial in financial terms, but emotively significant, is our very first invoice for royalties for £9k relating to the motorsport sector.

Taxation

We continue to benefit from research and development tax credits which are paid by HM Revenue and Customs (HMRC) to the Group under current tax legislation as a result of the qualifying development expenditure directed towards some significant inventive steps and technical advances that we continue to make. The tax credit of £267k (2007: £328k) reflects mainly the £246k claim to be made for research and development tax credits together with a £21k release of overseas withholding taxes on licence payments (2007: £(110)k). The ability of the Group to benefit in the future from tax credits is of course dependent upon the continuation of the relevant legislation and the extent to which our activities continue to qualify, which is subject to detailed HMRC guidance and interpretation.

Cash and Cash Inflows

| | Year ended 31.03.08 Group | Year ended 31.03.08 Excluding JV | Restated Year ended 31.03.07 Group | Restated Year ended 31.03.07 Excluding JV |
|--|---------------------------------|--|---|--|
| Cash flows from operating activities | 526 | 652 | (3,515) | (3,250) |
| Net cash used in investing activities | (23) | (9) | (422) | (128) |
| Cash flows from financing activities | 6,741 | 6,741 | 805 | – |
| Foreign exchange loss | (2) | – | (34) | (16) |
| Cash and cash equivalents at start of year | 4,307 | 4,073 | 7,473 | 7,467 |
| Cash and cash equivalents at end of year | 11,549 | 11,457 | 4,307 | 4,073 |

The combination of the £6,741k net funds raised from the Placing and Open Offer and £526k positive operating cash flow, has boosted our cash balances by £7,242k to £11,549k at 31 March 2008 (2007: £4,307k).

Positive operating cash flow has been achieved as a result of the £5,378k licence payments under licence agreements received during the year relating to: a substantial up front licence payment received from our new

truck and bus customer; the initial payment received in relation to the Tata licence agreement following Indian Government approval during the year; a stage payment according to the terms of the licence from one of our off highway customers; and from two motorsport sector licensees signed during the year. The precise split of licence fees has not been disclosed at the specific request of certain of our key customers and doing so could be commercially prejudicial. The truck and bus customer has requested that its identity is not disclosed at this stage due to the highly competitive nature of the programme being undertaken and we are under similar obligations in relation to our motorsport customers.

Operating Cash Break Even Point and Positive Cash Flow Target

Our stated target has been to achieve the point at which cash flow turns positive in the year to 31 March 2009 and then to generate positive, recurring operating cash flow from the year ending 31 March 2010 onwards. This assumed linear progression towards positive operating cash flow has in fact been substantially outperformed with the generation of £526k positive operating cash flow in the current year to 31 March 2008. This is due principally to securing substantial licence downpayments from the agreements described above. Our business plan had assumed that licence income would be paid more evenly over a three year period. Whilst obtaining substantial cash payments up front is clearly advantageous, the consequence is that our cash flow in the year to 31 March 2009 is likely to be lower than planned. It is therefore sensible to review the cash progression going forward on an averaged basis over a two to three year timeframe.

Our expectation of a slower build of sales from Infnittrak (due to a combination of lower market demand and the previously reported delayed start of series production), together with the later than expected start of royalty flows from our off highway licensees (due to market and customer specific related issues) is putting pressure on the achievement of our

target of operating cash break even in the year ending 31 March 2010. Our commercial objective is to seek further licensing activity to bolster cash generation and hence maintain our positive operating cash flow target. However, the timing of commercial negotiations can, as we have seen this financial year, have a material impact on annually reported financial positions. The overwhelmingly important objective is to have achieved material growth by that stage (the year ending 31 March 2010) in Infnittrak revenues and to have built strong sales momentum elsewhere. Although it remains our target to achieve positive operating cash flow in the year ending 31 March 2010, it is no longer a critical dependency because of the achievement of significantly higher cash levels earlier in our three year plan period.

Financial Risk Management

The Group's activities expose it to a variety of financial risks such as: market risk, credit risk and liquidity risk. The Group's overall risk management approach to these areas is to adopt a fairly conservative approach and not to take major risk positions or use complex instruments in relation to our working capital or assets. The treasury and finance function, which is principally responsible for managing financial risk, does not act as a profit centre and hence risk management is not influenced by profit or margin targets. Key policies relating to risk management are approved by the board of directors and focus on the probability of occurrence and potential impact to the Group of identified risk areas.

Market risk

Foreign exchange risk

The Group's trading exposure to foreign exchange rate risk is low and mainly arises from non-UK sterling denominated receipts in relation to licence and engineering service agreements. At the year end there were negligible trade balances subject to foreign exchange exposures.

The Group is also exposed to the foreign exchange impact on the translation of the share of the results of its jointly controlled entity, Infnittrak, which operates out of the US in US dollar denominated currency. During the year we had exchange rate variations of £2k. If the dollar exchange rate had weakened by 10%, the Group would have had an adverse exchange variation of £38k.

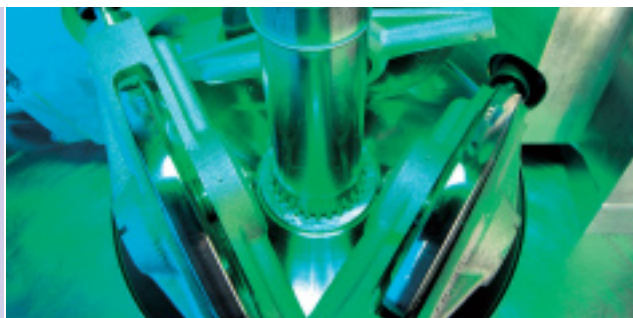
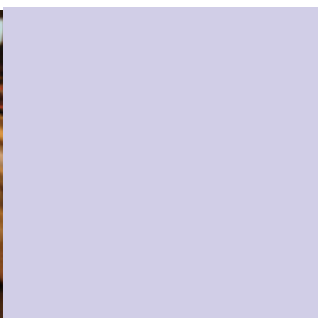
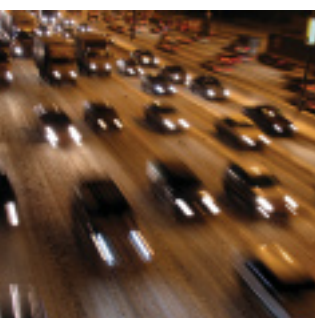
We do not currently actively hedge against these currency exposures although this policy will be kept under review.

Price risk

The Group is not materially exposed to commodity price risk.

Cash flow and fair value interest rate risk

The Company deposits and invests cash with a combination of both floating rates and at rates fixed for less than a year. In the year to 31 March 2008, the Group's bank interest receivable was £361k (2007: £272k). If interest rates had altered by 0.25%, the impact on the Income Statement would have been £16k.



Credit risk

Banks and financial institutions

Credit risk is managed by limiting exposures to authorised banks with credit ratings that are approved by the Board. During the year we increased the level of security required such that surplus cash should be invested in UK sterling in financial institutions that carry a minimum long term rating of 'AA' and a minimum short term rating of 'A' as evaluated by Standard and Poor (with equivalent ratings by Moodys also being monitored). Both these ratings give a high degree of security for funds invested, albeit the cost of such security is a reduction in interest rates offered by less rated counterparties. Security of the Group's financial assets is the primary objective. The Group also seeks to diversify its cash investments beyond its clearing bank, Barclays Bank Plc, to include at least one other counterparty. Cash resources at 31 March 2008 were invested as follows:

| Counterparty | Rating | 31 March 2008 | 31 March 2007 |
|-------------------|--------|----------------|---------------|
| Barclays Bank plc | AA/A | 7,362 (note 1) | 780 |
| Clydesdale Bank | AA/A | 4,095 | – |
| Kleinwort Benson | AA/A | – | 3,293 |
| Share of JV cash | | 92 | 234 |
| Total | | 11,549 | 4,307 |

Note 1: At 31 March 2008, £4m of funds were held overnight in Barclays Bank plc awaiting transfer to Svenska Handelsbanken AB (publ)

Creditworthiness of customers and key suppliers

Exposure to credit risk in our customer base is low. Credit status is taken into account in terms of the structure of agreements and payment terms. In 2008 we have been obliged to make a £44k provision for the potential non recovery of trading balances (2007: £nil) owed by Uzel in relation to engineering services provided. Uzel's financial difficulties stemming from a reported instability in their shareholder base and consequential withdrawal of bank support have been described earlier in this report. We are currently pursuing legal steps to recover this amount which may involve

suspending some or all of the licence rights under our agreements with Uzel if this is in our interests to do so.

The procurement of quality parts and products can be a key dependency for our customer and technical development projects. The stability of our suppliers and ability for them to deliver to requirements within appropriate lead times can be critical. Our procurement procedures take into account referencing, trading history and credit status before orders are committed.

Liquidity risk

The Company maintains sufficient cash for its short term needs, with the maintenance of regular cash forecasts to make this assessment. These funds are invested in the money market on a daily basis or for fixed periods of generally less than one month.

Patents

The creation of new patents is a priority for the Group with £235k invested during the year on the creation or continuation of new patent cases (2007: £220k). The ongoing maintenance costs of patents once established are written off to the Income Statement and £123k was incurred on this during the year (2007: £129k).

Fixed assets

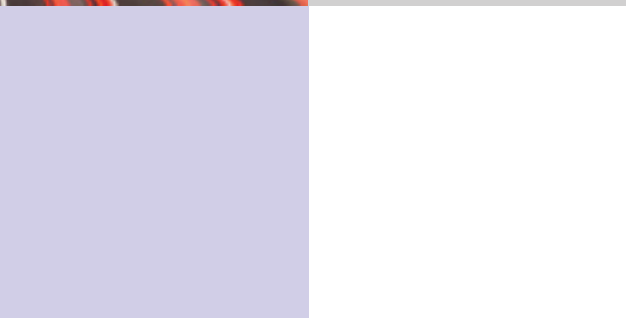
£174k was spent on property, plant and equipment during the year (2007: £469k), the substantial part of which relates to a major upgrade to our computer assisted design software. This is particularly important as we embark on some major new projects which incorporate a substantial up front design element.

Share Capital and Share Options

26,182,153 new ordinary shares of 10 pence each were allotted in August 2007 in relation to the Placing and Open Offer. Hence, the ordinary share capital of the Company increased from 119,900,820 shares to 146,082,973 shares of 10p each at 31 March 2008. This increase represents 17.9% of the enlarged share capital and included 668,106 shares held in the Torotrak Employee Share Trust ("the Trust") at 31 March 2008 (2007: 142,309 shares) with the Trust having subscribed for 1,151,180 shares as part of the placing, funded by an interest free loan from the Company.

Awards over a maximum number of shares of 2,517,361 shares were made during the year (2007: 2,210,947) under the terms of the Torotrak Long Term Performance Share Plan (LTPSP) which are subject to performance conditions. No other options or awards over shares were granted during the year other than 619,362 shares issued by the Trust in settlement of discretionary share bonus awards.

At 31 March 2008 there were outstanding: share options to acquire 2,096,389 ordinary shares under the approved and unapproved schemes subject to performance conditions; options to acquire 420,729 ordinary shares under the sharesave scheme; and awards under the LTPSP over a maximum of 4,728,308 shares subject to performance conditions. The theoretical dilution from all live options or contingent awards over shares is therefore 4.96% (2007: 4.72%). The share schemes are described in more detail in the Remuneration Report on pages 32 to 37.



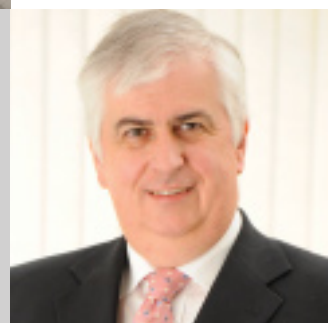
Directors' Biographies



John Grant above
Dick Elsy right
Jeremy Deering below



Nick Barter left
David MacKay right
James Batchelor below



John Grant ■ ■ ■

Non-executive Chairman, and Chairman of the Nominations Committee, aged 62.

John Grant joined the board of Torotrak in 1998 and was appointed Chairman in July 2005. He also chairs a specialist engineering group, Hasgo Group Limited. He was Chief Executive of Ascot plc from 1997 to 2000 and Finance Director of Lucas Industries plc (subsequently Lucas Varity plc) from 1992 to 1996. He previously spent 25 years at Ford, where he was a Vice President of Ford of Europe, Director of Corporate Strategy in Ford US and Deputy Chairman of Jaguar. He is also a Non-executive Director of Melrose plc, MHP S.A. and the Royal Automobile Club Limited.

Dick Elsy

Chief Executive, aged 48.

Dick Elsy joined Torotrak as Chief Executive in January 2003. Prior to this he was Product Development Director at Jaguar Cars Limited during the time it was part of Ford's Premier Automotive Group. He previously spent 16 years at BMW AG/Rover Group where he held various senior engineering and commercial positions. He is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers. He is also a Director and Trustee of the Engineering and Technology Board.

Jeremy Deering

Finance Director, aged 47.

Jeremy Deering was appointed Finance Director in December 2006 following nine months

working for Torotrak on an interim basis. He has held senior finance positions in FTSE 100 groups including Tomkins PLC and the United Utilities Group where he became Group Financial Controller and then Finance Director of its major energy division Norweb PLC following its acquisition. He was acting Managing Director/Finance Director of Your Communications through its intended IPO. He has subsequently worked on a number of start-up and growth companies including, in an interim capacity, System C Healthcare PLC through its successful AIM flotation in 2005. He qualified as a Chartered Accountant with Arthur Andersen.

James Batchelor

Commercial Director, aged 52.

James Batchelor joined Torotrak in March 2003. Before this he was Commercial Director of Trafficmaster Automotive, the telematics and traffic information group. He spent six years at BMW AG, including four years with the parent company in Munich and latterly as Project Director for Land Rover, having previously spent 13 years at Rover Group. He has an MBA from Cranfield School of Management, is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers.

David MacKay ■ ■ ■

Non-executive Director, Chairman of the Audit Committee and the Senior Independent Non-executive Director, aged 51.

David MacKay was appointed a

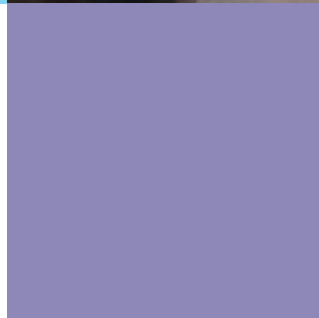
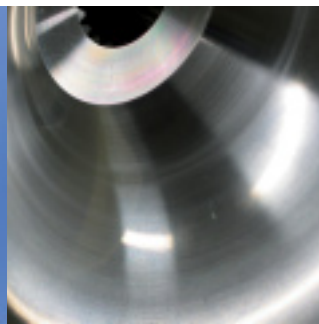
director of Torotrak in November 2003. He was formerly Executive Vice President and General Counsel for ARM Holdings plc, one of the UK's most successful technology companies, whose core business is founded upon the design and licensing of world-leading technology. He was responsible for intellectual property licenses, international manufacturing and distribution agreements and joint venture agreements. He is Chairman of NXT plc, the provider of unique sound solutions best known for its flat panel loudspeaker technology.

Nick Barter ■ ■ ■

Non-executive Director, Chairman of the Remuneration Committee, aged 67.

Nick Barter was appointed as a director of Torotrak in November 2003. Prior to this, he was Director of Product Development for Jaguar and Land Rover, during the time it was part of Ford's Premier Automotive Group. He was responsible for all aspects of planning, design, development, sign-off and introduction of all Jaguar and Land Rover vehicles, leading a team of around 5,000 engineers, designers and analysts. He is currently Chairman of the SMMT Foresight Vehicle Programme, involved in automotive technology Knowledge Transfer Networks and brokering research projects in automotive technologies, in particular in more fuel efficient vehicles. He is a Trustee Director of RoadSafe and of The British Motor Industry Heritage Trust.

Directors' Report



The directors present their report on the results and affairs of the Group and on the audited financial statements for the year ended 31 March 2008.

Business Activity, Results and Dividends

The Torotrak Group activities are focused on the design and development of full-toroidal traction drive transmission systems. Current and future planned earnings derive from engineering services, intellectual property (IP) income and other activities relating to the commercial exploitation of Torotrak's IP including joint venture arrangements to manufacture and sell transmission systems. There has been no change in the principal activity of the Group since 31 March 2008.

The business is reviewed in the Chairman's Review on pages 4 to 6, Chief Executive's Review on pages 7 to 13 and the Financial Review on page 14 to 21. Information on likely future developments in the business is included in these reviews.

The directors do not recommend the payment of a dividend (2007: nil).

Key Performance Indicators (KPIs)

The KPIs used by the directors to assess group performance against our strategic objectives are described in the Financial Review on pages 14 to 21. Progress against these KPIs is reported in the Chief Executive's and Financial Reviews on pages 7 to 21.

Principal Risks and Uncertainties

In the directors' opinion, the key risks and uncertainties facing the Group are as follows:

Commercialisation

The Group's commercial progress depends upon its ability to establish and maintain successful relationships with appropriate licensees and other third parties to successfully exploit the Group's IP through development, manufacturing and distribution agreements. The timing and quantum of volume sales of products incorporating the Group's IP is dependent on the decisions by, and circumstances of, the Group's customers and those of its joint ventures.

Creation or acquisition of technical solutions and intellectual property protection

Future performance of the Group will be impacted by its ability to develop and deliver new products, inventions and improvements in its technology that meet the needs of its customers. The continuing ability to establish, protect and enforce our proprietary rights relating to intellectual property (IP) deriving from past and future developments is fundamental to the Group. This is principally achieved through the process of patent application and establishing patent protection.

Failure to protect the Group's IP rights may result in another party copying or otherwise obtaining and using its proprietary content and technology without authorisation. There also may not be adequate protection for IP rights in every country in which the Group's technology is made available.

Investigating and subsequently prosecuting or defending any infringement of the Group's IP or claimed infringement by the Group of a third party's IP may be difficult and involve substantial costs. The outcome of any litigation is subject to uncertainty and could have a material impact on the Group's financial position and future prospects.

Competition and technical advances

The markets within which the Group operates are characterised by evolving technology, market practices, regulation and industry standards which can have a positive or negative impact on the Group. Some of the companies that currently or in the future will compete against the Group may have greater technical, commercial and financial resources and may have better established market and customer reach. Competitors may also develop more effective technical solutions. The Group's future financial performance is therefore subject to its ability to successfully compete within this environment and achieve acceptable pricing for its intellectual property and other sales activities.

Directors' Report – continued

Financial

The Company's current financial resources, whilst believed to be sufficient to support the planned commercialisation of the Group's IP, are limited such that, if sufficient revenue cannot be generated within anticipated timescales from royalties, sales of products and services and dividends from joint ventures, or if significant new expenditure is required to exploit additional business opportunities, it may become necessary to raise additional capital. The ability to arrange such financing in the future would depend upon market conditions and the Group's prospects at that time.

Senior management and skilled personnel

The Group is dependent on members of its senior management and skilled personnel and believes its future success will depend in part on its ability to retain and attract them. The departure from the Company of any of its executive directors or certain senior employees could, in the short term, have a material adverse impact on the Group's activities.

Joint venture

The Infnittrak joint venture (JV) is accounted for under the proportionate consolidation method according to note 1 on page 45. Future income from the JV is dependent upon the successful increase in production volumes and the sale of these products to MTD and other OPE manufacturers for use in their vehicles. The JV is subject to agreements between its shareholders, MTD and Torotrak, which govern amongst other matters events such as dispute or deadlock and which could result in dissolution of the JV or in one party's equity interest in the future being diluted such that joint control no longer exists. In the event that Torotrak ceased to have such joint control, then access to joint venture assets and joint control over operational decisions could be restricted and accordingly the proportionate consolidation basis of accounting and presentation of results would no longer be appropriate.

Research and development tax credits

The Group has benefited in the past and expects to continue to benefit in the future from research and development tax credits. If there is a change in legislation removing these credits the Group's financial position would be adversely impacted.

Economic drivers and environmental legislation

Demand for the Group's products may be influenced by legislation or general economic conditions that are outside of the Group's control and which could positively or negatively impact the Group's future sales.

These areas and uncertainties are reviewed according to risk procedures described on page 31.

Directors and their Interests in Shares

The names of the directors in office during the financial year and up to the date the financial statements were signed are shown, with their biographical details, on pages 22 and 23. Information on directors' remuneration, contracts and beneficial interests in the shares of the Company is included in the Remuneration Report on pages 32 to 37. There have been no changes in directors' interests in shares between the end of the financial year and the date the financial statements were signed.

In accordance with the Company's Articles of Association concerning the rotation of directors, Dick Elsy and James Batchelor retire from the Board and, being eligible, offer themselves for re-election at the Annual General Meeting.

Company Reports

The interim and annual reports are available on the Torotrak website (www.torotrak.com) or, for those without internet access or who have specific requirements for the printed version, on request to the Company Secretary at the Company's registered address.

Payment to Creditors

The Group has agreed a variety of payment terms with its suppliers. Payments to a supplier are made in accordance with the general conditions of purchase agreed, provided the supplier complies materially with all relevant terms and conditions and presents invoices on a timely basis.

At 31 March 2008 the number of days purchases outstanding to trade creditors was 36 for the Group and 38 for the Company (2007: 19 days and 35 days respectively).

Employees and Health and Safety

Our business depends upon the creativity, drive and goodwill of our employees. We seek to consult with all levels of employee, valuing their ideas and suggestions. Regular team briefing sessions and consultation combined with a suggestion scheme, personal development plans and a performance assessment system, encourage open channels of communication.

Employee share ownership is actively encouraged and the Group has established schemes to incentivise, reward and motivate all employees, details of which are given in the Remuneration Report and on pages 32 to 37.

The Group has a strong demand for highly qualified staff and, as such, we strive for equal opportunity and a non-discriminatory work environment for our employees. Disability is not an inhibitor to employment or career development within the Group. We provide clean, healthy and safe working conditions and pride ourselves on providing an attractive working environment. We encourage proactive participation by all our employees in identifying and controlling hazards. The health and safety performance is monitored by the Board and we are pleased to report that we had no accidents to report under the Reporting of Injuries, Diseases and Dangerous Occurrences Regulations 1995 (RIDDOR).

Political and Charitable Donations

Charitable donations by the Group during the year amounted to £nil (2007: £nil). No political donations were made (2007: £nil).

Environment

Torotrak's activities are focused on the development of products which offer improvements in fuel economy and emissions.

Our premises are composed mainly of offices and test facilities. The Group's manufacturing activities currently are restricted to the Infnittrak joint venture which at this stage sub-contracts all manufacturing. 'Resources' principally comprise employees and equipment. They do not involve any hazardous substances or complex waste. Our operations are therefore 'low impact' in environmental terms.

Our environmental policy is published on our website. The Group does not provide company cars. The provision of facilities for cyclists encourages greener commuting. Telephone and video conferencing are used extensively, providing alternatives to international travel. Wherever possible the Group continues to adopt initiatives to lessen our environmental impact.

Auditors

The auditors, PricewaterhouseCoopers LLP, have indicated their willingness to continue in office and a resolution to re-appoint them will be proposed at the Annual General Meeting to be held on 24 July 2008.

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 by his duty as a director of the Company to exercise due care, skill and diligence where required to be taken to make himself aware of any relevant audit information and to establish that the Company's auditors are aware of that information.

Authority to Purchase Shares

At the Annual General Meeting held on 19 July 2007, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 11,990,082 ordinary shares of 10p each. That authority has not been used and remains in force until the conclusion of the Annual General Meeting to be held on 24 July 2008.

Placing and Open Offer – Allotment for Cash of New Ordinary Shares ('the Issue')

On 14 August 2007, 20,333,333 new ordinary shares were issued to existing and new institutional shareholders as a result of a Firm Placing and a further 5,848,820 new ordinary shares as a result of an Open Offer to all shareholders, principally taken up by individual shareholders and private client brokers. All 26,182,153 new shares were issued at 30 pence per share, representing a 27.7% discount to the closing middle market price of 41.5 pence on 12 July 2007, being the day prior to the announcement of the intention to carry out the Issue and the date the terms of the Issue were fixed and 15.0% below the closing middle market price of 35.3 pence on 18 July 2007, being the day before the publication of the Prospectus relating to the Issue. All resolutions relating to the Issue were passed at the Extraordinary General Meeting held on 13 August 2007. Further information is included in the Financial Review on pages 14 to 21.

Substantial Shareholdings

At 20 May 2008 the Company had been notified of the following major interests of 3% or more in its ordinary shares to which voting rights are attached:

| | Shares | Percentage holding |
|------------------------------|------------|--------------------|
| Barclays plc | 13,226,169 | 9.05% |
| Majedie Asset Management Ltd | 7,531,467 | 5.16% |

As at the date referred to above, the Company is not aware of any person or entity that, directly or indirectly, jointly or severally, will or could exercise control of the Company.

Purchase of Own Shares

During the year the Employee Share Trust purchased 1,151,180 shares as part of the Open Offer at a value of 30 pence per share. The shares were purchased to fund future share option and bonus schemes and have been deducted from equity.

Share Capital

The share capital of the Company represents ordinary shares only, carrying equal rights to dividend and carrying one vote per share. Ordinary shares are classified in equity. No shares carry restrictions or special rights and no dividends have been waived by any shareholders.

Going Concern

After making enquiries, the directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, the directors believe that it is appropriate for the financial statements to continue to be prepared on the going concern basis.

Annual General Meeting

The tenth Annual General Meeting of the Company will be held at 12 noon on Thursday 24 July 2008 at the Best Western Leyland Hotel, Leyland, Lancashire. The notice of the Annual General Meeting is contained in this Annual Report on pages 63 to 70.

By order of the Board

Jeremy Deering
Company Secretary
20 May 2008

1 Aston Way
Leyland, Lancashire PR26 7UX

Corporate Governance

The Board is committed to high standards of corporate governance. The Board considers that it has complied throughout the year under review with the principles set out in the revised Combined Code on corporate governance as amended and published by the Financial Reporting Council in June 2006 (the 'Combined Code'), except where indicated below (in relation to membership of the Audit Committee).

The Board and its Composition

Brief biographies of the present Board members are given on pages 22 and 23. The Board comprises a non-executive chairman, three executive directors and two non-executive directors.

The non-executive chairman and non-executive directors are considered by the Board to be independent in character and judgement and to be free from any business or other relationship or circumstance that could impact such independence. The Company's Articles of Association require that all directors are subject to election by the shareholders at the first annual general meeting after appointment and thereafter at least once every three years.

The Board structure creates a balance such that no individual or small group of individuals can dominate decision making. The roles of Chairman and Chief Executive are clearly separated and have defined responsibilities. The Chairman sets the agenda for board meetings and directs the running of the Board. The Board is supplied in advance of its meetings with appropriate financial, operational and other information to enable the meetings to be effective. The Chief Executive's responsibilities focus on managing the Group and implementing board strategy and policy. The non-executive directors have particular responsibility for the scrutiny of management performance, the review of financial information and the constructive challenge and development of strategy. In addition, the non-executive directors have particular responsibility for the Board committees described below.

The Chairman is responsible for the process to ensure that directors keep their skills and knowledge up to date and to encourage their professional development. The Company ensures that adequate time and financial resources are available for directors to attend appropriate training and that newly appointed directors receive a tailored induction programme appropriate to their needs. The directors have direct access to the Company Secretary or, if required, independent professional advice at the Company's expense to be informed on all governance and other matters of importance to their Board responsibilities.

The Board has reserved specific responsibilities to itself including: setting strategy and approving annual budgets; reviewing financial and operational performance; approving policies for controls and risk management; approving major capital expenditure, disposals and major business development; reviewing the health & safety policy and performance of the Group; approving patent abandonment; approving appointments to the Board and the position of Company Secretary; approving policies relating to directors' remuneration and the severance of directors' contracts; and the processes to ensure that an appropriate and constructive dialogue takes place with shareholders.

Decisions are delegated to individual executive directors and senior management by reference to areas of specific responsibility and financial limits which relate to annually approved budgets, financial forecasts and the approved business plan.

Board Committees

The Board has delegated specific responsibilities to three committees. Each committee operates within defined terms of reference set by the Board which are available on request from the Company Secretary. Membership of the committees is detailed on pages 22 and 23.

Audit Committee and auditors' independence

The Audit Committee (AC) is chaired by David MacKay. Whilst the Smith Guidance incorporated into the Combined Code suggests that the Chairman should not be a member of the Audit Committee, the Board has taken the view that John Grant's continued membership since becoming Chairman in the year ended 31 March 2006 is appropriate on the basis of continuity, his significant financial experience and to ensure that there is a quorum in the event of one member being absent.

The Audit Committee meets at least twice a year prior to the publication of the half year and full year results and at other times as the Chairman of the Committee shall require. The Committee considers all matters relating to financial controls and reporting, internal and

Corporate Governance – continued

external audits, risk management policy and procedures, the scope and results of the audits, the independence and objectivity of the auditors and the consideration paid to them. The Board has ultimate responsibility for approval.

The Group does not normally award consulting work to the firm of auditors other than in the area of tax consulting and compliance, where they are best suited to carry out such work. However, the Group considers awarding other advisory services to the firm of auditors in circumstances where there is demonstrable independence from their role of auditors and where best value for the Group can be obtained. During the year, PricewaterhouseCoopers LLP was appointed to carry out work in relation to the Placing and Open Offer as reporting accountant to the Company and as financial adviser and sponsor to the Issue. In each case, the work was conducted by separate PricewaterhouseCoopers' teams under the direction of partners acting independently to the audit team and according to specific and separate terms of engagement. The Committee has discussed with the external auditors their independence and is satisfied that there are no circumstances where the auditors' objectivity and independence is compromised.

The Chief Executive, Finance Director and Financial Controller attend the Committee meetings as required, as do the external auditors who meet with the Committee at least twice every year. The external auditors also have the opportunity to meet with the Committee at least once every year without the executive directors being present.

Remuneration Committee

The Remuneration Committee (RC) is chaired by Nick Barter. The Committee determines the policy for remuneration for the executive directors and directors of subsidiaries and makes recommendations to the Board having taken independent advice where required and obtained relevant data in order to undertake comparator analysis. The remuneration of non-executive directors is reviewed by the executive directors of the Board with guidance from the Chairman, except in relation to his own remuneration. The Remuneration Report, on pages 32 to 37, gives further details on the remuneration of directors.

Nominations Committee

The Nominations Committee (NC) is chaired by John Grant and reviews proposals for the appointment of executive and non-executive directors or the extension of existing appointments and makes recommendations for approval by the Board. The Committee did not meet during the year.

Board Effectiveness

The Board's evaluation of the individual performance of its directors, as well as the effectiveness of the Board as a whole, follows a process of a confidential questionnaire to each of the directors. This is supplemented by individual meetings with the Chairman where development actions may be discussed. The results are fed back individually and to the Board or Nominations Committee as appropriate. In addition, the performance of executive directors is appraised according to agreed objectives and performance in relation to annual budgets and the business plan. The Chief Executive's performance is appraised by the Chairman and other executives are appraised by the Chief Executive.

The Board met 16 times during the year with attendance at the main Board meetings and sub committees as follows:

| | Board | AC | RC | NC |
|-----------------|-------|-----|-----|-----|
| John Grant | 16/16 | 2/2 | 6/6 | 0/0 |
| Dick Elsy | 15/16 | – | – | – |
| Jeremy Deering | 16/16 | – | – | – |
| James Batchelor | 12/16 | – | – | – |
| Nick Barter | 16/16 | 2/2 | 6/6 | 0/0 |
| David MacKay | 15/16 | 2/2 | 6/6 | 0/0 |

Risk Management and Internal Control

The Board is ultimately responsible for the Group's system of internal control and meets annually to formally review the effectiveness of such controls. The control systems are designed to manage, rather than eliminate, various risks of failure to achieve the Company and Group's objectives and therefore are only able to provide reasonable and not absolute, assurance against material mis-statement or loss.

There is a comprehensive system of financial reporting with monthly performance reports presented to the Board. The annual budget and the business plan, upon which the budget is based, is reviewed and approved by the Board.

There is a continuous process for identifying, evaluating and managing the significant risks the Group faces, which has been in place for the year under review and up to the date of approval of the financial statements. This process is regularly reviewed by the Board and accords with the Turnbull Guidance.

Major commercial, technological and financial risks are formally assessed during the annual business planning process, which normally takes place in the last quarter of the financial year. The Board monitors exposure to key business risks and progress towards achieving strategic aims.

The Executive Committee, which consists of the executive directors and senior management, meets regularly to monitor and control operations. Business performance is reviewed, risks and opportunities identified, financial and other implications assessed and corrective actions agreed as necessary.

Given the Group's scale of operations and centralisation of activities, the Board does not consider it necessary to have a dedicated internal audit function. Instead it has chosen to date to contract out such activities as necessary on a project by project basis.

Relations with Shareholders

The Chief Executive and Finance Director are the principal points of contact for shareholders. Either John Grant as Chairman or David MacKay as Senior Independent Director is available to shareholders where normal channels of communication may not be appropriate. The Company gives high priority to communications with shareholders by means of an active investor relations programme, which includes a rolling programme of meetings with institutions, private investor intermediaries and the Torotrak Private Shareholders' Association. A section of the Company's website is dedicated to investors, the use of which is strongly encouraged.

All shareholders are welcomed to the Company's Annual General Meeting, which the Board considers to be an important forum for investor communication. Notice of the Annual General Meeting is contained within this Annual Report on pages 63 to 70. In particular, the meeting provides an opportunity for investors to meet with the Board and chairmen of the committees.

Remuneration Report

This report complies with the Directors' Remuneration Report Regulations 2002, the Listing Rules of the Financial Services Authority and the Combined Code. A resolution inviting shareholders to approve the report will be tabled at the Annual General Meeting on 24 July 2008.

The Remuneration Committee is responsible for determining, within agreed terms of reference, the policy for the remuneration of the executive directors. The Committee is also responsible for determining the individual remuneration packages for executive directors including basic salary and annual bonuses, the level and terms of grants of options and awards and the terms of any performance conditions to apply to the exercise of such options and awards, pension rights and other benefits. Where the Remuneration Committee considers it appropriate, the Committee will also make recommendations in relation to the remuneration of senior management.

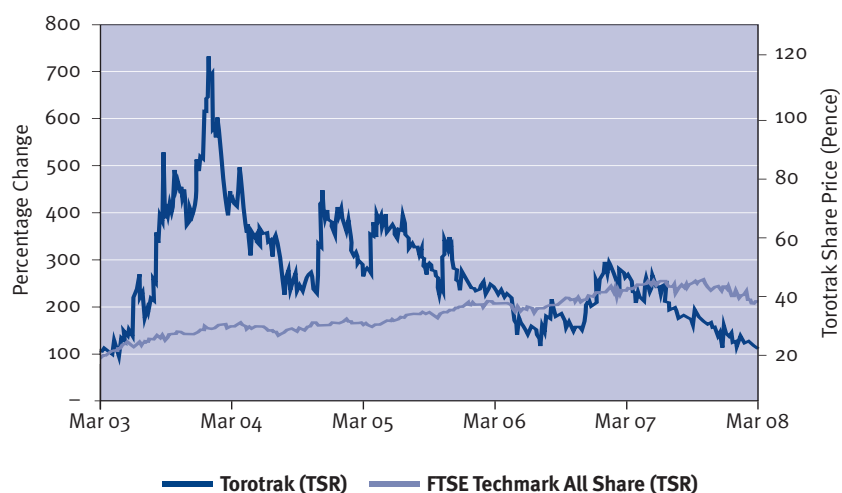
The Remuneration Committee consists exclusively of independent non-executive directors. The Chairman of the Committee is Nick Barter and its other members are John Grant and David MacKay. Given their diverse experience, the independent non-executive directors are able to offer a balanced view with respect to remuneration issues of the Group. The Committee has access to professional, independent advice from external advisers who do not have any other connection with the Company or Group. During the year the Committee was advised by Hammonds. The Committee consults with the Chief Executive on the remuneration of the other executive directors and directors of subsidiaries. The Chief Executive and the Finance Director normally attend part of the Remuneration Committee meetings. No director is involved in deciding his or her own remuneration.

Remuneration Policy

The objective of the remuneration policy, which has been applied in the year ended 31 March 2008 and is intended to remain applicable in the year ending 31 March 2009 and beyond, is to provide remuneration in a form and amount that will attract, retain, motivate and reward high calibre directors and senior management. The Committee believes that base salary and benefits for executive directors should represent a fair return for employment, but that over time a substantial proportion of the total reward should be derived from performance-related elements of the remuneration package. The performance-related elements of the executive directors' packages seek to align their interests closely with those of shareholders and provide incentives for performance. They are also designed to be long-term in their nature.

Performance Chart

The FTSE TechMARK All-Share index is the index used by the Committee for performance measurement. The chart below compares the total cumulative shareholder return of Torotrak plc with the performance of the FTSE TechMARK All-Share index over the last five years. The Committee is of the view that this index constitutes a relevant broad equity market index.



Executive Directors' Employment Contracts

The executive directors' employment contracts are continuing contracts subject to termination on 12 months written notice by the Company. There are no provisions for compensation on early termination in any of the executive directors' employment contracts. The three executive directors, Dick Elsy, James Batchelor and Jeremy Deering have service agreements with respective start dates of 1 January 2003, 31 March 2003 and 22 December 2006.

Executive Directors' Remuneration Packages

Details of executive directors' remuneration are included in the tables on pages 36 and 37. Remuneration packages for executive directors consist of the following elements:

Fixed elements

Base salary and benefits – the Committee reviews base salaries annually taking account of relevant external market comparisons, the level of responsibility for each executive and movements in basic pay across the Group.

Other benefits are health insurance and car benefits (which are subject to income tax), permanent health insurance and life insurance.

Executive directors are eligible to participate in The Torotrak Pension Scheme, a defined contribution money purchase scheme that is open to all employees of the Group. Executive directors have the option of having their contributions paid into a personal pension scheme of their choice. Pension contributions are made on basic salary only.

Variable elements

A performance related bonus is recommended by the Committee on the basis of annual financial and operational targets established at the beginning of each financial year and on the basis of other specific targets that may be agreed on appointment and that are relevant to the successful outcome of financial or commercial targets of importance to the business plan. Bonuses may be paid in cash, shares or a combination of both.

Bonuses paid in the form of shares are normally distributed from shares held by the Employee Share Trust, subject to the agreement of the trustees and the availability of shares to distribute. Further details on the Employee Share Trust are given on page 59. The value of the bonus is dependent on the market price on the date of the award. In 2008 the performance-related element of executive directors' remuneration was 27.5% (2007: 11.3%).

Share Option and Share Incentive Schemes

Long term performance share plans

The Torotrak plc 2006 Long Term Performance Share Plan (the 'LTPSP') was approved at the Annual General Meeting on 20 July 2006 and replaces the Torotrak Long Term Incentive Plan that was adopted in 1998 but where no awards have been made or are intended to be made in the future.

The purpose of the LTPSP is to link a proportion of participants' remuneration to the Company's long-term performance and to strengthen the Company's ability to attract and retain key senior executives. The provision of competitive incentives linked to the success of the Company is designed to align the interests of those participants with the interests of the Company's shareholders.

Awards under the LTPSP are intended to be made to executive directors and key employees of Torotrak plc and its subsidiaries. The maximum value of shares determined at the grant date for any individual shall in any financial year be 100% of basic salary in the case of a director of the Company or 60% of basic salary for other employees, such limits being increased to take into account secondary Class 1 National Insurance contributions which are to be borne by participants. Awards under the LTPSP and any other employee share scheme granted at that time or during the previous ten year period shall not exceed 10 per cent of the issued share capital of the Company at that time. Shares held in the Torotrak Employee Share Trust do not count towards this limit.

Awards give participants a right to receive a specified number of shares at the end of a period of at least three years, subject to the

Remuneration Report – continued

satisfaction of performance conditions. These performance conditions are set by the Remuneration Committee in accordance with the rules of the LTPSP which require that an award is subject to an objective condition or conditions as to the performance of the Group over a period of time.

If a participant ceases to be employed in the Group by reason of death, injury, disability or retirement upon reaching the age when the participant becomes bound to retire under his or her employment contract, an award will not lapse by reason of that cessation, but the number of shares to which the award relates will be pro-rated down to reflect that proportion of the usual three-year period which has elapsed at the time of cessation of employment. The Remuneration Committee would determine the basis on which the performance conditions would apply in these circumstances. If a participant ceases to be employed for any other reason, awards will lapse unless the Remuneration Committee in its discretion permits otherwise. In the event of a change in control of the Company (other than as a result of a re-organisation) participants will normally be entitled to receive the shares in respect of which an award has been made, subject to the application of a modified version of the performance condition that applies to the award. Benefits under the LTPSP are not pensionable.

LTPSP awards were granted during the year giving executive directors and other employees of the Company the right to receive, subject to the achievement of performance conditions, a maximum of 2,517,361 ordinary shares, of which 1,902,642 related to directors as detailed on page 37.

The performance conditions attaching to the LTPSP awards are designed to be challenging and relate to both market and non-market performance conditions.

| Awards under LTPSP | Market conditions – up to 50% of the shares subject to performance conditions | Non- market conditions – up to 50% of the shares subject to performance conditions |
|---|--|---|
| Year ended 31 March 2007 (first year of awards) | Requires both an overall increase in share price and achievement of a relative ranking of Torotrak’s total shareholder return (‘TSR’) against the TSR of the FTSE TechMARK All-Share index (the ‘Comparator Group’). A quarter of the shares in this part of the award would be received if Torotrak’s share price was to reach over 60p at the end of the three year period and Torotrak’s TSR was ranked half way within the Comparator Group. The maximum number of shares in this part of the award would vest if Torotrak’s share price were to be 120p or more at the end of the three year period and Torotrak’s TSR was in the top quartile of the Comparator Group. A sliding scale operates between the two levels of award. No shares would be received in this part of the award if Torotrak’s share price was less than 60p or if Torotrak’s TSR was not in the top half of the Comparator Group. | Requires the achievement of a measure of Cumulative Operating Cash Flow (‘COCF’) for the three year period commencing on 1 April 2006. A quarter of the shares in this part of the award would be received if Torotrak’s COCF achieved a target set in relation to the Business Plan COCF. The maximum number of shares in this part of the award would vest if a further and significant improvement to COCF was achieved. A sliding scale will operate in between the two levels of award. No shares would be received in this part of the award if Torotrak’s COCF does not achieve the target set in relation to the Business Plan. |
| Year ended 31 March 2008 | Requires the achievement of a measure of TSR against the Comparator Group (as defined above). A quarter of the shares in this part of the award would be received if Torotrak’s TSR was ranked as the upper 40% constituent within the Comparator Group. The maximum number of shares in this part of the award would vest if Torotrak’s TSR was in the top quartile of the Comparator Group. A sliding scale operates between the two levels of award. No shares in this part of the award would be received if Torotrak’s TSR was not in the top 40% of the Comparator Group. | Requires the achievement of a measure of COCF (as defined above). A quarter of the shares in this part of the award would be received if COCF achieved a target set by reference to achievement of the Company’s financial objectives relative to the 19 July 2007 Prospectus. The maximum number of shares in this part of the award would be received if the target was materially exceeded by a defined measure. No shares would be received in this part of the award if the target was not achieved. |

The Torotrak Approved and Unapproved Share Option Schemes

These schemes have, for executive directors and certain senior managers, been replaced by the LTPSP with effect from the year ended 31 March 2007. No awards under the share option schemes have been made to executive directors in the current financial year to 31 March 2008 or the prior year.

The Company operates the Torotrak Inland Revenue approved share option scheme ('the approved scheme') and an unapproved share option scheme ('the unapproved scheme'). Under the schemes, options over the Company's ordinary shares may be granted to all employees, including executive directors. No options were granted under these schemes during the year ended 31 March 2008. Information on previous grants to directors is set out on page 37 and to all employees on pages 58 and 59. The rules of both schemes and associated performance criteria are substantially the same and are detailed below.

The schemes are open to all employees, including executive directors. The unapproved scheme is open to both UK and non-UK resident employees and executive directors. The grant of options is at the discretion of the directors upon recommendation by the Remuneration Committee. The annual exercise price of shares under option granted to an individual under both schemes cannot normally exceed two times the employee's salary. The latest date for exercise of options under both schemes is ten years from the date of grant. The earliest date is dependent on achievement of the performance criteria. The maximum number of shares over which options may be granted when aggregated with shares issued or issuable under all the share schemes operated by the Company may not, in any ten year period, exceed 10 per cent of the issued ordinary share capital of the Company.

Share options that are granted are subject to specific conditions determined prior to grant with performance conditions as follows:

| Awards under share option schemes | Market related conditions | Non- market related conditions |
|--|---|---|
| Prior to year ended 31 March 2001 | N/a | Achieve market launch of the Torotrak IVT in series production vehicles; and Earn £20 million in revenue. |
| Year ended 31 March 2002 | Require that the average share price over the 30 days up to the performance test date should be: 75p for one third of the options to vest 150p for two thirds of the options to vest 250p for all the options to vest. | N/a |
| Years ended 31 March 2003 to 31 March 2005 | An average closing mid-share price over a period of 30 days leading up to the performance testing date of 250p for one third of the options to vest. | Confirmation of a production decision by a major car manufacturer and/or tier-1 transmission supplier for one third of the options to vest Market launch of the Torotrak IVT in series production vehicles for the final third of the options to vest. |

The Torotrak Savings-Related Share Option Scheme ('Sharesave Scheme')

In addition to the above long-term incentive scheme, the Company operates a savings related share option scheme, details of which are given on page 58.

Non-executive Directors' Letters of Appointment

The non-executive directors do not have service contracts. However, each of them has a letter of appointment which contains a notice period of three months. All the letters of appointment are dated 30 June 2006 and set out the expected time commitment; any other significant time commitments of the non-executive directors are disclosed to the Board and substantial changes brought to the Board's attention. Non-executive directors are not appointed for specific terms but are subject to re-election by shareholders every three years or earlier, subject to the Articles of Association.

Non-executive Directors' Remuneration

The remuneration of non-executive directors is established by the Board within the limits set out in the Articles of Association. Non-executive directors do not participate in the Company's employee share option schemes or the LTPSP, are not eligible for bonuses and do not receive any other benefits or pension rights under the pension scheme.

Details of their remuneration are given below.

Directors' Remuneration (audited information)

| | Salary & fees £000 | Benefits in kind £000 | Bonus £000 | Total (excl. pension) 2008 £000 | Company pension £000 | Total (inc. pension) 2008 £000 | Total 2007 £000 |
|------------------------------------|--------------------------|-----------------------------|---------------|--|----------------------------|---|-----------------------|
| Executive directors | | (iii) | (iv) | | | | |
| Dick Elsy | 231 | 21 | 81 | 333 | 35 | 368 | 324 |
| James Batchelor | 145 | 18 | 39 | 202 | 22 | 224 | 199 |
| Jeremy Deering (ii) | 155 | 22 | 135 | 312 | 23 | 335 | 60 |
| Rebecca Joyce (i) | – | – | – | – | – | – | 228 |
| Non-executive directors | | | | | | | |
| John Grant | 50 | – | – | 50 | – | 50 | 50 |
| Nick Barter | 25 | – | – | 25 | – | 25 | 28 |
| David MacKay (v) | 25 | – | – | 25 | – | 25 | 28 |
| Total directors' emoluments | 631 | 61 | 255 | 947 | 80 | 1,027 | 917 |

Notes: (i) To date of retirement (ii) On the appointment of Jeremy Deering in December 2006, specific bonus arrangements were agreed for the first year of his contract relating to business and substantial cash improvement targets, as well as an element payable upon the completion of 12 months' service. For future years, his bonus arrangements will be based on the annual performance related bonus scheme on the same basis as the other executive directors. (iii) Benefits in kind include the provision of a car allowance, fuel, medical, death in service and income protection for all executive directors (iv) The bonus includes £40k paid in shares of Torotrak plc to Dick Elsy and £40k paid to Jeremy Deering. The shares were issued at market value on 4th September 2007 (v) David MacKay received £4k consultancy fees in addition to his fees.

Directors' Interests in Share Capital (audited information)

The interests of the directors (including beneficial interests) in the share capital of the Company at 31 March 2008 were as follows:

| | 31 March 2008 No. of shares | 31 March 2007 No. of shares |
|-----------------|--------------------------------|--------------------------------|
| Dick Elsy | 517,441 | 359,105 |
| James Batchelor | 189,564 | 139,564 |
| Jeremy Deering | 232,547 | 75,000 |
| Rebecca Joyce | – | (i) 198,917 |
| John Grant | 409,336 | 326,003 |
| Nick Barter | 67,041 | 50,374 |
| David MacKay | 44,667 | 28,000 |

Notes: (i) at the date of resignation 22 December 2006.

Directors' Interests in Share Options and Awards Over Shares Under the LTPSP (audited information)

| | | Options and awards over shares at 1 April 2007 | LTPSP awards over shares granted during the year | Exercised during the year | Cancelled during the year | Option and awards over shares at 31 March 2008 | Exercise price | Expiry date |
|-----------------|-------|--|--|---------------------------|---------------------------|--|----------------|-------------|
| | Notes | Number | Number | Number | Number | Number | £ | (iv) |
| Dick Elsy | (i) | 146,341 | – | – | – | 146,341 | 0.205 | Jan 2013 |
| | (ii) | 393,659 | – | – | – | 393,659 | 0.205 | Jan 2013 |
| | (iii) | 22,261 | – | – | – | 22,261 | 0.42 | Feb 2009 |
| | (v) | 748,214 | – | – | – | 748,214 | (vi) | Sept 2016 |
| | (v) | – | 803,272 | – | – | 803,272 | (vi) | Sept 2017 |
| James Batchelor | (i) | 193,548 | – | – | – | 193,548 | 0.155 | Mar 2013 |
| | (ii) | 121,452 | – | – | – | 121,452 | 0.155 | Mar 2013 |
| | (iii) | 22,261 | – | – | – | 22,261 | 0.42 | Feb 2009 |
| | (v) | 415,175 | – | – | – | 415,175 | (vi) | Sept 2016 |
| | (v) | – | 473,444 | – | – | 473,444 | (vi) | Sept 2017 |
| Jeremy Deering | (v) | 387,317 | – | – | – | 387,317 | (vi) | Jan 2017 |
| | (v) | 193,364 | – | – | – | 193,364 | (vi) | Jan 2017 |
| | (v) | – | 625,926 | – | – | 625,926 | (vi) | Sept 2017 |

Notes: (i) approved (ii) unapproved (iii) sharesave (iv) approved and unapproved share option schemes were granted ten years before the expiry date, share save schemes were granted three years before the expiry date and the long term incentive plan was granted 10 years before the expiry date (v) These awards were granted on the terms of the LTPSP but as a separate scheme (vi) Each award over shares under the LTPSP is satisfied by the exercise of an option for the sum of £1.00.

The mid-market price of the ordinary shares at 31 March 2008 was £0.2075. During the year the highest mid-market price was £0.4492 and the lowest was £0.1925.

Approved by the board and signed on its behalf by:

Nick Barter - Chairman of the Remuneration Committee

Statement of Directors' Responsibilities

The directors are responsible for preparing the Annual Report, the Directors' Remuneration 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 prepared the Group and parent Company financial statements in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial statements are required by law to give a true and fair view of the state of affairs of the Company and the Group and of the profit or loss of the Group for that period.

In preparing those financial statements, the directors are required to:

- Select suitable accounting policies and then apply them consistently;
- Make judgements and estimates that are reasonable and prudent;
- State that the financial statements comply with IFRSs as adopted by the European Union;
- Prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group will continue in business, in which case there should be supporting assumptions or qualifications as necessary.

The directors confirm that they have complied with the above requirements in preparing the financial statements.

The directors are responsible for keeping proper accounting records that disclose with reasonable accuracy at any time the financial position of the Company and the Group and to enable them to ensure that the financial statements and the Directors' Remuneration Report comply with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

By order of the Board

Jeremy Deering
Company Secretary
20 May 2008

Auditors' Report

Independent Auditors' Report to the Members of Torotrak plc

We have audited the Group and parent Company financial statements (the 'financial statements') of Torotrak plc for the year ended 31 March 2008 which comprise the Consolidated Income Statement, the Consolidated Statement of Recognised Income and Expense, the Group and parent Company Balance Sheets, the Group and parent Cash Flow Statements and the related notes. These financial statements have been prepared under the accounting policies set out therein. We have also audited the information in the Directors' Remuneration Report that is described as having been audited.

Respective responsibilities of directors and auditors

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

Our responsibility is to audit the financial statements and the part of the Directors' Remuneration Report to be audited in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland). This report, including the opinion, has been prepared for and only for the Company's members as a body in accordance with Section 235 of the Companies Act 1985 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements give a true and fair view and whether the financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation. 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 in relation to Business Activity, Results and Dividends refers to specific information presented in the Chairman's Review, the Chief Executive's Review and the Financial Review.

In addition we report to you if, in our opinion, the parent 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 review whether the Corporate Governance Statement reflects the Company's compliance with the nine provisions of the Combined Code (2006) specified for our review by the Listing Rules of the Financial Services Authority, and we report if it does not. We are not required to consider whether the Board's statements on internal control cover all risks and controls, or form an opinion on the effectiveness of the Group's corporate governance procedures or its risk and control procedures.

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 Directors' Report, the unaudited part of the Directors' Remuneration Report, the Chairman's Review, the Chief Executive's Review, the Financial Review and the Corporate Governance Statement. We consider the implications for our report if we become aware of any apparent mis-statements 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 and the part of the Directors' Remuneration Report to be audited. 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 parent 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 and the part of the Directors' Remuneration Report to be audited are free from material mis-statement, 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 and the part of the Directors' Remuneration Report to be audited.

Auditors' Report – 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 March 2008 and of its loss and cash flows for the year then ended;
- The parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the European Union as applied in accordance with the provisions of the Companies Act 1985, of the state of the parent Company's affairs as at 31 March 2008 and cash flows for the year then ended;
- The financial statements and the part of the Directors' Remuneration Report to be audited have been properly prepared in accordance with the Companies Act 1985 and, as regards the Group financial statements, Article 4 of the IAS Regulation; and
- The information given in the Directors' Report is consistent with the financial statements.

PricewaterhouseCoopers LLP
Chartered Accountants and Registered Auditors
Manchester
20 May 2008

Financial Information 2008

Consolidated Income Statement

| For the year ended 31 March 2008 | Notes | Group 2008 £000 | Group 2007 £000 |
|--|-------|-----------------------|-----------------------|
| Revenue | 3 | 3,685 | 2,691 |
| Development expenses | | (4,570) | (4,453) |
| Administrative expenses | 4 | (1,873) | (1,962) |
| Operating loss | 4 | (2,758) | (3,724) |
| De-merger costs refund claim | 8 | - | 225 |
| Finance income | 9 | 361 | 272 |
| Loss before income tax | | (2,397) | (3,227) |
| Income tax credit | 10 | 267 | 328 |
| Loss for the year attributable to equity holders of the parent | 21 | (2,130) | (2,899) |
| Basic and diluted loss per share (pence) | 12 | (1.57) | (2.43) |

The results above derive from continuing operations.

The notes on pages 44 to 61 form an integral part to these financial statements.

Consolidated Statement of Recognised Income and Expense

| | Notes | Group 2008 £000 | Group 2007 £000 |
|--|-------|-----------------------|-----------------------|
| Currency translation differences | 21 | (2) | 16 |
| Net (expense)/income recognised directly in equity | | (2) | 16 |
| Loss for the year | | (2,130) | (2,899) |
| Total recognised expenses for the year attributable to equity holders of the parent | | (2,132) | (2,883) |

Balance Sheets

| As at 31 March 2008 | Notes | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|--|-------|-----------------------|-----------------------|-------------------------|-------------------------|
| Non Current Assets | | | | | |
| Intangible assets | 13 | 1,154 | 1,027 | – | – |
| Property, plant and equipment | 14 | 1,102 | 1,087 | – | – |
| Investments | 15 | – | – | 8,713 | 8,713 |
| Trade and other receivables | 17 | – | – | 66,266 | 60,460 |
| Total Non Current Assets | | 2,256 | 2,114 | 74,979 | 69,173 |
| Current Assets | | | | | |
| Inventories | 16 | 32 | 46 | – | – |
| Trade and other receivables | 17 | 517 | 1,326 | 15 | 22 |
| Current tax | 19 | 514 | 268 | – | – |
| Cash and cash equivalents | | 11,549 | 4,307 | 4,095 | 3,293 |
| Total Current Assets | | 12,612 | 5,947 | 4,110 | 3,315 |
| Total Assets | | 14,868 | 8,061 | 79,089 | 72,488 |
| Current Liabilities | | | | | |
| Trade and other payables | 18 | (2,525) | (755) | (6,306) | (6,297) |
| Total Current Liabilities | | (2,525) | (755) | (6,306) | (6,297) |
| Net Assets | | 12,343 | 7,306 | 72,783 | 66,191 |
| Capital and Reserves | | | | | |
| Issued share capital | 20 | 14,608 | 11,990 | 14,608 | 11,990 |
| Share premium | 21 | 52,766 | 48,298 | 52,766 | 48,298 |
| Other reserves | 21 | (202) | (262) | (202) | (262) |
| Retained earnings | 21 | (54,829) | (52,720) | 5,611 | 6,165 |
| Total equity attributable to equity holders of the parent | | 12,343 | 7,306 | 72,783 | 66,191 |

The accounting policies and notes on pages 44 to 61 form part of these financial statements.

The financial statements on pages 41 to 43 were approved by the Board of directors on 20th May 2008 and signed on its behalf by:

Dick Elsy – Director

Cash Flow Statements

| For the year ended 31 March 2008 | Notes | Group 2008 £000 | Group 2007 £000 | Company 2008 £000 | Company 2007 £000 |
|---|-------|-----------------------|-----------------------|-------------------------|-------------------------|
| Cash flows from operating activities | | | | | |
| Loss for the year | | (2,130) | (2,899) | (577) | (193) |
| Adjustments for: | | | | | |
| Sale of licence rights to Infnittrak | | – | (787) | – | – |
| Depreciation | 14 | 159 | 166 | – | – |
| Amortisation | 13 | 68 | 154 | – | – |
| Finance income receivable | 9 | (361) | (272) | (238) | (209) |
| Profit on disposal of plant and equipment | | – | (15) | – | – |
| Loss on disposal of intangible assets | | 40 | 122 | – | – |
| Taxation | 10 | (267) | (328) | – | – |
| Decrease/(increase) in inventories | | 14 | (46) | – | – |
| Decrease/(increase) in trade and other receivables | | 780 | (524) | (5,820) | (2,721) |
| (Decrease)/increase in trade and other payables | | 1,795 | (104) | 10 | (73) |
| Cost of equity settled employee share schemes and bonuses | | 428 | 389 | 427 | 389 |
| Cash generated/(used) in operations | | 526 | (4,144) | (6,198) | (2,807) |
| Income tax received | | – | 629 | – | – |
| Net cash generated/(used) in operating activities | | 526 | (3,515) | (6,198) | (2,807) |
| Cash flows from investing activities | | | | | |
| Acquisition of property, plant and equipment | | (174) | (469) | – | – |
| Proceeds from sale of plant and equipment | | – | 16 | – | – |
| Acquisition of patents | | (230) | (235) | – | – |
| Finance income received | | 381 | 266 | 259 | 221 |
| Net cash (used) in investing activities | | (23) | (422) | 259 | 221 |
| Cash flows from financing activities | | | | | |
| Net proceeds from the issue of share capital | | 6,741 | – | 6,741 | – |
| Proceeds from issue of share capital by Infnittrak | | – | 805 | – | – |
| Net cash generated in financing activities | | 6,741 | 805 | 6,741 | – |
| Net increase/(decrease) in cash and cash equivalents | | 7,244 | (3,132) | 802 | (2,586) |
| Cash and cash equivalents at start of year | | 4,307 | 7,473 | 3,293 | 5,879 |
| Exchange loss on currency translation | | (2) | (34) | – | – |
| Cash and cash equivalents at end of year | 23 | 11,549 | 4,307 | 4,095 | 3,293 |
| Cash and cash equivalents held in the JV not under direct control of the Group | | 92 | 234 | – | – |

The accounting policies and notes on pages 44 to 61 form part of these financial statements.

Notes to the Financial Statements

1. Significant Accounting Policies

Torotrak plc (the 'Company') is a publicly traded company incorporated and domiciled in the UK. The address for the registered office is shown on page 71.

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of preparation

The consolidated financial statements of Torotrak plc have been prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU), IFRIC interpretations and the Companies Act 1985 applicable to Companies reporting under IFRS. The consolidated financial statements have been prepared under the historical cost convention.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed at the end of note 1.

(a) Standards, amendment and interpretations effective in 2008.

IFRS 7, 'Financial instruments: Disclosures', and the complementary amendment to IAS 1, 'Presentation of financial statements – Capital disclosures', introduces new disclosures relating to financial instruments and does not have any impact on the classification and valuation of the Group or Company's financial instruments, or the disclosures relating to taxation and trade and other payables.

IFRIC 8, 'Scope of IFRS 2', requires consideration of transactions involving the issuance of equity instruments, where the identifiable consideration received is less than the fair value of the equity instruments issued in order to establish whether or not they fall within the scope of IFRS 2. This standard does not have any impact on the Group or Company's financial statements. The Company already applies an accounting policy which complies with the requirements of IFRIC 8.

IFRIC 10, 'Interim financial reporting and impairment', prohibits the impairment losses recognised in an interim period on goodwill and investments in equity instruments and in financial assets carried at cost to be reversed at the subsequent balance sheet date. This standard does not have any impact on the Group or Company's financial statements.

IFRIC 11, 'IFRS 2 – Group and treasury share transactions', provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation does not have a material impact on the Group or Company's financial statements.

(b) Standards, amendments and interpretations effective in 2008 but not relevant .

The following standards, amendments and interpretations to published standards are mandatory for accounting periods beginning on or after 1 January 2007 but they are not relevant to the Group or Company's operations:

IFRS 4, 'Insurance contracts';

IFRIC 7, 'Applying the restatement approach under IAS 29, Financial reporting in hyper-inflationary economies'; and

IFRIC 9, 'Re-assessment of embedded derivatives'.

(c) Standards, amendments and interpretations to existing standards that are not yet effective and have not been early adopted by the Group and Company.

The following standards, amendments and interpretations to existing standards, that are relevant to the Group have been published and are mandatory for the Group's accounting periods beginning on or after 1 January 2008 or later periods, but the Group and Company have not early adopted them:

IFRS 8, 'Operating segments' (effective from 1 January 2009). The standard is still subject to endorsement by the European Union. IFRS 8 replaces IAS14 and aligns segment reporting with the requirements of the US standard SFAS 131, 'Disclosures about segments of an enterprise and related information'. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. The Group will apply IFRS 8 from 1 January 2009, subject to

endorsement by the EU. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will reflect the internal reporting provided to executive management. As the financial report contains both the Group consolidated and parent Company financial statements prepared under IFRS, the Company will not be required to present segment information.

Basis of consolidation

Subsidiaries are entities controlled by the Group. Control exists when the Group 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.

Jointly controlled entities are those entities over whose activities the Group has joint control, established by contractual agreement. The consolidated financial statements include the Group's share of each line of the Group Income Statement, Balance Sheet, Cash Flow and related notes to the financial statements on a proportionate consolidation basis, from the date that joint control commences until the date that joint control ceases.

Foreign currency

Transactions in foreign currencies are translated into its functional currency at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the Income Statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated at foreign exchange rates ruling at the dates the fair value was determined.

Exchange differences arising on the retranslation of the jointly controlled entity's Income Statement and Balance Sheet are taken to reserves.

Investments

In the Company's accounts, investments in jointly controlled entities and subsidiaries are carried at cost less impairment.

Patent and other intellectual property rights

Patents are stated at cost less accumulated amortisation and impairment losses. Cost includes the cost of obtaining patent protection for intellectual property rights (IPR) on technologies arising from inventive ideas. Income from patents is derived through licensing and other agreements.

Such expenditure is amortised in a manner calculated to write off the cost, in equal annual proportions, over the effective life of the underlying patent or other IPR up to a maximum of 20 years. In the event that a patent is abandoned or is considered to have suffered a full impairment in value at any time before the expiry of its granted life, the balance of unamortised expenditure is charged to the Income Statement in the year in which the abandonment or other impairment in value takes place.

Property, plant and equipment

Property, plant and equipment are stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is attributable to the acquisition of the items.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

The assets' residual values and useful lives are reviewed and adjusted if appropriate at each balance sheet date.

Depreciation

Once the item of property, plant and equipment has been commissioned for use, depreciation is charged to the Income Statement to allocate their cost to their residual values over the estimated useful lives of each part of an item of property, plant and equipment.

Notes to the Financial Statements – continued

Tooling assets are depreciated following the start of commercial production that utilises those assets. The amortisation rates are as follows:

| | % | |
|-------------------------------|--------|---------------|
| Plant, machinery & equipment | 25 | Straight line |
| Computer hardware | 33 1/3 | Straight line |
| Computer software | 33 1/3 | Straight line |
| Office furniture and fittings | 20 | Straight line |
| Test vehicles | 50 | Straight line |
| Leasehold improvements | 10 | Straight line |
| Tooling | 20 | Straight line |

Trade and other receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses. A provision for impairment of trade receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulty of the debtor is considered an indicator that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the expected realisable value. The impairment is charged to the Income Statement.

Cash and cash equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less.

Impairment

The carrying amounts of the Group's assets, are reviewed at each balance sheet date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. The recoverable amount is the financial value less cost to sell.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in the Income Statement.

Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

An impairment loss is reversed when there is an indication that the impairment may no longer exist and there has been a change in the estimates used to determine the recoverable amount.

An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

Trade payables

Trade payables are recognised at fair value.

Pension costs

The pension scheme operated by the Group is a defined contribution money purchase scheme and pension costs are charged to the Income Statement as incurred.

Research and development

Expenditure on research activities is recognised in the Income Statement as an expense as incurred.

Expenditure on development activities is capitalised if it relates to an identified and profitable project with commercial exploitation that carries production targets and start dates. No development expenditure has been capitalised to date.

Leases

Operating lease rentals are charged to the Income Statement on a straight line basis over the period of the lease.

Operating lease income is accrued within the Income Statement on a straight line basis over the minimum lease period and is included within administrative expenses.

Revenue

Revenue is measured at the fair value of the consideration received or receivable net of value added tax.

(a) Engineering services or development agreements

Revenue from projects relating to engineering services or development agreements is recognised when the outcome of a project can be estimated reliably and the associated economic benefits will flow to the Group. Revenue and costs are recognised by reference to the stage of completion of the project at the balance sheet date. Stage of completion is assessed by reference to the proportion of costs incurred for work performed relative to the estimated total costs of the project at the balance sheet date and taking account of any specific contractual conditions that may be appropriate. Where it is probable that total contract costs will exceed the revenue realisable under the entire agreement, then the expected loss is recognised as an expense immediately.

Where licence agreements incorporate separable fair value attributable to engineering services or development activities, then the fair value of those activities will be separately accounted for on the same basis as for an engineering services or development agreement.

(b) Licence and royalty agreements

Revenue from licence and royalty agreements is only recognised to the extent that the economic benefits are likely to flow to the Group. Revenue from the assignment of intellectual property rights is recognised when the risks and rewards of the rights have been transferred to the licensee. The risks and rewards of the rights are considered to be transferred when all of the following conditions have been satisfied: the rights have been transferred under a non-cancellable contract, the licensee has received delivery or has been given access to the rights, the licensee is permitted to use the rights freely according to the scope of the agreement and the Group has no material remaining obligations under the agreement. Licence income that is conditional on an event outside the direct control of the Group is credited to the Income Statement when the conditionality ceases according to the achievement of contract specific conditions or where the customer or the Group either executes or refrains from the execution of rights under that agreement. Royalties due under licence agreements are recognised on an accruals basis when they are earned, in accordance with the relevant agreement and royalty period.

Inventory

Inventory is valued at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. Stock acquired within the last twelve months is included in the inventory total and all other inventory purchases are charged to the Income Statement.

Current and deferred income tax

Tax on the profit or loss for the year comprises current and deferred tax and is recognised in the Income Statement. Current tax is the expected tax payable on the taxable income for the year and/or tax credit receivable under the Research and Development scheme, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Current tax assets are calculated in accordance with existing legislation. The Company qualifies as a small and medium enterprise (SME) as defined in the legislation and claims a tax refund in respect of qualifying research and development costs. It also claims allowance under the large scheme rules for research and development costs that do not comply with SME legislation but are in accordance with large company scheme rules.

Deferred tax is provided on temporary differences using the liability method between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available in the immediate future against which the asset can be utilised.

Notes to the Financial Statements – continued

Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Employee Share Trust

The assets and liabilities of the Employee Share Trust are brought onto the balance sheet of Torotrak plc. Shares held by the trust are consolidated as a deduction from equity.

Share-based scheme

The share option programmes allow Group employees to acquire shares of the Company. The fair value of share options granted is recognised as an employee expense with a corresponding increase in equity. The fair value is measured at grant date, using an appropriate pricing model taking into account the terms and conditions upon which the options were granted, and is spread over the period during which the employees become unconditionally entitled to the options. The amount recognised as an expense is adjusted to reflect the actual number of share options that vest, except where forfeiture is only due to share prices not achieving the threshold for vesting. Non-market vesting conditions are included in assumptions about the number of options that are expected to vest. At each balance sheet date, the Company revises its estimates of the number of options that are expected to vest. The Company recognises the impact of the revision to original estimates, if any, in the Income Statement, with a corresponding adjustment to equity. Options will be equity settled. The Company National Insurance Contributions that arise on the profit on exercising an option will be met by the employee for the long term performance share plan and by the Company for all other schemes.

For options granted before 7 November 2002 the recognition and measurement principles of IFRS 2 have not been applied in accordance with the transitional provisions of IFRS 1.

Any shares awarded to staff as a bonus are distributed from the Employee Share Trust and are charged to the Income Statement at market value with the corresponding charge to Equity.

Non-recurring items

Non-recurring items are events or transactions that fall outside of the normal trading activities of the Group and by virtue of their size or incidence have been disclosed separately in order to improve a reader's understanding of the financial statements.

Critical accounting estimates and assumptions

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are as follows:

Intangible assets

The carrying value of our patent portfolio is assessed by an annual review of the commercial applicability of individual patent cases for potential abandonment as well as an estimate of the useful lives of the patents.

Revenue recognition

The Group recognises licence revenue on the basis that the risks and rewards of the rights to the intellectual property have been transferred to the licensee and the Group has no material remaining obligations under the contract. The Group uses the percentage of completion method in accounting for fixed price engineering service contracts. The cost to complete is assessed based on the latest financial information.

2. Segmental Analysis

In the opinion of the directors, the Group operates in one primary segment being the business of the design and development of traction drive Infinitely Variable Transmission (IVT) systems. In the opinion of the directors, and given the early stage of commercialisation of the Group's intellectual property, the Group does not currently operate in markets or geographical segments that are materially distinguishable in terms of risks and returns.

3. Revenue

The Group has eliminated unrealised profits on sales made to its joint venture against gross revenues.

| Revenue | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|--|--------------------------------|--------------------------------|
| Gross Revenue | 3,685 | 3,508 |
| Elimination of unrealised profit on licence sales to the Joint Venture | – | (787) |
| Elimination of unrealised profit on services for the Joint Venture | – | (30) |
| Revenue per the Income Statement | 3,685 | 2,691 |

Revenue from licence sales to the joint venture (JV) relates to the contribution of intellectual property to the JV in accordance with the JV agreement. The gross revenue has been eliminated so that only the element that relates to the other venture party remains.

4. Operating Loss

Operating loss is stated after charging/(crediting) the following:

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|---|--------------------------------|--------------------------------|
| Amortisation of intangible assets - patents | 68 | 154 |
| Abandonment of patents | 40 | 122 |
| Profit on disposal of plant and equipment | – | 15 |
| Depreciation | 159 | 166 |
| Operating lease payments | | |
| – land and buildings | 280 | 280 |
| – office equipment | 3 | 12 |
| Operating lease income | | |
| – land and buildings | (92) | (31) |
| Research and development costs expensed as incurred | 4,570 | 4,453 |
| Foreign exchange (gain)/loss | (2) | 20 |
| Auditors' remuneration | | |
| Audit services | | |
| – audit (Group) | 49 | 38 |
| – audit (Company) | 4 | 5 |
| Non-audit services | | |
| – tax services | 21 | 8 |
| – Corporate Finance (ii) | 171 | – |

| Administrative expenses | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|--|-----------------------------------|-----------------------------------|
| Administrative expenses – Normal | 1,702 | 1,786 |
| Non-recurring administrative expenses: | | |
| Interim Finance Director (i) | – | 176 |
| Additional costs paid to PwC relating to the refinancing | 171 | – |
| Total administrative expenses | 1,873 | 1,962 |

(i) Additional employment costs during the absence of previous Finance Director due to illness.

(ii) Corporate Finance

In addition £328k was paid to PwC for the role as sponsor, financial advisor and reporting accountant in respect of the share placing. This amount forms part of the total amount of £769k that has been charged to the share premium account (see note 21).

Normal administrative costs represent gross central service salaries and the administrative portion of directors' salaries (including pension and share based charge), central services' administrative costs, legal, audit and patent renewal costs.

5. Directors' Remuneration

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|--|--------------------------------|--------------------------------|
| Directors' emoluments | 947 | 682 |
| Payments connected to resignation of directors | – | 160 |
| Company contributions to pension schemes | 80 | 75 |
| Total | 1,027 | 917 |

The Company does not consider it has any key management personnel other than the executive and non-executive directors.

More detailed information concerning directors' remuneration, shareholdings, options and pension benefits is shown in the directors' Remuneration Report on pages 32 to 37.

Directors' emoluments include share bonus costs.

Company share option charges of £226k (2007: £179k) include £91k charged in respect of directors services (2007: £43k).

6. Employee Costs and Numbers

The aggregated payroll costs (including directors' emoluments) were as follows:

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|----------------------------|--------------------------------|--------------------------------|
| Salaries and bonuses | 2,768 | 2,466 |
| Social security costs | 319 | 314 |
| Pension costs | 244 | 217 |
| Share based payment charge | 428 | 389 |
| Total | 3,759 | 3,386 |

The average number of persons employed (including executive and non-executive directors) by the Group during the year is analysed by category below. The emoluments of the Company's executive directors are paid by Torotrak (Development) Ltd and are not recharged.

| | Group 31 March 2008 Number | Group 31 March 2007 Number |
|----------------|----------------------------------|----------------------------------|
| Directors | | |
| – company | 6 | 6 |
| – subsidiaries | 2 | 2 |
| Engineers | 37 | 37 |
| Administrative | 17 | 16 |
| Total | 62 | 61 |

The only employees of the Company are the executive and non-executive directors. Details of their remuneration are given in the directors' Remuneration Report.

7. Defined Contribution Pension Scheme

The Group operates a defined contribution money purchase scheme for its staff which was set up on 1 January 1988. The assets of the scheme are held separately from the Group in an independently administered fund with Standard Life as trustee. The scheme has been contracted into the State Earnings Related Pension Scheme since 6 April 1997. Pension charges are charged to the profit and loss account in respect of the period to which they relate. The charge to the profit and loss account was £244,000 (2007: £217,000). The scheme is available to all full-time employees and currently has approximately 54 active members. Retirement age is between 60 and 75 years. The minimum contribution rates as a percentage of basic earnings calculated at 6 June each year are 7.5 per cent by Torotrak and 3.5 per cent by the relevant employee. The maximum pension on retirement is 1/30th of final earnings for each year of service up to 20 years. The part of a pension bought with contributions paid after 5 April 1997 must increase by at least 5 per cent, in line with the cost of living. Part of the pension may be received as a tax-free cash sum. The maximum amount is the greater of (i) 3/80ths of the final salary for each year of service with a maximum of 40 years; and (ii) 2.25 times the initial pension amount. Contributions after 6 April 2006 will be eligible to a 25% tax-free cash sum. The scheme is not the subject of any investigation by the Occupational Pension Regulatory Authority or subject to any litigation or claim before the Pensions Ombudsman and complies with the requirements of the Pensions Act 1995. There were no payments due at the year end.

Executive directors, directors of subsidiaries and certain employees are entitled to have pension contributions payable by the Group paid into a personal pension scheme. Of the total charge to the Income Statement of £244,000 (2007: £217,000) the charge in respect of personal schemes was £69,000 (2007: £68,000).

8. Non-recurring Items

Non-recurring items for the year ended 31 March 2007 represented an additional receipt relating to a further successful claim for a refund of costs going back to the Stock Exchange listing in 1998 amounting to £225,000.

9. Finance Income

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|--------------------------|--------------------------------|--------------------------------|
| Bank interest receivable | 361 | 272 |

10. Income tax

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|---------------------------|--------------------------------|--------------------------------|
| UK Corporation Tax | | |
| Current tax for the year | 246 | 363 |
| Prior year tax | – | 75 |
| Total UK Corporation Tax | 246 | 438 |
| Overseas tax | | |
| Current tax for the year | 21 | (110) |
| Total tax | 267 | 328 |

Notes to the Financial Statements – continued

Factors affecting the tax credit for the current period:

The Finance Act 2000 introduced the Research and Development Tax Credit, which allows companies with qualifying expenditure to surrender their tax losses for cash. The effective tax rate for these credits is 24% compared to the current UK corporation tax rate of 30%.

The total tax credit for the period is lower (2007: lower) than the standard rate of corporation tax in the UK of 30% (2007: 30%). The differences are as follows:

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|--|--------------------------------|--------------------------------|
| Loss before taxation | (2,397) | (3,227) |
| Expected current tax credit at 30% (2007: 30%) | 719 | 968 |
| Non taxable income/non tax deductible (expenses) | (11) | 96 |
| Differences in tax rates on research and development related credits | (62) | (48) |
| Movement in short term timing differences | (400) | (651) |
| Overseas tax released/(suffered) | 21 | (110) |
| Prior year adjustment | – | 73 |
| Total tax credit | 267 | 328 |

Factors that may affect future tax credits/(charges):

Future tax credits/(charges) will depend on the continued availability of the tax credit in respect of research and development expenditure. In addition, the Group has approximately £34.1m of tax losses and approximately £8m of unclaimed capital allowances that may be offset against future taxable profits. If the tax credit in respect of research and development expenditure in respect of 2007/08 is not claimed the tax losses available for offset against future taxable profits would be increased.

11. Company loss for the Financial Period

No Income Statement is presented for the Company as permitted by section 230(4) of the Companies Act 1985. The Company's loss for the year was £577,000 (2007: loss £193,000).

The loss includes the additional item of £171k paid to PwC relating to the refinancing. In 2007 the Company received £225k in respect of the de-merger costs refund claim.

12. Loss per Ordinary Share

Basic and diluted loss per share of -1.57p (2007: -2.43p) is based on the loss after tax of £2,130k (2007: £2,899k) and 136.0 million ordinary shares (2007: 119.3 million) being the weighted average number of shares in issue during the year.

| | 31 March 2008 Number | 31 March 2007 Number |
|--|-------------------------|-------------------------|
| Shares issued and used in calculating basic and diluted loss per share | 135,929,977 | 119,299,841 |

In accordance with IAS 33 the number of shares used in the calculation excludes the weighted average number of shares held by the Employee Share Trust of 495,664 (2007: 600,979).

13. Intangible Assets – Patents

This relates only to the Group.

| | £000 |
|-----------------------|-------------|
| Cost | |
| At 1 April 2006 | 1,880 |
| Expenditure in year | 220 |
| Abandoned in year | (356) |
| At 31 March 2007 | 1,744 |
| Expenditure in year | 235 |
| Abandoned in year | (83) |
| At 31 March 2008 | 1,896 |
| Amortisation | |
| At 1 April 2006 | 797 |
| Charge for the year | 154 |
| Abandoned in year | (234) |
| At 31 March 2007 | 717 |
| Charge for the year | 68 |
| Abandoned in year | (43) |
| At 31 March 2008 | 742 |
| Net book value | |
| At 31 March 2008 | 1,154 |
| At 31 March 2007 | 1,027 |
| At 1 April 2006 | 1,083 |

14. Property, Plant and Equipment

This relates only to the Group.

| | Leasehold Improvements £000 | Office furniture & fittings £000 | Plant, machinery & equipment £000 | Computer equipment £000 | Test vehicles £000 | Machine tooling Infinitrak £000 | Total £000 |
|-----------------------|-----------------------------------|---|--|-------------------------------|--------------------------|--|---------------|
| Cost | | | | | | | |
| At 1 April 2006 | 821 | 134 | 4,062 | 1,719 | 228 | – | 6,964 |
| Additions | 90 | – | 6 | 73 | – | 300 | 469 |
| Disposals | – | – | (198) | (12) | (56) | – | (266) |
| At 31 March 2007 | 911 | 134 | 3,870 | 1,780 | 172 | 300 | 7,167 |
| Additions | – | – | 21 | 131 | – | 22 | 174 |
| Disposals | – | (1) | (6) | (194) | – | – | (201) |
| At 31 March 2008 | 911 | 133 | 3,885 | 1,717 | 172 | 322 | 7,140 |
| Depreciation | | | | | | | |
| At 31 March 2006 | 176 | 134 | 4,023 | 1,618 | 228 | – | 6,179 |
| Charge for the year | 71 | – | 26 | 69 | – | – | 166 |
| Disposals | – | – | (197) | (12) | (56) | – | (265) |
| At 31 March 2007 | 247 | 134 | 3,852 | 1,675 | 172 | – | 6,080 |
| Charge for the year | 79 | – | 21 | 59 | – | – | 159 |
| Disposals | – | (1) | (6) | (194) | – | – | (201) |
| At 31 March 2008 | 326 | 133 | 3,867 | 1,540 | 172 | – | 6,038 |
| Net book value | | | | | | | |
| At 31 March 2008 | 585 | – | 18 | 177 | – | 322 | 1,102 |
| At 31 March 2007 | 664 | – | 18 | 105 | – | 300 | 1,087 |
| At 1 April 2006 | 645 | – | 39 | 101 | – | – | 785 |

Machine tooling represents Torotrak's share of Infinitrak's fixed assets.

15. Investments in Subsidiary Undertakings

| Company | 31 March 2008 £000 | 31 March 2007 £000 |
|-------------|-----------------------|-----------------------|
| Cost | | |
| At 1 April | 8,713 | 8,713 |
| At 31 March | 8,713 | 8,713 |

Details of subsidiary undertakings are set out in note 25.

16. Inventories

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 | Company 31 March 2008 £000 | Company 31 March 2007 £000 |
|---------------|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Raw materials | 32 | 46 | – | – |

The Group values current project raw materials at cost price.

17. Trade and Other Receivables

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 | Company 31 March 2008 £000 | Company 31 March 2007 £000 |
|---|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Amounts owed by subsidiary undertakings | – | – | 66,266 | 60,460 |
| Trade receivables | 305 | 123 | – | – |
| Other receivables and accrued income | 15 | 980 | 2 | – |
| Prepayments | 197 | 223 | 13 | 22 |
| Total | 517 | 1,326 | 66,281 | 60,482 |

Amounts owed by subsidiary undertakings are recoverable on demand but are expected to be recovered after more than one year. No interest is charged on this receivable and no securities held.

18. Trade and Other Payables

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 | Company 31 March 2008 £000 | Company 31 March 2007 £000 |
|---|--------------------------------|--------------------------------|----------------------------------|----------------------------------|
| Amounts owed to subsidiary undertakings | – | – | 6,214 | 6,154 |
| Trade payables | 180 | 132 | 17 | 18 |
| Overseas tax | – | 116 | – | – |
| Social Security and Income Tax | 88 | 103 | – | – |
| Accruals | 552 | 404 | 75 | 125 |
| Deferred Income | 1,705 | – | – | – |
| Total | 2,525 | 755 | 6,306 | 6,297 |

Amounts owed to subsidiary undertakings are payable on demand but are expected to be paid after more than one year. No interest is charged on this payable and no security given.

19. Current Income Tax

| | Group 31 March 2008 £000 | Group 31 March 2007 £000 |
|--------------------------------------|--------------------------------|--------------------------------|
| Research and development tax credits | 514 | 268 |

There is no taxation receivable in respect of the Company.

20. Share Capital

| | Number | 31 March 2008 £000 | Number | 31 March 2007 £000 |
|--|-------------|-----------------------|-------------|-----------------------|
| Authorised Ordinary shares of 10p each | 250,000,000 | 25,000 | 200,000,000 | 20,000 |
| Allotted and fully paid Ordinary shares of 10p each | 146,082,973 | 14,608 | 119,900,820 | 11,990 |

| | Number | Group and Company 31 March 2008 £000 | Group and Company 31 March 2007 £000 |
|---|-------------|--|--|
| Ordinary shares of 10p each | | | |
| At 1 April | 119,900,820 | 11,990 | 11,990 |
| Shares issued as a result of Firm Placing | 20,333,333 | 2,033 | – |
| Shares issued as a result of Open Offer | 5,848,820 | 585 | – |
| At 31 March | 146,082,973 | 14,608 | 11,990 |

Details of ordinary shares under option under the Company's employee share schemes are given on pages 58 and 59.

21. Reconciliation of Share Capital and Reserves Attributable to Equity Holders of the Parent

| | Share capital £000 | Group and Company share premium account £000 | Group and Company other reserve £000 | Group accumulated loss £000 | Total equity £000 | Company accumulated profit £000 |
|--|-----------------------|--|--|--------------------------------------|-------------------------|--|
| At 31 March 2007 | 11,990 | 48,298 | (262) | (52,720) | 7,306 | 6,165 |
| Loss for the period | – | – | – | (2,130) | (2,130) | (577) |
| Share placing | 2,618 | 5,237 | (i) (345) | – | 7,510 | – |
| Expenses of share placing | – | (769) | – | – | (769) | – |
| Currency translation differences in JV | – | – | – | (2) | (2) | – |
| Shares awarded at cost price | – | – | 405 | (405) | – | (405) |
| Share based payment charge | – | – | – | 428 | 428 | 428 |
| At 31 March 2008 | 14,608 | 52,766 | (202) | (54,829) | 12,343 | 5,611 |

(i) Purchase of shares by the Employee Share Trust.

The other reserve represents 671,852 Ordinary shares of 10p each issued to the Employee Share Trust in 2007 at a price of £0.30, which have been debited against reserves. As the Employee Share Trust distributes these shares to the beneficiaries of the trust an amount will be transferred between the other reserve and the Group accumulated loss reserve.

Details of the share award by the Employee Share Trust are given on page 59.

22. Operating Leases

The total aggregate minimum lease payments:

| | 31 March 2008 £000 | 31 March 2007 £000 |
|--|-----------------------|-----------------------|
| Office furniture operating leases which expire between 1 and 5 years | 3 | 15 |
| Property operating leases which expire after 5 years | 2,134 | 2,414 |

The property operating lease agreement was dated 8 November 2005 and ends on the 7 November 2025. Both parties are entitled to terminate the lease on 8 November 2015 having given six months' notice in writing. The first rent review date is 8 November 2010 and then at five year intervals thereafter.

Total amounts receivable under non-cancellable operating lease rentals that derive from a sublease are as follows:

| | 31 March 2008 £000 | 31 March 2007 £000 |
|---|-----------------------|-----------------------|
| Property operating leases that expire between 1 and 5 years | 271 | 376 |

The agreement was dated 1 December 2006 and ends on 7 November 2015. Both parties are entitled to terminate the underlease on 1 November 2010 after giving a minimum of six months' notice in writing. The rent review date is 8 November 2010.

23. Financial Instruments, Assets and Liabilities

Details of the Group's treasury objectives and policies can be found in the financial review on page 20.

The Group's main financial asset comprises cash and cash equivalents which are shown below:

| | 31 March 2008 £000 | 31 March 2007 £000 |
|--------------------------------|-----------------------|-----------------------|
| Cash | 801 | 780 |
| Sterling cash deposits | 10,656 | 3,293 |
| Cash held in the Joint Venture | 92 | 234 |
| Total | 11,549 | 4,307 |

The sterling cash deposits comprise deposits placed on money markets during the year at call and terms up to three months. The weighted average interest rate on the deposits is 5.63% (2007: 4.78%) and the weighted average time for which the rate is fixed is 1.48 months (2007: 0.9 months).

The Group's only other financial assets/liabilities are trade receivables/trade payables arising from group activities. The Group had no financial liabilities within the scope of IAS 39 as at 31 March 2008 (2007: £nil), apart from trade payables. The fair value of the Group's financial assets/liabilities are not materially different from their carrying values.

The Group has not entered into any hedging transactions during the year.

In respect of interest earning financial assets the following table indicates their effective interest rates at the balance sheet date.

| | Effective interest rate 2008 | Effective interest rate 2007 |
|---------------------------|------------------------------|------------------------------|
| Cash and cash equivalents | 5.37% | 5.45% |

24. Employee Benefits

At 31 March 2008 the total number of shares over which options have been granted to directors and employees under all share schemes was 9,341,815 representing 6.39% of the issued share capital of the Company.

The Sharesave Scheme

The Inland Revenue approved savings-related share option scheme ('the Sharesave Scheme') is open to all employees, including executive directors, who enter into an approved savings contract for a period of three years. Inland Revenue rules limit the maximum amount that may be saved to £250 per month. Options are granted when the savings contract is commenced to acquire the number of shares that the total savings will buy when the savings contract expires. Under current regulations tax free bonuses are paid at the end of the savings contract and, if the savings contract continues for another two years, an additional tax free bonus is paid but no shares may be purchased.

At 31 March 2008 20 employees held options to acquire 420,729 shares representing 0.29% of the allotted share capital with exercise dates and prices as follows:

| Grant date | Number of employees | Number of shares | Exercise date | Exercise price |
|------------|---------------------|------------------|---------------|----------------|
| Jan 2006 | 20 | 420,729 | Feb 2009 | £0.42 |

Share option schemes

At 31 March 2008, employees held approved and unapproved options to acquire 2,096,389 shares under the share option schemes, subject to performance conditions, representing 1.43% of the issued share capital as follows:

| Grant date | Number of employees | At 1 April 2007 Number | Granted during the year Number | Exercised during the year Number | Cancelled during the year Number | At 31 March 2008 Number | Exercise price £ | Expiry date |
|--------------------------|---------------------|---------------------------|-----------------------------------|-------------------------------------|-------------------------------------|----------------------------|------------------|-------------|
| Unapproved scheme | | | | | | | | |
| July 1998 | 20 | 458,359 | – | – | – | 458,359 | £3.40 | July 2008 |
| Aug 1998 | 6 | 6,307 | – | – | – | 6,307 | £2.625 | Aug 2008 |
| June 1999 | 2 | 16,927 | – | – | – | 16,927 | £1.565 | June 2009 |
| Dec 1999 | 3 | 33,028 | – | – | – | 33,028 | £2.69 | Dec 2009 |
| July 2000 | 3 | 13,084 | – | – | – | 13,084 | £3.765 | July 2010 |
| Dec 2000 | 1 | 11,777 | – | – | – | 11,777 | £1.29 | Dec 2010 |
| July 2001 | 1 | 3,930 | – | – | – | 3,930 | £1.69 | July 2011 |
| Aug 2002 | 1 | 9,701 | – | – | 9,701 | – | – | – |
| Jan 2003 | 1 | 393,659 | – | – | – | 393,659 | £0.205 | Jan 2013 |
| Mar 2003 | 1 | 121,452 | – | – | – | 121,452 | £0.155 | Mar 2013 |
| June 2004 | 1 | 175,014 | – | – | – | 175,014 | £0.635 | June 2014 |
| June 2005 | 1 | 207,082 | – | – | – | 207,082 | £0.625 | June 2015 |
| Total unapproved options | | 1,450,320 | – | – | 9,701 | 1,440,619 | | |

| Grant date | Number of employees | At 1 April 2007 Number | Granted during the year Number | Exercised during the year Number | Cancelled during the year Number | At 31 March 2008 Number | Exercise price £ | Expiry date |
|------------------------|---------------------|---------------------------|-----------------------------------|-------------------------------------|-------------------------------------|----------------------------|------------------|-------------|
| Approved scheme | | | | | | | | |
| Aug 1998 | 22 | 176,728 | – | – | – | 176,728 | £2.625 | Aug 2008 |
| Jun 1999 | 7 | 51,638 | – | – | – | 51,638 | £1.565 | Jun 2009 |
| Dec 1999 | 2 | 13,018 | – | – | – | 13,018 | £2.69 | Dec 2009 |
| July 2000 | 3 | 17,668 | – | – | – | 17,668 | £3.765 | July 2010 |
| Dec 2000 | 2 | 7,255 | – | – | – | 7,255 | £1.29 | Dec 2010 |
| July 2001 | 2 | 28,574 | – | – | 12,000 | 16,574 | £1.69 | July 2011 |
| Aug 2002 | 39 | 478,078 | – | – | 478,078 | – | – | – |
| Dec 2002 | 8 | 50,157 | – | – | 50,157 | – | – | – |
| Jan 2003 | 1 | 146,341 | – | – | – | 146,341 | £0.205 | Jan 2013 |
| Mar 2003 | 1 | 193,548 | – | – | – | 193,548 | £0.155 | Mar 2013 |
| Jun 2003 | 2 | 21,000 | – | – | – | 21,000 | £0.27 | Jun 2013 |
| Jun 2004 | 1 | 12,000 | – | – | – | 12,000 | £0.635 | Jun 2014 |
| Total approved options | | 1,196,005 | – | – | 540,235 | 655,770 | | |

Long-term performance share plan (LTPSP)

The Company has established a long-term incentive plan for the benefit of UK and non-UK resident directors and employees. Awards were made during the year totalling 2,517,361 shares, subject to performance conditions, (2007: 2,210,947) representing 1.72% (2007: 1.84%) of the allotted share capital of the Company.

| Grant date | Number of employees | Number of shares | Exercise price |
|------------------------|---------------------|------------------|----------------|
| Approved scheme | | | |
| Sep 2006 | 9 | 1,630,266 | (i) |
| Dec 2006 | 1 | 580,681 | (i) |
| Sep 2007 | 12 | 2,517,361 | (i) |
| Total LTPSP options | | 4,728,308 | |

(i) Each award over shares under the LTPSP is satisfied by the exercise of an option for the sum of £1.00. Dick Elsy, James Batchelor and Jeremy Deering each received one award of shares in the year.

Share incentive plan

Awards made under the plan enjoy tax-favoured treatment and encourage long-term employee share ownership. During the year, an award of free shares was made under the plan which was performance related.

At 31 March 2008, 95,804 shares (2007: 85,375) in the Company, with a market value of £19,879 (2007: £40,126) were held in trust on behalf of participating employees. The trustee is Torotrak (Trustee) Ltd, a subsidiary of Torotrak plc.

The Torotrak Employee Share Trust

The Torotrak Employee Share Trust ('the EST') is a discretionary trust established for the benefit of past, present and future employees of the Group and their immediate families. The trustee is Bacon & Woodrow Trust Company (CI) Limited. The trustee can distribute shares at its discretion, on the recommendation of the Board, either directly to a beneficiary or through the Company's share schemes. All administrative costs associated with the EST are met by the Company.

On 19 August 2007 the Company placed 1,151,180 shares into the EST. The market price of the shares was £0.30 each and the market value of the shares was £345k.

On 20 August 2007 the trustees distributed 366,453 shares (before tax) to 54 employees of the Company. The share award price was fixed at 14 August 2007 when the share price was £0.3325 and the market value of the shares was £122k. On 4 September 2007 the trustees distributed 252,909 shares to two directors (Dick Elsy was awarded 127,123 shares and Jeremy Deering was awarded 125,786

Notes to the Financial Statements – continued

shares). The share price of the award was £0.3180 being the average of five trading days ending on 31 August 2007 and a market value of £80k. These awards are shown as share bonus in the Remuneration Report on page 36.

All of the distributions during the year have been charged to the Income Statement at fair value in accordance with IFRS 2.

At 31 March 2008, the EST owned 668,106 shares (2007: 142,309) in the Company with a nominal value of £0.07m (2007: £0.01m) and a market value of £0.14m (2007: £0.06m) representing 0.46% (2007: 0.12%) of the allotted share capital of the Company. Except as detailed above none of the shares held were under option or conditionally gifted. The EST held £1k in cash deposits (2007: £3k). The trustee acquires and disposes of shares according to the levels of surplus cash.

Fair value of share options granted

The fair value of services received in return for share options granted is measured by reference to the fair value of options granted. The estimate of the fair value of the services received is based upon the Black Scholes model. The contractual life of the option is used as an input into this model.

| Scheme | Fair value at measurement date | Share price | Exercise price | Expected volatility | Option life | Expected dividend | Risk free rate |
|--------------------------------------|--------------------------------|-------------|----------------|---------------------|-------------|-------------------|----------------|
| SAYE scheme 2 January 2006 | 0.21 | 0.42 | 0.42 | 73.72% | 3 | 0 | 4.16% |
| Approved share option January 2003 | 0.17 | 0.21 | 0.21 | 118.26% | 5 | 0 | 4.25% |
| Approved share option March 2003 | 0.13 | 0.155 | 0.155 | 118.26% | 5 | 0 | 4.25% |
| Approved share option June 2003 | 0.22 | 0.27 | 0.27 | 118.26% | 5 | 0 | 4.25% |
| Approved share option December 2003 | 0.67 | 0.80 | 0.80 | 118.26% | 5 | 0 | 4.25% |
| Approved share option June 2004 | 0.53 | 0.635 | 0.635 | 118.26% | 5 | 0 | 4.25% |
| Unapproved share option January 2003 | 0.17 | 0.21 | 0.21 | 118.26% | 5 | 0 | 4.25% |
| Unapproved share option March 2003 | 0.13 | 0.155 | 0.155 | 118.26% | 5 | 0 | 4.25% |
| Unapproved share option June 2004 | 0.53 | 0.635 | 0.635 | 118.26% | 5 | 0 | 4.25% |
| Unapproved share option June 2005 | 0.53 | 0.63 | 0.63 | 124.16% | 5 | 0 | 4.25% |
| EMI share options September 2006 | 0.16 | 0.33 | (i) | 67.00% | 3 | 0 | 5.25% |
| EMI share options December 2006 | 0.16 | 0.49 | (i) | 67.00% | 3 | 0 | 5.25% |
| EMI share options September 2007 | 0.28 | 0.3115 | (i) | 55.00% | 3 | 0 | 5.70% |

(i) Each award over shares under the LTPSP is satisfied by the exercise of an option for the sum of £1.00. Dick Elsy, James Batchelor and Jeremy Deering each received one award of shares in the year.

The forecast future volatility is based upon five year historical volatility. The volatility of the SAYE schemes is based upon three year historical volatility. The volatility of the EMI schemes is based on a TechMARK average.

The costs charged to the Income Statement relating to share options and awards over shares granted were as follows:

| | 31 March 2008 £000 | 31 March 2007 £000 |
|--|-----------------------|-----------------------|
| Share options granted in financial year ending 31 March 2004 | 24 | 38 |
| Share options granted in financial year ending 31 March 2005 | 7 | 67 |
| Share options granted in financial year ending 31 March 2006 | 36 | 22 |
| Share options granted in financial year ending 31 March 2007 | 117 | 54 |
| Share options granted in financial year ending 31 March 2008 | 42 | – |
| Total share option charge | 226 | 181 |
| Share bonus | 202 | 208 |
| Total charged to the Income Statement | 428 | 389 |

25. Subsidiary Undertakings and Joint Ventures

The Company had the following subsidiary undertakings and joint ventures as at 31 March 2008: the investments in Torotrak Group Ltd and Torotrak (Trustee) Ltd are held by the Company. The investments in all other subsidiaries are held through Torotrak Group Ltd. The investment in the joint venture Infnittrak is held by Torotrak Inc.

All companies have a concurrent year end except Infnittrak LLC which has an October year end.

| | Country of incorporation | Class of capital | Principal activity | Ownership | |
|----------------------------|--------------------------|------------------|--|-----------|------|
| | | | | 2008 | 2007 |
| Torotrak Group Ltd | UK | Ordinary | Intermediate holding company | 100% | 100% |
| Torotrak (Holdings) Ltd | UK | Ordinary | Commercialisation of Infinitely Variable Transmission technology | 100% | 100% |
| Torotrak (Development) Ltd | UK | Ordinary | Research and development of Infinitely Variable Transmissions | 100% | 100% |
| Torotrak (Property) Ltd | UK | Ordinary | Ownership of land and buildings and property rental | 100% | 100% |
| Torotrak (Trustee) Ltd | UK | Ordinary | Trustee of shares held under the Share Incentive Plan (formerly All Employee Share Ownership Plan) | 100% | 100% |
| Torotrak Inc | US | Ordinary | Intermediate holding Company | 100% | 100% |
| Infnittrak LLC | US | Ordinary | Commercialisation of full-toroidal traction drive technology in the 0-45 kW power range subject to licence agreements. | 50% | 50% |

26. Related Party Transactions

The Company's transactions with and balances due (to)/from wholly owned subsidiaries are analysed below.

| Related Party | Balance due (to)/from at 31 March 2007 £000 | Working capital loans provided/(received) £000 | Expenses charged by plc/(to plc) £000 | Balance due (to)/from at 31 March 2008 £000 |
|----------------------------|--|---|--|--|
| Torotrak Group Ltd | 2,680 | – | – | 2,680 |
| Torotrak (Holdings) Ltd | (2,796) | – | – | (2,796) |
| Torotrak (Development) Ltd | 57,600 | 5,962 | (157) | 63,405 |
| Torotrak (Property) Ltd | (3,438) | – | 20 | (3,418) |
| Torotrak Inc | 179 | – | – | 179 |

There were no balances due to or from Infnittrak LLC at 31 March 2008 (2007: nil). The Company does not consider it has any key management personnel other than the executive and non-executive directors. The current and prior year emoluments of these directors are shown in note 5. There are no amounts due (to)/from these personnel at the start or end of the year.

Financial Record

For the years ended 31 March

| | 2008 | 2007 | 2006(iii) | 2005(ii) | 2004(i) |
|--|-------------|-------------|------------------|-----------------|----------------|
| | £000 | £000 | £000 | £000 | £000 |
| Revenue | 3,685 | 2,691 | 2,054 | 534 | 244 |
| Loss on ordinary activities before taxation | (2,397) | (3,227) | (6,196) | (6,057) | (7,025) |
| Loss on ordinary activities after taxation retained for the financial year | (2,130) | (2,899) | (5,762) | (5,271) | (6,166) |
| Basic and diluted loss per share | (1.57p) | (2.43p) | (4.91p) | (4.55p) | (5.36p) |
| Total assets less current liabilities | 12,343 | 7,306 | 9,832 | 14,560 | 19,358 |
| Equity shareholders' funds | 12,343 | 7,306 | 9,832 | 14,560 | 19,358 |
| Net cash inflow/(outflow) from operating activities | 526 | (3,515) | (4,269) | (4,645) | (6,795) |

Notes: (i) presented under UK GAAP (ii) as restated under IFRS (iii) as restated for proportionate consolidation of Infnittrak.

Notice of Annual General Meeting

Notice of Annual General Meeting – Torotrak plc (the ‘Company’)

Notice is hereby given that the tenth Annual General Meeting of the Company will be held at the Best Western Leyland Hotel, Leyland Way, Leyland, PR25 4JX on Thursday 24 July 2008 at 12 noon for the following purposes:

1. To receive the Financial Statements and the reports of the directors and auditors for the year ended 31 March 2008 (resolution 1).
2. To approve the remuneration report for the year ended 31 March 2008 (resolution 2).
3. To approve the remuneration policy set out in the remuneration report (resolution 3).
4. To re-elect as a director Dick Elsy who retires as a director in accordance with the Company’s Articles of Association (resolution 4).
5. To re-elect as a director James Batchelor who retires as a director in accordance with the Company’s Articles of Association (resolution 5).
6. To re-appoint PricewaterhouseCoopers LLP as auditors of the Company (resolution 6).
7. To authorise the directors to agree PricewaterhouseCoopers LLP’s remuneration (resolution 7).

Special business

To consider and, if thought fit, to pass the following resolutions of which resolutions 8 and 9 will be proposed as ordinary resolutions and resolutions 10, 11 and 12 will be proposed as special resolutions:

8. That the directors be and they are hereby generally and unconditionally authorised to exercise powers of the Company to allot, grant options over, offer or otherwise deal with or dispose of relevant securities (within the meaning of section 80 of the Companies Act 1985) up to an amount equal to 33 per cent of the aggregate nominal value of the Company’s ordinary shares in issue at 20 June 2008, being £4,820,738, provided that:
 - (a) this authority shall expire on the earlier of the close of the next Annual General Meeting of the Company after passing of this resolution or 15 months from the date of the resolution unless previously renewed, varied or revoked by the Company in general meeting save that before such expiry the Company may make any offer or agreement which would or might require relevant securities of the Company to be allotted after such expiry and the directors may allot relevant securities in pursuance of such offer or agreement as if the authority conferred by this resolution had not expired; and
 - (b) the authority conferred by this resolution shall be in substitution for all existing powers conferred on the directors pursuant to the said section 80 (resolution 8).
9. That the Torotrak Savings-Related Share Option Scheme 2008 (the ‘Scheme’), in the form of the rules of the Scheme tabled at the meeting and initialled by the Chairman for the purpose of identification, be and is approved and the Board of Directors be and are authorised to adopt the Scheme and to do everything necessary to carry the same into effect, including making such amendments to the rules of the Scheme as may be required to obtain approval of the Scheme by HM Revenue & Customs (resolution 9).
10. That, subject to the passing of resolution 8, the directors be and they are hereby empowered pursuant to section 95 of the Companies Act 1985 to allot equity securities (within the meaning of section 94 of the said Act) for cash pursuant to the authority conferred by the foregoing resolution as if sub-section (1) of section 89 of the said Act did not apply to any such allotment provided that this power shall be limited:
 - (a) to the allotment of equity securities in connection with an issue in favour of holders of ordinary shares in the capital of the Company in proportion as nearly as may be to existing holdings of ordinary shares in the Company, but subject to such exclusions or other arrangements as the directors may deem necessary or desirable to deal with fractional entitlement or legal

Notice of Annual General Meeting – continued

or practical problems under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory; and

- (b) to the allotment (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an amount equal to 10 per cent of the aggregate nominal value of the ordinary shares in issue at 20 June 2008, being £1,460,829; and this authority shall expire on the earlier of the close of the next Annual General Meeting of the Company after passing of this resolution or 15 months from the date of this resolution save that the Company may before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry and the directors may allot equity securities in pursuant of such an offer or agreement as if the power conferred hereby had not expired (resolution 10).
11. That, in accordance with regulation 52(4) of the Articles of Association, a general authority is hereby unconditionally given for the purposes of section 166 of the Companies Act 1985 for market purchases (as defined in section 163 of the said Act) by the Company of any of its ordinary shares subject to the following restrictions but otherwise unconditionally:
- (a) the maximum aggregate number of ordinary shares to be so acquired shall not exceed 14,608,297 ordinary shares of 10p each representing 10 per cent of the ordinary shares in issue at 20 June 2008; and
- (b) ordinary shares may only be purchased at a price per share (exclusive of expenses) no higher than 5 per cent above the average of the middle market quotations of the ordinary shares in the capital of the Company, as derived from the London Stock Exchange Daily Official List, for the five business days preceding the date of purchase but the minimum price that may be paid for such shares shall be the nominal value of 10p per share (exclusive of expenses); such authority to expire at the earlier of the conclusion of the next Annual General Meeting of the Company or 15 months from the date of this resolution, but the Company may before such expiry make contracts for such purposes which would or might be executed wholly or partly after such expiry (resolution 11).
12. That, the articles of association produced to the meeting and initialled by the Chairman of the meeting for the purpose of identification be adopted as the articles of association of the Company in substitution for, and to the exclusion of, the existing articles of association (resolution 12).

Notes:

- a) Only registered holders of fully paid shares or their duly appointed representatives are entitled to attend and vote at the Annual General Meeting. On a vote by show of hands every member who is present has one vote and every proxy present who has been duly appointed by a registered holder entitled to vote has one vote. On a poll vote every member who is present in person or by proxy has one vote for every ordinary share for which he or she is the holder. Those shareholders entered on the register of members of the Company ('the Register') as at 6 pm on 22 July 2008 shall be entitled to attend and vote at the meeting in respect of the number of shares registered in their name at the time. Changes to entries on the Register after that time shall be disregarded in determining the rights of any person to attend and vote at the meeting. If the meeting is adjourned to a time not more than 48 hours after the specified time applicable to the original meeting then 6pm on 22 July 2008 will also apply for the purpose of determining the entitlement of shareholders to attend and vote (and for determining the number of votes they may cast) at the adjourned meeting. If, however, the meeting is adjourned for a longer period then, to be so entitled, shareholders must be entered on the Register at the time which is 48 hours before the time fixed for the adjourned meeting, or if the Company gives the notice of the adjourned meeting, at the time specified in that notice.

Any member entitled to attend and vote at the Annual General Meeting may appoint one or more proxies to attend and to vote instead of the member provided that each proxy is appointed to exercise the rights attached to a different share or shares held by that shareholder. A proxy need not be a member of the Company. To be effective, the instrument appointing a proxy (and the power of attorney or other authority (if any) under which it is signed or a notarially certified or office copy thereof) must be deposited at the Company's registrars, Capita Registrars, Northern House, Woodsome Park, Fenay Bridge, Huddersfield HD8 0GA, not less than 48 hours before the time of holding the meeting or adjourned meeting. Should you wish to appoint more than one proxy then please photocopy the form of proxy. Shareholders may also lodge their proxy online at www.capitashareportal.com. Completion and return of one or more forms of proxy will not preclude shareholders from attending the Annual General Meeting and voting in person if they wish to do so.

- b) The following principles shall apply in relation to the appointment of multiple proxies:
- (i) If the Company receives multiple proxy instructions from the sole holder of shares then the instructions received last (ie closest to the date of the Annual General Meeting) will be used.
 - (ii) If conflicting proxies are received at the same time in respect of (or deemed to be in respect of) an entire holding then none of them shall be treated as valid.
 - (iii) Where the aggregate number of shares in respect of which proxies are appointed exceeds a member's entire holding and it is not possible to determine the order in which they were received (or they were all received at the same time) then the number of votes attributed to each proxy will be reduced pro rata.
 - (iv) Where the application of paragraph (iii) above gives rise to fractions of shares, such fractions will be rounded down.
 - (v) If a member appoints a proxy or proxies and then decides to attend the Annual General Meeting in person and vote, then the vote in person will override the proxy vote(s).
- c) Pursuant to Regulation 41 of the Uncertified Securities Regulations 2001, entitlement to attend and vote at the meeting or any adjourned meeting (and also for the purposes of calculating how many votes a person may cast), a person must be entered on the register of members of the Company 48 hours before the meeting (or 48 hours before any adjourned meeting).
- d) In accordance with section 325 of the Companies Act 2006 (the '2006 Act'), the right to appoint proxies does not apply to persons nominated to receive information rights under section 146 of the 2006 Act. Persons nominated to receive information rights under section 146 of the 2006 Act who have been sent a copy of this notice of meeting may have a right under an agreement with the registered member by whom they were nominated to be appointed, or to have someone else appointed, as a proxy for this meeting. If they have no such right, or do not wish to exercise it, they may have a right under such an agreement to give instructions to the member as to the exercise of voting rights. Nominated persons should contact the registered member by whom they were nominated in respect of these arrangements.
- e) If a member is a corporation it is entitled to appoint one or more corporate representatives to exercise all or any of its rights to attend and to speak and vote on its behalf at the meeting. In order to facilitate voting by corporate representatives at the meeting, arrangements will be put in place at the meeting so that:
- (i) 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 representative in accordance with those directions; and
 - (ii) if more than one corporate representative for the same corporate shareholder attends the meeting but the corporate shareholder has not appointed the Chairman of the meeting as its corporate representative, a designated corporate representative will be nominated, from those corporate representatives who attend, who will vote on a poll and the other corporate representatives will give voting directions to that designated corporate representative. Corporate shareholders are referred to the guidance issued by the Institute of Chartered Secretaries and Administrators on proxies and corporate representatives (www.icsa.org.uk) for further details of this procedure. The guidance includes a sample form of appointment letter if the Chairman is being appointed as described in (i) above.
- f) Members should note that it is possible that, pursuant to requests made by shareholders of the Company under section 527 of the 2006 Act, the Company may be required to publish on a website a statement setting out any matter relating to the audit of the Company's accounts (including the auditor's report and the conduct of the audit) that are to be laid before the Annual General Meeting. The Company may not require the members requesting any such website publication to pay its expenses in complying with sections 527 or 528 of the 2006 Act. Where the Company is required to place a statement on a website under section 527 of the 2006 Act, it must forward the statement to the Company's auditor not later than the time when it makes the statement available on the website. The business which may be dealt with at the Annual General Meeting includes the statement that the Company has been required under section 527 of the 2006 Act to publish on a website.
- g) CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the Annual General Meeting to be held on 24 July 2008 and any adjournment(s) thereof by using the procedures described in the CREST

Notice of Annual General Meeting – continued

Manual. CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a 'CREST Proxy Instruction') must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must obtain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by the latest time(s) for receipt of proxy appointments specified in the notice of meeting. For this purpose, the time of receipt will be taken to be the time (as determined by the time stamp applied to the message by the CREST Application Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

CREST members and, where applicable, their CREST sponsors or voting service providers should note that Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages. Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s) to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

The company may treat as valid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

- h) As at close of business on 20 June 2008 (being the last business day prior to publication of this notice), the Company's issued share capital comprised 146,082,973 ordinary shares carrying one vote each. Therefore, the total number of voting rights in the Company as at 20 June 2008 is 146,082,973.
- i) There will be available for inspection at the registered office of the Company during normal business hours on any weekday, Saturdays and Sundays excepted, from the date of this notice until the date of the meeting, and at the offices of Hammonds LLP 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH from 9.00am on 24 July 2008 until the close of the meeting, and at the place of the meeting from 15 minutes prior to the opening of the meeting until the close of the meeting, copies of all directors' service contracts. Copies of the company's current articles of association, the new articles of association and a marked up copy of the current articles, together with a copy of the rules of the proposed Torotrak Savings-Related Share Option Scheme 2008, will be available for inspection at the registered office of the Company and at the offices of Hammonds LLP, 7 Devonshire Square, Cutlers Gardens, London EC2M 4YH during normal business hours of any weekday (public holidays excepted) from the date of this notice until the conclusion of the Annual General Meeting.
- j) It is intended that the chairmen of the audit, remuneration and nomination committees will be available to answer questions at the meeting, as will all other Board directors.
- k) Biographical details of the directors up for re-election in accordance with Resolutions 4 and 5 are set out in the Directors' Biographies section of the annual report and financial statements.
- l) In addition to the normal business of the meeting, additional resolutions are proposed to renew the directors' general authority to allot un-issued shares in the Company, approve the Savings-related Share Option Scheme 2008, allot shares for cash free from the pre-emption restrictions set out in the Companies Act 1985, to give the Company authority to make market purchases for its shares and to adopt new articles of association to take account of changes to English company law brought about by the Companies Act 2006. These resolutions are explained below:

Resolution 8

This resolution, proposed as an ordinary resolution, renews the directors' authority to allot un-issued shares in Torotrak plc in accordance with section 80 of the Companies Act 1985. The resolution authorises the directors to allot shares up to an aggregate

nominal amount of £4,820,738 (being 33 per cent of the issued ordinary share capital of the Company at 20 June 2008 (the date of this notice)). The authority will expire at the conclusion of the next Annual General Meeting of the Company or on the day 15 months from the date of the passing of this resolution (whichever is the earlier). The directors have no immediate intention to exercise this authority other than in connection with the Group's employee share schemes.

Resolution 9

This resolution, to be proposed as an ordinary resolution, seeks approval of the Torotrak Savings-Related Share Option Scheme 2008 (the 'Scheme'), which is intended to replace the Torotrak Savings-Related Share Option Scheme, under which no further options can be granted after the tenth anniversary of the date of its adoption on 6 July 2008. A summary of the principal terms of the Scheme is as follows:

The rules of the Scheme have been designed to be capable of obtaining the approval of HM Revenue & Customs under Schedule 3 to the Income Tax (Earnings and Pensions) Act 2003 ('Schedule 3'). Invitations to participate will be given to all employees and all full-time directors of the Company and of any participating subsidiary of the Company (the 'Group') who have been employed by a member of the Group for a specified continuous period of up to five years and who are UK income tax resident and ordinarily resident. Invitations may also be issued to other employees or directors of the Group at the discretion of the Board. Neither persons who have a material interest (as defined in Schedule 3) in any member of the Group nor persons who are prevented from being granted options by the Model Code will be able to participate in the Scheme. Benefits provided to participants under the Scheme will not form part of their wages or remuneration or count as pay or remuneration for pension fund or other purposes.

Participants in the Scheme must enter into a savings contract with a bank or building society selected by the Board, under which the participant agrees to save a specified monthly amount for three or five years. The amount per month cannot be less than £5 or more than £250, subject to the Board deciding on a lower value (or such other amount as may be specified in Schedule 3). At the end of the term of the savings contract, the participant will receive from the bank or building society a tax-free terminal bonus. The value of the bonus is fixed at the start of the savings contract and is equal to 2.4 monthly instalments for a 3-year contract and 7.2 instalments for a 5-year contract (at current rates of interest). If the participant continues to save for a further two years, the bonus is enhanced to the equivalent of 13.3 monthly payments.

Participants will be granted options to acquire shares in the Company. The number of ordinary shares comprised in an option will be the number of shares that have an aggregate option price not exceeding the total proceeds of the savings contract (including the bonus). Invitations may be issued under the Scheme within the period of six weeks following the date on which the Scheme is formally approved by HM Revenue & Customs and, thereafter, within the period of six weeks beginning with any of the following:

- (a) the dealing day following the day on which the Company announces its annual or interim results in any year;
- (b) the dealing day following the day on which any relevant legislation, regulation or other rule or directive preventing the grant of an option is removed or ceases to have effect.

Options may also be granted at any other time when the Board determines that circumstances are exceptional so as to justify the grant of options. No options can be granted more than 10 years after the date of adoption of the Scheme.

Options will be granted with an exercise price which is not less than 80 per cent (or such other percentage as may be specified in Schedule 3) of the middle market quotation of an ordinary share as derived from the Official List of the UK Listing Authority on the dealing day before invitations to apply for options are issued by the Company provided that where the option is to subscribe for new shares the price cannot be less than the nominal value of a share.

Options granted under the Scheme are personal to the relevant participant and may not be charged, assigned or transferred. An option will lapse immediately upon such charge, assignment or transfer or if the relevant participant is adjudged bankrupt. Except as described below, options may normally only be exercised within six months of the maturity of the relevant savings contract by a person who is then a director or an employee of a member of the Group or an associated company of the Company. Where the exercise of an option occurs before the maturity of the relevant savings contract the number of ordinary shares over which it can be exercised will be limited by reference to the accrued proceeds of the savings contract at the date of exercise.

If a participant dies, his or her option may be exercised by his or her personal representatives within 12 months of the later of the date of

Notice of Annual General Meeting – continued

death and the date of maturity of the savings contract. Options not exercised within such period will lapse. A participant may also exercise his or her option within six months of ceasing to be employed or hold office within the Group where such cessation occurs:

- (a) as a result of injury, disability, redundancy or retirement on reaching the age of 60;
- (b) as a result of his or her employing company or business being disposed of outside the Group; or
- (c) for any other reason (but only after the expiry of three years from the date of grant of the relevant option).

Where a participant reaches the age of 60, he or she may exercise the relevant option within six months of reaching such age. A participant may exercise his or her options within a limited period following take-over of the Company or a reconstruction, amalgamation or voluntary winding up of the Company. In certain of these circumstances participants in the Scheme may release their options in exchange for options over shares in a company that acquires the Company, provided that the options are equivalent for the purposes of Schedule 3. Options not exercised within the relevant time period will lapse.

The maximum number of shares over which options to subscribe for shares may be granted under the Scheme on any day may not exceed (when aggregated with shares issued or issuable pursuant to options or other rights granted in the immediately preceding 10 years under all the employee share schemes operated by the Company) 10 per cent of the issued ordinary share capital of the Company in issue immediately prior to that day. Any treasury shares used to satisfy the exercise of options under the Scheme must be taken into account for the purposes of this limit. If the share capital of the Company is varied (whenever this occurs) by way of capitalisation or rights issue (including a variation in share capital having an effect similar to a rights issue), or sub-division, consolidation or reduction, or otherwise, the Board may make such adjustments as it considers appropriate to the exercise price and the number of shares under option or, where an option has been exercised at that time, the number of shares to be allotted or transferred provided that (except in the case of a capitalisation issue) the Board has been independently advised in writing that such adjustments are fair and reasonable and that where the option is to subscribe for new shares in the Company the exercise price is not less than the nominal value of a share. Any such adjustment may only be made with the prior approval of HM Revenue & Customs.

The provisions of the Scheme relating to eligible employees or participants, the limits on the number of shares subject to the Scheme, the maximum entitlement for any individual participant and the basis for determining a participant's entitlement under the Scheme and any adjustment in the event of any variation in capital of the Company may not be amended to the advantage of current or potential optionholders with the prior authority of the Company in general meeting, except for minor amendments to benefit the administration of the Scheme, to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for optionholders or for any member of the Group. No amendment to a key feature (namely, a provision of the Scheme which is necessary in order to meet the requirements of Schedule 3) can take effect until the approval of HM Revenue & Customs is obtained.

Resolution 10

Under section 89 of the Companies Act 1985, equity securities in the Company may not be allotted for cash (otherwise than in respect of an employee share scheme) without first being offered pro rata to existing shareholders, unless the prior approval of the shareholders is given in a general meeting. The directors consider that it is in the best interests of the Company to renew the relevant authority given at the Annual General Meeting in 2007. Accordingly, a special resolution to this effect is proposed as Resolution 10 in the notice of the Annual General Meeting. The proposed authority will expire at the conclusion of the next Annual General Meeting of the Company or on the day 15 months from the date of the passing of this resolution (whichever is the earlier) and permits the directors during this period to issue up to an aggregate nominal amount of £1,460,829 (representing 10 per cent of the issued share capital at 20 June 2008) without first offering them to existing shareholders.

The Pre-emption Group, which is an investor group that issues guidelines on the dis-application of pre-emption rights, states that a routine dis-application of pre-emption rights should not exceed five per cent of the issued share capital. However, the Company believes that there are strong commercial reasons to justify the 10 per cent authority being sought. The allotment of shares in excess of five per cent of the aggregate nominal value of the ordinary shares in issue at 20 June 2008 would only be made in circumstances where:

- (a) funding is required for working capital purposes in order to support the commercial exploitation of the Group's technology ; and/or
- (b) as part of arrangements with other parties for closer commercial collaboration with the Company and/ or Torotrak Group for actual or potential commercial exploitation of the Group's technology.

Any discount at which equity is raised would not exceed a maximum of five per cent of the middle of the best bid and offer prices for the Company's shares immediately prior to the announcement of an issue or proposed issue.

Resolution 11

Under the terms of the Companies Act 1985 and its Articles of Association, the Company has power to purchase its own shares provided that this power has first been sanctioned by shareholders. Resolution 11, proposed as a special resolution, authorises the Company to make purchases of up to 14,608,297 shares (representing 10 per cent of the issued ordinary share capital of the Company as at the date of this notice) at a minimum price of 10p and a maximum price (exclusive of expenses) of not more than five per cent above the average of the middle market quotations for the ordinary shares of the Company as derived from the London Stock Exchange Daily Official List for the five business days prior to the purchase. The authority will expire at the conclusion of the next Annual General Meeting of the Company or on the day 15 months from the date of the passing of this resolution (whichever is the earlier). As at 20 June 2008 (being the last practicable date prior to publication of this notice) options to subscribe for 7,245,426 ordinary shares in the Company, pursuant to the Share Option Schemes were outstanding. If exercised as at the date of this document, those options would represent 4.96 per cent of the issued share capital of the Company. If the full authority to buy back shares being sought is used, the same options would represent 5.51 per cent of the issued share capital of the Company.

The fact that the directors are seeking this authority should not be taken as an indication that the Company will purchase its own shares at any particular price or indeed at all and the directors would only consider making purchases if they believed that such purchases would be in the best interests of shareholders generally, having regard to the effect on earnings per share. The directors have no immediate intention to exercise the proposed authority to purchase shares.

Formerly, shares purchased by a company were automatically cancelled. If the Company were to purchase any of its own shares pursuant to the authority conferred by Resolution 11, the Company would consider at that time whether to hold those shares as treasury shares unless there were some exceptional and unforeseen reasons at the time of purchase which meant that it were not in the interests of the Company to do so. The Companies Act 1985 permits a company to hold its own shares as treasury shares, to transfer them for the purposes of employee share schemes, or to cancel those shares. No dividends would be paid on and no voting rights would attach to any shares whilst held in treasury. The Company does not currently hold any treasury shares as defined by the Companies Act 1985.

Resolution 12

It is proposed in Resolution 12 to adopt new articles of association (the 'New Articles') in order to update the Company's current articles of association (the 'Current Articles') primarily to take account of changes in English company law brought about by the Companies Act 2006. The New Articles showing all the changes to the Current Articles are available for inspection, as noted in note (i) to this document.

The principal changes introduced in the New Articles are summarised below.

Convening extraordinary and annual general meetings

The provisions in the Current Articles dealing with the convening of general meetings and the length of notice required to convene general meetings are being amended to conform to new provisions in the Companies Act 2006. In particular a general meeting to consider a special resolution can be convened on 14 days' notice whereas previously 21 days' notice was required. Shareholder meetings formerly called extraordinary general meetings will now be called general meetings.

Votes of members

Under the Companies Act 2006 proxies are entitled to vote on a show of hands whereas under the Current Articles proxies are only entitled to vote on a poll. The time limits for the appointment or termination of a proxy appointment are restated in the articles so that a proxy appointment must be received not less than 48 hours before the meeting or in the case of a poll taken more than 48 hours after the meeting, not less than 24 hours before the time for the taking of a poll, with weekends and bank holidays being permitted to be excluded for this purpose. Multiple proxies may be appointed provided that each proxy is appointed to exercise the rights attached to a different share held by the shareholder. Multiple corporate representatives may be appointed. The New Articles reflect all of these new provisions.

Conflicts of interest

The Companies Act 2006 sets out directors' general duties which largely codify the existing law but with some changes. Under the Companies Act 2006, from 1 October 2008 a director must avoid a situation where he has, or can have, a direct or indirect interest that conflicts, or possibly may conflict with the company's interests, or he is in breach of a statutory duty to the Company. The requirement is very broad and could apply, for example, if a director becomes a director of another company or a trustee of another organisation. The

Companies Act 2006 allows directors of public companies to authorise conflicts and potential conflicts, where appropriate, where the articles of association contain a provision to this effect. The New Articles give the directors authority to approve such situations. The Companies Act 2006 also allows the articles of association to contain other provisions for dealing with directors' conflicts of interest to avoid a breach of duty, for example by directors declaring their interest in transactions or proposed transactions entered into or proposed to be entered into by the Company. The New Articles contain similar provisions to the Current Articles in relation to the declaration of directors' interests.

There are safeguards which will apply when directors decide whether to authorise a conflict or potential conflict. First, only directors who have no interest in the matter being considered will be able to take the relevant decision, and secondly, in taking the decision the directors must act in a way they consider, in good faith, will be most likely to promote the company's success. The directors will be able to impose limits or conditions when giving authorisation if they think this is appropriate.

It is also proposed that the New Articles should contain provisions relating to confidential information, attendance at board meetings and availability of board papers to protect a director being in breach of duty if a conflict of interest or potential conflict of interest arises. These provisions will only apply where the position giving rise to the potential conflict has previously been authorised by the directors.

Electronic and web communications

Provisions of the Companies Act 2006 which came into force in January 2007 enable companies to communicate with members by electronic and/or website communications. The New Articles continue to allow communications to members in electronic form and to continue to use website communications. However, the New Articles use revised definitions, such as communication in or by 'Electronic Copy', 'Electronic Means' and 'Electronic Form' as these are all terms that are defined in the Companies Act 2006.

Before the Company can communicate with a member by means of website communication, the relevant member must be asked individually by the Company to agree that the Company may send or supply documents or information to him by means of a website, and the Company must either have received a positive response or have received no response within the period of 28 days beginning with the date on which the request was sent. The Company will notify the member (either in writing, or by other permitted means) when a relevant document or information is placed on the website and a member can always request a hard copy version of the document or information.

Directors' indemnities and loans to fund expenditure

The Companies Act 2006 has in some areas widened the scope of the powers of a company to indemnify directors and to fund expenditure incurred in connection with certain actions against directors. In particular, a company that is a trustee of an occupational pension scheme can now indemnify a director against a liability incurred in connection with the company's activities as trustee of the scheme. In addition, the existing exemption allowing a company to provide money for the purpose of funding a director's defence in court proceedings now expressly covers regulatory proceedings and applies to associated companies.

By order of the board
Jeremy Deering
Company Secretary
20 June 2008

1 Aston Way
Leyland
Lancashire
PR26 7UX

Financial Calendar

Annual general meeting **24 July 2008**

Half Year results **November 2008**

Preliminary results **May 2009**

Company Secretary

Jeremy Deering

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London EC2Y 9AR

Registrar

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