Optare plc

ANNUAL REPORT AND ACCOUNTS 2020

ASHOK LEYLAND

Performance highlights

Operational highlights

- Delivery of 114 Solos to RTA in Dubai.
- Delivery of 30 Metrodecker EVs to Metroline for one of London's first zero emission double decker routes commencing service in August 2019.
- Delivery of the first of 21 Metrodecker EVs to York. Service to commence in quarter 3 2020.
- Roll-out of the next generation Metrocity EV 240kwh. The new range is based on the existing platform with the addition of a short derivative for congested urban environments due for launch in late 2020.

Financial highlights

- Revenue for the period was £37.1m, a drop of 25% over prior year.
- Gross loss was £0.9m over the twelve-month period (2018/19: £5.3m gross profit representing 11% of turnover).
- Loss after tax was £15.5m (2018/19: £8.9m).
- Operating cash outflow before working capital changes was £11.0m (2018/19: £5.8m).

Continued focus on long-term growth and evolution

Introduction

2019/20 has seen continued focus on Optare's long-term growth and evolution. Some of the major successes for the year include:

- confirmation of an order of 37 Metrodecker EVs for Tower Transit in London, Optare's largest Metrodecker order to date;
- Ashok Leyland Limited infused £11m as equity in Optare;
- a continued demand for the Solo, with the RTA contract accounting for over three-quarters of vehicle sales in 2019/20;
- continued in-service trials of the Metrodecker EV (electric double deck) and Metrocity electric bus with an increasingly wide range of leading UK and Irish operators;
- further development of EV technologies exploring different battery technologies to achieve increased range on a single charge without compromising passenger capacity;
- additional investment in the demonstration fleet with 2 new Metrodecker EVs added to our demo fleet to cope with demand. We plan to add 2 Metrocity 240kwh derivatives to our fleet in 2020 to provide more vehicles for long-term evaluation by customers and accelerate sales; and
- we continue to work closely with our parent, Ashok Leyland Limited, to improve business efficiencies.

Strategic development

Our strategy remains consistent and is outlined below:

- increasing sales in the UK with Solo, Metrocity and Metrodecker with a specific focus on electric product;
- continued development of products and commercial relationships in the UK and export markets to drive expansion;
- delivery of sustainable green bus technology, with a focus on efficient zero emission technologies and solutions across the product range;
- ongoing cost reduction and improved business processes to deliver quality products with lowest total cost of ownership;
- continued focus on quality improvements and aftermarket delivery to ensure the best possible service for our customers;
- commitment to training and development of skills to support the business strategy; and
- integration with Ashok Leyland Limited to deliver export opportunities and material savings.

I am pleased to report during the year we have made progress on these key objectives despite a continuingly challenging UK market; we are starting to see the success of the investments we have made over the last few years in the form of export sales to Dubai and growing confidence in our Metrodecker EV with a second order for 37 buses for London and many more routes being tendered. Whilst the PM has committed to funding 4,000 zero emission buses during this five-year Parliament term and our interaction with the DfT has confirmed it intends to proceed with this, we do expect COVID-19 to delay the announcement on when these buses will actually be funded and this may push the expected increase in sales from 2020/21 to 2021/22.

We applaud the Government's announcement in February pledging substantial investment in zero emission buses. £3.5bn of the £5bn announced is for buses and infrastructure within this current five-year Parliamentary term. Optare is well placed to take advantage of this opportunity.

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 in the aftermarket continues to strengthen our relationships both in the UK and overseas.

Our people

A well trained and skilled workforce remains key to supporting Optare's business strategy; in 2019/20 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. Whilst some college-based learning and development has been restricted, during the COVID-19 pandemic, we have explored the online opportunities for blended learning.

A training programme was created for the production floor in 2019/20 to ensure that everyone on the floor is trained up to the same basic level to be able to carry out their work safely and effectively.

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

Strategic focus for 2020/21

In summary our strategy for 2020/21 will focus on:

- increasing sales in the UK of electric vehicles, particularly with the larger groups;
- leveraging existing products in all markets;
- targeted growth of the parts division of the business in the UK;
- development of products, people and commercial relationships for the UK and export markets to drive UK and international expansion;
- innovation to deliver sustainable zero emission technology;
- cost reduction and integration of business processes to deliver quality products;
- focus on quality improvements and aftermarket delivery to deliver lowest whole life cost for our customers;
- training and development of skills to support the business strategy; and
- continued integration with Ashok Leyland Limited to deliver export opportunities and material savings.

Our strategy for 2020/21 includes the need to continue to manage the impact of COVID-19 for the health and safety of our workforce and for any impact it may cause on delaying production and thus planned output.

Dr Andrew Palmer
Non-executive Chairman
7 October 2020

Our growth and profitability will come through increased demand for zero emission buses

The market

2019/20 was another challenging year for the UK bus industry with continued cuts to subsidy funding for bus services seeing overall sales in the UK contract by 23%. This reduction was felt both in the double deck (21% decrease from the previous year) and single deck segments (27% decrease in 2019/20).

Optare's performance

Despite a challenging UK market, investment in 2018/19 and 2019/20 has paved the way for the success Optare is now enjoying with high value contracts from Dubai, London and the UK provinces.

The global turnover decreased from £49m to £37m. Loss after tax was £16m; this can be attributed to a combination of factors which include: a contracted UK market, as a result of continued bus service subsidy cuts, having a major impact on rural routes which impacted demand for the Optare Solo in the UK; and further investment in product development.

The Solo contract in Dubai accounted for over half of bus sales in 2019/20 closely followed by the Metroline Metrodecker EV order at 21% of sales. Optare believes the Metrodecker EV will form an increasing part of its revenue. By the end of 2020/21 the first 100 Metrodecker EVs will be in service across the UK, with many more in the pipeline for 2021 onwards.

An ongoing programme of cost reduction and cost avoidance achieved substantial savings upon review of the Company's variable and fixed overheads during the period. Significant material cost savings have also been achieved in 2019/20.

Development

During 2019/20 our strategic focus has been to continue to deliver improvements in both aftermarket and manufacturing, maintain market share, retain our core capabilities in a challenging marketplace and develop opportunities for export sales in international markets.

2019/20 saw extensive investment in product development for the Metrocity EV 240kWh to deliver improved range, without compromising passenger capacities or decreasing the efficiencies afforded by the reduced weight Optare space frame design. Following customer feedback, we have developed a sub 9 metre variant of this vehicle for service on congested and tortuous routes. Again, Optare believes that this unique vehicle will deliver significant volume in years to come.

At the end of March 2020, we formed a relationship with Arcola Energy to develop a Fuel Cell EV derivative of the Metrodecker EV.

Optare retained its international quality ISO 9001:2015 status for the fourth consecutive year.

The period also saw continued development of dealer relations in the Middle East and Australasia and the Company's integration with our parent company, Ashok Leyland Limited, continued to support sales opportunities in international markets.

Financial performance

The financial results for the year show a net loss of £15.5m compared to a loss of £8.9m in the previous period, largely due to a drop in UK volume, investment in export and EV vehicle development.

The key highlights for the period end are:

- Revenue for the period was £37.1m, a drop of 25% over the prior year.
- Gross loss was £0.9m over the twelve-month period (2018/19: £5.3m gross profit representing 11% of turnover).
- Loss after tax was £15.5m (2018/19: £8.9m).
- Operating cash outflow before working capital changes was £11.0m (2018/19: £5.8m

Ashok Leyland Limited has invested £11.0m in Optare in 2019/20 primarily to meet its capex and operating requirements.

Outlook

It would be remiss of me not to mention COVID-19 and the impact that it has had on Optare and the bus industry as a whole. Bus patronage is down quite significantly which is impacting the finances of bus operators. This in turn affects the availability of funds to purchase new buses. This has also had an impact on Optare. However, with our excellent EV products and the Government's announcement to deliver 4,000 zero emission buses during the course of Parliament, to create a Bus Strategy, an Electric City and Hydrogen City and to back build in UK and manufacturing in the Northern Power House, we see a strong future for the business.

Group confidence in the Optare brand in the UK continues to grow with a second order from London for the Metrodecker EV. This order from Tower Transit is for 37 buses and is a confirmed order for 2020/2021 delivery.

We start 2020/21 with a strong order book including the completion of the York and Translink orders and the Tower Transit order with several tenders also in progress.

The first of a 21 Metrodecker EV order for First York has been delivered with more to follow in the coming months. Four of a 25 Solo order have been shipped to Translink.

We also continue to develop dealer relations in the Middle East and Australasia and the Company's integration with our parent company, Ashok Leyland Limited, continues to support sales opportunities in international markets. In Australia we have been approved to supply buses to New South Wales following a five-year panel review.

Optare's EV strategy is also aligned with the potential opportunities for an all-electric bus town. Phase 1 initial applications have been completed by the relevant bus companies and the Secretary of State will make any final decisions on who moves forward to phase 2.

The parts sales division of the business will focus on targeted growth for 2020/21, developing a reputation of "easy to do business with", resulting in Optare parts being the first choice for many customers and second choice when incumbent suppliers are unable to supply.

We continue to work with our aftermarket customers to provide a dependable service and proactively identify where improvements can be made.

Overall the Board expects good progress in 2020/21 to be towards a strong performance which is expected in 2021/22, with further growth in export sales and electric bus sales driven by air quality measures in UK cities.

Graham Belgum
CEO
7 October 2020

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.

Driving our future

Customer focus

Developing partnerships with our suppliers and customers.

Innovation

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

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

2019/20 has seen continued support and integration with our parent company, Ashok Leyland Limited, including:

- significant infusion of equity (£11m);
- Ashok Leyland Limited increased its shareholding in Optare to 99.24%;
- management support and collaboration at all levels of Ashok Leyland Limited with the implementation of Optare's business plans; and
- strategic positioning of the businesses through further alignment of Optare's procurement and engineering functions with Ashok Leyland Limited.

Metrocity on trial with Go North East.

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.
COVID-19 The ongoing impact of COVID-19 presents unique challenges with regards to supply chain, manufacturing capability and the UK and export markets.	The Company continues to monitor the impact of COVID-19 on operations and take appropriate actions as and when required.

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 – resigned with effect from 17 July 2020)
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 was the Chairman of the Remuneration Committee until 17 July 2020.

Dr Andrew Palmer

(Independent Non-executive Chairman – appointed 17 July 2020)
Dr Palmer is a chartered engineer and an automotive executive with more than 40 years' experience and has led transformational change at two of the world's most recognisable businesses in the industry, having been COO of Nissan and CEO of Aston Martin Lagonda. He has served as a non-executive director of Ashok Leyland since 2015. In January 2014 he was named a Companion of The Order of St. Michael and St. George (CMG). The prestigious award is given in recognition of services to the British automotive industry.

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 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 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 Center in India between 1996 and 2000.

Sanjay Saraswat

(Non-executive Director – resigned with effect from 9 March 2020)

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.

Nitin Seth

(Non-executive Director – appointed 10 February 2020)

Nitin Seth completed his Bachelors in Engineering at Birla Institute of Technology and Science, Pilani, and his Post Graduation in Business Management at the University of Mumbai. Nitin has over 25 years of experience in the automotive industry in the realms of sales and marketing, domestic and international markets and product development. Prior to joining Ashok Leyland, he was the head (sales and marketing) for cars (Indica, Indigo and Nano) at Tata Motors and has additionally held various key leadership positions. He was one of the key members in launching the passenger car business at Tata Motors in 1999. Nitin has held several top positions in Ashok Leyland and is now the chief operating officer and is responsible for LCV, defence, international operations (IO) and power solutions business (PSB).

Padmanabhan Harihar

(Non-executive Director – appointed 12 March 2020)

Harihar is a Mechanical Engineer from Birla Institute of Technology, Ranchi, and a Post Graduate Diploma in Management. Harihar began his career with Eicher group in 1984 and was with it for nearly two decades before moving to General Electric Company in Bengaluru in 2003. In 2005, he joined Ashok Leyland as plant head of the Hosur-II plant. He later grew to manage all three plants in Hosur before moving to lead the sourcing and supply chain function in 2013. Since 2016, Harihar has been leading the manufacturing and project planning function at Ashok Leyland, responsible for all facilities in India and overseas. He has played a key role in the organisation's coveted "Deming Prize", the world's most admired and recognised quality award, for the plants in Pantnagar and Hosur-II consecutively in 2016 and 2017, thus making Ashok Leyland the only company in the world to have won this award twice. He is currently the head of operations for all plants and is responsible for manufacturing, sourcing and supply chain (SSC) and PP.

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 a framework of prudent and effective controls, which enables risk to be assessed and managed. The Board sets the Company's strategic aims, ensures that the necessary financial and human resources are in place for the Company to meet its objectives and reviews management'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.

Directors' dates of appointment and resignations 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, Chief Financial Officer and from 3 August 2020 Chief Operating 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, Dr Andrew Palmer, 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 page 9.

Audit Committee

The Audit Committee comprises Non-executive Director Gopal Mahadevan (Chairman) and the Non-executive Chairman, Dr Andrew Palmer.

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 two occasions during the year and the meetings were fully attended.

Meetings are also attended, by invitation, by the Chief Financial Officer, the CEO 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 both institutional and private 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.

Going concern

The financial statements have been prepared on a Going Concern basis which assumes that the Group and Company will continue to be able to meet its liabilities as they fall due for the foreseeable future. The Group incurred a net loss of £15.5m for the year ended 31st March 2020 (2019: £8.9m) with net liabilities of £5.8m as at 31 March 2020 (2019: £2.0m).

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Group and 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.

Going concern continued

Those forecasts are dependent on Ashok Leyland Limited providing additional financial support during that period. Ashok Leyland Limited has indicated its intention to continue to make available such funds as are needed by the Group and Company for the period covered by the forecasts. As with any Company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The impact of COVID 19 on the business may be different as the situation evolves across the world but the Directors remain confident that the required support will be available from Ashok Leyland.

Based on this continuing support the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Dr Andrew Palmer
Non-executive Chairman
7 October 2020

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 2020 totalled £nil (2018/19: £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 2020, no share options were issued (2018/19: nil).

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 £	**2019/20 Total £**	2018/19 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
Padmanabhan Harihar	—	—	—	—	**—**	—
Nitin Seth	—	—	—	—	**—**	—
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 £767,424 for the year ended 31 March 2020 (£606,771 for year ended 31 March 2019).

Directors' share options

	Options at 31 March 2019	Options granted in year	Options forfeited in year	**Options at 31 March 2020**	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 2020 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 2020.

The Company delisted on 1 June 2015.

Approval

This report was approved by the Board of Directors and authorised for issue on 7 October 2020 and was signed on its behalf by:

Dr Andrew Palmer
Chairman of the Remuneration Committee
7 October 2020

The Directors submit their report and the financial statements of Optare plc for the year ended 31 March 2020.

Principal activities

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

s172 Companies Act 2006

As a Board we have always taken decisions for the long term; our aim is always to uphold the highest standard of conduct and act fairly. Similarly, we understand that our business can only grow and prosper over the long term if we understand and respect the views and needs of our customers, colleagues and the communities in which we operate, as well as our suppliers, the environment and the shareholders to whom we are accountable. This is reflected in our business principles.

We ensure that the requirements of s172 Companies Act 2006 are met and the interests of our stakeholder groups are considered through a combination of the following:

- standing agenda for all Board meetings;
- regular review of strategy, medium and long term;
- regular scheduled Board presentations and reports, for example updates on operational matters, financial performance and health and safety updates;
- regular engagement with our stakeholders, including, but not limited to, suppliers, customers and employees; and
- consideration of the impact of the Company's operations on the community and the environment, and how this can be improved.

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 £10.4k in the year ended 31 March 2020 (2018/19: £5.1k).

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

COVID-19 has impacted the business since the year end but the Directors have taken all reasonable steps to minimise the impact on the business.

Directors

Directors who served in the year are as follows:

John Fickling (resigned 17 July 2020)
Steven Norris
Gopal Mahadevan
Venkatesan Venkataraman
Seshu Bhagavathula
Sanjay Saraswat (appointed 3 May 2019, resigned 9 March 2020)
Padmanabhan Harihar (appointed 12 March 2020)
Nitin Seth (appointed 10 February 2020)
Andrew Palmer (appointed 17 July 2020)

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 (from 29 July 2019)
Hariharan Krishnamurthi
Muralee Krishnan (from 3 August 2020)

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 Company encourages the involvement of its employees through regular communication, consultation and information. Optare senior management works closely with Unite the Union which represents its members in Production and we have an employee representative forum, which is chaired by a Director on rotation, for our office-based staff. During the pandemic, communication and employee involvement have been critical in ensuring all staff abide by the social distancing and restrictions currently in place in the workplace, whilst at the same time keeping in touch with those working from home. A weekly memo issued by the HR Director outlining the latest government guidance, together with helpful links, has been issued to all staff and outputs from a weekly feedback survey have been captured to check how the workforce is managing and Directors have taken action as a result.

Environmental policy

The Group environmental policy is to meet the statutory requirements placed upon it and to apply good environmental practice in its operations. Optare will continue to reduce its greenhouse gas emissions through the implementation of the next phase of its ESOS action plan.

During the year the Group consumed 3,387,034 kilowatt hours of energy and the emissions were calculated at 779 tonnes of carbon dioxide equivalents. The energy consumed in the year was converted to carbon dioxide equivalents using the 2019 government guidance below:

- Electricity: 0.2556 kg CO_2e/kWh
- Natural gas: 0.1835 kg CO_2e/kWh
- Diesel: 0.25267 kg CO_2e/kWh
- LPG: 0.21447 kg CO_2e/kWh
- Gas oil: 0.25676 kg CO_2e/kWh

Energy efficiency improvement measures undertaken in the year were as follows:

- fitted low energy consumption lighting in the factory to lower energy usage for lighting;
- encouraged the switching off of lights when not required to lower energy usage for lighting;
- educated drivers on safe and efficient driving to use less diesel for driving; and
- keeping the roller doors closed when not required for ingress or egress to use less energy for heating.

Bus test driving uses 24.9% of the Sherburn in Elmet production site energy consumption.

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 2020 were 51 days (2018/19: 77 days).

Substantial shareholdings

As at 31 March 2020 Ashok Leyland Limited owns 99.24% 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 20, 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 (2018/19: £nil).

Going concern

The financial statements have been prepared on a Going Concern basis which assumes that the Group and Company will continue to be able to meet its liabilities as they fall due for the foreseeable future. The Group incurred a net loss of £15.5m for the year ended 31st March 2020 (2019: £8.9m) with net liabilities of £5.8m as at 31 March 2020 (2019: £2.0m).

The directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Group and 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. Ashok Leyland Limited has indicated its intention to continue to make available such funds as are needed by the Group and Company for the period covered by the forecasts. As with any Company placing reliance on other group entities for financial support, the directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The impact of COVID 19 on the business may be different as the situation evolves across the world but the Directors remain confident that the required support will be available from Ashok Leyland.

Based on this continuing support the directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

Auditor

KPMG LLP has indicated its willingness to continue in office and a resolution that it be re-appointed as auditor will be proposed at the annual general meeting.

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 7 October 2020 and was signed on its behalf by:

Dr Andrew Palmer
Non-executive Chairman
Unit 3, Hurricane Way South
Sherburn in Elmet
Leeds
North Yorkshire
LS25 6PT
7 October 2020

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 International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU) 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 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, relevant, reliable and prudent;
- for the Group financial statements, state whether they have been prepared in accordance with IFRSs as adopted by the EU;
- 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 either 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 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 2020 which comprise the consolidated income statement and statement of comprehensive income, consolidated statement of changes in equity, consolidated balance sheet, consolidated cash flow statement, Company balance sheet, 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 2020 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.

Material uncertainty related to going concern

We draw attention to the summary of significant accounting policies to the financial statements which indicates that the Optare plc Group is reliant on the continued support of Ashok Leyland Limited, the ultimate parent company. This reliance, and conditions in respect of COVID-19, along with the other matters explained in the summary of significant accounting policies, constitute a material uncertainty that may cast significant doubt on Optare plc Group's and Optare plc's, the parent company, ability to continue as a going concern.

Our opinion is not modified in respect of this matter.

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 14, 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
1 Sovereign Square
Sovereign Street
Leeds
LS1 4DA
8 October 2020

CONSOLIDATED INCOME STATEMENT AND STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	**Year ended 31 March 2020 £'000**	Year ended 31 March 2019 £'000
Revenue	1	**37,052**	49,156
Cost of sales		**(37,947)**	(43,810)
Gross profit		**(895)**	5,346
Administrative expenses		**(10,926)**	(10,682)
Distribution costs		**(1,153)**	(1,334)
Amortisation of intangible assets	9	**(1,753)**	(1,485)
Loss from operations	2	**(14,727)**	(8,155)
Finance costs	4	**(788)**	(762)
Loss on ordinary activities before taxation		**(15,515)**	(8,917)
Taxation	5	**—**	—
Loss attributable to the equity holders of the parent company		**(15,515)**	(8,917)

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

The notes on pages 21 to 36 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Share capital £'000	Share premium £'000	Merger reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
Balance at 31 March 2018	67,230	32,396	5,542	(100,313)	42	4,897
Comprehensive loss						
Comprehensive loss for the year	—	—	—	(8,917)	—	(8,917)
Total comprehensive loss	—	—	—	(8,917)	—	(8,917)
Transactions with shareholders						
Issue of ordinary shares	2,000	—	—	—	—	2,000
Balance at 31 March 2019	69,230	32,396	5,542	(109,230)	42	(2,020)
Adjustment on initial application of IFRS 16 (net of tax)	—	—	—	724	—	724
Adjusted balance at 1 April 2019	69,230	32,396	5,542	(108,506)	42	(1,296)
Transactions with shareholders						
Issue of ordinary shares	11,000	—	—	—	—	11,000
Total transactions with shareholders	11,000	—	—	—	—	11,000
Comprehensive loss						
Comprehensive loss for the year	—	—	—	(15,515)	—	(15,515)
Total comprehensive loss	—	—	—	(15,515)	—	(15,515)
Balance at 31 March 2020	**80,230**	**32,396**	**5,542**	**(124,021)**	**42**	**(5,811)**

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

CONSOLIDATED BALANCE SHEET
AT 31 MARCH 2020
COMPANY NUMBER: 06481690

	Notes	**As at 31 March 2020 £'000**	As at 31 March 2019 £'000
Non-current assets			
Intangible assets	9	**5,751**	6,553
Property, plant and equipment	10	**10,206**	3,978
		15,957	10,531
Current assets			
Inventories	11	**15,769**	17,401
Trade and other receivables	12	**20,630**	10,346
Cash		**2,337**	2,736
		38,736	30,483
Total assets		**54,693**	41,014
Current liabilities			
Trade and other payables	13	**10,605**	17,064
Loans and overdrafts	21	**39,099**	21,500
Provisions	14	**736**	790
Lease liabilities (2019: obligations under finance leases)	15	**910**	24
		51,350	39,378
Non-current liabilities			
Provisions	14	**3,784**	3,623
Lease liabilities (2019: obligations under finance leases)	15	**5,370**	33
		9,154	3,656
Total liabilities		**60,504**	43,034
Net liabilities		**(5,811)**	(2,020)
Equity			
Share capital	17	**80,230**	69,230
Share premium		**32,396**	32,396
Share-based payment reserve		**42**	42
Merger reserve		**5,542**	5,542
Retained loss		**(124,021)**	(109,230)
Total deficit attributable to equity holders of the parent		**(5,811)**	(2,020)

The financial statements on pages 17 to 36 were approved by the Board of Directors and authorised for issue on 7 October 2020 and were signed on its behalf by:

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

Dr Andrew Palmer
Non-executive Chairman
7 October 2020

CONSOLIDATED CASH FLOW STATEMENT
FOR THE YEAR ENDED 31 MARCH 2020

	Notes	**Year ended 31 March 2020 £'000**	Year ended 31 March 2019 £'000
Operating activities			
Cash absorbed by operations	19	**(25,286)**	(3,293)
Interest paid		**(672)**	(762)
Net cash used in operating activities		**(25,958)**	(4,055)
Investing activities			
Purchase of property, plant and equipment		**(1,069)**	(1,366)
Internal capitalised development costs		**(951)**	(877)
Net cash used in investing activities		**(2,020)**	(2,243)
Financing activities			
Issue of ordinary shares		**11,000**	2,000
Lease repayments		**(1,020)**	—
Proceeds from new loan		**39,099**	21,500
Repayment of loans		**(21,500)**	(1,961)
Net cash generated from financing activities		**27,579**	21,539
Net decrease in cash and cash equivalents		**(399)**	15,241
Cash and cash equivalents at start of year		**2,736**	(12,505)
Cash and cash equivalents at end of year	21	**2,337**	2,736

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. 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 and Company will continue to be able to meet their liabilities as they fall due for the foreseeable future. The Group incurred a net loss of £15.5m for the year ended 31 March 2020 (2019: £8.9m) with net liabilities of £5.8m as at 31 March 2020 (2019: £2.0m).

The Directors have prepared cash flow forecasts for a period of 12 months from the date of approval of these financial statements which indicate that, taking account of reasonably possible downsides, the Group and Company will have sufficient funds, through their facilities and funding from their immediate parent company, Ashok Leyland Limited, to meet their liabilities as they fall due for that period.

Those forecasts are dependent on Ashok Leyland Limited providing additional financial support during that period. Ashok Leyland Limited has indicated its intention to continue to make available such funds as are needed by the Group and Company for the period covered by the forecasts. As with any company placing reliance on other group entities for financial support, the Directors acknowledge that there can be no certainty that this support will continue although, at the date of approval of these financial statements, they have no reason to believe that it will not do so.

The impact of COVID-19 on the business may be different as the situation evolves across the world but the Directors remain confident that the required support will be available from Ashok Leyland Limited.

Based on this continuing support the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances represent a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern and, therefore, to continue realising its assets and discharging its liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

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 accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

The Company has adopted the following IFRSs in these financial statements:

IFRS 16	Leases (see note 15). This has been adopted using the modified retrospective method and as a result the comparatives have not been restated and are reported under IAS 17.	1 April 2020

The following principal accounting policies have been applied consistently 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, and is stated at the invoiced amount net of VAT. No separate revenues are generated from development and design. Revenue is recognised upon the transfer of all risks and rewards in relation to the Group's products. 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 currently spread over the term of the contract.

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 10 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 undertaken 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 10 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 provision for impairment.

Cash and cash equivalents

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

Bank borrowings

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

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 (pre-1 April 2019)

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.

Leases (policy applicable from 1 April 2019)

The Company has applied IFRS 16 using the modified retrospective approach, with leases assumed to have a start date of 1 April 2019, and therefore the comparative information has not been restated and continues to be reported under IAS 17.

At the inception of a contract, the Company assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For all leases the Company has elected not to separate non-lease components and therefore accounts for the lease and non-lease components as a single lease component.

The Company recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term, unless the lease transfers ownership of the underlying asset to the Company by the end of the lease term or the cost of the right-of-use asset reflects that the Company will exercise a purchase option. In that case the right-of-use asset will be depreciated over the useful life of the underlying asset, which is determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Company's incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee;
- the exercise price under a purchase option that the Company is reasonably certain to exercise;
- lease payments in an optional renewal period if the Company is reasonably certain to exercise an extension option; and
- penalties for early termination of a lease unless the Company is reasonably certain not to terminate early.

Financial assets and liabilities continued

Leases (policy applicable from 1 April 2019) continued

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, there is a change in the Company's estimate of the amount expected to be payable under a residual value guarantee, if the Company changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in-substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, to the extent that the right-of-use asset is reduced to nil, with any further adjustment required from the remeasurement being recorded in profit or loss.

The Company presents right-of-use assets that do not meet the definition of investment property in "tangible assets" and lease liabilities in "creditors both falling due within one year and after more than one year" in the balance sheet.

Short-term leases and leases of low-value assets

The Company has elected not to recognise right-of-use assets and lease liabilities for leases of low-value assets and short-term leases. The Company recognises the lease payments associated with these leases as an expense on a straight line basis over the lease term.

Deferred taxation

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

- the initial recognition of goodwill;
- goodwill for which amortisation is not tax deductible; 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 Directors have concluded there are no critical judgements that have a significant impact on the carrying value of assets and liabilities. The key sources of estimation that have a significant impact on the carrying value of assets and liabilities are discussed below:

Impairment reviews

Management performs impairment reviews annually on goodwill, 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 estimation uncertainty associated with forecasting accuracy. When completing the impairment review, the Directors considered the same factors as outlined for the going concern review; critical assumptions are the discount rate used and the growth in turnover in the next three years' business plan through the introduction of new products.

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. There is estimation uncertainty associated with 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. The level of warranty provision required is 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.

Provision for expected credit loss

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. ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive). The Group's credit risk relates primarily to its trade receivables. There is significant estimation uncertainty associated with the determination of the recoverable amount.

1. Business and geographical segments and customer concentration

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Business segment analysis of revenue is as follows:		
Sale of goods	**34,545**	40,738
Rendering of services	**2,507**	8,418
Total revenue	**37,052**	49,156

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Geographical analysis of revenue is as follows:		
UK	**20,196**	26,615
Other European	**387**	294
Non-EU	**16,469**	22,247
Total revenue	**37,052**	49,156

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 2020 £'000	Year ended 31 March 2019 £'000
Net foreign exchange (gain)/loss	**(8)**	257
Cost of inventories recognised in cost of sales	**27,657**	30,275
Net (release)/creation of inventory provision (see note 11)	**(103)**	121
Depreciation (see note 10):		
– owned assets	**1,118**	844
– leased assets	**850**	24
Loss on disposal of fixed assets	**—**	—
Amortisation of intangible assets	**1,753**	1,485
Rental under leases charged to the income statement	**294**	980
Staff costs (note 3)	**12,200**	10,508
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	**127**	59
Non-audit services:		
– services relating to Brexit	**24**	—
	151	59

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 2020 Number	Average for year ended 31 March 2019 Number
Production	**207**	204
Head office and administration	**120**	117
	327	321

3. Staff costs continued

The aggregate remuneration for the above people comprised:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Directors' emoluments*	**74**	74
Wages and salaries	**10,749**	9,069
Social security costs	**1,038**	850
Other pension costs	**339**	515
	12,200	10,508

* Details of statutory Directors' fees and salaries, bonuses, pensions, benefits in kind and other benefit schemes are given in the Directors' remuneration report on page 9.

Key management incorporates the Board of Directors and members of the Steering Committee (SC). Total emoluments and compensation for the SC consists of £767,424 for the year ended 31 March 2020 (£606,771 for year ended 31 March 2019).

4. Finance costs

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Interest on bank overdrafts and loans	**632**	750
Interest on loans from Ashok Leyland Limited and related companies	**40**	–
Lease interest (2019: interest on obligations under finance leases)	**116**	12
Total borrowing costs	**788**	762

5. Taxation

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Adjustments in respect of prior periods	**–**	–
Total current tax	**–**	–
Tax attributable to the Company and its subsidiaries	**–**	–

The main UK corporation tax rate is currently 19%. In the Budget 2020, the government announced that the corporation tax main rate for the years starting 1 April 2020 and 2021 would remain at 19%.

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

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Loss on ordinary activities before tax	**(15,515)**	(8,917)
Tax at the domestic income tax rate	**(2,948)**	(1,694)
Tax effect of expenses that are not deductible in determining taxable profit	**604**	604
Tax losses not utilised	**2,344**	1,090
Tax credit for the period	**–**	–

6. Dividends

The Directors do not propose the payment of a dividend in respect of the current period. (2018/19: £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%	Dormant holding company
Optare Holdings Limited	UK	100%	100%	Dormant 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, Leeds, North Yorkshire LS25 6PT.

8. Goodwill

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'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**	8,700
Impairment in the year	**—**	—
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.

9. Intangible assets

	Vehicle related intangible assets £'000	Customer related intangible assets £'000	Total £'000
Cost			
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
Additions – internally generated	951	—	951
Disposals	—	—	—
At 31 March 2020	**14,965**	**608**	**15,573**
Amortisation			
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
Charge for the year	1,753	—	1,753
Disposals	—	—	—
At 31 March 2020	**9,214**	**608**	**9,822**
Carrying amount			
At 31 March 2020	**5,751**	**—**	**5,751**
At 31 March 2019	6,553	—	6,553
At 31 March 2018	7,382	—	7,382

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	Land and buildings £'000	Production tooling £'000	Plant, machinery and motor vehicles* £'000	Fixtures and fittings £'000	Vehicles* £'000	Total £'000
Cost							
At 31 March 2018	1,748	—	2,050	3,556	466	—	7,820
Additions	40	—	115	1,110	102	—	1,367
Transfer from intangible assets	—	—	221	—	—	—	221
Disposals	—	—	—	—	—	—	—
At 31 March 2019	1,788	—	2,386	4,666	568	—	9,408
Reclassification	(18)	—	2,614	191	83	3,158	6,028
Additions	—	—	129	244	14	682	1,069
Recognition of right-of-use assets on initial application of IFRS 16	—	6,832	—	—	—	295	7,127
Disposals	—	—	—	—	—	—	—
At 31 March 2020	**1,770**	**6,832**	**5,129**	**5,101**	**665**	**4,135**	**23,632**
Depreciation and impairments							
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
Reclassification	27	—	2,506	2,242	131	1,122	6,028
Charge for the year	176	804	159	172	45	612	1,968
Disposals	—	—	—	—	—	—	—
At 31 March 2020	**1,352**	**804**	**4,623**	**4,628**	**285**	**1,734**	**13,426**
Net book value							
At 31 March 2020	**418**	**6,028**	**506**	**473**	**380**	**2,401**	**10,206**
At 31 March 2019	639	—	428	2,452	459	—	3,978
At 31 March 2018	773	—	195	1,926	364	—	3,258

* 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 £2,012,559 (2018/19: £1,843,462).

Reallocation has been performed in 2020 with no impact on net book value.

11. Inventories

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Raw materials and consumables	**8,842**	9,619
Work in progress	**7,162**	7,423
Finished goods	**996**	1,693
Stock impairment provision	**(1,231)**	(1,334)
Total	**15,769**	17,401

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 2020 £'000	Year ended 31 March 2019 £'000
Opening provision	**1,334**	1,213
Provisions made during the year	**141**	165
Provisions utilised during the year	**(244)**	(44)
Total	**1,231**	1,334

12. Trade and other receivables

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Trade receivables	**18,164**	2,162
Allowance for estimated irrecoverable amounts	**(2,237)**	(98)
Net trade receivables	**15,927**	2,064
Other receivables and prepayments	**4,703**	8,282
Total	**20,630**	10,346

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 £5,304,323 (2018/19: £833,545). 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 2020 were 157 days (2018/19: 15 days).

Ageing of past due but not impaired receivables:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
0–30 days	**324**	334
30–180 days	**1,593**	479
180–365 days	**3,384**	9
Greater than one year	**3**	11
Total	**5,304**	833

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

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Opening provision	**98**	99
Provisions made during the year	**2,201**	3
Provisions utilised during the year	**(62)**	(4)
Total	**2,237**	98

13. Trade and other payables

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Trade payables	**7,351**	11,210
Social security and other taxes	**734**	521
Accruals and deferred income	**2,520**	5,333
	10,605	17,064

Creditor days as at 31 March 2020 were 51 (2018/19: 77 days). The Directors consider that the carrying amount of trade payables approximates to their fair value.

14. Provisions

	Warranty provision £'000
At 31 March 2019	4,413
Additional provision	1,781
Utilisation of provision	(1,674)
At 31 March 2020	**4,520**
Under one year provision	736
Over one year provision	3,784
At 31 March 2020	**4,520**

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. Leases

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 April 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and quantitative impact are set out below.

Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 "Determining Whether an Arrangement Contains a Lease". The Company now assesses whether a contract is or contains a lease based on the definition of a lease. On transition to IFRS 16, the Company elected to apply the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 April 2019 of 1.83%.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments: the Company applied this approach to all other leases.

The Company has used its assessment of whether leases are onerous applying IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the recognised right-of-use assets on the date of transition.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular these:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term; and
- used a single discount rate for a portfolio of leases with reasonably similar characteristics.

15. Leases continued

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements as 1 April 2019:

	Impact of adoption of IFRS 16		
	As reported £'000	Adjustments £'000	Balances without adoption of IFRS 16 £'000
Balance sheet			
Property, plant and equipment	11,105	7,127	3,978
Other interest-bearing loans and borrowings (current)	(22,358)	(858)	(21,500)
Other interest-bearing loans and borrowings (non-current)	(6,269)	(6,269)	—
Accruals	(4,609)	724	(5,333)
Retained earnings	(108,506)	724	(109,230)

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 1.83%.

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 March 2019 in the Company's financial statements and the lease liabilities recognised at 1 April 2019:

	1 April 2019 £'000
Operating lease commitments at 31 March 2019 as disclosed under IAS 17	7,033
Adjustment to operating lease commitments at 31 March 2019	807
Discounted using the incremental borrowing rate at 1 April 2019	(598)
Recognition exemption for leases with less than 12 months of lease term at transition	(172)
Finance lease liabilities recognised as at 31 March 2019	57
Lease liabilities recognised at 1 April 2019	7,127
Due within one year	853
Due over one year	6,269
Total	7,127
Lease liabilities recognised at 31 March 2020	**6,280**
Due within one year	910
Due over one year	5,370
Total	**6,280**

Right-of-use assets

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 10):

	Land and buildings £000	Vehicle £000	Total £000
Balance at 1 April 2019	6,832	295	7,127
Depreciation charge for the year	(804)	(46)	(850)
Balance at 31 March 2020	**6,028**	**249**	**6,277**

15. Leases continued

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss for which the Company is a lessee:

	£'000
2020 – leases under IFRS 16	
Interest expense on lease liabilities	116
Expenses relating to short-term leases	294
	410
2019 – operating leases under IAS 17	
Lease expense	980
	980

Amounts recognised in statement of cash flows

	2020 £'000
Total cash outflow for leases	1,020
	1,020

16. Deferred tax

At the reporting date, the Group has unused tax losses of £101,096,048 (2018/19: £85,582,054) available for offset against future profits. A deferred tax asset of £19,208,249 at a tax rate of 19% (2018/19: £16,260,590 at 19%) has not been recognised in respect of these losses due to the uncertainty of the timing of future profits.

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 2019	—	62,460,291,827	752,145,493	69,229,601
Shares issued	—	11,000,000,000	—	11,000,000
At 31 March 2020	**—**	**73,460,291,827**	**752,145,493**	**80,229,601**

During 2019/20 Ashok Leyland Limited subscribed to an additional 11,000,000,000 ordinary shares at par in March 2020.

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 £339,016 (2018/19: £515,197) represents contributions payable to these schemes by the Group at rates specified in the rules of the schemes. As at 31 March 2020, contributions of £nil (2018/19: £nil) due in respect of the current reporting period had not been paid over to the schemes.

19. Net cash from operating activities

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

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Operating activities		
– loss before tax	**(15,515)**	(8,917)
Adjustments for		
– depreciation	**1,968**	868
– amortisation of intangible assets	**1,753**	1,485
– impairment of goodwill		—
– net finance expense	**788**	762
– loss on disposal of property, plant and equipment		—
Operating cash flows before movements in working capital	**(11,006)**	(5,802)
Changes in working capital		
– (increase)/decrease in inventories	**1,632**	225
– (increase)/decrease in trade and other receivables	**(10,284)**	(4,571)
– increase/(decrease) in trade and other payables	**(5,735)**	5,827
– increase /(decrease) in provisions	**107**	1,028
Total (increase)/decrease in working capital	**(14,280)**	2,509
Net cash absorbed in operating activities	**(25,286)**	(3,293)

20. 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 11,000,000 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 (2018/19: £nil). The cost of this expense that remained outstanding at the period end was £nil (2018/19: £nil).

During the year there was no sale of development vehicles by the Company to Ashok Leyland Limited (2018/19: £nil).

During the year Hinduja Automotive Limited loaned Optare plc £8,000,000. Of this loan £5,500,000 was repaid during the year leaving a loan of £2,500,000 outstanding at the year end. At year end this loan had accrued interest of £6,438 not due.

21. Financial instruments

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Current financial liabilities		
Bank loans	**36,599**	21,500
Related party short-term loans	**2,500**	–
	39,099	21,500
Non-current financial liabilities		
Net debt total	**39,099**	21,500
Analysis of borrowings by currency		
Sterling – loans	**39,099**	21,500
	39,099	21,500

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 2020 £'000	Year ended 31 March 2019 £'000
Cash	**2,337**	2,736
Cash and cash equivalents at end of year	**2,337**	2,736

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 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.

21. Financial instruments continued

Financial instruments – risk management continued

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.

At 31 March 2020 the Group had net liabilities of £5.8m, compared to net liabilities of £2.0m at 31 March 2019. The net debt of the Group was £39.1m at 31 March 2020 compared to £21.5m at 31 March 2019 as follows:

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Bank loans and overdrafts	**39,099**	21,500
	39,099	21,500

Gearing ratio at the year end is as follows:

	2020 £m	2019 £m
Debt	**39.1**	21.5
Cash and cash equivalents	**2.3**	2.7
Net debt	**39.1**	21.5
Capital	**33.3**	19.5
Net debt to capital ratio	**117%**	110%

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.

22. 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 2020

	Notes	**As at 31 March 2020 £'000**	As at 31 March 2019 £'000
Non-current assets			
Tangible assets	23	**5,363**	—
Investments	24	**—**	220
		5,363	220
Current assets			
Debtors	25	**97,692**	97,769
Cash		**1,066**	—
		98,758	97,769
Creditors: amounts falling due within one year	27	**(46,880)**	(36,004)
Net current assets		**51,878**	61,765
Creditors: amounts falling due after one year	28	**(4,668)**	—
Net assets		**52,573**	61,985
Capital and reserves			
Share capital	17	**80,230**	69,230
Capital reserves		**36,832**	36,832
Share-based payment reserve		**42**	42
Retained loss		**(64,531)**	(44,119)
Total equity		**52,573**	61,985

The Company's loss after tax for the period was £21,133k (2018/19: £14,972k loss).

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

The financial statements on pages 37 to 43 were approved by the Board of Directors and authorised for issue on 7 October 2020 and were signed on its behalf by:

Dr Andrew Palmer
Non-executive Chairman
7 October 2020

COMPANY STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 MARCH 2020

	Share capital £'000	Capital reserve £'000	Retained loss £'000	Share-based payment reserve £'000	Total £'000
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
Adjustment on the initial application of IFRS 16 (net of tax)	—	—	721	—	721
Adjusted balance at 1 April 2019	69,230	36,832	(43,398)	42	62,706
Issue of ordinary shares	11,000	—	—	—	11,000
Loss for the year	—	—	(21,133)	—	(21,133)
Total comprehensive loss/equity movement for the year	11,000	—	(21,133)	—	(10,133)
Balance at 31 March 2020	**80,230**	**36,832**	**(64,531)**	**42**	**52,573**

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. IFRS 16 "Leases" (see note 26) This has been adopted using the modified retrospective method and as a result the comparatives have not been restated and are reported under IAS 17.

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.

Critical judgements and estimates

The Directors consider that the assumptions and estimation uncertainties at 31 March 2020 that have a significant risk of resulting in a material adjustment to the carrying amounts and liabilities in the next financial year are:

Carrying amount of investments in subsidiaries and amounts owed by subsidiary undertakings

An impairment indicator exists in terms of the continued loss-making performance in the underlying Group. Management performs an impairment assessment on the carrying amount of investments and intercompany receivables by comparing the aggregate balance with the recoverable amount. The recoverable amount is considered to be the value in use of the underlying Group. Where the aggregate carrying amount of investments in subsidiaries and amounts owed by subsidiaries exceed the recoverable amount, an impairment charge is recognised. The impairment is first allocated against the investment, with any residual impairment recognised against the amounts owed by subsidiaries. Management recognises that there is inherent estimation uncertainty in the recoverable amount and that the aggregate carrying amount has been impaired to its recoverable amount such that any adverse change in assumptions would increase the quantum of impairment. A 1% increase in the discount rate used in the value in use calculation would result in an increase in the provision against amounts owed by subsidiary undertakings by £10.0m.

23. Property, plant and equipment

	Land and buildings £'000	Total £'000
Cost		
At 31 March 2019	—	—
Additions	—	—
Recognition of right-of-use assets on initial application of IFRS 16	6,087	6,087
Disposals	—	—
At 31 March 2020	6,087	6,087
Depreciation and impairment		
At 31 March 2019		—
Charge for the year	724	724
Disposals	—	—
At 31 March 2020	724	724
Net book value		
At 31 March 2020	**5,363**	**5,363**
At 31 March 2019	**—**	**—**

24. Investments

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

	Share in subsidiary undertakings £'000
Cost	
At 31 March 2019	39,923
Additions	—
At 31 March 2020	**39,923**
Impairment	
At 31 March 2019	39,703
Charge for the year	220
At 31 March 2020	**39,923**
Carrying amount	
At 31 March 2019	220
At 31 March 2020	**—**

Details of the Company's subsidiaries at 31 March 2020 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 9 of the consolidated financial statements. Based on this review the Directors have concluded that an impairment of £220,000 is required (2018/19: impairment of £15,000,000.)

25. Debtors

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Amounts owed by Group undertakings	**97,170**	97,396
Prepayments	**522**	358
Social security and other taxes	**—**	15
Total	**97,692**	97,769

Amounts owed by Group undertakings are all interest free and repayable on demand. Amounts owed by Group undertakings are net of a provision of £20,915,000 (2019: £0).

26. Leases

The Company has applied IFRS 16 using the modified retrospective with cumulative effect method – i.e. by recognising the cumulative effect of initially applying IFRS 16 as an adjustment to the opening balance of equity at 1 April 2019. Therefore, the comparative information has not been restated and continues to be reported under IAS 17. The disclosure requirements in IFRS 16 have not been applied to comparative information. The details of the changes and quantitative impact are set out below.

Definition of a lease

Previously the Company determined at contract inception whether an arrangement was or contained a lease under IFRIC 4 "Determining Whether an Arrangement Contains a Lease". The Company now assesses whether a contract is or contains a lease based on the definition of a lease, as explained in note 1. On transition to IFRS 16, the Company elected to apply the practical expedient to apply IFRS 16 only to contracts that were previously identified as leases. Contracts that were not previously identified as leases under IAS 17 and IFRIC 4 were not reassessed for whether there is a lease under IFRS 16. Therefore, the definition of a lease under IFRS 16 was applied only to contracts entered into or changed on or after 1 April 2019.

The Company previously classified leases as operating or finance leases based on its assessment of whether the lease transferred significantly all of the risks and rewards incidental to ownership of the underlying asset to the Company. Only finance leases were then recognised on the balance sheet.

Under IFRS 16, the Company recognises right-of-use assets and lease liabilities for most of these leases – i.e. these leases are on-balance sheet.

Leases classified as operating leases under IAS 17

On transition, for operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Company's incremental borrowing rate as at 1 April 2019 of 1.83%.

Right-of-use assets were measured at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments; the Company applied this approach to all other leases.

The Company has used its assessment of whether leases are onerous applying IAS 37 at 31 March 2019 as an alternative to performing an impairment review of the recognised right-of-use assets on the date of transition.

The Company used a number of practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17. In particular these:

- did not recognise right-of-use assets and liabilities for leases for which the lease term ends within 12 months of the date of initial application;
- did not recognise right-of-use assets and liabilities for leases of low-value assets (e.g. IT equipment);
- excluded initial direct costs from the measurement of the right-of-use asset at the date of initial application;
- used hindsight when determining the lease term; and
- used a single discount rate for a portfolio of leases with reasonably similar characteristics.

The following table summarises the quantitative impact of adopting IFRS 16 on the Company's financial statements as at 1 April 2019:

	Impact of adoption of IFRS 16		
	As reported £'000	Adjustments £'000	Balances without adoption of IFRS 16 £'000
Balance sheet			
Property, plant and equipment	6,087	6,087	–
Other interest-bearing loans and borrowings (current)	(35,497)	(707)	(34,790)
Other interest-bearing loans and borrowings (non-current)	(5,380)	(5,380)	–
Accruals and deferred income	(393)	721	(1,114)
Retained earnings	(43,398)	721	(44,119)

When measuring the lease liabilities for leases that were classified as operating leases, the Company discounted lease payments using its incremental borrowing rate at 1 April 2019. The weighted average rate applied is 1.83%.

26. Leases continued

The following table summarises the difference between the operating lease commitments disclosed under IAS 17 at 31 March 2019 in the Company's financial statements and the lease liabilities recognised at 1 April 2019:

	1 April 2019 £'000
Operating lease commitments at 31 March 2019 as disclosed under IAS 17	5,050
Adjustment to operating lease commitments at 31 March 2019	769
Lease reclassification to Optare plc	753
Discounted using the incremental borrowing rate at 1 April 2019	(485)
Recognition exemption for leases with less than 12 months of lease term at transition	–
Finance lease liabilities recognised at 31 March 2019	–
Lease liabilities recognised at 1 April 2019	6,087
Due within one year	707
Due over one year	5,380
Total	6,087
Lease liabilities recognised at 31 March 2020	**5,379**
Due within one year	711
Due over one year	4,668
Total	**5,379**

Right-of-use assets

Right-of-use assets related to lease properties that do not meet the definition of investment properties are presented as property, plant and equipment (see note 23):

	Land and buildings £'000	Total £'000
Balance at 1 April 2019	6,087	6,087
Depreciation charge for the year	(724)	(724)
Balance at 31 March 2020	**5,363**	**5,363**

Amounts recognised in profit or loss

The following amounts have been recognised in profit or loss for which the Company is a lessee:

	£'000
2020 – leases under IFRS 16	
Interest expense on lease liabilities	96
	96
2019 – operating leases under IAS 17	
Lease expense	601
	601

Amounts recognised in statement of cash flows

	2020 £'000
Total cash outflow for leases	803
	803

27. Creditors: amounts falling due within one year

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Bank loans	**29,600**	21,484
Related party short-term loans	**2,500**	–
Trade creditors	**345**	100
Amounts payable to subsidiary undertakings	**13,380**	13,306
Social security and other taxes	**2**	–
Accruals and deferred income	**342**	1,114
Lease liabilities	**711**	–
	46,880	36,004

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.

28. Creditors: amounts falling due after one year

	Year ended 31 March 2020 £'000	Year ended 31 March 2019 £'000
Lease liabilities	**4,668**	–
	4,668	–

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