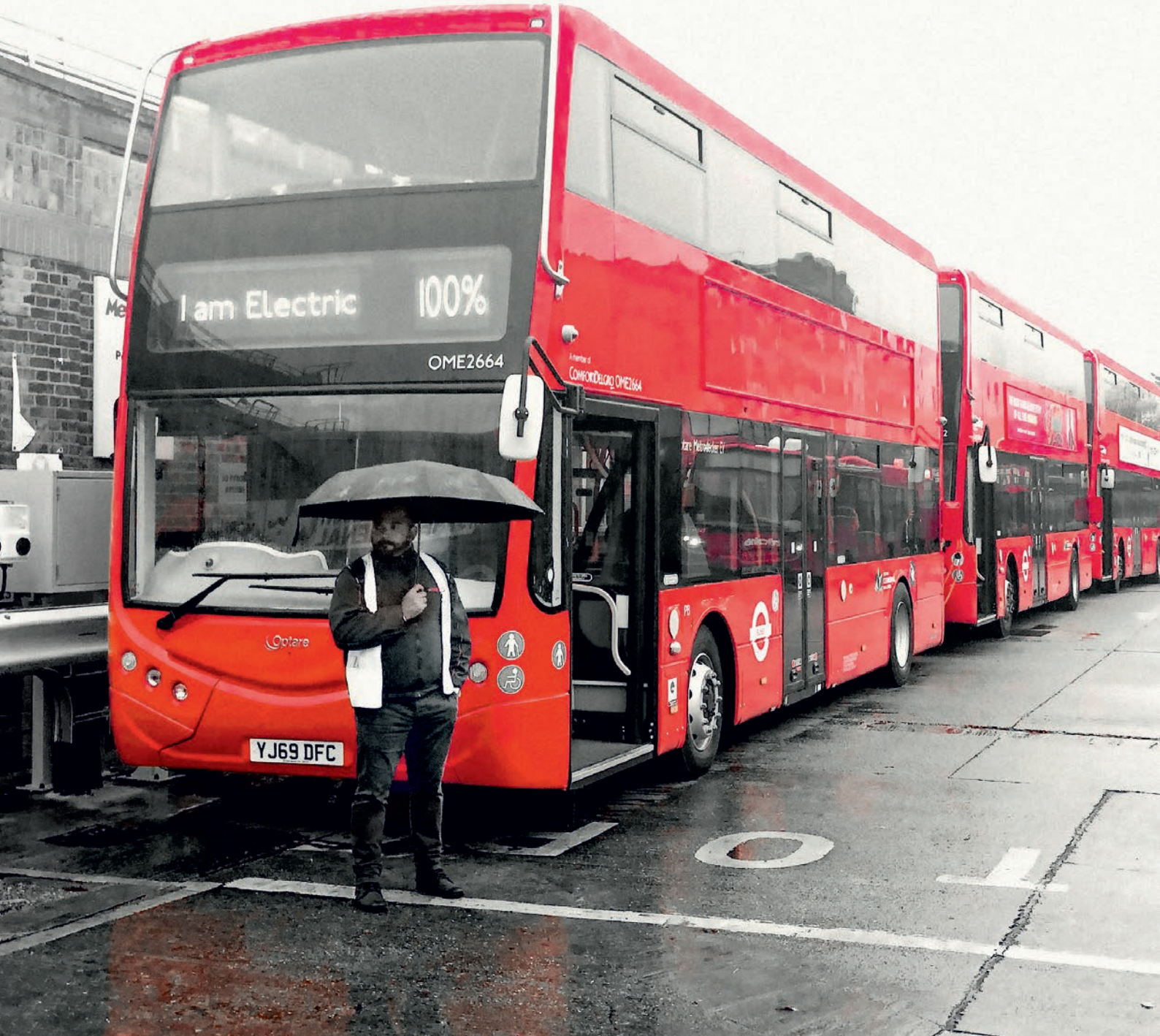
Optare plc

ANNUAL REPORT AND ACCOUNTS 2019

ASHOK LEYLAND



The UK market

2018/19 was another difficult year for the UK bus industry. The continued decline in patronage and shrinking subsidies led to a further 12% decline in both single and double deck demand. Total industry volume has declined nearly 30% in the last two years from 2,800 units in 2016/17 to just over 2,000 units in 2018/19. The predominance of export sales success during the year limited Optare sales in its domestic market. Reported single deck market share reached 12.2% in the financial year, down from 13.8% in 2017/18.

Optare's performance

Despite a weak UK market, Optare reaped the success of its export development over the last two years. Total sales volume grew from 144 units in 2017/18 to 246 units in 2018/19. More than half of this volume was shipped overseas. All export volume in the year went to New Zealand and Australia, strengthening Optare's relationship with its distribution partner in the region, Bus Corp Oceania.

Sales of 114 Metrocities to Wellington and continued demand for Versa and Metrocity in the UK meant that Optare's medium single decks accounted for more than half of the Company's unit sales. Solo made up the volume balance. As of 31 March 2019, 24 vehicles have been shipped to Dubai, the revenue in respect of which will be recognised in financial year 2019/20.

Electric bus sales in the year were limited by a lack of funding; however, Optare was heavily involved in a number of electrification projects and has secured orders for a number of EVs.

Development

2018/19 Optare product development activity was focused on export and its next generation zero emission product. The Company launched its 300 kWh Metrodecker and 240 kWh Metrocity EVs at the Eurobus Show in Birmingham in October. Both platforms will deliver 150-mile range in winter with zero emission heating and received volume launch orders in the financial year. 2019/20 will see the launch of the 240 kWh Solo and a new variant of the Metrocity EV platform that will give Optare a unique end-to-end proposition in the EV bus market.

Export product development in 2018/19 has been focused on delivering the RTA Solo for Dubai. The RTA's specification includes many new and state-of-the-art features such as geo-fenced saloon air conditioning, colour destinations, real time passenger information and telematics. The Optare team subjected a specially built prototype vehicle to rigorous climate testing to ensure that passengers travel in air-conditioned comfort and the bus delivers world class performance in ambient temperatures beyond those experienced in even the hottest Dubai summers. The RTA Solo will provide the RTA with a powerful tool in growing patronage in Dubai and Optare an opportunity for further growth in the region.

Development in 2018/19 has not been limited to product. Operations and procurement have insourced the Company's parts operations successfully with benefits to parts margins and customer response. The factory has been re-organised to accommodate double deck and single deck manufacture on the same site. A VAVE initiative has been launched in partnership with Ashok Leyland to drive down costs and reduce waste. The sales team has focused on developing business with new customers in the UK and globally.

Financial performance

Highlights

- Revenue for the period was £49.1m, an increase of 82.8% over prior year.
- Gross profit was £5.3m (representing 11% of turnover) over the twelve-month period (2017/18: £4.3m representing 16.0% of turnover).
- Loss after tax was £8.9m (2017/18: £14.7m including a £4.3m impairment of goodwill).
- Operating cash outflow before working capital changes was £5.8m (2017/18: £6.1m).

The financial results for the year showed 39% reduction in net loss at £8.9m compared to a loss of £14.7m in the previous year driven by an 83% increase in sales turnover and no impairment charges.

Ashok Leyland Limited has further invested in Optare in 2018/19.

Outlook

Optare starts 2019/20 with a reasonably strong order book including the orders for Dubai, Metroline, First York and Stagecoach Caerphilly. This bodes well for the future of the company over the longer term.

Continued focus on long-term growth and evolution

"Optare is reaping the benefits of continued investment in industry leading zero emission technology with key double and single deck EV contracts with Metroline, First Bus and Stagecoach in the UK and in the development of new vehicles for export, such as the ground-breaking Solo for the RTA in Dubai."

Introduction

2018/19 has been a year of growth for Optare. Some of the major successes for the year include:

- 83% year-over-year growth in sales revenue through delivery of 246 vehicles.
- Launch of next generation single and double deck EVs delivering 150-mile range.
- A launch order for 31 Metrodecker EVs from Metroline in London.
- A follow up order for 21 Metrodecker EVs from First Bus in York.
- Order and sign off of a unique 8.5m Solo designed for the Middle East to deliver industry leading performance and comfort in the hottest Dubai summer.
- Continued partnership with our parent Ashok Leyland to improve business efficiencies through ongoing productivity and VAVE initiatives.

Strategic development and focus for 2019/20

Our strategy is consistent with what we stated last year which is outlined below:

- Increasing sales in the UK with Solo, Versa, Metrocity and Metrodecker with a specific focus on electric vehicles.
- Continued development of products and commercial relationships for the UK and export markets to drive UK and international expansion.
- Continuing to innovate and deliver sustainable green bus technology, with a focus on fuel efficiency and EV technology across the product range.
- Continuing to drive cost reduction and integrate business processes to deliver quality products.
- Continued focus on quality improvements, aftermarket delivery and ensuring the best possible whole life cost for our customers.
- Continued training and development of skills to support the business strategy.
- Continued integration with Ashok Leyland to deliver export opportunities and material savings.

I am pleased to report during the year we continue to make progress on these key objectives despite ongoing challenges from the UK market.

Our customers

We remain focused on delivering a high quality, innovative, lightweight and efficient product with class leading support that delivers the best possible whole life cost for our customers and enhances the bus travel experience for passengers. Our work to improve customer care in the aftermarket continues to pay dividends with more repeat orders from the world's largest groups and independent operators. The decision to administer parts sales from the Sherburn site has also paved the way to increase customer satisfaction and targeted growth of this area of the business. We continue to invest in our product support. A focus for 2018/19 has been preparation for the roll out of the Dubai Solos and our next generation EVs in London.

Our people

A well trained and skilled workforce remains key to supporting Optare's business strategy; in 2018/19 we continued to invest in our apprenticeship programmes in production and vehicle maintenance and in addition invested in an extensive programme of NVQ level 3, 4 and 5 qualifications open to work colleagues in administration and managerial roles across the business.

Once again, I would like to thank our workforce for their dedication, commitment and support in delivering the strategic objectives of the Company in a crowded and difficult marketplace. Lastly, I would like to thank our parent company, shareholders and bankers for their continuing support.

John Fickling
Non-executive Chairman
17 December 2019

Our mission is to drive the future of our business and that of our customers

We continually assess the quality of our business model through measuring its effectiveness and searching for opportunities for improvements.

Our business model is based around our core values of customer focus, innovation, team spirit and excellence.

Customer focus

Developing partnerships with our suppliers and customers.

Innovation

Continuously improving product designs, performance, reliability and aftermarket services.

Driving our future

Team spirit

The training and development of employees. We recognise that quality is the responsibility of every employee, extending from the Board of Directors, and it is the duty of all employees to ensure that these commitments are fulfilled.

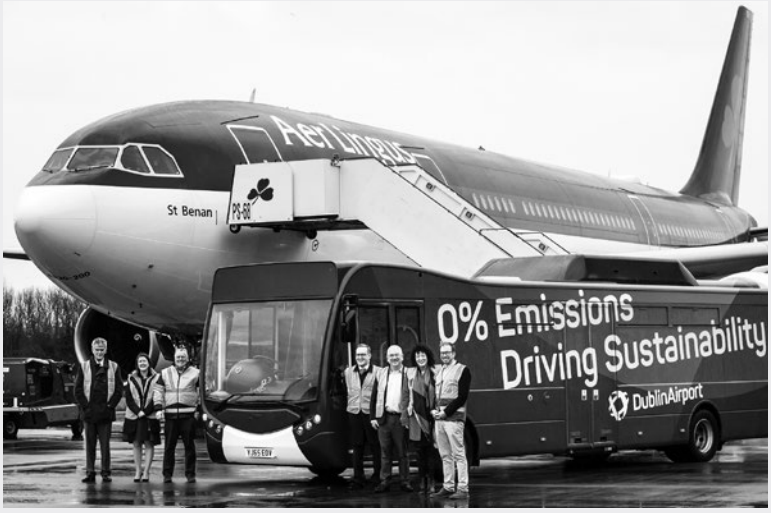
Excellence

Building and maintaining the management system through regular reviews to continuously improve.

Continued integration with Ashok Leyland Limited

2018/19 has seen continued support and integration with our parent company, Ashok Leyland Limited, including:

- Equity infusion of £2m to meet the funding requirements of the business.
- Ashok Leyland Limited increased its shareholding in Optare to 99.11%.
- Management support and collaboration at all levels of Ashok Leyland Limited with the implementation of Optare's business plans.
- Strategic positioning of the businesses through further alignment of Optare's procurement and engineering functions.



Optare celebrates a successful EV bus trial at Dublin Airport.

We have a robust management system in place to monitor and assess the Group risks.

The Board of Directors and members of the Steering Committee are responsible for reviewing the Group's internal financial controls and risk management systems and processes to limit the exposure to the below key risks.

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

Key risk	*Mitigating activities*
Changes in legislation Legislative changes may require investment in new product developments or adaptations which will incur cost.	Design changes are regularly made to address legislative changes well ahead of their legal introduction.
Decrease in market demand The Group operates in a market where there are a number of competitors whose actions may affect the level of turnover of the Group. Market demand, whilst underpinned by strong long-term drivers, may fluctuate over the short to medium term.	The Board is actively pursuing a policy to decrease the dependency on the UK market by increasing focus on export markets.
Introduction and production of new technologies The introduction and start-up of production of new technologies, such as EV technology, carries a technical and execution risk.	The Group continually works with major global suppliers to evaluate new technological developments and how best to improve designs, introduce them into products and incorporate them into assembly production.
Supply chain The Group is currently dependent upon key suppliers to ensure continuity of production. Interruption of such supply may have a detrimental effect on the Group's revenue stream and resultant operating results.	Common sourcing strategies are being pursued with Ashok Leyland Limited to reduce the dependency on any one supplier.
Customer relationships The Group continues to trade with a number of customers, the future business of which cannot be guaranteed beyond the terms and conditions of existing contracts as referred to by separate disclosure.	Significant effort is put into maintaining and developing Optare's long-term reputation with both existing customers and new customers.
Impact of the UK leaving the EU ("Brexit") Brexit alone presents both challenges and opportunities with regard to legislation, supply chain, the UK market and the export market.	The Group continues to monitor and act accordingly to mitigate risks and capitalise on opportunities as they arise.

Credit, liquidity, foreign currency and cash flow risks are discussed within the consolidated financial statements' summary of significant accounting policies.

A strong team focused on delivering growth

John Fickling

Independent Non-executive Chairman
John is a qualified engineer. He has over 25 years' experience in the transport industry as a former major shareholder and executive director of Northumbria Buses and Kentish Bus, developing the latter into one of the largest privately-owned London bus companies for Transport for London. He was chief executive of Sunderland AFC for eleven years, where he oversaw the building of the Stadium of Light and the new training academy and had significant involvement in its full stock market listing in the late 1990s. John is very well known across the industry and has a keen interest in green issues in public transport. He is Chairman of the Remuneration Committee.

Steven Norris

Independent Non-executive Deputy Chairman
Steven started his career in the engineering and motor industries, entering into politics in 1977, when he was elected to Berkshire County Council. In 1983 he became the Member of Parliament for Oxford East and subsequently held various parliamentary positions until 1992, when he became the Parliamentary Under-Secretary of State for Transport and Minister for Transport in London. Steven was responsible for the Jubilee line extension, the largest extension of the London Underground network to date. Steven is widely known for his interest in public transport. He possesses a wealth of experience and is either currently or has previously held roles as chairman of the National Cycling Strategy Board, director general of the Road Haulage Association, president of the Motorcycle Industry Association, a commissioner of the Independent Transport Commission, and a patron of the cyclists' charity Sustrans and of the Campaign for Better Transport (UK) Charitable Trust. Steven holds an MA in Jurisprudence from the University of Oxford.

Gopal Mahadevan

Non-executive Director
Gopal is currently CFO and full-time director of Ashok Leyland Limited. Gopal is a chartered accountant and a company secretary with over 25 years' experience in finance functions across a variety of industries. He started his career with the TTK Group and then moved to Sanmar Group, where he progressed to head of finance for its PVC business. He later joined Sify Limited to head mergers and acquisitions, legal and Nasdaq compliances, following which he joined Amara Raja Batteries as group CFO. Prior to his appointment at Ashok Leyland Limited, Gopal was CFO of engineering company Thermax Limited. On his appointment as a Non-executive Director, Gopal became Chairman of the Audit Committee.

Venkatesan Venkataraman

Non-executive Director
Venkatesan is currently president of business development and strategy for Hinduja Automotive Limited, responsible for strategy, M&A and business development activities of the Hinduja Group's automotive interests based in the UK. Starting as a graduate engineer at Ashok Leyland Limited, he has over 30 years' experience in industrial engineering, business and corporate planning functions. He led the Ashok Leyland Limited negotiations for its initial stake and, subsequently, its increased stake in Optare plc.

Seshu Bhagavathula

Non-executive Director
Seshu joined Ashok Leyland Limited in 2016 as chief technology officer and spearheads the company's global initiatives on research and new product development for commercial vehicles, buses and light commercial vehicles. Seshu is an experienced hand in the automotive industry, both in commercial and passenger vehicle segments, with his core areas of professional expertise being in research and development, innovation and strategic analysis. Seshu holds a doctorate in high frequency electronics and an advanced post-graduate diploma from the Space Sciences and Applications Centre. Before joining Ashok Leyland Limited, he was associated with Great Wall Motor Company in China, where he served as the vice president of research and development. Prior to this, he had spent a significant part of his career with Daimler AG at multiple locations, where he was responsible for product development and integration of engineering processes. In addition, Seshu was a founding managing director of Mercedes-Benz Research and Development Centre in India between 1996 and 2000.

Sanjay Saraswat

Non-executive Director
Sanjay holds a B. Tech degree from IIT Delhi with a specialisation in Mechanical Engineering. Prior to joining Ashok Leyland, he worked with Bajaj Auto Ltd, Pune, where he had joined as a Graduate Trainee Engineer in 1988. He has had extensive exposure, significant learning, and leadership experience across functions ranging from Manufacturing to Marketing in Bajaj Auto. He is highly appreciated for his strong fundamentals and logical, in depth, yet simple work orientation. He also commands a great respect for insightful strategic thinking coupled with strong operations management skills. He believes in "profitable growth" and has been able to amply demonstrate this in the bus business that he led earlier. Currently, Sanjay heads the MHCV business of Ashok Leyland.

The Company is committed to high standards of corporate governance

The Board is accountable to the Company's shareholders for good corporate governance.

Principles of corporate governance

The Company is committed to high standards of corporate governance.

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

Board structure

Following Ashok Leyland Limited and its associated companies' increase to 75.1% of the shares in the Company in January 2012, the Board has evolved to a structure of an independent Non-executive Chairman, an independent Non-executive Deputy Chairman and a minimum of three Ashok Leyland Limited-nominated Non-executive Directors. Ashok Leyland Limited currently has 99.11% of the shares in the Company.

Appointment and resignations of Directors during the year and post year end are detailed in the Directors' report.

Key management is considered to be the Board of Directors and members of the Steering Committee (SC), which includes the Chief Executive Officer and the Chief Financial Officer. The transactions with key management are described in the Directors' and Senior Officers' remuneration report.

Role of the Board

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

Appointment and induction of Directors

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

Board Committees

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

Remuneration Committee

The Remuneration Committee comprises the Non-executive Chairman John Fickling and Non-executive Director Venkatesan Venkataraman. The Remuneration Committee determines and agrees with the Board the framework of remuneration for the Senior Officers. The Board itself determines the remuneration of the Non-executive Directors. There was no Remuneration Committee meeting held during the year. The report on Directors' remuneration is set out on pages 7 and 8.

Audit Committee

The Audit Committee comprises Non-executive Director Gopal Mahadevan (Chairman) and the Non-executive Chairman John Fickling.

The Audit Committee is responsible for:

- reviewing the scope of external audit and receiving regular reports from KPMG LLP;
- reviewing the annual accounts prior to their recommendation to the Board;
- reviewing the Group's internal financial controls and risk management systems and processes;
- making recommendations on the appointment, re-appointment and removal of the external auditor and approving the terms of engagement;
- reviewing the nature of the work and the level of fees for non-audit services provided by the external auditor; and
- assessing the independence, objectivity and effectiveness of the external auditor.

The Committee met on one occasion during the year to adopt the annual accounts and the meeting was fully attended.

Meetings are also attended, by invitation, by the Chief Financial Officer, the Chief Executive Officer and the principal auditor from Optare plc's auditor KPMG LLP.

Internal control

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

Relations with shareholders

The Company values its dialogue with investors. Effective two-way communication with investors is actively pursued and this encompasses issues such as performance, policy and strategy. Private investors are encouraged to participate in the annual general meeting, at which the Non-executive Chairman presents a review of the results and comments on current business activity. Members of the Audit and Remuneration Committees will be available at the annual general meeting to answer any shareholder questions.

An AGM was held on 30 September 2019.

Going concern

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

John Fickling
Non-executive Chairman
17 December 2019

Remuneration policy

The policy of the Committee is to reward Directors and Senior Officers in order to recruit, motivate and retain high quality executives within a competitive marketplace.

There are three main elements of the remuneration packages for Directors and senior management:

- basic annual salary (including Directors' fees) and benefits;
- annual bonus payments which cannot exceed 30% of salary; and
- pension arrangements.

Basic salary

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

Annual bonus

The purpose of the annual bonus is to reward the Senior Officers and other senior management for achieving above average performance compared to appropriate industry targets, which would also benefit shareholders. Incentive payments for the year ended 31 March 2019 totalled £nil (2017/18: £nil).

Share option incentives

Following a review of the long-term incentives offered by the Company it has been decided that share options will not be offered as part of remuneration packages for Directors. In the year ended 31 March 2019, no share options were issued (2017/18: nil). The exercise of the outstanding options is not dependent on performance criteria, but options are subject to a two-year lock-in period from the date of issue.

Pension arrangements

The Senior Officers are members of a money purchase pension scheme to which the Group contribution ranges from 6% to 10% of salary and bonuses. No other payments to Directors are pensionable.

Senior Officers' contracts

It is the Company's policy that the Senior Officers should have a contract with an indefinite term providing for a range of three to six months' notice. In the event of early termination, the Senior Officers' contract provides for compensation up to a maximum of basic salary for the notice period.

Non-executive Directors

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

Directors' emoluments and compensation

	Salary £	Benefits £	Bonuses £	Other £	**2018/19 Total £**	2017/18 Total £
Non-executive Directors						
John Fickling	50,000	—	—	—	**50,000**	50,000
Sanjay Saraswat	—	—	—	—	**—**	—
Gopal Mahadevan	—	—	—	—	**—**	—
Venkatesan Venkataraman	—	—	—	—	**—**	—
Seshu Bhagavathula	—	—	—	—	**—**	—
Steven Norris	24,000	—	—	—	**24,000**	24,000
Total	74,000	—	—	—	**74,000**	74,000

Key management incorporates the Board of Directors and members of the Steering Committee (SC). Total emoluments and compensation for the SC consists of £606,771 for the year ended 31 March 2019 (£598,712 for year ended 31 March 2018).

Directors' share options

	Options at 31 March 2018	Options granted in year	Options forfeited in year	**Options at 31 March 2019**	Exercise price	Exercise period	Expiry date
John Fickling	250,000	—	—	**250,000**	1.00p	10 years	03/07/2019
John Fickling	250,000	—	—	**250,000**	4.15p	10 years	03/07/2019

Directors' interests in shares

Directors' interests in the shares of Optare plc as at 31 March 2019 were:

	Number
John Fickling	3,588,355
Total	**3,588,355**

No other Statutory Director had any interest in the shares of Optare plc as at 31 March 2019.

The Company delisted on 1 June 2015.

Approval

This report was approved by the Board of Directors and authorised for issue on 17 December 2019 and was signed on its behalf by:

John Fickling
Chairman of the Remuneration Committee
17 December 2019

The Directors submit their report and the financial statements of Optare plc for the year ended 31 March 2019.

Principal activities
The Group is engaged in bus design, manufacture, sales, refurbishment, and aftermarket support.

Financial instruments
The Group's financial instruments comprise cash, borrowings and finance leases, and various items such as trade debtors and trade creditors arising from its operations. The Group has not established a formal policy on the use of financial instruments but assesses the risks faced by the Group as economic conditions and the Group's operations develop. Further disclosures relating to financial instruments are included in the summary of significant accounting policies.

Political and charitable contributions
There were no political contributions during the period. Charitable contributions were £5.1k in the year (2017/18: £4.8k).

Research and development
The Group has one of the strongest product development teams in the industry, generating advanced product designs in accordance with customer needs, legislative requirements and market trends, integrated with market-leading technology suppliers.

The Company has recently introduced its new product for the double deck market, which is running customer trials in the UK, with EV and hybrid variants to be made available.

Events since the end of the year
Ashok Leyland has injected a further £4m as equity. Current shareholding of Ashok Leyland is 99.16%.

Directors
Directors who served in the year are as follows:

John Fickling
Steven Norris
Gopal Mahadevan
Venkatesan Venkataraman
Seshu Bhagavathula
Sanjay Saraswat (appointed 3 May 2019)

Senior Officers of the Company who served in the year and up to the date of this report are as follows:

Richard Damian Butler (served as CEO from 6 December 2018 until 5 September 2019)
Graham Belgum
Hariharan Krishnamurthi

During the year the Group maintained insurance policies providing liability cover to its Directors.

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

It is Group policy to ensure that equal opportunity is given for the employment, training and career development of disabled people, including people who become disabled whilst in the Group's employment.

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

Environmental policy
The Group environmental policy is to meet the statutory requirements placed upon it and to apply good environmental practice in its operations.

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

Trade creditor days based on creditors at 31 March 2019 were 77 days (2017/18: 35 days).

Substantial shareholdings

As at 31 March 2019 Ashok Leyland Limited owns 99.11% of the share capital of the business. Ashok Leyland Limited is classified as the immediate parent of the Company as it maintains the controlling interest and exercises control through its employees, who sit on the Board of Optare plc. The Board has authorisation from the 10 September 2014 shareholders' general meeting to issue warrants to maintain this percentage on the exercise of share options or other outstanding warrants.

Related party transactions

Details of transactions with Ashok Leyland Limited and associated companies can be found in note 23, Related party transactions.

Directors' interests in contracts

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

Dividends

The Directors do not propose the payment of a dividend in respect of the current period (2017/18: £nil).

Going concern

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

Auditor

KPMG LLP has indicated its willingness to continue in office and was reappointed at the Annual General Meeting on 30th September 2019.

Statement as to disclosure of information to the auditor

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 auditor is unaware, and each Director has taken all steps that he ought to have taken as a Director to make himself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

Directors' indemnity

Every Director shall be indemnified by the Company out of its own funds. An appropriate insurance policy is in place.

This report was approved by the Board of Directors and authorised for issue on 17 December 2019 and was signed on its behalf by:

John Fickling
Non-executive Chairman
Unit 3, Hurricane Way South
Sherburn in Elmet
North Yorkshire LS25 6PT
17 December 2019

STATEMENT OF DIRECTORS' RESPONSIBILITIES
IN RESPECT OF THE ANNUAL REPORT AND THE FINANCIAL STATEMENTS

The Directors are responsible for preparing the annual report and the Group and parent company financial statements 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 have elected to prepare the Group financial statements in accordance with IFRSs as adopted by the European Union and applicable law and have elected to prepare the parent company financial statements in accordance with UK accounting standards and applicable law (UK Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the parent company and of their profit or loss for that period. In preparing each of 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;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the European Union;
- for the parent company financial statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the financial statements;
- assess the Group and parent company's ability to continue as a going concern, disclosing as applicable matters related to going concern; and
- use the going concern basis of accounting unless they intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the parent company's transactions and 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 2006.

They are responsible for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error, and 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.

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.

Opinion

We have audited the financial statements of Optare plc (the "Company") for the year ended 31 March 2019 which comprise the consolidated income statement and statement of comprehensive income, the consolidated statement of changes in equity, the consolidated balance sheet, the consolidated cash flow statement, the Company balance sheet, the Company statement of changes in equity and related notes, including the summary of significant accounting policies.

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 31 March 2019 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK accounting standards, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Group in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

The impact of uncertainties due to the UK exiting the European Union on our audit

Uncertainties related to the effects of Brexit are relevant to understanding our audit of the financial statements. All audits assess and challenge the reasonableness of estimates made by the Directors, such as recoverability of other intangible assets and related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the Group's future prospects and performance.

Brexit is one of the most significant economic events for the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty of outcomes, with the full range of possible effects unknown. We applied a standardised firm-wide approach in response to that uncertainty when assessing the Group's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a company and this is particularly the case in relation to Brexit.

Going concern

The Directors have prepared the financial statements on the going concern basis as they do not intend to liquidate the Group or the Company or to cease their operations, and as they have concluded that the Group and the Company's financial position means that this is realistic. They have also concluded that there are no material uncertainties that could have cast significant doubt over their ability to continue as a going concern for at least a year from the date of approval of the financial statements (the "going concern period").

We are required to report to you if we have concluded that the use of the going concern basis of accounting is inappropriate or there is an undisclosed material uncertainty that may cast significant doubt over the use of that basis for a period of at least a year from the date of approval of the financial statements. In our evaluation of the Directors' conclusions, we considered the inherent risks to the Group's business model, including the impact of Brexit, and analysed how those risks might affect the Group and Company's financial resources or ability to continue operations over the going concern period. We have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the Group or the Company will continue in operation.

Strategic report and Directors' report

The Directors are responsible for the Strategic report and the Directors' report. Our opinion on the financial statements does not cover those reports and we do not express an audit opinion thereon.

Our responsibility is to read the Strategic report and the Directors' report and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work:

- we have not identified material misstatements in the Strategic report and the Directors' report;
- in our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- in our opinion those reports have been prepared in accordance with the Companies Act 2006.

Matters on which we are required to report by exception

Under the Companies Act 2006, we are required to report to you if, in our opinion:

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

We have nothing to report in these respects.

Directors' responsibilities

As explained more fully in their statement set out on page 11, the Directors are responsible for: the preparation of the financial statements and for being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern; and using the going concern basis of accounting unless they either intend to liquidate the Group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at www.frc.org.uk/auditorsresponsibilities.

The purpose of our audit work and to whom we owe our responsibilities

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

Claire Needham (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
Sovereign Square
1 Sovereign Street
Leeds LS1 4DA
17 December 2019

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Revenue	1	**49,156**	26,874
Cost of sales		**(43,810)**	(22,575)
Gross profit		**5,346**	4,299
Administrative expenses		**(10,682)**	(10,492)
Distribution costs		**(1,334)**	(786)
Amortisation of intangible assets	9	**(1,485)**	(1,416)
Impairment of goodwill	8	**—**	(4,304)
Loss from operations	2	**(8,155)**	(12,699)
Finance costs	4	**(762)**	(2,015)
Loss on ordinary activities before taxation		**(8,917)**	(14,714)
Taxation	5	**—**	—
Loss attributable to the equity holders of the parent company		**(8,917)**	(14,714)

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

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
Balance at 31 March 2017	9,005	32,396	5,542	(85,599)	42	(38,614)
Comprehensive loss						
Comprehensive loss for the year	—	—	—	(14,714)	—	(14,714)
Total comprehensive loss	—	—	—	(14,714)	—	(14,714)
Transactions with shareholders						
Issue of ordinary shares	58,225	—	—	—	—	58,225
Balance at 31 March 2018	67,230	32,396	5,542	(100,313)	42	4,897
Transactions with shareholders						
Issue of ordinary shares	2,000	—	—	—	—	2,000
Total transactions with shareholders	2,000	—	—	—	—	2,000
Comprehensive loss						
Comprehensive loss for the year	—	—	—	(8,917)	—	(8,917)
Total comprehensive loss	—	—	—	(8,917)	—	(8,917)
Balance at 31 March 2019	**69,230**	**32,396**	**5,542**	**(109,230)**	**42**	**(2,020)**

The accompanying notes are an integral part of these financial statements.

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2019
COMPANY NUMBER: 06481690

	Notes	**As at 31 March 2019 £'000**	As at 31 March 2018 £'000
Non-current assets			
Intangible assets	9	**6,553**	7,382
Property, plant and equipment	10	**3,978**	3,258
		10,531	10,640
Current assets			
Inventories	11	**17,401**	17,626
Trade and other receivables	12	**10,346**	5,775
Cash		**2,736**	245
		30,483	23,646
Total assets		**41,014**	34,286
Current liabilities			
Trade and other payables	13	**17,064**	11,237
Loans and overdrafts	24	**21,500**	14,711
Provisions	14	**790**	1,038
Obligations under finance leases	15	**24**	25
		39,378	27,011
Non-current liabilities			
Provisions	14	**3,623**	2,347
Obligations under finance leases	15	**33**	31
		3,656	2,378
Total liabilities		**43,034**	29,389
Net (liabilities)/assets		**(2,020)**	4,897
Equity			
Share capital	17	**69,230**	67,230
Share premium		**32,396**	32,396
Share-based payment reserve		**42**	42
Merger reserve		**5,542**	5,542
Retained loss		**(109,230)**	(100,313)
Total deficit attributable to equity holders of the parent		**(2,020)**	4,897

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 14 to 33 were approved by the Board of Directors and authorised for issue on 17 December 2019 and were signed on its behalf by:

John Fickling
Non-executive Chairman
17 December 2019

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2019

	Notes	**Year ended 31 March 2019 £'000**	Year ended 31 March 2018 £'000
Operating activities			
Cash absorbed by operations	21	**(3,293)**	(16,182)
Interest paid	4	**(762)**	(2,015)
Net cash used in operating activities		**(4,055)**	(18,197)
Investing activities			
Purchase of property, plant and equipment		**(1,366)**	(409)
Purchases of HP assets		**—**	—
Internal capitalised development costs		**(877)**	(1,031)
Net cash used in investing activities		**(2,243)**	(1,440)
Financing activities			
Issue of ordinary shares		**2,000**	58,225
Finance lease repayments		**—**	(26)
Proceeds from new loan		**21,500**	10,684
Repayment of loans		**(1,961)**	(53,003)
Net cash generated from financing activities		**21,539**	15,880
Net increase/(decrease) in cash and cash equivalents		**15,241**	(3,757)
Cash and cash equivalents at start of year		**(12,505)**	(8,748)
Cash and cash equivalents at end of year	24	**2,736**	(12,505)

The accompanying notes are an integral part of these financial statements.

Basis of preparation

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

The financial statements have been prepared on a historical cost basis, except for derivative instruments which are measured at fair value. The historical financial statements consolidate those of Optare plc and its subsidiaries.

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

Going concern

The financial statements have been prepared on a going concern basis which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future. The Group made a net loss of £8.9m in the year ended 31 March 2019 (2017/18: £14.7m) and now has net liabilities of £2m (2017/18: net assets of £4.9m).

The Group has conducted a thorough review of its strategy for the next five years and updated trading forecasts through to March 2024 which include detailed cash flow calculations. The Group is forecast to be cash generative in the future. The Group continues to have facilities and parental support in place to meet its funding requirements. The forecasts are based on detailed assumptions to sales performance and variable and fixed costs.

The Directors have prepared cash flow forecasts for a period of 15 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Company will have sufficient funds, through its facilities and funding from its immediate parent company, Ashok Leyland Limited, to meet its liabilities as they fall due for that period.

Those forecasts are dependent on Ashok Leyland Limited providing additional financial support during that period. In addition Ashok Leyland acknowledges that further funding may be required when taking into account reasonably possible downside scenarios in the forecasts and has indicated its intention to continue to make available such funds throughout the next twelve months.

At the year end the Group had access to facilities consisting of term loans, working capital facilities and overdraft. A significant proportion of the total debt matures in the twelve months from 31 March 2019. The Directors are satisfied the Company will have sufficient funds to repay these facilities by utilising both operating cash flows and support from the parent company.

The Directors are confident that the assumptions underlying their forecast are reasonable and that the Group will be able to operate with the support from Ashok Leyland Ltd. The Directors believe that the Group is well placed to manage its business risk successfully.

Consequently, the Directors are confident that the Company will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and therefore have prepared the financial statements on a going concern basis.

Basis of consolidation

Subsidiaries are entities controlled by Optare plc. Control exists when Optare plc has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

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

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

Revenue

The Group's revenue arises from the sale of vehicles and parts and the provision of servicing, maintenance and repairs. No separate revenues are generated from development and design. Revenue from the sale of vehicles and parts and for repairs is recognised when contractual performance obligations between the Group and customer are satisfied. For the sale of vehicles, revenue is recognised on delivery of the goods; for parts, it is recognised on dispatch of the goods, and for repairs, it is recognised on completion of the relevant repair. The Group also engages in longer-term fleet servicing and maintenance contracts. The revenue from these maintenance contracts is recognised on the basis of; the number of miles commuted by the vehicles during the period multiplied by a fixed pence per mile. This is considered to reflect the transfer of services to the customer.

Foreign currency

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

Functional and presentation currency

The functional and presentation currency for Optare plc is Sterling.

Goodwill

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

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

Intangible assets

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

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

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

1. Acquired vehicle design

Vehicle design acquired is amortised on a straight-line basis of up to ten years.

2. Internal vehicle design

Vehicle designs are valued at the cost of generating vehicle designs including internal and external engineering and testing costs. The amortisation period and charges are recognised on a systematic basis over the anticipated useful economic life of the design of up to ten years. Amortisation is charged to the profit and loss account on a straight line basis over the estimated useful lives of intangible assets, up to a maximum of ten years.

3. Customer relationships

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

Research and development

No research activities have been undertaken within the period. If any are performed then research activities are recognised as an expense in the period in which they are incurred.

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

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

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

Intangible assets' amortisation charges are included as a separate line item in the income statement.

Impairment of non-financial assets

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

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

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

Financial assets and liabilities

Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted on an active market. They arise principally through the provision of goods and services to customers, but also incorporate other types of contractual monetary asset. They are recorded at fair value and subsequently measured at amortised cost less any losses or impairment.

Cash and cash equivalents

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

Bank borrowings

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

Trade and other payables

Other financial liabilities comprise trade payables and other short-term monetary liabilities, which are recorded at fair value then measured at amortised cost.

Retirement benefits: defined contribution schemes

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

Leased assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a "finance lease"), the asset is treated as if it had been purchased outright.

The amount initially recognised as an asset is the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the income statement over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

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

Derivative financial instruments

Derivative financial instruments are recognised at fair value in the financial statements; any potential gain or loss on remeasurement to fair value is recognised immediately in profit or loss. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

A financial instrument is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Deferred taxation

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

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

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

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

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

Property, plant and equipment

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

Leasehold property improvements	– 10% over the life of the lease
Plant, machinery and motor vehicles	– 10% to 25% per annum (straight line)
Fixtures, fittings and equipment	– 10% to 33% per annum (straight line)
Production tooling	– 15% to 20% per annum (straight line)

Exceptional items

Exceptional items are costs and income that should not be expected to recur in the normal course of business.

Demonstration fleet

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

Inventories

Inventories are initially recognised at a weighted average value method (WAV) and are stated at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

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

Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event and a reliable estimate can be made of a probable adverse outcome, for example, warranties. Otherwise, material contingent liabilities are disclosed unless the transfer of economic benefit is remote.

Share-based payment transactions

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

Non-vesting and market-vesting conditions are taken into account when estimating the fair value of the option at the grant date. Non-market-vesting conditions are taken into account by adjusting the number of options expected to vest at each reporting date.

Cancelled options are accounted for as an acceleration of vesting. When a share-based payment is cancelled, an amount is recognised in the profit and loss account that would otherwise have been recognised over the remainder of the vesting period if the cancellation had not occurred.

Critical judgements and estimates

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

Provision for warranty claims

Management has estimated the cost of potential warranty claims arising on acquisition of the various businesses and on new bus sales. This requires an element of judgement about the likely level of claims and their financial impact upon the business. The factors affecting the level of warranty cost are: the number of buses sold; the length in periods and the breadth in cover of the terms of the warranty given with the bus; the ability of the Company to obtain suitable back-to-back warranties from its suppliers; the efficiency of the quality processes applied in designing and building the buses; the strictness with which warranty claims from customers are vetted; and the extent to which goodwill claims are allowed. Judgements on the level of warranty provision that is required are based on the number of buses in service and their remaining warranty life, with the key estimation being the likely warranty cost per bus. This is based on historical data, with estimates where necessary for new vehicle designs. If the assumption for likely warranty cost per vehicle was adjusted by 10%, this would equate to an under or over provision of £400,000.

Critical judgements and estimates continued

Impairment reviews

Management performs impairment reviews annually on other intangible assets and tangible assets. These involve comparing the estimated future cash flows of the business, using a discounted rate, to the carrying value of the Group's non-current assets. Where the net present value of the forecast cash flows exceeds the carrying value, no impairment is required. As required by IFRSs, no assumption is made that profit growth can exceed national, market or product averages without justification.

Clearly, there is an element of judgement required in assessing the potential future benefits to be derived from these assets. When completing the impairment review, the Directors considered the same factors as outlined for the going concern review; critical judgements are the discount rate used and the growth in turnover in the future business plan through the introduction of new products.

The Group has assumed a non-retrospective application IFRS 15 and IFRS 9 from 1 April 2018.

IFRS 15 "Revenue from Contracts" requires revenue to be recognised when a customer obtains control of a good or service and thus has the ability to direct the use and obtain the benefits from the good or service. It replaces IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations. The Group has amended its accounting policy appropriately but the impact of the new standard on the Group's revenue and profit is not material. This reflects the relatively non-complex and largely standardised terms and conditions applicable to the Group's revenue contracts. Accordingly, the Group has only adopted IFRS 15 from 1 April 2018 and no adjustment has been recognised in opening equity at the date of initial application.

IFRS 9 "Financial Instruments" replaced the classification and measurement models for financial instruments in IAS 39 with three classification categories: amortised cost, fair value through profit or loss and fair value through other comprehensive income. Consistent with the non-complex nature of the Group's financial instruments, the impact of the new standard is not material and therefore the Group only adopted IFRS 9 from 1 April 2018 and no adjustment has been recognised in opening equity at the date of initial application. The Group has amended its accounting policy for the establishment of provisions against trade receivables to reflect the lifetime expected loss model (consistent with the simplified approach permitted under IFRS 9).

New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 January 2019 (and therefore from 1 April 2019 for the Group), and have not been applied in preparing these consolidated financial statements. None of these are expected to have a significant effect on the consolidated financial statements of the Group except as set out below:

IFRS 16 "Leases" will require lessees to recognise a lease liability reflecting future lease payments and a right-of-use asset for virtually all lease contracts. It replaces IAS 17, under which lessees are required to make a distinction between a finance lease (on balance sheet) and an operating lease (off balance sheet). IFRS 16 includes an optional exemption (for lessees) which can be applied for certain short-term and low value leases. The standard is effective for annual periods beginning on or after 1 January 2019.

The Group has completed a detailed IFRS 16 assessment and confirmed that the new standard will have a material impact on the Group's consolidated balance sheet, but with no material net impact on profit or financial gearing. Accordingly, the Group does not intend to restate prior year comparators when the new standard is adopted, with right-of-use asset values being set equal to lease liabilities at the date of transition in line with the simplified approach permitted under IFRS 16. The Group will adopt recognition exemptions for short-term and low value leases and will also elect to apply the practical expedient available for all leases which end within twelve months of the date of transition (accounting for as short-term leases). On initial application, it is estimated that the Group will record right-of-use assets and lease liabilities with a value of £5.8m based on calculations to date. This will be less than the £7.0m non-cancellable lease commitments reported as at 31 March 2019 under IAS 17 due to the impact of discounting to present value and other adjustments.

1. Business and geographical segments and customer concentration

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Business segment analysis of revenue is as follows:		
Sale of goods	**40,738**	18,809
Rendering of services	**8,418**	8,065
Total revenue	**49,156**	26,874

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Geographical analysis of revenue is as follows:		
UK	**26,615**	23,542
Other European	**294**	156
Non-EU	**22,247**	3,176
Total revenue	**49,156**	26,874

The Group operates one business segment – the internal design and subsequent sale of single and double deck buses and parts. No separate revenues are generated from design activities.

Non-EU revenue relates, in the main, to sales in the Middle East and a distributor in Australia.

2. Loss from operations

Loss from operations has been arrived at after (crediting)/charging:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Net foreign exchange (gain)/loss	**257**	(5)
Cost of inventories recognised in cost of sales	**30,275**	17,065
Net creation/(release) of inventory provision (see note 11)	**121**	(434)
Depreciation (see note 10):		
– owned assets	**844**	892
– leased assets	**24**	24
Loss on disposal of fixed assets	**–**	–
Amortisation of intangible assets	**1,485**	1,416
Rental under operating leases	**981**	1,008
Staff costs	**10,508**	10,230
Impairment of goodwill	**–**	4,304
Amounts payable to KPMG LLP and its associates in respect of both audit and non-audit services:		
Audit services:		
– statutory audit including audit of subsidiary companies	**59**	56
Non-audit services:		
– services relating to tax services – compliance	**–**	–
	59	56

3. Staff costs

The average monthly number of people (including Directors) employed by the Group's total operations was as follows:

	Average for year ended 31 March 2019 Number	Average for year ended 31 March 2018 Number
Production	**204**	202
Head office and administration	**117**	115
	321	317

The aggregate remuneration for the above people comprised:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Directors' emoluments*	**74**	74
Wages and salaries	**9,069**	8,820
Social security costs	**850**	835
Other pension costs	**515**	501
	10,508	10,230

* Details of Statutory Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes are given in the Directors' remuneration report on pages 7 and 8.

4. Finance costs

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Interest on bank overdrafts and loans	**750**	331
Interest on loans from Ashok Leyland Limited and related companies	**—**	1,672
Interest on obligations under finance leases	**12**	12
Other interest	**—**	—
Total borrowing costs	**762**	2,015

5. Taxation

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Adjustments in respect of prior periods	**—**	—
Total current tax	**—**	—
Tax attributable to the Company and its subsidiaries	**—**	—

The Budget on 8 July 2015 announced changes in the main UK corporation tax rate. The rate is currently 19% and will reduce to 18% from 1 April 2020. The reduction in tax rates was included in the 2015–2016 Finance Act which was substantively enacted for the purposes of IFRS and UK GAAP (i.e. having completed its Commons stages) on 26 October 2015. The Budget on 16 March 2016 announced further changes in the main UK corporation tax rate. The effective rate of 18% from 1 April 2020 was to be further reduced to 17%. This further reduction in tax rates was included in the 2016 Finance Act which was substantively enacted for the purposes of IFRS and UK GAAP (i.e. having completed its Commons stages) on 6 September 2016.

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

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Loss on ordinary activities before tax	**(8,917)**	(14,714)
Tax at the domestic income tax rate	**(1,694)**	(2,796)
Tax effect of expenses that are not deductible in determining taxable profit	**604**	818
Tax losses not utilised	**1,090**	1,978
Tax credit for the period	**—**	—

6. Dividends

The Directors do not propose the payment of a dividend in respect of the current period (2017/18: £nil).

7. Subsidiaries

Name of subsidiary	Place of incorporation and operation	Proportion of ownership interest	Proportion of voting power held	Principal activity
Optare UK Limited	UK	100%	100%	Supplying kits of passenger vehicles
Optare Group Limited	UK	100%	100%	Manufacturer of passenger vehicles
Jamesstan Investments Limited	UK	100%	100%	Holding company
Optare Holdings Limited	UK	100%	100%	Holding company
Optare (Leeds) Limited	UK	100%	100%	Dormant
East Lancashire Busbuilders Limited	UK	100%	100%	Dormant

The registered address of all of the above companies is Unit 3, Hurricane Way South, Sherburn in Elmet, North Yorkshire LS25 6PT.

8. Goodwill

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Cost		
At the start of the period	**8,700**	8,700
At the end of the period	**8,700**	8,700
Impairment		
At the start of the period	**8,700**	4,396
Impairment in the year	**–**	4,304
At the end of the period	**8,700**	8,700
Carrying amount at the end of the period	**–**	–

Goodwill arose on the 2008 purchase of Jamesstan Investments Limited. The Directors consider there is only one cash-generating unit (CGU), being the whole Group.

The recoverable amount of the CGU has been determined by "value in use" calculations. The calculations used pre-tax cash flow projections over the next five years based on current management forecasts to March 2023 and extrapolation for later periods.

The growth assumptions include growth in both single deck and double deck EV and export markets and (significant volume increase on sales of single deck vehicles for the first year, plus re-entry into the UK double deck market) used in these forecasts are the same as those used in the forecasts referred to in the basis of preparation and are based on a combination of market trends and new product opportunities. Thereafter they reflect an assumption that sales volumes will increase based upon the following factors:

- UK and export markets – Optare plans to develop export markets for existing products, maintain its market share of single deck diesel vehicles in the UK, as well as grow its single deck electric vehicle presence in the UK also
- Introduction of new products – Optare will continue to pursue the introduction of the existing Metrodecker.

A risk adjustment is then made using a pre-tax discount rate of 8.3% to arrive at the value in use.

Sensitivity analyses have been performed which assume that sales for 2018/19 to March 2024 are at a lower level than assumed in the base case forecast and that margin improvements may not happen.

The Directors have carried out an impairment review of the goodwill and the net investments in subsidiaries, using the same forecasts and assumptions used in the going concern review. Based on this review, the Directors concluded in the prior year that an impairment of £4,304,000 was required. No change has been made in the current year.

9. Intangible assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
Cost			
At 31 March 2017	12,327	608	12,935
Additions – internally generated	1,031	—	1,031
Disposals	—	—	—
At 31 March 2018	13,358	608	13,966
Additions – internally generated	877	—	877
Transfer to Tangible Assets	(221)	—	(221)
Disposals	—	—	—
At 31 March 2019	**14,014**	**608**	**14,622**
Amortisation			
At 31 March 2017	4,560	608	5,168
Charge for the year	1,416	—	1,416
Disposals	—	—	—
At 31 March 2018	5,976	608	6,584
Charge for the year	1,485	—	1,485
Disposals	—	—	—
At 31 March 2019	**7,461**	**608**	**8,069**
Carrying amount			
At 31 March 2019	**6,553**	**—**	**6,553**
At 31 March 2018	7,382	—	7,382
At 31 March 2017	7,767	—	7,767

The vehicle related intangible assets include internally generated new product developments in the period, such as the Solo EVs and low-carbon Euro 6 product line, and new product designs, such as the Metrocity and Metrocity EVs intended for the London market and the Metrodecker.

10. Property, plant and equipment

	Leasehold property improvements £'000	Production tooling £'000	Plant, machinery and motor vehicles* £'000	Fixtures and fittings £'000	Total £'000
Cost					
At 31 March 2017	1,709	1,874	3,485	343	7,411
Additions	39	176	77	123	415
Disposals	—	—	(6)	—	(6)
At 31 March 2018	1,748	2,050	3,556	466	7,820
Additions	40	115	1,110	102	1,367
Transfer from Intangibles	—	221	—	—	221
Disposals	—	—	—	—	—
At 31 March 2019	**1,788**	**2,386**	**4,666**	**568**	**9,408**
Depreciation and Impairments					
At 31 March 2017	801	1,705	1,046	94	3,646
Charge for the year	174	150	584	8	916
Disposals	—	—	—	—	—
At 31 March 2018	975	1,855	1,630	102	4,562
Charge for the year	174	103	584	7	868
Disposals	—	—	—	—	—
At 31 March 2019	**1,149**	**1,958**	**2,214**	**109**	**5,430**
Net book value					
At 31 March 2019	**639**	**428**	**2,452**	**459**	**3,978**
At 31 March 2018	773	195	1,926	364	3,258
At 31 March 2017	908	169	2,439	249	3,765

* Customer demonstration vehicles that are intended to be used in this capacity for twelve months or more are capitalised at cost as part of our demonstration fleet. When no longer required as a sales aid they are transferred to inventory at net book value. Customer demonstration stock is £1,843,462 (2017/18: £1,359,249).

The net book value of assets held under finance leases and hire purchase agreements is £156,204 (2017/18: £177,585).

11. Inventories

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Raw materials and consumables	**9,619**	6,238
Work in progress	**7,423**	4,923
Finished goods	**1,693**	7,678
Stock impairment provision	**(1,334)**	(1,213)
Total	**17,401**	17,626

The movement in the write down of stocks to net realisable value can be reconciled to the income statement as follows:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Opening provision	**1,213**	1,647
Provisions made during the year	**165**	65
Provisions utilised during the year	**(44)**	(499)
Total	**1,334**	1,213

12. Trade and other receivables

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Trade receivables	**2,162**	1,734
Allowance for estimated irrecoverable amounts	**(98)**	(99)
Net trade receivables	**2,064**	1,635
Other receivables and prepayments	**8,282**	4,140
Total	**10,346**	5,775

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at fair value less any impairment losses.

Trade receivables past due but not impaired at the period end totalled £833,545 (2017/18: £370,808). The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

Allowances against doubtful debts are recognised against trade receivables between 30 days and 360 days based on estimated recoverable amounts based on past experience under the expected credit loss model. The Group's credit risk relates primarily to its trade receivables. The debtor days as at 31 March 2019 were 15 days (2017/18: 22 days).

Ageing of past due but not impaired receivables:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
0–30 days	**334**	158
30–180 days	**479**	198
180–365 days	**9**	7
Greater than one year	**11**	8
Total	**833**	371

The movement in the bad debt provision can be reconciled to the income statement as follows:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Opening provision	**99**	360
Provisions made during the year	**3**	19
Provisions utilised during the year	**(4)**	(281)
Total	**98**	98

13. Trade and other payables

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Trade payables	**11,210**	6,766
Social security and other taxes	**521**	307
Accruals and deferred income	**5,333**	4,164
	17,064	11,237

Creditor days as at 31 March 2019 were 77 (2017/18: 35 days). The Directors consider that the carrying amount of trade payables approximates to their fair value. Of the trade payables outstanding at the period end, £748,315 (2017/18: £598,363) was denominated in foreign currencies, principally in Euros.

14. Provisions

	Warranty provision £'000
At 31 March 2018	3,385
Additional provision	2,063
Utilisation of provision	(1,035)
At 31 March 2019	**4,413**
Under one year provision	790
Over one year provision	3,623
At 31 March 2019	**4,413**

The warranty provision represents management's best estimate of the Group's liability under warranties granted on passenger vehicles manufactured, based on past experience for defective products. Warranty offered to customers is currently between two and five years.

15. Obligations under finance leases

	Minimum lease payments year ended 31 March 2019 £'000	**Present value of lease payments year ended 31 March 2019 £'000**	Minimum lease payments year ended 31 March 2018 £'000	Present value of lease payments year ended 31 March 2018 £'000
Amounts payable under finance leases:				
– within one year	**24**	**23**	25	23
– within two to five years	**33**	**26**	31	26
	57	**49**	56	49

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

The average rate of interest charged on the finance leases outstanding was 13.9% in the period (2017/18: 13.9%).

16. Deferred tax

At the reporting date, the Group has unused tax losses of £99,849,122 (2017/18: £90,932,122) available for offset against future profits. A deferred tax asset of £18,971,333 at a tax rate of 19% (2017/18: £17,277,103 at 19%) has not been recognised in respect of these losses due to the unpredictability of future profit streams.

17. Share capital

	Ordinary shares of 1p each Number	Ordinary shares of 0.1p each Number	Deferred shares of 0.9p each Number	£
At 31 March 2018	—	60,460,291,827	752,145,493	67,229,601
Shares issued	—	2,000,000,000	—	2,000,000
At 31 March 2019	**—**	**62,460,291,827**	**752,145,493**	**69,229,601**

During 2018/19 Ashok Leyland Limited subscribed to an additional 2,000,000,000 ordinary shares at par in March 2019.

The Company has two classes of share which carry no right of fixed income.

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

A summary of the rights which will attach to the deferred shares, which render them effectively worthless, is as follows:

- they will not entitle holders to receive any dividend or other distribution, or to receive notice of, speak or vote at general meetings of the Company;
- on a return of assets on a winding up, they will only entitle the deferred share holder to the amounts paid up on such shares after the repayment of £10m per new ordinary share;
- they will not be freely transferable;
- the creation and issue of further shares which rank equally or in priority to the deferred shares, or the passing of a resolution of the Company to cancel the deferred shares or to effect a reduction of capital shall not constitute a modification or abrogation of their rights; and
- the Company shall have the right at any time to purchase all of the deferred shares in issue for an aggregate consideration of £1.00.

18. Retirement benefits

Defined contribution schemes

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

The total cost charged to income of £515,197 (2017/18: £501,147) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2019, contributions of £nil (2017/18: £nil) due in respect of the current reporting period had not been paid over to the schemes.

19. Share-based payments

Equity-settled share option plan

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

	2019		2018	
	Options '000	**Weighted average exercise price Pence**	Options '000	Weighted average exercise price Pence
Outstanding at the beginning of the period	**500**	**2.58**	500	2.58
Granted during the period	**—**	**—**	—	—
Forfeited during the period	**—**	**—**	—	—
Outstanding at the end of the period	**500**	**2.58**	500	2.58
Exercisable at the end of the period	**500**	**2.58**	500	2.58

No options were exercised during the period. The options outstanding at 31 March 2019 had an exercise price between 1.0p and 4.15p (2017/18: between 1.0p and 4.15p) and a weighted average remaining contractual life of 1.25 years (2017/18: 1.25 years).

On 25 June 2012 128,739,439 warrants were issued to Ashok Leyland Limited and its associated companies Ashley Holdings Limited and Ashley Investments Limited. On 10 August 2013 a number of these warrants lapsed. These warrants give Ashok Leyland Limited and its associated companies the right to subscribe for additional shares to maintain their 75.1% shareholding in the event that any non-Ashok Leyland Limited warrants or share options are exercised. At 31 March 2019 18,581,735 warrants were outstanding (31 March 2018: 18,581,735).

In 2018/19 fair value warrants were issued to Ashok Leyland Limited companies of £nil (2017/18: £nil).

20. Operating lease arrangements

The Group as a lessee

Commitments under non-cancellable leases for:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Buildings	**6,566**	7,352
Other	**467**	467
	7,033	7,819

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

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Amounts due in under one year	**909**	908
Amounts due between one and five years	**3,302**	3,376
Amounts due after more than five years	**2,822**	3,535
	7,033	7,819

21. Net cash from operating activities

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

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Operating activities		
– loss before tax	**(8,917)**	(14,714)
Adjustments for		
– depreciation	**868**	916
– amortisation of intangible assets	**1,485**	1,416
– impairment of goodwill	**—**	4,304
– net finance expense	**762**	2,015
– loss on disposal of property, plant and equipment	**—**	—
Operating cash flows before movements in working capital	**(5,802)**	(6,063)
Changes in working capital		
– decrease/(increase) in inventories	**225**	(10,498)
– (increase)/decrease in trade and other receivables	**(4,571)**	(1,550)
– increase/(decrease) in trade and other payables	**5,827**	2,544
– increase/(decrease) in provisions	**1,028**	(615)
Total decrease/(increase) in working capital	**2,509**	(10,119)
Net cash absorbed in operating activities	**(3,293)**	(16,182)

22. Post-period-end events

There have been no significant events post the balance sheet date.

23. Related party transactions

Key management is considered to be the Board of Directors and members of the Steering Committee (SC), which includes the President and the CEO. The transactions with key management are described in the Directors' and Senior Officers' remuneration report.

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

A further subscription for 2,000,000 new ordinary shares to Ashok Leyland Limited was made.

The major shareholder, Ashok Leyland Limited, is providing key employee resource to support the business. The net charge was £nil in this year's results (2017/18: £53,275). The cost of this expense that remained outstanding at the period end was £nil (2017/18: £nil).

During the year there was no sale of development vehicles by the Company to Ashok Leyland Limited (2017/18: £nil).

24. Financial instruments

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Current financial liabilities		
Bank overdrafts	**—**	12,750
Bank loans	**21,500**	1,961
Related party short-term loans	**—**	—
	21,500	14,711
Non-current financial liabilities		
Net debt total	**21,500**	14,711
Analysis of borrowings by currency		
Sterling – overdraft	**—**	12,750
Sterling – loans	**21,500**	1,961
	21,500	14,711

24. Financial instruments continued

The fair value of borrowings is not significantly different to the carrying value. The bank loan borrowings are at a floating rate of 1.05% over the GBP three-month London InterBank Offered Rate. The bank overdrafts are at a floating rate of 1.05% over the Bank of England base rate.

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Bank overdrafts	**—**	(12,750)
Cash	**2,736**	245
Cash and cash equivalents at end of year	**2,736**	(12,505)

Financial instruments – risk management

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

- liquidity risk;
- interest rate risk;
- foreign currency risk; and
- credit risk.

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

Liquidity risk

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

Interest rate risk

Management has a policy to obtain long-term debt at fixed rates and short-term debt at flexible rates. It also benefits from access to Ashok Leyland Limited treasury resources and skills to give strategic guidance.

Although the Board accepts that this policy neither protects the Company entirely from the risk of paying rates in excess of current market rates nor eliminates fully cash flow risk associated with interest payments, it considers that it achieves an appropriate balance of exposure to these risks. A one percentage point change in interest rates would result in a change in retained profit of approximately £0.5m.

Foreign currency risk

Management's primary foreign currency risk arises from suppliers who invoice in Euros, US Dollars, Swiss Francs and New Zealand Dollars. The Company monitors exchange rate movements and considers the utilisation of purchasing currency in advance to manage this risk. The Company's bulk purchases of stock enable management of the overall pricing of materials, and monitoring of exchange rates ensures that the Company makes payments against trade payables at an appropriate time to reduce the effect of exchange rate fluctuations.

Expected foreign currency receipts from export sales are taken into consideration in assessing the net foreign currency exposure.

Credit risk

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

Optare plc's customers are also the main major bus operators, which have significant resources and facilities in place to fund their vehicle acquisitions, thus limiting Optare plc's exposure to credit risk. Credit checks are also made for new customers and appropriate credit limits are set from this information. Orders for new bus sales are rarely accepted without proof of funding in place. Credit limits may only be exceeded with the express authorisation of the Directors.

Capital

Optare plc's main objective when managing capital is to protect returns to shareholders by ensuring the Group has sufficient liquidity in the business and will trade profitably in the foreseeable future. The Group manages its capital with regard to the risks inherent in the business and the sector within which it operates by monitoring its gearing. The Group also aims to maximise its capital structure of debt and equity so as to control its cost of capital.

The Group considers its capital to include share capital, share premium, merger reserve, retained earnings, share-based earnings reserve and net debt.

24. Financial instruments continued

Financial instruments – risk management continued

***Capital** continued*

At 31 March 2019 the Group had net liabilities of £2.0m, compared to net assets of £4.9m at 31 March 2018. The net debt of the Group was £21.5m at 31 March 2019 compared to £14.7m at 31 March 2018 as follows:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Bank loans and overdrafts	**21,500**	14,711
	21,500	14,711

Gearing ratio at the year end is as follows:

	2019 £m	2018 £m
Debt	**21.5**	14.7
Cash and cash equivalents	**2.7**	(0.2)
Net debt	**21.5**	14.5
Capital	**19.5**	19.6
Net debt to capital ratio	**110%**	74%

Sensitivity analysis

Whilst Optare plc takes steps to minimise its exposure to cash flow interest rate risk and foreign exchange risk as described above, changes in interest and foreign exchange rates may have an impact on profit and cash flow. Optare plc's foreign exchange risk is dependent on the movement in the Euro, US Dollar and New Zealand Dollar to Sterling exchange rates. Any significant foreign currency denominated assets or liabilities at the period end are translated using exchange rates applicable at the time with any exchange rate difference being realised in the income statement. It is estimated that a one percentage point increase/decrease in interest rates would increase/decrease losses and increase/decrease equity by approximately £0.5m.

25. Parent company and ultimate controlling party

The Directors consider Ashok Leyland Limited to be the Group's parent company and Amas Holding SA, a company incorporated in Luxembourg, to be the Group's ultimate controlling party.

COMPANY BALANCE SHEET
AS AT 31 MARCH 2019

	Notes	**As at 31 March 2019 £'000**	As at 31 March 2018 £'000
Fixed assets			
Investments	26	**220**	15,220
		220	15,220
Current assets			
Debtors	27	**97,769**	78,888
		97,769	78,888
Creditors: amounts falling due within one year	29	**(36,004)**	(19,151)
Net current assets		**61,765**	59,737
Net assets		**61,985**	74,957
Capital and reserves			
Share capital	17	**69,230**	67,230
Capital reserves		**36,832**	36,832
Share-based payment reserve		**42**	42
Retained loss		**(44,119)**	(29,147)
Total equity		**61,985**	74,957

The Company's loss after tax for the period was £14,972,436 (2017/18: £4,126,163).

The accompanying notes are an integral part of these financial statements.

The financial statements on pages 34 to 37 were approved by the Board of Directors and authorised for issue on 17 December 2019 and were signed on its behalf by:

John Fickling
Non-executive Chairman
17 December 2019

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2019

	Share capital £'000	Capital reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
Balance at 31 March 2017	9,005	36,832	(25,021)	42	20,858
Loss for the year	—	—	(4,126)	—	(4,126)
Issue of ordinary shares	58,225				58,225
Total comprehensive loss/equity movement for the year	58,225	—	(4,126)	—	54,099
Balance at 31 March 2018	67,230	36,832	(29,147)	42	74,957
Issue of ordinary shares	2,000	—	—	—	2,000
Loss for the year	—	—	(14,972)	—	(14,972)
Total comprehensive loss/equity movement for the year	2,000	—	(14,972)	—	(12,972)
Balance at 31 March 2019	**69,230**	**36,832**	**(44,119)**	**42**	**61,985**

The accompanying notes are an integral part of these financial statements.

The following accounting policies have been applied consistently in dealing with items which are considered material in relation to the Company's financial statements. The Company has adopted IFRS 9 "Financial Instruments" from 1 April 2018. The impact of the new standard is not material and no adjustment has been recognised in opening equity at the date of initial obligation.

Basis of preparation

The financial statements have been prepared in accordance with applicable accounting standards under FRS 101 and under the historical cost accounting rules.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and have not presented the profit and loss account of the Company.

Under FRS 101 the Company is exempt from the requirement to disclose related party transactions, share-based payments and financial instruments and prepare a cash flow statement.

Investments

Investments are carried at historical cost less provision for impairments in carrying value; loans to subsidiaries are treated as part of the Company's net investment in subsidiaries. Impairments are calculated by reference to the expected recoverable amount.

Investments in joint ventures, associates and subsidiaries are carried at cost less impairment in accordance with IFRS 9.

26. Investments

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

	Share in subsidiary undertakings £'000
Cost	
At 31 March 2018	39,923
Additions	—
At 31 March 2019	**39,923**
Impairment	
At 31 March 2018	24,703
Charge for the year	15,000
At 31 March 2019	**39,703**
Carrying amount	
At 31 March 2018	15,220
At 31 March 2019	**220**

Details of the Company's subsidiaries at 31 March 2019 are shown in note 7.

The Directors have carried out an impairment review of the net investments in subsidiaries, using the same forecasts and assumptions used in the impairment review of the intangible included in note 8 of the consolidated financial statements. Based on this review the Directors have concluded that an impairment of £15,000,000 is required (2017/18: impairment of £4,304,000).

27. Debtors

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Amounts owed by Group undertakings	**97,396**	78,349
Prepayments	**358**	499
Social security and other taxes	**15**	40
Total	**97,769**	78,888

Amounts owed to group undertakings are all interest free and repayable on demand.

28. Operating lease arrangements

Annual commitments under non-cancellable leases for:

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Buildings – expiring after five years	**5,050**	6,566

29. Creditors: amounts falling due within one year

	Year ended 31 March 2019 £'000	Year ended 31 March 2018 £'000
Overdraft	**—**	2,710
Bank loans	**21,484**	1,962
Loans from parent undertaking	**—**	—
Trade creditors	**100**	100
Amounts payable to subsidiary undertakings	**13,306**	13,306
Social security and other taxes	**—**	—
Accruals and deferred income	**1,114**	1,073
	36,004	19,151

Amounts payable to subsidiary undertakings are interest free and repayable on demand.

Bank loans are repayable in under one year at a rate varying between 1.88952% and 1.895000% per annum.

Notice of the Adjourned Annual General Meeting
Optare plc (the "Company")
(Incorporated and registered in England and Wales
with registered number 06481690)

Directors:
John Matthew Fickling (Non-executive Chairman)
Steven Norris (Non-executive Director)
Gopal Mahadevan (Non-executive Director)
Venkatesan Venkataraman (Non-executive Director)
Seshu Bhagavathula (Non-executive Director)
Sanjay Saraswat (Non-executive Director)

Registered office:
Unit 3
Hurricane Way South
Sherburn in Elmet
North Yorkshire
LS25 6PT

6 January 2020

To holders of ordinary shares of 0.1p each in the capital of the Company ("Ordinary Shares")

Dear shareholder

2020 Adjourned Annual General Meeting of Optare plc (the "Company")

On 30 September 2019, at the Annual General Meeting of the Company, the Chairman mentioned that the annual accounts of the Company were in the final stages of audit and thus, Ordinary Resolution 1 – Reports and accounts (as per Notice of the Annual General Meeting, dated 5 September 2019) would be taken up in an adjourned meeting. The Annual General Meeting was adjourned.

The annual accounts are ready and the Adjourned Annual General Meeting (for presentation of annual accounts), will be held at the Company's registered office, Unit 3, Hurricane Way South, Sherburn in Elmet, North Yorkshire LS25 6PT on 31 January 2020 at 11am. The formal notice of the adjourned AGM is set out in the accompanying document.

1. Business to be transacted at the Adjourned Annual General Meeting

Details of the resolution that is proposed at the Adjourned Annual General Meeting is set out below.

Ordinary resolution 1 – Reports and accounts

THAT the Directors of the Company are required under the Companies Act 2006 to lay the audited accounts and reports for each financial year before the Company in general meeting.

2. Action to be taken

You are entitled to appoint one or more proxies to exercise all or any of your rights to attend, speak and vote at the Adjourned AGM on your behalf. You will find enclosed with this document a Form of Proxy for use in connection with the Adjourned AGM. Whether or not you propose to attend the Adjourned AGM in person, you are requested to complete and return the Form of Proxy to the Company's registrar, Link Asset Services, PXS, 34 Beckenham Road, Kent BR3 4TU, as soon as possible and, in any event, so as to be received no later than 11.00am 24 January 2020. Completion and return of a Form of Proxy will not stop you from attending the Adjourned AGM and voting in person should you so wish. Please note that if you do not give your proxy an indication of how to vote on any resolution, your proxy may vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to any other matter which is put before the meeting.

3. Recommendation

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

Yours faithfully

John Fickling
Non-executive Chairman
6 January 2020

By order of the Board

Notice is given that the Adjourned AGM (which was adjourned on 30 September 2019) of the Company will be held at the Company's registered office, Unit 3, Hurricane Way South, Sherburn in Elmet, North Yorkshire LS25 6PT, on 31 January 2020 at 11am. for the purpose of transacting the following business:

Ordinary business

To consider and if thought fit, to pass resolutions with or without modification(s) in respect of the following matter as ordinary resolutions of the Company:

1. To receive, consider and adopt the Balance sheet as at 31 March 2019 and Profit & Loss account together with the reports of the Directors and Auditor thereon.

By order of the Board

Abhijit Mukhopadhyay
Company Secretary
6 January 2020

Registered office:
Unit 3
Hurricane Way South
Sherburn in Elmet
North Yorkshire
LS25 6PT

Notes

1. The Company specifies that only those holders of ordinary shares of 0.1p each in the capital of the Company registered in the Company's register of members at:
   1.1 close of business on 24 January 2020; or
   1.2 if this meeting is adjourned, at close of business two working days prior to the adjourned meeting, shall be entitled to attend and vote at the meeting in respect of the number of ordinary shares of 0.1p each in the capital of the Company registered in their name at that time. Subsequent changes to entries in the register of members shall be disregarded in determining the rights of any person to attend or vote at the meeting.
2. Members may appoint a proxy or proxies:
   2.1 by completing and returning a Form of Proxy by post or by hand to the offices of the Company's registrar, Link Asset Services, in accordance with note 5 below; or
   2.2 in the case of CREST members, through the CREST electronic proxy appointment service.
3. A Form of Proxy which may be used to make such an appointment and give proxy instructions accompanies this notice of meeting. If you do not have a Form of Proxy and believe that you should have one, or if you require additional forms, please contact Link Asset Services on 0871 664 0300 (calls cost 12p per minute plus network extras from within the UK) or from overseas on +44 (0)371 664 0300 (in either case lines are open 9.00am to 5.30pm (UK time) Monday to Friday).
4. A member may appoint more than one proxy in relation to the Adjourned AGM provided that each proxy is appointed to exercise the rights attached to different shares held by a member. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy you may photocopy the Form of Proxy or request additional forms from Link Asset Services as set out in note 3 above. Please indicate the proxy holder's name and the number of shares in relation to which they are authorised to act as your proxy (which, in aggregate, should not exceed the number of shares held by you). Please also indicate if the proxy instruction is one of multiple instructions being given. All forms must be signed and should be returned together in the same envelope.
5. The notes to the Form of Proxy explain how to direct your proxy to vote on each resolution or withhold their vote. To appoint a proxy using the Form of Proxy, the form must be:
   5.1 completed and signed;
   5.2 sent or delivered to Link Asset Services, PXS, 34 Beckenham Road, Beckenham BR3 4TU; and
   5.3 received by Link Asset Services no later than 11.00am on 24 January 2020 or two working days prior to any adjourned meeting or, in the case of a poll, taken more than 48 hours after it is demanded, one working day before the time appointed for the taking of the poll

   In the case of a member which is a company, the Form of Proxy must be executed under its common seal or signed on its behalf by an officer of the Company or an attorney for the Company. Any power of attorney or any other authority under which the Form of Proxy is signed (or a duly certified copy of such power or authority) must be included with the Form of Proxy.
6. The sending of a completed Form of Proxy to the Company's registrar will not preclude members from attending and voting at the meeting, or any adjournment of it, in person, should they so wish.
7. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so by using the procedures described in the CREST Manual (available via www.euroclear.com/CREST). CREST personal members or other CREST sponsored members, and those CREST members who have appointed a voting service provider(s), should refer to their CREST sponsor or voting service provider(s) who will be able to take the appropriate action on their behalf.

Notes continued

8. In order for a proxy appointment or instruction made using the CREST service to be valid, the appropriate CREST message (a "CREST Proxy Instruction") must be properly authenticated in accordance with Euroclear UK & Ireland Limited ("EUI")'s specifications and must contain the information required for such instructions, as described in the CREST Manual. The message, regardless of whether it constitutes the appointment of a proxy or is an amendment to the instruction given to a previously appointed proxy must, in order to be valid, be transmitted so as to be received by the issuer's agent (ID RA10) by 11.00am on 24 January 2020. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which the issuer's agent is able to retrieve the message by enquiry to CREST in the manner prescribed by CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means.

9. CREST members and, where applicable, their CREST sponsors or voting service providers should note that EUI does not make available special procedures in CREST for any particular messages.

   Normal system timings and limitations will therefore apply in relation to the input of CREST Proxy Instructions. It is the responsibility of the CREST member concerned to take (or, if the CREST member is a CREST personal member or sponsored member or has appointed a voting service provider(s), to procure that his CREST sponsor or voting service provider(s) take(s)) such action as shall be necessary to ensure that a message is transmitted by the CREST system by any particular time. In this connection, CREST members and, where applicable, their CREST sponsors or voting service providers are referred, in particular, to those sections of the CREST Manual concerning practical limitations of the CREST system and timings.

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

11. A vote withheld is not a vote in law, which means that the vote will not be counted in the calculation of votes for or against the resolution. If no voting indication is given, your proxy will vote or abstain from voting at his or her discretion. Your proxy will vote (or abstain from voting) as he or she thinks fit in relation to every other matter which is put before the Adjourned AGM.

12. In the case of joint holders, where more than one of the joint holders purports to appoint a proxy, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

13. To change your proxy instructions, simply submit a new proxy appointment using the methods set out above. Note that the cut-off time for receipt of proxy appointments (see above) also applies in relation to amended instructions: any amended proxy appointment received after the relevant cut-off time will be disregarded.

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

15. A corporation which is a member can appoint one or more corporate representatives who may exercise, on its behalf, all its powers as a member provided that no more than one corporate representative exercises powers over the same share.

16. Copies of the Directors' service contracts and letters of appointment of the Non-executive Directors with the Company or any of its subsidiary undertakings will be available:

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

    16.2 during the meeting.

17. You may not use any electronic address provided either in this notice of Adjourned AGM or any related documents (including the Chairman's letter and Form of Proxy) to communicate with the Company for any purposes other than those expressly stated.

ADVISERS

Registered office
Unit 3
Hurricane Way South
Sherburn in Elmet
North Yorkshire LS25 6PT

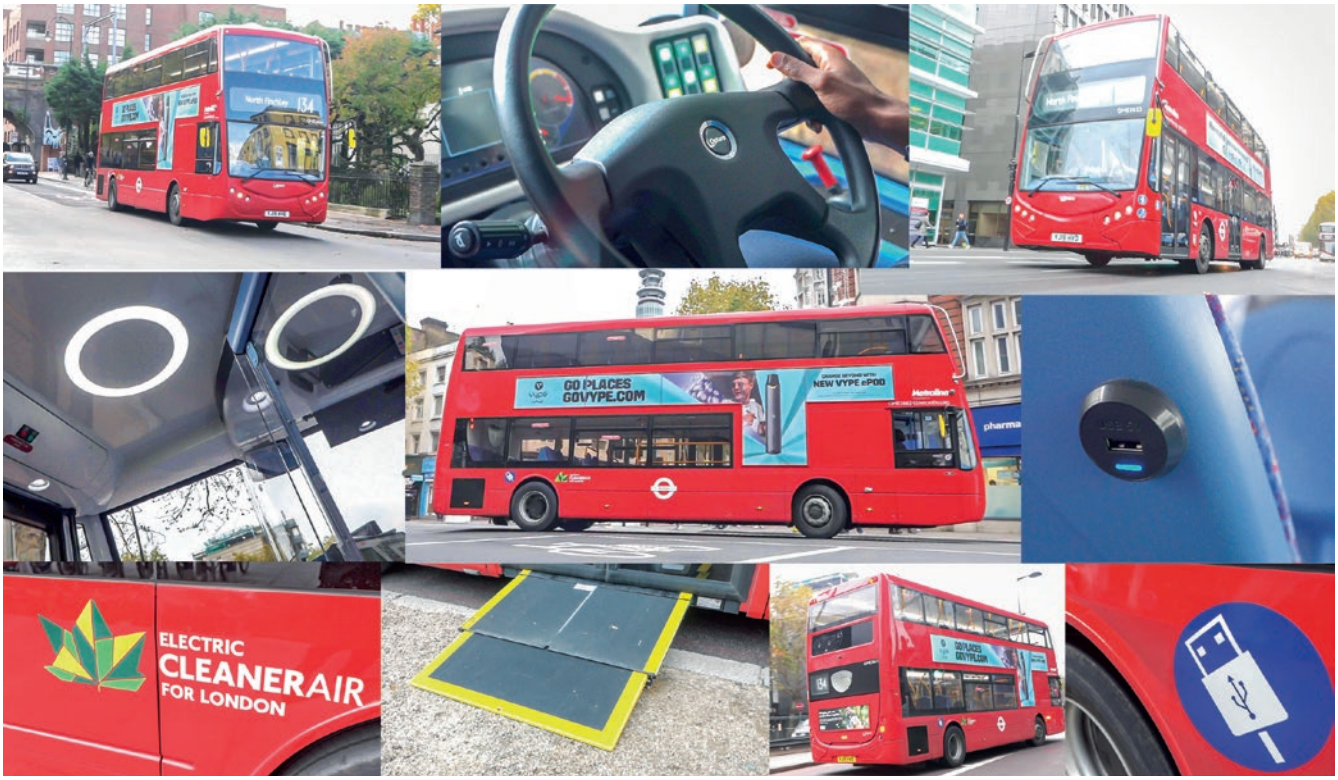
Company Secretary
Abhijit Mukhopadhyay

Nominated adviser and broker
Cenkos Securities plc
6–8 Tokenhouse Yard
London EC2R 7AS

Solicitor to the Company
Pinsent Masons
1 Park Row
Leeds LS1 5AB

Auditor
KPMG LLP
1 Sovereign Square
Sovereign Street
Leeds LS1 4DA

Registrar
Link Asset Services
The Registry
34 Beckenham Road
Beckenham
Kent BR3 4TU



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