Annual Report and Financial Statements 2006

Torotrak is the world leader in the design and development of traction drive Infinitely Variable Transmission (IVT) systems with competitive benefits for the automotive, off-highway and now outdoor power equipment industries . In automotive, IVT offers significant improvements in fuel economy, performance and smoothness combined with innovative driving control features. In off-highway and outdoor power equipment, IVT offers a cost effective and mechanically efficient technology that can be used across product ranges.

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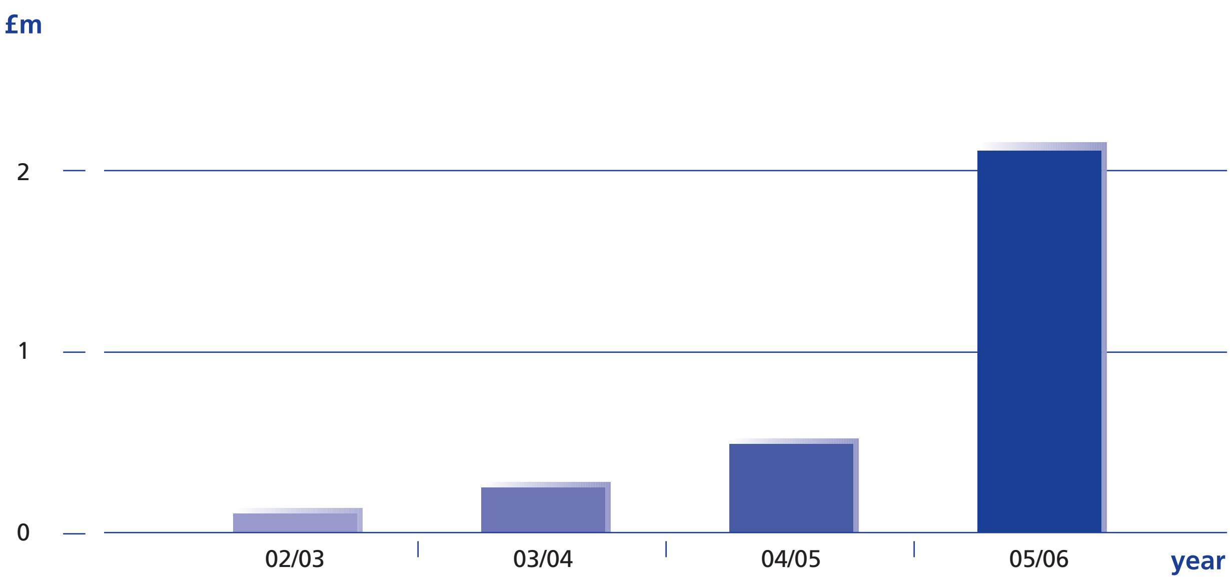
Financial Highlights

	2006 £m	2005 £m
Revenue	2.1	0.5
Operating cash outflow	(3.7)	(4.6)
Year end net cash	7.5	7.3
Operating loss	(5.4)	(6.5)

- Revenues increased fourfold from £0.5m to £2.1m.
- Restructuring achieves £1.1m annual cost savings (benefiting year ending March 07 onwards).
- £5.3m non sales related cash receipts strengthen cash reserves.
- Net cash at year end £7.5m (2005: £7.3m).

Revenues



Chairman's Review

"These results signal a very different looking Torotrak. The increased revenues we have achieved reflect a high level of utilisation of our skills as we support existing customers and also develop opportunities in new markets."

Revenues

Revenues of £2.1m represent a fourfold increase over the previous year and confirm that our strategy to exploit Torotrak's Infinitely Variable Transmission (IVT) technology across a broad range of markets is starting to deliver hard business results. This growth in revenues reflects a year of focused commercial exploitation with customers who identify IVT technology as giving them competitive advantage.

At a time when many suppliers are suffering from their sole dependency on the challenging automotive market, Torotrak has continued to develop new markets for IVT, in the last financial year adding outdoor power equipment (OPE) to off-highway. We are now generating revenues from customers, as we support them with their development of IVT technology, in each of the following strategic markets:

- outdoor power equipment - covering a range of products from ride-on lawnmowers to compact tractors;
- off-highway - predominantly large agricultural equipment;
- automotive;
- trucks and buses.

A key factor in addressing these increasingly diverse applications has been our recent success in engineering lower-cost IVT solutions. This breakthrough will enable customers across all of our target markets to consider entry level IVT applications in addition to our more sophisticated top-end products. Our work on entry level products includes a simple mechanical version developed for OPE applications, a hydro-mechanical transmission for the tractor market and an evaluation transmission for a low-cost automotive application requested by a new customer from Asia.

To support this broader market base, we have developed our commercial strategy to accommodate the differing needs of these customers by offering:

- a conventional licensing and royalty model which supports those customers who have the full engineering capability to develop IVT themselves;
- a contract manufacturing solution, in cooperation with a preferred manufacturing partner, for customers who simply wish to buy variable drive technology from an independent supply source;
- a Joint Venture approach suited to those customers who require our continued support with engineering development and are therefore seeking a more defined partnership model. The first example of this is our US-based Joint Venture company, Infinitrak, which is developing and planning to manufacture IVTs for the OPE market. The Infinitrak business model, based on the licensing of our patents and know-how, provides Torotrak with short-term revenue from engineering consultancy as well as a 50% share of a growing, potentially high-volume manufacturing business.

Cash Position

During the past year, as we have been developing new markets and applications for our technology, we have also strengthened our cash position, primarily through the sale and lease back of our headquarters building in Leyland. This enabled us to achieve a net increase in cash reserves despite maintaining significant business and product development activity.

The restructuring of the business completed in the last quarter of the year resulted in a £1.1million reduction in our annual operating costs that will benefit the year ending March 2007.

John Grant

The combination of reduced costs and increasing revenues coming from each one of our strategic markets keeps us on track to achieve the important medium-term milestone of breaking even in operating cash terms.

The encouraging progress we have made in the last year with off-highway customers, the announcement in November of the Infinitrak Joint Venture and the new opportunity for low-cost automotive applications in emerging markets, signal a different looking Torotrak. We have extended beyond our principal target market of the established automotive sector and have developed significant additional opportunities to create value from new applications for our IVT technology.

People

We have been successful in realising growth in income through the provision of specialist consultancy support as more customers demand this. Many customers, however, are happy to undertake their own routine engineering development work on IVT. Consequently, as we announced in November, we were able to reduce the number of personnel in areas such as prototype build, workshop and administration. Our thanks are extended to the engineers and technicians, who left the business at this time, for their important contribution to the development of Torotrak's technology.

David Price, our Chief Technical Officer, stood down from the board at the end of December on completion of his objective to develop IVT technology to market readiness. The board would like to thank David for his outstanding leadership of the engineering team and wish him well with his future career outside Torotrak.

Rebecca Joyce, our Finance Director, has been absent through illness since January. In March we appointed a highly qualified, interim Finance Director, Jeremy Deering, to provide cover for this absence. Although Jeremy is not a statutory board director of the Company, he will be ensuring that Torotrak's finances are appropriately managed whilst we await Rebecca's return to work.

Business Highlights

- Engineering services revenue from eight customers actively pursuing IVT opportunities from concept design studies to prototype hardware testing.
- Formation of Infinitrak Joint Venture with leading outdoor power equipment manufacturer creates significant future opportunities.
- Development of low-cost IVT solutions opens up new automotive opportunities in emerging markets.

Chief Executive's Review

"The Infinitrak Joint Venture provides us with entry into a new sector, the outdoor power equipment market and demonstrates how we have found new ways to realise the value of our intellectual property and our engineering skills."

Outdoor Power Equipment

Last year, I reported our success in the off-highway market as part of our strategy to broaden our product and market portfolio. This year, I am pleased to report the continued success of this strategy with Torotrak's entry into a new market sector, outdoor power equipment. In November 2005 we formed a Joint Venture company, Infinitrak, with MTD Holdings, one of the largest global manufacturers of OPE. Infinitrak is currently based in Cleveland, Ohio, and brings together Torotrak's world-leading engineering capability in IVT technology with MTD's world-class manufacturing processes to develop and produce low-cost IVTs.

The engineering development and test of the first Infinitrak transmission units are taking place in parallel with the manufacturing process development. These test IVTs are already demonstrating clear signs of competitive advantage over existing transmission solutions when installed in the intended vehicles.

The production tooling commitment for these transmissions is underway, with orders being placed for the long-lead production equipment. These are the tools which take longest to make and, whilst production orders are not yet committed, reflect the level of confidence within the Joint Venture.

The exact start date for production is dependent upon completion of the engineering test programme, which is a joint activity between Infinitrak and the vehicle teams within MTD.

The Infinitrak management board has six members, made up of three officers each from Torotrak and MTD, reflecting the expertise brought together in this Joint Venture.

Torotrak is contracted to provide engineering services to Infinitrak and, in turn, MTD is providing manufacturing process development as well as a range of commercial and business services covering purchasing, logistics and personnel. Manufacturing of Infinitrak transmissions is planned using existing MTD facilities in the USA.

Initially, the Joint Venture is planning for these transmissions to be supplied exclusively to MTD, giving Infinitrak access to the OPE market at minimal sales cost. The value of the partnership should result in a high degree of openness about the sales forecasts for the transmissions. This relatively predictable demand for product should in turn enable a structured approach to the progressive release of investment in support of increased manufacturing output.

Torotrak's initial capital requirements are being funded through the sale to the Joint Venture of licence rights with MTD contributing the equivalent amount in actual cash terms.

The Infinitrak Joint Venture not only provides Torotrak with entry into a new market segment but also demonstrates how we are securing new ways to realise the value of our intellectual property and our engineering skills. It gives Torotrak immediate revenue benefits through the provision of engineering support to the venture, and finances Torotrak's initial equity in the company through the sale of intellectual property rights.

Dick Elsy

Off -highway

The visibility of IVT technology in the OPE market has led to an increase in our business activity in off-highway. Many of the global off-highway manufacturers have interests in the OPE sector in addition to full-size agriculture and construction vehicles. Knowledge of our Joint Venture partnership with MTD to develop IVT technology has helped to increase the confidence levels of these other global manufacturers. They recognise from this development that IVT is now emerging as a cost-effective technology, suitable for mass production. As a result, our revenues have increased as we have helped a number of new off-highway customers to evaluate and develop the technology.

Some of our customers in off-highway are looking to Torotrak to offer alternative sources of supply of variable drive units. To provide this, we are developing plans with a specialist transmission manufacturer to supply variable drive units engineered by Torotrak in a range of standard configurations.

Torotrak has continued to take cost out of the IVT technology, which has led to further inventive steps relevant to this off-highway market. An example of this is a new, simplified hydro-mechanically controlled tractor transmission which has been developed on behalf of a new customer. The first vehicle with this application has exceeded the customer's expectations in the way it performs and is demonstrating the way in which IVT technology can compete in the high-volume commodity tractor market.

Acceptance in this market is further helped by the simplicity of driver experience: a single lever controls speed and direction in a highly intuitive way.

The lower cost of this hydro-mechanical system has opened up the potential for IVT to compete across a wider range of tractors in off-highway and particularly for entry-level tractors with power ratings of up to 50kW. This wider applicability has attracted new off-highway interest, particularly from Asian vehicle manufacturers.

The off-highway licensee we announced in May 2005 has continued to apply our technology to the development of their off-highway transmissions; they have now built their own prototype transmissions using the engineering skills they have gained through the technology transfer process. The thoroughness of this process along with the quality of our design tools and mathematical models has delivered prototypes which perform as expected. This licensee is now testing these prototypes and, in parallel, is promoting the IVT technology to its customers, the major off-highway vehicle manufacturers.

The increase in prototype testing over the last financial year is a sign of the depth of commitment to exploit IVT in the off-highway market. This expansion of prototype test activity, and the resultant growth of Torotrak revenues from engineering consultancy and intellectual property, is starting to realise the value that we sought from market diversification.

Chief Executive's Review

"Low-cost IVT configurations have led to new opportunities in the automotive market especially in the emerging markets."

Automotive

Success with our strategy to broaden our applications has led to new developments in the automotive sector. We have developed a number of lower-cost configurations of our IVT technology which have the capability to compete at entry level in the automotive market. This has attracted new interest and a new car company customer. We are now working with this customer to develop a low-cost IVT to prove the concept of our technology in a new prototype vehicle which they have designed for the Asian market. If this trial is successful we expect to progress to a full prototype programme.

The growing Asian market is creating fresh and ambitious thinking amongst its indigenous car companies, with a readiness to invest in new technology. IVT in this context is considered as "leapfrog" technology, unhindered by current investment in conventional transmission technology, as is the case with the established global manufacturers.

The entry level nature of low-cost configurations developed over the last year has allowed us to develop a complementary strategy to the more normal "top-down" technology cascade model. Whereas new technology is often introduced in high-end premium vehicles, with these low-cost configurations we have the ability to provide competitive transmissions suitable for entry level vehicles.

Alongside the development of low-cost transmissions, we continue our drive to refine and simplify our product at the premium end of our automotive product offering.

I am pleased to report a notable success in the realisation of a new variable drive layout known as Epicycloidal Roller Control (ERC). ERC has simplified the control of the central component in IVT, the variator, and has led to a 30% reduction in the number of variator parts with a consequent saving in cost.

Over the last six months, we have presented ERC to tier 1 transmission manufacturers and to car companies through our established network of senior management contacts and also via the transmission industry conference circuit. Response has been excellent with universal recognition of the contribution to parts reduction, simplification and lower unit costs.

We have secured protection of ERC through a number of new patents and our work is now centred round the testing and validation of this new design.

It has been well reported in the media that 2005 has been a challenging year for many parts of the automotive industry, with a number of the global players facing significant structural and profitability challenges. There is no doubt that this has provided a distraction for their decision makers and business leaders. It has also had the effect of a general slow down of product development decisions.

Against this backdrop, we have been encouraged by the continued commitment of Equos and Koyo to further develop and calibrate the compact IVT which forms the basis of our joint project.

The target customer for this transmission has now evaluated the vehicle and development work continues. This programme of customer-focused development is planned to run until the end of the 2006 calendar year with a series of milestone check points which include the customer. During this period, Torotrak will earn further revenues from engineering consultancy.

At the half-year we reported the decision of another car company to seek a partner to share investment and to increase the volume base in premium vehicle application of the IVT. Over the last six months, we have continued to support this process, which is now centred upon IVT incorporating the ERC variator, ideally configured for premium vehicles.

At the same time, our most recent work on entry level automotive applications has not gone unnoticed by this car company. In parallel with the premium vehicle ERC transmission, we are currently reviewing an entry level transmission opportunity with them.

A third global car company has concluded their extensive evaluation of IVT and Torotrak has completed the various packages of work for them to consider. They are now evaluating their overall transmission strategy and we await next steps.

Our collaborative project with Cranfield University and electrical machine manufacturer Newage to develop a parallel hybrid IVT has now moved onto the stage of in-vehicle verification of the results that we have jointly modelled. The vehicle is now built and undergoing tests. We continue to feed the results of this work through to our automotive customers.

These customers are still uncertain about the future of hybrids and the degree of penetration they will achieve in the global car market. Most are seeking solutions which allow for a flexible "modular" approach where a mechanical transmission layout can be used on its own or be hybridised, allowing the manufacturer complete flexibility to respond to what appears to be mixed market demand. Our parallel hybrid IVT is one such modular solution.

Chief Executive's Review

"With increased revenues and continued control of costs, the board is confident that we are making good progress towards our medium-term target to achieve positive operating cash flow."

Truck and Bus

We have been working with a European truck manufacturer for over a year to support them in achieving fuel economy and reduced emissions. Initial evaluation has progressed to a concept design study where our services have been engaged on a consultancy basis. Early indications look promising although the full results will not be complete until later this year.

Our project with a European bus manufacturer has led to the build of an IVT equipped bus. We are currently in a programme of further development and calibration which is targeted at optimising fuel economy and driveability.

The first drives of this vehicle have shown a very smooth and comfortable experience for the passengers and indicate that our fuel economy targets should be achievable.

Competition

In OPE, our main competition is the hydrostatic drive technology which features on most of the premium vehicles in this market. Our goal, working with our partners in Infinitrak, has been to develop a cost effective, IVT-based equivalent, which is more efficient, quieter and much easier to control. The prototype units we are currently testing indicate that this goal can be achieved in our production transmissions.

In off-highway, there are still no signs of a commercially viable technology, to support the variable drive need of the medium-sized vehicle sector other than our IVT.

Work with our partners to develop wider applications has broadened our competitive range to cover both entry-level products as well as the premium end in this medium-sized sector.

In automotive, car companies and transmission manufacturers are beginning to declare their research work on traction drive technology. Traction drive technology is being developed in both full and half toroidal forms for application in CVTs and IVTs. It is clear from presentations made on the industry conference circuit that traction drive technology remains under serious consideration for automotive application as a logical successor to the highly developed and continuously improved, 6, 7 and even 8-speed automatic transmissions of today.

This set of conventional transmission technologies is now widening to include dual clutch transmissions which are essentially automatically shifted manual gearboxes.

The cost advantage of full-toroidal IVT over half-toroidal transmissions has been recognised by those in the industry who are working on traction drives.

Our ERC layout has given us further cost, weight and efficiency advantages to widen the competitive gap to this other form of traction drive. The results of our continued drive for lower cost have been an important factor in maintaining Torotrak's competitive edge.

With regard to hybrids, the automotive industry has yet to decide how to proceed with this technology, but most car companies have hybrid engineering programmes running to protect their ability to compete in this area. Torotrak has its own hybrid programme which is showing highly competitive results.

The common external pressure which Torotrak faces is competition for engineering resources which are currently being deployed by the car companies on each of these various technologies.

Finally, in truck and bus we find a sector that is just beginning to consider variable drive technologies such as IVT. Torotrak is already working with one of the most technically advanced truck manufacturers. They have made it clear that they see no alternative infinitely variable drive technology that can handle the requirements of their very powerful trucks.

Outlook

The restructuring of our UK operations has reshaped the Torotrak business to focus strongly on our key engineering skills. Our engineers are utilising their unique IVT know-how and experience to service our internal need to invent and develop our technology whilst also supporting a growing and diverse customer base with their work to develop IVT for production applications.

The increased revenues we have seen this year reflect a high level of utilisation of these skills; we plan to maintain utilisation around these levels as we continue both to support existing customers and to develop new opportunities.

With increasing revenues and continuing control of our costs, the Board continues to be confident that we are making good progress towards our medium-term target of achieving positive operating cash flow.

Financial Review

"During the year we have worked with eight active customers across our four strategic markets with services ranging from testing to prototype and development programmes."

Overview

This year's results reflect progress in three key areas:

- underlying operating performance has improved by £1,231k, over the last year, principally through a step increase in revenues partly offset by start up costs in Infinitrak;
- the organisational restructuring has reduced future operating costs by circa £1.1m per annum to improve profit and cash flow in the year ending 31 March 2007;
- the Group secured £5,296k additional cash that bolstered cash reserves to a higher level than the start of the year.

The presentation of the key operating performance achievements is complicated by a number of one-off items during the year (such as the £1,295k non-cash loss on the sale and lease back of our Leyland property) as well as a different looking income statement which reflects the accounting for our new Infinitrak Joint Venture.

The loss after tax for the year of £5,762k (2005: £5,271k), which is an increase of £491k on 2005, is therefore not indicative of underlying and continuing performance.

Excluding non recurring items, the Group's performance this year has improved by £1,231k in operating terms and by £756k post tax after taking into account lower tax credits and lower interest receipts as explained below:

	2006 change over 2005 £000
Increased revenues	1,520
Reduced development and normal administrative costs	63
Share of JV loss	(352)
Improvement in operating performance	1,231
Reduction in R&D tax credit and interest receivable	(475)
Improvement in loss after tax before non recurring items	756
Non recurring items: restructuring costs, JV set up costs, loss on sale of property less de-merger costs refund claim	(1,247)
Increased loss after tax after non recurring items	(491)

Revenue

	Y/e 31.3.06 £000	Y/e 31.3.05 £000
Engineering services	1,254	484
Licence & option fees	240	50
Sale of IP rights to Infinitrak	560	-
Total	**2,054**	**534**

The increase of £1,520k in revenues, which has exceeded our targets, is encouraging as it illustrates the progress of the Torotrak business plan.

During the year we have worked with eight active customers across our four strategic markets with services ranging from testing to prototype and development programmes. Whilst we work closely in collaboration with our customers, we retain our core intellectual property rights for future licence based income; all licence agreements are specifically and separately negotiated.

Of the £1,254k earned in relation to engineering services, £753k related to the substantial programme with MTD through the Joint Venture, Infinitrak. The current agreement with Infinitrak is for Torotrak to deliver engineering services at the rate of some $2m in the first year, although this will be reviewed according to the requirements of the Joint Venture.

Revenue contribution from engineering is limited by the number of employees capable of being billed out and the demand for the key skills of these engineers by our customers.

This year's contribution from engineering consultancy is towards the upper end of our business plan target, although we keep the balance of resources between internal development and externally billable projects under constant review.

Licence fee income materially increased during the year, with the sale of IP rights to Infinitrak worth £560k during the year further increasing overall licence related revenues. This sale provides Infinitrak with global rights in the 0 - 25kW power range together with exclusive North American rights in the 25 - 45kW power range for compact tractors with further potential revenue to be realised in the year ending 31 March 2007.

The collaboration with MTD through the Infinitrak Joint Venture has therefore played an important part this year in terms of the contribution of £1,313k of net revenue (2005: £108k re engineering services to MTD).

This contribution is after eliminating the unrealised element of the revenue corresponding to our own 50% share in the Joint Venture (see note 3 - notes to the financial statements) and reflects the level of cash currently committed by MTD under the Joint Venture agreement.

Financial Review

"Consumption of cash is on an improving trend, with increased revenues and a reduction in operating costs following the restructuring."

Expenditure Charged to the Consolidated Income Statement

Whilst our development and normal administrative costs of £6,946k (2005: £7,009k) were marginally lower than last year, the restructuring completed in the last quarter of the year ended 31 March 2006, achieved £1.1m annual cost savings to benefit the year ending March 2007 onwards. This has resulted in a reduction in employee numbers to 62 people at April 2006 compared to the 86 full year equivalent number of employees whose costs were borne during the year ended 31 March 2006.

Development costs of £5,212k (2005: £5,201k) are a fundamental feature of keeping the technology refreshed and relevant to the needs of our customers as well as to anticipate market and competitor developments. The programmes being undertaken to develop low-cost IVT in the automotive sector as well as the developments in OPE are good examples of this. This long-term commitment to the development of IVT technology is central to our business proposition and also underpins the revenue-earning life of our licences.

One-off items of expenditure during the year, which will not impact our net costs year on year, included £330k costs of restructuring (principally severance costs), the set-up costs for the Infinitrak Joint Venture of £179k and a £1,295k (non cash) loss on the sale of our Leyland property, which we now occupy on the basis of an operating lease. Set against those items was a successful claim of £557k for a refund of costs relating to contractual arrangements going back before the Stock Exchange listing in 1998.

Share of Joint Venture loss

As part of the start up of Infinitrak, we have incurred a 50% share in the start-up costs amounting to a £352k charge to the Consolidated Income Statement. This loss reflects the initial engineering and administrative costs which are principally incurred and charged to the Joint Venture by the Joint Venture partners, MTD and Torotrak. It should be noted that overall, taking into account the share of start-up costs, the contribution relating to Infinitrak is strongly positive in both cash and operating profit terms.

Interest Receivable

Interest receivable of £295k for the year (2005: £418k) is reduced compared to 2005 mainly due to lower average cash balances, with the higher net cash position at 31 March 2006 being substantially impacted by cash inflows occurring towards the end of the year.

Taxation

The tax credit of £434k (2005: £786k) reflects mainly the claim to be made for research and development tax credits, the cash impact of which should benefit the year ending 31 March 2007.

Cash and Treasury

A strong sales contribution, together with some material cash contributions elsewhere (see below), have helped increase net cash to £7,467k at 31 March 2006 (2005: £7,318k). Consumption of cash going forward is on an improving trend, with increased revenues and a reduction in operating costs following the restructuring.

Supported by the strong year end cash resources, this places the Group in a robust position to pursue its business plan.

The material non-sales related cash contributions (excluding interest) during the year were as follows:

	Y/e 31.3.06 £000	Y/e 31.3.05 £000
Sale of Property	3,440	-
Demerger costs refund claim	557	-
R&D tax credit	749	876
Share option proceeds	550	23
Cash received	5,296	899

Set against this were one-off cash costs of £509k relating to the restructuring and the set up of the Joint Venture (2005: £nil). In net terms, therefore, 2006 benefited from £3,888k increase in non sales related cash flows net of one-off cash costs.

The treasury function does not operate as a profit centre. Credit risk is managed by limiting exposures to authorised banks with credit ratings that are approved by the Board. The Company's exposure to foreign currency exchange rate risk mainly arises from the US dollar denominated value of engineering services provided into Infinitrak, together with the impact of foreign exchange translation of our share of Infinitrak's US dollar denominated results. We do not currently actively hedge against these exposures although will keep this policy under review. Exposure to interest rate risk is low and the Company currently does not undertake any form of hedging. The Company deposits and invests cash with a combination of both fixed and floating rates. The cash balances at year end were invested in a combination of money market managed funds and bank deposits.

Intangible and Tangible Assets

Capital expenditure during the year remains mainly in relation to patents, amounting to £317k during the year (2005: £220k); £122k was charged to the Consolidated Income Statement for accelerated amortisation and costs in relation to patent abandonment, which follows a review of the benefits compared with the costs of maintaining 'live' patents having graded the cases concerned in terms of territory and the likely returns on commercial exploitation.

As reported in our interim announcement, in November 2005 we completed the sale of the freehold land and buildings at the Leyland headquarters and at the same time entered into an open market operating lease at a cost of £280k per annum. The sale has resulted in a loss on disposal of £1,295k reflecting the difference between the carrying value in the accounts at the time and the £3,440k net cash received. Tangible fixed assets have therefore reduced to £785k at 31 March 2006 (2005: £5,731k).

Share Capital

2,615,073 shares were allotted during the year to satisfy options exercised by 78 employees following the maturity of the 2002 Sharesave scheme. The Company received £550k in respect of these allotments. The nominal value of the shares allotted was £261k, leading to an increase in ordinary share capital from £11,729k at 1 April 2005 to £11,990k at 31 March 2006.

Adoption of International Financial Reporting Standards (IFRS)

This is the first year of reporting under IFRS. The results previously reported to 31 March 2005 have been restated following adoption of IFRS in place of UK Generally Accepted Accounting Practices (UK GAAP) used previously.

The principal difference relates to the treatment of share-based incentive schemes. The results are not materially impacted by the transition to IFRS.

Directors' Biographies

John Grant

Non-executive Chairman, and Chairman of the Nominations Committee, aged 60. 1, 2, 3

John Grant was appointed as a director of Torotrak in 1998. He is Chairman of Hasgo Group Limited, a group of specialist engineering companies and a Non-executive Director of National Grid Plc, Corac Group plc and the Royal Automobile Club 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 up to 1992, where he was Vice-president, Ford of Europe; director of corporate strategy, Ford US and Executive Deputy Chairman of Jaguar.

Dick Elsy

Chief Executive, aged 46.

Dick Elsy joined Torotrak as Chief Executive in January 2003. Immediately prior to this he was Product Development Director at Jaguar Cars Limited, responsible for all engineering and car programme delivery. He previously spent 16 years at BMW AG/Rover Group where he held various senior engineering and commercial positions leading the delivery of many major car programmes. He is also a Director and Trustee of the Engineering & Technology Board (etb). In 1998 he won an award from the Royal Academy of Engineering for outstanding contribution to British engineering. He is a Chartered Engineer and a Fellow of the Institution of Mechanical Engineers.

Rebecca Joyce

Finance Director, aged 45.

Rebecca Joyce joined Torotrak in 1997 having spent 12 years at Touche Ross and Grant Thornton where she became a partner in 1994. She joined Torotrak from L. Gardner Group plc, an engineering group in the automotive and aerospace sectors, where she was Group Company Secretary. She is a Fellow of the Chartered Association of Certified Accountants.

James Batchelor

Commercial Director, aged 50.

James Batchelor joined Torotrak in March 2003. Immediately prior to this he was Commercial Director of Trafficmaster Automotive, the telematics and traffic information group. He spent six years at BMW AG, including four years for 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 49. 1, 2, 3

David MacKay was appointed as a director of Torotrak in November 2003. He is chairman of NXT plc, the flat panel loudspeaker technology licensing company. He was formerly Executive Vice President and General Counsel for ARM Holdings plc, one of the most successful UK technology companies, whose core business is founded upon the design and licensing of world-leading technology. His principal responsibilities there included negotiating and drafting technology-related agreements including intellectual property licences, international manufacturing and distribution agreements and joint venture agreements.

Nick Barter

Non-executive Director, Chairman of the Remuneration Committee, aged 65. 1, 2, 3

Nick Barter was appointed as a director of Torotrak in November 2003, having retired from Ford Motor Company in 2002 after 22 years. He was most recently Director of Product Development for Jaguar and Land Rover, 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. Following his retirement from Ford, he was appointed Programme Director of the government funded automotive research programme, Foresight Vehicle, where he is now responsible for sponsoring cutting-edge technologies focused on developing more fuel efficient vehicles.

Jeremy Deering

Interim Finance Director *, aged 45.

Jeremy Deering qualified as a chartered accountant with Arthur Anderson in 1987 before moving into senior finance positions in Tomkins plc and North West Water Group plc. In 1995 he was appointed Group Financial Controller of United Utilities plc and following the takeover of Norweb PLC by United Utilities, he was appointed Finance Director of Norweb PLC. In 2000 he was appointed Finance Director/Acting Managing Director of Your Communications Limited prior to its intended flotation. Since leaving Your Communications in 2002, Jeremy has been involved in a number of consulting, venture capital and interim/change management roles, most recently as Interim CFO of System C Healthcare plc through its successful flotation on AIM in 2005.

1 Member of the Remuneration Committee
2 Member of the Audit Committee
3 Member of the Nomination Committee

* Jeremy Deering is not a statutory board director of the company. His services are supplied under a consultancy agreement with Core Ventures Ltd.

Left to Right: Dick Elsy, Jeremy Deering, John Grant, Nick Barter, James Batchelor, David MacKay.

The directors present their report on the results and affairs of the Group for the year ended 31 March 2006

Business Activity, Results and Dividends

The Torotrak Group is the world leader in the design and development of traction drive Infinitely Variable Transmission (IVT) systems. There has been no change in the principal activity of the group since the year end. The business is reviewed in the Chairman's review on pages 2 to 3, Chief Executive's review on pages 4 to 9 and the Financial review on page 10 to 13. Information on likely future developments in the business is included in these reviews.

The directors do not recommend the payment of a dividend.

Principal risks

The key risks and uncertainties facing the group include the following:

Patent protection

The continuing ability to establish, protect and enforce our proprietary rights is fundamental to the Group. This is principally achieved through the process of patent application and establishing patent protection. However, should these applications or granted patents be challenged, then the defence of our rights could involve substantial costs and the outcome cannot be predicted with certainty.

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 IVT through development, manufacturing and distribution agreements.

Competition

It is possible that competitors may develop technologies that compete with the Group's technologies. The ability of the Group to defend its competitive advantages rests on maintenance of appropriate development capacity as well as securing the commercialisation described above within appropriate lead times.

Financial

The company's present financial resources, whilst believed to be sufficient to support the planned commercialisation of IVT technology, 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 funds.

Employees and skills

Retention of key employees remains a critical factor in the Group's successful delivery of its business plan.

These areas and uncertainties are reviewed, controlled and mitigated according to risk procedures described on page 19.

Directors and Their Interests

The names of the directors currently in office are shown, with their biographical details, on pages 14 and 15. In addition David Wallis retired from the board on 31 July 2005 and David Price resigned from the Company on 22 December 2005. John Grant, previously the Senior Independent Director, was appointed as Chairman on 21 July 2005, the day of the annual general meeting.

Information on directors' remunerations, contracts and beneficial interests in the shares of the Company is included in the remuneration report on pages 23 to 26. In accordance with the Company's Articles of Association, Dick Elsy and James Batchelor retire from the Board and, being eligible, offer themselves for re-election at the annual general meeting.

The interim and annual reports are available from the Company's head office free of charge. They are also available on the Torotrak website (www.torotrak.com).

Payment to Creditors

The Group has agreed a variety of payment terms with its suppliers. It is, and will remain, the policy that 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 2006 the number of days purchases outstanding to trade creditors was 28 for the Group and 34 for the Company (2005: 30 days and 38 days respectively).

Employees and Health and Safety

Our business rests on the creativity, drive and goodwill of our employees. Culture and values are at the heart of our business and we seek to establish a partnership, consulting with and involving all levels of employee, valuing their ideas and suggestions. Regular team briefing sessions and consultation combined with a comprehensive 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 on pages 26 and 46 to 47.

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 all present and future employees. Disability is not seen to be an inhibitor to employment or career development within the Group. We provide clean, healthy and safe working conditions. We pride ourselves on providing our employees with a very 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 RIDDOR reportable accidents during the year.

Political and Charitable Donations

Torotrak is involved in a number of charitable causes and the staff consultation committee has authority to donate sums of money at their discretion from an amount set aside by the Group. In addition, employees are involved in a number of fund raising activities. Charitable donations by the Group during the year amounted to £600 (£2005: £1,000). No political donations were made (2005: nil).

Environment

Torotrak is an intellectual property group. Our principal end products are patents, design rules, models, know-how and the transfer of our knowledge to our licensees. Our activities are focused on the development of products which offer very significant improvements in fuel economy and emissions.

Our premises are composed entirely of offices and test facilities since the Group currently does not have a manufacturing capability. 'Resources' principally comprise employees and equipment, while 'production processes' are largely cerebral involving the skill, knowledge and ingenuity of our employees. 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 encourage the provision of company cars, which number only two. The provision of cycle sheds, showers and changing facilities encourages greener commuting and 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 even further.

Authority to Purchase Shares

At the annual general meeting held on 21 July 2005, the shareholders passed a resolution authorising the purchase by the Company of its own shares to a maximum of 11,728,574 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 20 July 2006.

Substantial Shareholdings

At 22 May 2006 the Company had not been notified in accordance with sections 198 to 208 of the Companies Act 1985, of any holdings of 3% or more in its ordinary shares.

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.

Financial Reporting

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 were 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.

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 eighth annual general meeting of the Company will be held at 12 noon on Thursday 20 July 2006 at the Best Western Leyland Hotel, Leyland, Lancashire. The notice of the annual general meeting is contained in a separate document being sent to shareholders with the Annual Report and Financial Statements.

By order of the Board	1 Aston Way,
Dick Elsy	Leyland,
Director	Lancashire,
9 June 2006	PR26 7UX

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 published by the Financial Reporting Council in July 2003 ('the 'Combined Code'), except where indicated below (in relation to membership of the audit committee).

The Board and its Composition

Brief descriptions of the present board members are given on page 14. John Grant, who was previously the Senior Independent Director, was appointed as Chairman on 21 July 2005, at which point David MacKay was nominated as the Senior Independent Director. David Price retired in December 2005 as Chief Technical Officer, with the Board not seeking to fill that position going forward. Since these changes, the Board therefore comprises three executive directors, a non executive chairman and two non-executive directors.

The Non-executive Chairman and Non-executive Directors are considered by the Board to be independent in character and judgment 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. 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 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.

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 14 to 15.

The remit of the Intellectual Property Committee, which had been set up in previous years to consider Intellectual Property matters, has been absorbed back into the main business of the Board. However the previous Chairman of that Committee, David MacKay, continues to assist the executive directors and management in the implementation and evolution of patenting strategy and best practice.

The Audit Committee (AC) is chaired by David MacKay who accepted this position following the appointment of John Grant as Chairman, who was previously the Chairman of the Audit Committee. 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 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 three times a year and considers all matters relating to financial controls and reporting, internal and 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. In particular, the Committee meets to review the interim and preliminary announcements and Annual Report and Financial Statements and makes recommendations to the Board which then has responsibility for approval.

The Group does not normally award consulting work to the auditors other than in the area of tax consulting and compliance, where they are best suited to carry out such work. The Committee has discussed with the external auditors their independence and is satisfied that there are not any circumstances where the auditors' objectivity and independence is compromised.

The Chairman, 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 without the executive directors being present.

The Remuneration Committee (RC) is chaired by Nick Barter. The Committee determines the policy for remuneration for the Chairman, 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. The remuneration report, on pages 23 to 26, gives further details on the remuneration of directors.

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.

John Grant's appointment as Chairman during the year followed a process led by David MacKay who met with the Board with the exclusion of David Wallis and John Grant. In view of the Group's stage of development and, in the Board's view, his significant and appropriate level of experience, it was decided that an external search process was not appropriate.

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 9 times during the year with attendance at the main board meetings and sub committees as follows:

	Board	AC	RC	NC
John Grant	9/9	3/3	5/5	2/2
Dick Elsy	9/9	-	-	-
Rebecca Joyce	7/9	-	-	-
James Batchelor	9/9	-	-	-
Nick Barter	9/9	3/3	5/5	2/2
David MacKay	8/9	3/3	5/5	2/2
David Wallis (to retirement)	3/3	-	-	-
David Price (to retirement)	3/3	-	-	-

Rebecca Joyce's attendance at meetings has been impacted by her illness since January 2006. As reported on page 3, Jeremy Deering was appointed as interim Finance Director in March 2006 to ensure appropriate support to the Board and the smooth running of the Group's financial procedures and requirements.

Risk Management and Internal Controls

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 misstatement 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 of subsidiaries, meets regularly to monitor and control operations. Performance is reviewed, risks & 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 Chairman, Chief Executive and Finance Director are the principal points of contact for shareholders. David MacKay has been nominated as Senior Independent Director and 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 and private investor intermediaries. 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 which is contained in a separate document being posted to shareholders with the Annual Report. In particular, the meeting provides an opportunity for investors to meet with the Board and chairmen of the committees.

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 20 July 2006.

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.

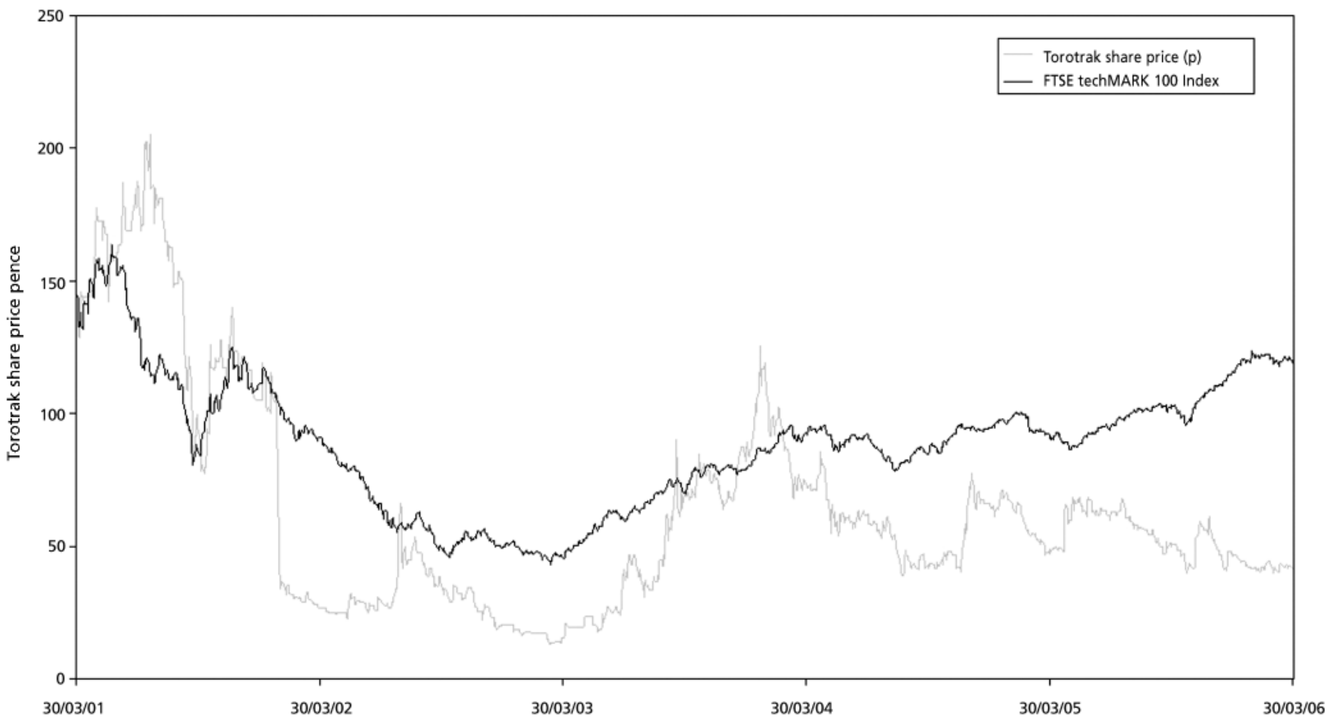
The Remuneration Committee consists exclusively of independent non-executive directors. The Chairman of the Committee is Nick Barter and its other members are John Grant and David MacKay. Given their diverse experience, the independent non-executive directors are able to offer a balanced view with respect to remuneration issues of the Group. The Committee has access to professional, independent advice from external advisers who did not have any other connection with the Company or Group and during the year drew on data provided by Hay Group. 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 2006 and is intended to remain applicable in the year ending 31 March 2007 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 chart below compares the total cumulative shareholder return of Torotrak plc with the performance of the FTSE TechMARK 100 index over the last five years. The Committee is of the view that the FTSE TechMARK 100 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.

Executive Directors' Remuneration Packages

Details of individual executive directors' remuneration are included in the table on page 25. 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.

Pension contributions - 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

Performance-related share bonus - The level of share bonus (if any) recommended by the Committee is determined on the basis of financial and operational targets established at the beginning of each financial year. The share bonus is distributed from shares held by the Employee Share Trust. Further details of the Employee Share Trust are given in the directors' report on page 47.

The share bonus is given in the form of shares. The value of the bonus is dependent on the market price on the date of the award. As a consequence, the performance-related element of executive directors' remuneration varies from year to year in accordance with the share price on the date of the award. In 2006 the performance-related element of executive directors' remuneration was 11.2% (2005: 12.9%)

Share option schemes and longer term incentives

The company operates the Torotrak approved and unapproved share option schemes and the Torotrak savings related share option scheme, details of which are given on pages 26 and 46 to 47. Under the schemes, options over the company's ordinary shares may be granted to all employees, including executive directors. Exercise of options granted under the approved and unapproved schemes are subject to satisfaction of the performance criteria, which are detailed on page 26. The information on grants is set out on page 25.

Going forward, the Company is seeking approval at the forthcoming annual general meeting to implement a new long term incentive plan, details of which are included with the notice of the annual general meeting being sent to shareholders.

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. The non-executive directors do not participate in the company's employee share option schemes, are not eligible for bonuses and do not receive any other benefits or pension rights under the pension scheme.

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. The letters of appointment 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.

Directors' Remuneration (audited information)

Executive directors	Salary & benefits £000	Fees £000	Share bonus £000	Payments connected to termination as a director £000	Total (excl pension) 2006 £000	Company pension £000	Total (inc pension) 2006 £000	Total 2005 £000
Dick Elsy	266	-	46	-	312	36	348	331
Rebecca Joyce	115	-	17	-	132	17	149	172
David Price	147	-	17	139	303	21	324	160
James Batchelor	147	-	17	-	164	21	185	161
Non-executive directors								
David Wallis (i)	-	2	-	-	2	-	2	45
John Grant	-	37	-	-	37	-	37	20
Nick Barter	-	20	-	-	20	-	20	20
David MacKay	-	20	-	-	20	-	20	20
Total directors' emoluments	675	79	97	139	990	95	1,085	929

Notes: (i) 2005: to date of retirement

Share Options (audited information)

The number of options over Torotrak plc shares held by the executive directors under the approved and unapproved share option schemes and the savings related share option scheme were as follows:

	Notes	At 1 April 2005 Number	Granted during the year Number	Exercised during the year Number	Cancelled during the year Number	At 31 March 2006 Number (v)	Exercise price £	Expiry date (iv)
Dick Elsy	(i)	146,341	-	-	-	146,341	0.205	Jan 2013
	(ii)	393,659	-	-	-	393,659	0.205	Jan 2013
	(iii)	18,850	-	-	18,850	-	-	-
	(iii)	-	22,261	-	-	22,261	0.42	Feb 2009
Rebecca Joyce	(i)	162,940	-	-	-	162,940	3.40	July 2008
	(i)	63,829	-	-	-	63,829	0.47	July 2012
	(ii)	28,229	-	-	-	28,229	0.47	July 2012
	(ii)	222,942	-	-	-	222,942	0.635	June 2014
	(iii)	42,857 (a)	-	42,857	-	-	-	-
David Price	(ii)	67,646	-	-	-	67,646	3.40	July 2008
	(i)	2,018	-	-	-	2,018	2.625	July 2008
	(i)	41,753	-	-	-	41,753	0.47	July 2012
	(i)	20,305	-	-	-	20,305	0.25	Dec 2012
	(ii)	252,942	-	-	-	252,942	0.635	June 2014
	(iii)	42,857 (b)	-	42,857	-	-	-	-
James Batchelor	(i)	193,548	-	-	-	193,548	0.155	Mar 2013
	(ii)	121,452	-	-	-	121,452	0.155	Mar 2013
	(iii)	18,850	-	-	18,850	-	-	-
	(iii)	-	22,261	-	-	22,261	0.42	Feb 2009

Notes: (i) approved (ii) unapproved (iii) sharesave (iv) approved and unapproved share option schemes were granted ten years before the expiry date, sharesave schemes were granted three years before the expiry date (v) In the case of David Price figures are shown at the date of cessation of his directorship.
(a) the share price on the date exercised was 0.54p (b) the share price on the date exercised was 0.50p

The mid-market price of the ordinary shares at 31 March 2006 was £0.4025 . During the year the highest mid-market price was £0.685 and the lowest was £0.3975.

The Share Options Schemes

The Company operates two share schemes, an Inland Revenue approved share option scheme ('the approved scheme') and an unapproved scheme. Except as described below the rules of both schemes are substantially the same.

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 performance criteria for all grants of options prior to 2002 require that the group has:

- achieved market launch of the Torotrak IVT in series production vehicles and;
- earned £20 million in revenue.

The performance criteria for the options granted in 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.

The performance criteria for the options granted in 2003 to 2005 are that:

- 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.

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 2006 were as follows:

	31 March 2006 No. of shares	31 March 2005 No. of shares
Dick Elsy	237,726	169,414
Rebecca Joyce	175,317	113,890
David Price	105,556 (a)	46,179
James Batchelor	39,186	22,666
John Grant	226,003	226,003
Nick Barter	40,374	28,374
David Mackay	28,000	-

(a) at the date of resignation 22 December 2005.

Between 31 March 2006 and the date of this report, Dick Elsy, James Batchelor and Nick Barter made market purchases of 26,979, 21,203 and 10,000 ordinary shares respectively.

Approved by the board and signed on its behalf by:

Nick Barter - Chairman of the Remuneration Committee

The directors are responsible for preparing the Annual Report and the group and parent company accounts, in accordance with applicable law and regulations.

Company law requires the directors to prepare group and parent company financial statements for each financial year. Under that law they are required to prepare the group financial statements in accordance with IFRS as adopted by the EU and have elected also to prepare the parent company financial statements on the same basis. The group and parent company financial statements are required by law and IFRS as adopted by the EU to present fairly the financial position and the performance of the group and parent company. In this respect, the Companies Act 1985 provides that references to a true and fair view are deemed to have the same meaning as to their achieving a fair presentation.

In preparing the group and parent company 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 whether they have been prepared in accordance with IFRS as adopted by the EU; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and the parent Company will continue in business.

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

Under applicable law and regulations, the directors are also responsible for preparing a Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations.

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

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 2006 which comprise Group Income Statement, the Group and Parent Company Balance Sheets, the Group and Parent Company 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.

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

Respective responsibilities of directors and auditors

The directors' responsibilities for preparing the Annual Report, the Directors' Remuneration Report and the financial statements in accordance with applicable law and International Financial Reporting Standards (IFRSs) as adopted by the EU are set out in the Statement of Directors' Responsibilities on page 27.

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).

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.

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

We review whether the Corporate Governance Statement reflects the company's compliance with the nine provisions of the 2003 FRC Combined Code 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 the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

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

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

Opinion

In our opinion:

- the Group financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU, of the state of the group's affairs as at 31 March 2006 and of its loss for the year then ended;
- the parent Company financial statements give a true and fair view, in accordance with IFRSs as adopted by the EU 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 2006;
- 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.

KPMG Audit Plc
Chartered Accountants
Registered Auditor
9 June 2006

Consolidated Income Statement

For the year ended 31 March 2006

	Notes	Group 2006 £000	Group 2005 £000
Revenue	3	2,054	534
Development expenses		(5,212)	(5,201)
Administrative expenses - Normal		(1,734)	(1,808)
Administrative expenses - Restructuring activities	8	(330)	-
Administrative expenses - Joint Venture set up	8	(179)	-
Total Administrative expenses		(2,243)	(1,808)
Operating loss	4	(5,401)	(6,475)
De-merger costs refund claim	8	557	-
Loss on sale of property	8	(1,295)	-
Interest receivable	9	295	418
Share of Joint Venture loss	16	(352)	-
Loss before taxation		(6,196)	(6,057)
Taxation	10	434	786
Loss after taxation for the year attributable to equity holders of the parent		(5,762)	(5,271)
Basic loss per share	12	(4.91)	(4.55)
Diluted loss per share	12	(4.91)	(4.55)

All of the results derive from continuing operations during the current and previous year.

There were no recognised gains and losses in the current and previous year other than those reported above.
The accounting policies and notes on pages 33 to 51 form part of these financial statements

Balance Sheets

as at 31 March 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Assets					
Non Current Assets					
Intangible assets	13	1,083	989	-	-
Property, plant and equipment	14	785	5,731	-	-
Investments	15	-	-	8,713	9,270
Share of net assets of Joint Venture	16	6	-	-	-
Trade and other receivables	17	-	-	57,574	53,305
Total Non Current Assets		1,874	6,720	66,287	62,575
Current Assets					
Trade and other receivables	17	779	358	199	30
Current tax	19	449	801	-	-
Cash and cash equivalents		7,467	7,318	5,879	5,650
Total Current Assets		8,695	8,477	6,078	5,680
Total Assets		10,569	15,197	72,365	68,255
Current Liabilities					
Trade and other payables	18	(737)	(637)	(6,370)	(2,882)
Total Current Liabilities		(737)	(637)	(6,370)	(2,882)
Net Assets		9,832	14,560	65,995	65,373
Capital and Reserves					
Issued share capital	21	11,990	11,729	11,990	11,729
Share premium	22	48,298	48,009	48,298	48,009
Other reserves	22	(1,567)	(2,705)	(1,567)	(2,705)
Retained earnings	22	(48,889)	(42,473)	7,274	8,340
Total equity attributable to equity holders of the parent		9,832	14,560	65,995	65,373

The accounting policies and notes on pages 33 to 51 form part of these financial statements.
The financial statements were approved by the board of directors on 9 June 2006 and signed on its behalf by:

Dick Elsy - Director

Cashflow Statements

for the year ended 31 March 2006

	Notes	Group 2006 £000	Group 2005 £000	Company 2006 £000	Company 2005 £000
Cash flows from operating activities					
Net loss		(5,762)	(5,271)	(412)	(154)
Adjustments for:					
Depreciation	14	254	372	-	-
Amortisation	13	194	86	-	-
Interest receivable	9	(295)	(418)	(243)	(379)
Profit on disposal of plant and equipment		(11)	-	-	-
Loss on disposal of intangible assets		29	23	-	-
Research tax credit	10	(449)	(786)	-	-
Research tax credit received		749	876	-	-
Loss on sale of property		1,295	-	-	-
Increase in trade and other receivables		(378)	(89)	(4,446)	(4,773)
Increase in net assets of Joint Venture		(6)	-	-	-
Decrease in trade and other payables		180	112	3,487	3
Cost of equity settled employee share schemes and bonuses		485	450	485	450
Refund of de-merger costs		-	-	557	-
Cash flows from operating activities		(3,715)	(4,645)	(572)	(4,853)
Cash flows from investing activities					
Acquisition of property, plant and equipment		(144)	(56)	-	-
Proceeds from sale of plant and equipment		11	-	-	-
Proceeds from sale of property		3,440	-	-	-
Acquisition of patents		(297)	(220)	-	-
Interest received		304	487	251	449
Net cash used in investing activities		3,314	211	251	449
Cash flows from financing activities					
Proceeds from the issue of share capital		550	23	550	23
Net increase/(decrease) in cash and cash equivalents		149	(4,411)	229	(4,381)
Cash and cash equivalents at start of period		7,318	11,729	5,650	10,031
Cash and cash equivalents at end of period		7,467	7,318	5,879	5,650

The accounting policies and notes on pages 33 to 51 form part of these financial statements.

1. Significant Accounting Policies

Torotrak plc (the "Company") is a company incorporated in the UK.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the "Group") and equity account the Group's interest in the jointly controlled entity. The parent company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements were authorised for issue by the Directors on 9 June 2006.

Both the parent company financial statements and the group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ("Adopted IFRSs"). On publishing the parent company financial statements here together with the group financial statements, the Company is taking advantage of the exemption in s230 of the Companies Act 1985 not to present its individual income statement and related notes that form a part of these approved financial statements.

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these consolidated financial statements and in preparing an opening IFRS balance sheet at 1 April 2004 for the purposes of the transition to Adopted IFRSs.

Basis of Accounting

The financial statements are prepared under historical cost conventions and in accordance with applicable accounting standards

Transition to Adopted IFRSs

Both the Group and the Company are preparing their financial statements in accordance with Adopted IFRS for the first time and consequently both have applied IFRS 1. An explanation of how the transition to Adopted IFRSs has affected the reported financial position, financial performance and cash flows of the Group is provided in note 30.

Basis of Preparation

The financial statements are presented in Sterling rounded to the nearest hundred thousand. They are prepared on the historical cost basis.

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised.

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 the total recognised gains and losses of jointly controlled entities on an equity accounted basis, from the date that joint control commences until the date that joint control ceases.

Foreign Currency

Transactions in foreign currencies are translated 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.

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 cost less accumulated depreciation and impairment losses.

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.

Depreciation

Depreciation is charged to the income statement over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

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

Trade and Other Receivables

Trade and other receivables are stated at their nominal amount (discounted if material) less impairment losses.

Cash and Cash Equivalents

Cash and cash equivalents comprise cash balances and call deposits with an original maturity of three months or less, less overdrafts repayable on demand.

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.

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 loss 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.

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.

Revenue

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

Revenue from the provision of services is recognised when the amount of revenue, stage of completion and costs incurred and to be incurred can all be measured reliably and when it is probable that the economic benefits associated with the transaction will flow to the Group.Typically the amount of revenue recognised is in proportion to the cost appropriate to the stage of completion plus attributable profits, less amounts recognised in previous periods.

Revenues from royalties are recognised on an accruals basis in accordance with the substance of the relevant agreement. Typically, such revenue is recognised on a straight line basis over the life of the agreement. Revenue from the assignment of rights is recognised when the rights have been transferred under a non-cancellable contract where the licensee is permitted to use those rights freely according to the scope of the licence agreement and where the Group (licensor) has no remaining obligations.

Taxation

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, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided on temporary differences 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.

Share-based Payment

The share option programme allows 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.

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.

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, the Group does not currently operate in 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

	31 March 2006 £000	31 March 2005 £000
Gross Revenue	2,816	534
Elimination of unrealised profit on licence sales to the Joint Venture	(560)	-
Elimination of unrealised profit on services for the Joint Venture	(202)	-
Revenue per the income statement	2,054	534

4. Operating Loss

Operating loss is stated after charging the following:

		31 March 2006 £000	31 March 2005 £000
Amortisation		194	86
Depreciation		254	372
Operating lease payments	- land and buildings	118	-
	- office equipment	12	12
Research and development costs expensed as incurred		5,212	5,201
Auditors remuneration	- audit (Group)	36	36
	- audit (Company)	11	5
	- fees for other services to the auditors	19	8

5. Directors' Remuneration

	31 March 2006 £000	31 March 2005 £000
Directors' emoluments	851	840
Payments connected to termination as a Director	139	-
Company contributions to pension schemes	95	89
	1,085	929

More detailed information concerning directors' remuneration, shareholdings, options and pension benefits is shown in the remuneration report on pages 23 to 26.

6. Employee Costs and Numbers

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

	Group	
	31 March 2006 £000	31 March 2005 £000
Salaries	2,905	3,274
Social security costs	409	410
Pension costs	285	289
Share based payment charge	485	450
	4,084	4,423

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 2006 Number	31 March 2005 Number
Directors - company	7	8
- subsidiaries	2	1
Engineers	60	69
Administrative	17	18
	86	96

7. Pension Fund

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 £199,000 (2005: £217,000). The scheme is available to all full-time employees aged between 18 and 64 years and currently has approximately 53 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. 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. The charge to the income statement was £86,000 (2005: £72,000).

8. One-off Items

One-off items of expenditure during the year comprise £330k costs of restructuring (principally severance costs), Infinitrak Joint Venture set-up costs (principally professional fees) of £179k and the £1,295k loss on sale of building, which the Group now occupies under an operating lease. One-off income in the year of £557k related to a successful claim for a refund of costs relating to contractual arrangements going back before the Stock Exchange listing in 1998.

9. Net Interest Receivable

	31 March 2006 £000	31 March 2005 £000
Bank interest receivable	295	418

10.Taxation on Loss on Ordinary Activities

	31 March 2006 £000	31 March 2005 £000
UK corporation tax		
Current tax for the year	461	801
Prior year tax	(12)	-
Total UK Corporation tax	449	801
Overseas tax		
Current tax for the year	(15)	(15)
Total current tax	434	786

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 current tax credit for the period is lower (2005: lower) than the standard rate of corporation tax in the UK of 30% (2005: 30%). The differences are as follows:

	31 March 2006 £000	31 March 2005 £000
Loss before taxation	(6,196)	(6,057)
Expected current tax credit at 30% (2005:30%)	1,859	1,817
Non tax deductible (expenses)/ non taxable income	(83)	23
Differences in tax rates on research and development related credits	(68)	(187)
Movement in short term timing differences	(105)	(59)
Tax losses carried forward	(1,142)	(763)
Rate difference on research and development credit	(15)	(10)
Other adjustments	-	(35)
Prior year adjustment	(12)	-
Total current tax credit	434	786

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 £31m 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 2005/06 is not claimed the tax losses available for offset against future taxable profits would be increased.

11. 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 £412,000 (2005:loss £154,000).

12. Loss per Ordinary Share

Basic loss per share is based on the loss after tax of £5,762,000 (2005: £5,271,000) and 117.5 million ordinary shares (2005: 115.6 million) being the weighted average number of shares in issue during the year.

	31 March 2006 Number	31 March 2005 Number
Shares issued and used in calculating basic and diluted loss per share	117,461,791	115,577,949

In accordance with IAS 33 the number of shares used in the calculation excludes shares held by the Employee Share Trust.

13. Intangible Assets - Patents

	31 March 2006 £000	31 March 2005 £000
Cost		
At 1 April	1,640	1,459
Expenditure in year	317	220
Abandoned in year	(77)	(39)
At 31 March	1,880	1,640
Amortisation		
At 1 April	651	582
Charge for the year	194	86
Abandoned in year	(48)	(17)
At 31 March	797	651
Net book value at 31 March	1,083	989

14. Property, Plant and Equipment

	Freehold land and buildings £000	Leasehold improvements £000	Office furniture and fittings £000	Plant, machinery and equipment £000	Computer equipment £000	Test Vehicles £000	Total £000
Cost							
At 1 April 2004	6,372	-	134	4,113	1,887	304	12,810
Additions	(3)	-	-	6	57	-	60
Disposals	-	-	-	(54)	(5)	-	(59)
At 31 March 2005	6,369	-	134	4,065	1,939	304	12,811
Additions	-	-	-	10	70	-	80
Disposals	(5,548)	-	-	(13)	(290)	(76)	(5,927)
Transfers	(821)	821	-	-	-	-	-
At 31 March 2006	-	821	134	4,062	1,719	228	6,964
Depreciation							
At 1 April 2004	700	-	129	3,908	1,725	304	6,766
Charge for the year	145	-	5	130	92	-	372
Disposals	-	-	-	(53)	(5)	-	(58)
At 31 March 2005	845	-	134	3,985	1,812	304	7,080
Charge for the year	107	-	-	51	96	-	254
Disposals	(776)	-	-	(13)	(290)	(76)	(1,155)
Transfers	(176)	176	-	-	-	-	-
At 31 March 2006	-	176	134	4,023	1,618	228	6,179
Net book value							
At 31 March 2006	-	645	-	39	101	-	785
At 31 March 2005	5,524	-	-	80	127	-	5,731
At 1 April 2004	5,672	-	5	205	162	-	6,044

15. Investments in Subsidiary Undertakings

	31 March 2006 £000	31 March 2005 £000
Cost		
At 1 April	9,270	9,270
Refund of de-merger costs	(557)	-
At 31 March	8,713	9,270

Details of subsidiary undertakings are set out in note 28

16. Equity Accounted Joint Venture

	31 March 2006 £000	31 March 2005 £000
Capital Contribution	1,120	-
Share of results after tax	(352)	-
Elimination of unrealised profit	(762)	-
Share of net assets	6	-

The Group has equity accounted for its 50% share in the JV recognising current year losses amounting to £352k in the income statement and, as described in Note 3, £202k of unrealised profit on sales made to the JV (which has been deducted from Gross Revenues). In total, therefore, the Group has recognised £554k of losses being its 50% share of the JV's £1,108k loss to 31 March 2006. The JV's summary financial information is set out below:

	Non-current assets £000	Current assets £000	Current liabilities £000	Revenue £000	Loss after tax £000
2006 Infinitrak LLC	1,120	419	(407)	-	(1,108)
2005 Infinitrak LLC	-	-	-	-	-

The net assets are £1,132k. Torotrak share is 50% of these at £566k reduced by £560k being the elimination of unrealised profit on the sale of IP rights (see note 3).

17. Trade and Other Receivables

	Group 31 March 2006 £000	Group 31 March 2005 £000	Company 31 March 2006 £000	Company 31 March 2005 £000
Amounts owed by subsidiary undertakings	-	-	57,574	53,305
Trade receivables	460	53	-	-
Other receivables and prepayments	319	305	199	30
	779	358	57,773	53,335

Amounts owed by subsidiary undertakings are recoverable on demand but are expected to be recovered after more than one year.

18. Trade and Other Payables

	Group 31 March 2006 £000	Group 31 March 2005 £000	Company 31 March 2006 £000	Company 31 March 2005 £000
Amounts owed to subsidiary undertakings	-	-	6,224	2,798
Trade payables	182	210	5	-
Accruals and deferred income	555	427	141	84
	737	637	6,370	2,882

Amounts owed to subsidiary undertakings are payable on demand but are expected to be paid after more than one year.

19. Current Taxation Receivable

	Group 2006 £000	Group 2005 £000
Research and development tax credit receivable	449	801

There is no taxation receivable in respect of the Company.

20. Deferred Taxation

	Group 2006 £000	Group 2005 £000
Accelerated allowances on patents and other IPR	319	297
Other - available losses	(260)	(251)
- timing differences	(59)	(46)
	-	-

There is no deferred tax in respect of the Company.

21. Share Capital

	Number	31 March 2006 £000	31 March 2005 £000
Authorised			
Ordinary shares of 10p each	200,000,000	20,000	20,000
Allotted and fully paid			
Ordinary shares of 10p each	119,900,820	11,990	11,729

Details of ordinary shares under option under the company's employee share schemes are given on pages 46 and 47.

2,615,073 shares were allotted during the year pursuant to the exercise of options granted under the Sharesave scheme to employees. The nominal value of the shares allotted was £261,507 and the consideration received was £549,165. These were the only new shares issued during the year.

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

	Group and Company share premium account £000	Group and Company other reserve £000	Group Accumulated Loss £000	Company Accumulated Profit £000
At 1 April 2004	47,997	(3,807)	(36,550)	9,146
Loss for the period	-	-	(5,271)	(154)
Equity settled employee share schemes and bonuses				
Shares awarded at cost price	-	1,102	(1,102)	(1,102)
Shares awarded at market value	-	-	450	450
Issue of share capital	12	-	-	-
At 31 March 2005	48,009	(2,705)	(42,473)	8,340
Loss for the period	-	-	(5,762)	(412)
Equity settled employee share schemes and bonuses				
Shares awarded at cost price	-	1,138	(1,138)	(1,138)
Shares awarded at market value	-	-	484	484
Issue of share capital	289	-	-	-
At 31 March 2006	48,298	(1,567)	(48,889)	7,274

Details of the share award by the Employee Share Trust are given on page 47.

The other reserve represents 851,626 ordinary shares of 10p each issued to the Employee Share Trust in 2001 at a price of £1.84, which have been debited against reserves. As the Employee Share Trust distributes these shares to the beneficiaries of the trust (principally the employees) an amount will be transferred between the other reserve and the group accumulated profit and loss reserve.

23. Operating Lease Commitments

Total amounts payable under non-cancellable operating lease rentals are as follows:

	31 March 2006 £000	31 March 2005 £000
Office furniture operating leases which expire between 2 and 5 years	27	38
Property operating leases which expire after 5 years	2,694	-

24. Capital Commitments

At 31 March 2006 capital commitments totalled Nil (2005: £900).

26. Financial Instruments, Assets and Liabilities

Details of the group's treasury objectives and policies can be found in the financial review on page 13.
The group's main financial asset comprises cash and cash equivalents which are shown below:

	31 March 2006 £000	31 March 2005 £000
Cash	1,588	1,668
Sterling cash deposits	5,879	5,650
	7,467	7,318

The sterling cash deposits comprise deposits placed on money markets at call and terms up to three months. The weighted average interest rate on the deposits is 4.60% (2005: 4.63%) and the weighted average time for which the rate is fixed is 1.9 months (2005: 2.2 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 2006 (2005:£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 and considers interest rate, credit and foreign currency risks not to be significant.

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

	2006 Effective interest rate	2005 Effective interest rate
Cash and cash equivalents	4.48%	4.78%

27. Employee Benefits

At 31 March 2006 the total number of shares over which options have been granted to directors and employees under all share schemes was 4,026,394 representing 3.36% of the allotted 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 2006 48 employees held options to acquire 880,700 shares representing 0.73% of the allotted share capital with exercise dates and prices as follows:

Grant date	Number of employees	Number of shares	Exercise date	Exercise price
July 2004	7	88,218	Sept 2007	£0.50
Jan 2006	41	792,482	Feb 2009	£0.42

At 31 March 2006, employees held options to acquire 3,145,629 shares under the share option schemes, representing 2.62% of the allotted share capital as follows:

Grant date	Number of employees	Number of shares	Exercise price
Unapproved scheme			
July 1998	21	621,299	£3.40
Aug 1998	6	6,307	£2.625
June 1999	2	16,927	£1.565
Dec 1999	3	33,028	£2,69
July 2000	3	13,084	£3.765
Dec 2000	1	11,777	£1.29
July 2001	1	3,930	£1.69
Aug 2002	2	37,930	£0.47
Jan 2003	1	393,659	£0.205
Mar 2003	1	121,452	£0.155
June 2004	2	397,956	£0.635
June 2005	1	207,082	£0.625

Grant date	Number of employees	Number of shares	Exercise price
Approved scheme			
Aug 1998	22	176,728	£2.625
Jun 1999	7	51,638	£1.565
Dec 1999	2	13,018	£2.69
July 2000	3	17,668	£3.765
Dec 2000	2	7,255	£1.29
July 2001	4	29,794	£1.69
Aug 2002	41	542,551	£0.47
Dec 2002	8	50,157	£0.25
Jan 2003	1	146,341	£0.205
Mar 2003	1	193,548	£0.155
Jun 2003	2	21,000	£0.27
Dec 2003	1	12,000	£0.80
June 2005	2	19,500	£0.635

Long-term incentive plan

The company has established a long-term incentive plan ('LTIP') for the benefit of UK and non-UK resident directors and employees. At 31 March 2006 no awards have been made under the scheme.

Proposals are being brought to shareholders for approval of a new Long Term Incentive Plan at the annual general meeting, on 20 July 2006.

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 2006, 115,562 shares (2005:144,439) in the company, with a market value of £46,514 (2005:£69,331) 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 26 July 2005 the trustees distributed 527,500 shares (before tax) to 86 employees of the company including the executive directors, Dick Elsy, Rebecca Joyce, James Batchelor and David Price who were awarded 77,000, 28,000, 28,000 and 28,000 shares respectively. These awards are shown as share bonus in the remuneration report. The market price of the shares on 26 July 2005 was £0.60 per share and the market value of the shares distributed was £316,500.

During the year the trustees distributed 45,000 shares to 30 employees. The market price of the shares on 7 December 2005 was £0.4825 per share and the market value of the shares distributed was £21,712. The trustees made an ex-gratia award of 2,500 shares to two employees. The market price of the shares on 27 September 2005 was £0.50 per share and the market value of the shares distributed was £1,250. All of the distributions during the year have been charged to operating loss at market value in accordance with IFRS 2.

At 31 March 2006 the EST owned 849,301 shares (2005: 1,468,481) in the Company with a nominal value of £ 0.1m (2005: £0.1m) and a market value of £0.3m (2005: £0.7m) representing 0.71% (2005: 1.25%) 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 £4K in cash deposits.

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 1 July 2004	0.37	0.50	0.50	124.16%	3	0	4.25%
SAYE scheme 2 January 2006	0.21	0.42	0.42	73.72%	3	0	4.16%
Approved share option December 2002	0.21	0.25	0.25	118.26%	5	0	4.25%
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%

The forecast future volatility is based upon five year historical volatility. The volatility of the SAYE schemes are based upon three year historical volatility.

The costs charged to the income statement relating to share options granted were as follows:

	31 March 2006 £000	31 March 2005 £000
Share options granted in 2003	30	30
Share options granted in 2004	85	83
Share options granted in 2005	31	2
	146	115

28. Subsidiary Undertakings and Joint Ventures

The Company had the following subsidiary undertakings and Joint Ventures at 31 March 2006: 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 Infinitrak is held by Torotrak Inc.

	Country of incorporation	Class of capital	Principal activity	Ownership 2006	Ownership 2005
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%	-
Infinitrak LLC	US	Ordinary	Commercialisation of full-toroidal traction drive technology in the 0-45 kW power range subject to licence agreements.	50%	-

29 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 1 April 2005 £000	Working capital loans provided/(received) £000	Expenses charged by plc/(to plc) £000	Balance due (to)/from at 31 March 2006 £000
Torotrak Group Ltd	2,680	-	-	2,680
Torotrak (Holdings) Ltd	(2,798)	-	-	(2,798)
Torotrak (Development) Ltd	50,611	4,319	(37)	54,893
Torotrak (Property) Ltd	11	(3,500)	61	(3,428)
Tototrak Inc	-	-	179	179

Related party	Balance due (to)/from at 1 April 2004 £000	Working capital loans provided/(received) £000	Expenses charged by Plc/(to plc) £000	Balance due (to)/from at 31 March 2005 £000
Torotrak Group Ltd	2,680	-	-	2,680
Torotrak (Holdings) Ltd	(2,798)	-	-	(2,798)
Torotrak (Development) Ltd	45,824	5,293	(506)	50,611
Torotrak (Property) Ltd	11	-	-	11

During the year the company also set up a joint venture Infinitrak Inc, in which it holds 50% of the share capital through a wholly owned subsidiary Torotrak Inc. There are no transactions in the year between the company and the joint venture. Transactions between other group members and the joint venture comprise engineering services provided to Infinitrak by Torotrak (Development) Ltd of £955,711 during the period and capital contribution of IPR initially valued at £1,120k contributed by Torotrak Holdings on behalf of Torotrak Inc. At the year end there was a debtor due from Infinitrak Inc to Torotrak (developments) Ltd of £277,000.

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 of end of the year.

30. Restatement of Prior Years Results Under IFRS

As stated in note 1 on significant accounting policies, these are the Group's first consolidated accounts prepared in accordance with IFRSs. The significant accounting policies set out on pages 33 to 35 have been applied in preparing the financial statements for the year ended 31 March 2006, the comparative information presented in these financial statements for the year ended 31 March 2005 and in the preparation of an opening IFRS balance sheet at 1 April 2004 (the Group's date of transition).

An explanation of how the transition from UK GAAP to IFRS has affected the Group's financial position and financial performance is set out in the following table and notes.

Reconciliation of the Consolidated Income Statement

	Year ended 31/03/05 UK GAAP £000	Share based payment £000	IFRS £000
Revenue	534	-	534
Development expenses	(5,096)	(105)	(5,201)
Administrative expenses	(1,798)	(10)	(1,808)
Operating loss	(6,360)	(115)	(6,475)
Interest receivable	418	-	418
Loss before taxation	(5,942)	(115)	(6,057)
Taxation	786	-	786
Loss after taxation retained for financial period	(5,156)	(115)	(5,271)
Basic loss per share	(4.46p)		(4.55p)
Diluted loss per share	(4.46p)		(4.55p)

Reconciliation of Consolidated Group and Parent Company Balance Sheets

There are no adjustments in relation to the balance sheets of the Consolidated Group or Parent Company as a result of the transition to IFRS.

for the years ended 31 March

	2006 £000	2005 (ii) £000	2004 (i) £000	2003 (i) £000	2002 (i) £000
Revenue	2,054	534	244	145	214
Loss on ordinary activities before taxation	(6,196)	(6,057)	(7,025)	(6,380)	(4,057)
Loss on ordinary activities after taxation retained for the financial year	(5,762)	(5,271)	(6,166)	(5,580)	(1,410)
Basic loss per share	(4.91p)	(4.55p)	(5.36p)	(4.88p)	(1.24p)
Diluted loss per share	(4.91p)	(4.55p)	(5.36p)	(4.88p)	(1.24p)
Total assets less current liabilities	9,832	14,560	19,358	25,360	30,822
Equity shareholders' funds	9,832	14,560	19,358	25,360	30,822
Net cash outflow from operating activities	(3,715)	(4,645)	(6,795)	(6,270)	(7,740)
Management of liquid resources	229	4,381	5,248	5,221	2,267
(Decrease)/increase in cash each year	(80)	(30)	658	823	(45)

(i) presented under UK GAAP
(ii) as restated under IFRS

Financial Calendar

Annual general meeting	20 July 2006
Interim results	November 2006
Preliminary results	May 2007

Company Secretary

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