24 January 2022

VELOCITY COMPOSITES PLC
("Velocity or the "Company")

FINAL RESULTS FOR YEAR ENDED 31 OCTOBER 2021

"Foundations laid for recovery and future growth"

Velocity Composites plc (AIM: VEL), the leading supplier of composite material kits to aerospace and other high-performance manufacturers, has today announced the Company's audited results for the twelve months to 31 October 2021

Financial Highlights:

- Revenue of £9.8m (2020: £13.6m) reflecting suppressed civil aircraft OEM volume productions because of Covid
- Gross margin improved 8.9% to 26.0% (2020: 17.1%) due to proactive management of previously written down stock, and investment in Velocity's nesting technology
- Operating loss reduced to £1.4m (2020: loss of £3.1m)
- Full-year adjusted[1] EBITDA loss reduced to £0.5m (2020: loss of £1.9m) in-line with expectations. Difficult decision to reduce workforce enabled break-even at an adjusted EBITDA level in H2 2021
- Gross cash balances of £3.5m and £0.7m of net cash as at 31 October 2021

[1] Earnings before Interest, Tax, Depreciation, Amortisation, Impairment, adjusted for exceptional administrative costs and share based payments. The business uses this Alternative Performance Measure to appropriately measure the underlying business performance, as such it excludes costs associated with non-core activity.

Operational Highlights:

- All major customers renewed and extended long-term contracts
- Focus on cost management and the integration of new proprietary digital technology to aid the delivery of future growth
- Enhancement of nesting and traceability production system to permit larger, multi raw material batch nests containing more kits to improve material efficiency. This system provides benefits for existing business, and future managed services
- Developed production into a "digital cell" based structure where the entire kit manufacturing software and hardware is contained within identical modules. These can be deployed internally at Velocity or remotely at a customer site

Andy Beaden, Chairman of Velocity, said: *"In the global storm of the pandemic, our innovative technology and engineering skills have shone through. Over the last twelve months, the team has worked tirelessly with all our major customers to renew and extend our valuable long-term contracts, building deeper technical relationships with new and existing clients. This has laid the foundations for both our recovery and future growth.*

"We believe it will take time for civil aircraft build rates to recover fully, potentially three to four years before we return to, or exceed, the long-term growth trends. However, new aircraft as they are built (including those designed to be electrically powered) will be more composite intensive. Velocity's growth will come from new business and the recovery in our current contracted business volumes. That recovery will start in 2022 and we expect it to accelerate into 2023.

"The shift to electric power means the need to make lighter vehicles and to maximise range is expected to increase the demand for composites in other sectors. We are already in discussions with a variety of new potential customers outside of aerospace, creating long-term opportunities for the Company.

"Having been able to maintain investment in the Company's technology and engineering capabilities in the last year, the Board feel confident in Velocity's ability to capture future growth opportunities, as we monitor the implications of the pandemic."

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Investor Presentation

Velocity will provide a live investor presentation for the Company's results for the twelve months to 31 October 2021 via the Investor Meet Company (IMC) platform today at 10.00am.

The online presentation is open to all existing and potential shareholders. Investors can sign up to Investor Meet Company for free and add Velocity Composites plc via http://www.investormeetcompany.com/velocity-composites-plc/register-investor

Velocity Composites plc
Financial statements for the year ended 31 October 2021

Chairman's Report

Overview

In the global storm of the pandemic, our innovative technology and engineering skills have shone through and our competitive edge remains solid. As a digitally enabled business, we have invested throughout this period to develop what we believe are the most advanced integrated solutions for front end composite material preparation for manufacturing in the world.

Over the last twelve months, the team has worked tirelessly with all our major customers to renew and extend our valuable long-term contracts, building deeper technical relationships with new and existing clients. This has laid the foundations for both our recovery and future growth.

Financial Performance

While we have a positive view of the future because of the team's hard work over the last twelve months, the challenging environment has meant tough decisions had to be taken to protect the Company's financial position.

Revenue for the year was £9.8m (2020: £13.6m), reflecting the nadir of suppressed civil aircraft OEM volume productions. Sadly, this meant we had to take the difficult decision to reduce our workforce from approximately 122 to 75, enabling us to break-even at an adjusted EBITDA level from the second half of FY21. As a result, the full year adjusted EBITDA is in-line with our expectations announced at H1 FY21, at £0.5m loss. This represents an operating loss of £1.4m reflecting the very difficult start to the year.

We have benefited from our supply chain management team's ability to reduce our inventory levels, protecting our cash position and that of our customers. This has not been easy given the limited life of most materials we use due to expiration dates of the material. We are grateful to our suppliers and customers for their collaboration. Inventory levels reduced by £1.0m in the financial year. As at 31 October 2021, the Company had gross cash balances of £3.5m and £1.0m of net cash.

Improved customer proposition

Although sales volumes were lower during the period, we have continued to invest in and develop our customer proposition. The pandemic and the pressures it has placed on the end industries the Company serves has reinforced the ability of the Company to add value to our customers. Our technology and services have served us well in navigating recent global supply chain issues. They offer real benefits to our customers and their respective industries, reducing material wastage to minimal levels, which reduces costs and makes composite technology more commercially viable, as well as having a major environmental benefit. Our systems reduce labour time and provide greater efficiency and faster outputs, hence our name Velocity Composites.

Over the last twelve months, we have integrated our services into one key package, called Velocity Resource Planning ("VRP"). VRP can be provided via a traditional fully outsourced model of manufacturing kits for the customer, onsite, or as a managed serviced model adopted by the customer. We can tailor each solution to the customers manufacturing facility needs. Through this innovation, Velocity is better positioned to expand into new markets and territories and maximise the return on capital for both Velocity and the customer.

By adopting VRP, customers and suppliers can quickly transform a relatively inefficient element of the front-end material management process into a digitally enhanced modern process. Smart technology reduces waste and provides the right data to manage the supply chain effectively. This technology is transferable into other sectors, especially as advanced material-based industries, like automotive OEMs, are looking to find smarter ways to manufacture, reduce waste, and digitise their production processes.

Market Recovery and Sustainability

As the effects of the pandemic have become clear, the core aerospace industry has stabilised and pressures to retire older environmentally unfriendly aircraft remain. The industry's recovery will be marked by the ever-increasing use of lightweight carbon fibre materials. This trend means the opportunities for Velocity Composites are better than ever.

We believe it will take time for civil aircraft build rates to recover fully, potentially three to four years, before we return to, or exceed, the long-term growth trends. However, new aircraft as they are built, (including those designed to be electrically powered) will be more composite intensive. Velocity's growth will come from new business and the recovery in our current contracted business volumes. That recovery will start in 2022 and we expect it to accelerate into 2023.

Furthermore, it is clear that governments and businesses worldwide are becoming ever more focused on sustainability. The recent COP26 conference has put in place different strategies and targets to help limit the impact of climate change. The need to improve fuel efficiency is one aspect that opens the door for even greater use of composites as manufacturers look to reduce the weight of various machines. Also, the shift to electric power means the need to make lighter vehicles and to maximise range, is expected to further increase the demand for composites in other sectors. We are already in discussions with a variety of new potential customers outside of aerospace, creating long-term opportunities for the Company.

Board

On behalf of the Board, I would like to thank Dr Margaret Amos for being our Audit Chair over the last twelve months and we wish her well in her new endeavours. To replace Margaret in the coming year, we will be seeking a new Non-Executive Director who has the financial and governance experience to support the Company.

Outlook

We enter 2022 in positive spirits. Having been able to maintain investment in the Company's technology and engineering capabilities in the last year, the Board feel confident in Velocity's ability to capture future growth opportunities, as we monitor the implications of the pandemic.

I would like to thank all our staff from the shop floor to board for their tireless work in the last twelve months, along with our shareholders, customers, and suppliers for their support. Everyone at Velocity Composites is focused on the exciting opportunities ahead.

Andy Beaden
Chairman
23 January 2022

Outlook

Historically, the civil aerospace industry has been resilient to global shocks and has seen the air travel market double every 10 years or so, with even the previous largest shock (the travel reductions caused by the tragic events of 9/11) leading to a two year flattening of growth before the upwards curve resumed.

With the impacts of COVID-19 however, the outcomes were more severe in that air travel reduced by 90% almost overnight in early 2020 and only recovered to some 50% of pre-pandemic levels by the end of 2021. With the high levels of airline and industry uncertainty seen in early 2020, both Airbus and Boeing took the action of reducing aircraft production levels to what, in effect are the minimum levels to keep the complex and global supply chains sustained. This in turn meant that the customers of Velocity had to restructure their operations and staff levels and for Velocity, that demand for our products and services reduced accordingly, by over 50%, through 2020 and 2021.

Looking ahead, the data shows how both Boeing and Airbus see the production rate recovery corridor and also the longer-term demand for aircraft driven by some key industry dynamics, mainly the push for the sustainability of airlines who have retired their older aircraft and less efficient four engine fleet. As the recovery takes hold, airlines will look to replace capacity with newer, more efficient aircraft, each containing a high percentage of composites in their structure than the previous generation to meet the global sustainability agenda. As new technology looks to accelerate this, the uses of alternative power sources (sustainable fuel, hydrogen and electrification) requires a high performance, lightweight structure for which composites are a critical part.

As Velocity's customers also look to replace lost capacity in order to meet the increasing production rates, we are confident that our technology-focused approach to long term, sustainable composite raw material supply allows the wider industry to build back better and be more efficient in delivering, both a financial and environmental advantage to composites structures in transport. Both Airbus and Boeing produce regular and detailed market forecast documents which are available to download from their websites and key data is sourced from;

www.boeing.com/commercial/market/commercial-market-outlook
and www.airbus.com/en/products-services/commercial-aircraft/market/global-market-forecast

CEO Report

Overview

Looking back on another unprecedented year for our industry, it is in many ways difficult to believe that in late 2021 and early 2022, we are still dealing with impacts of the global pandemic, including travel restrictions and reduced aircraft production rates. Thankfully, vaccines, new treatments and testing have begun to show a way out of the situation.

However, despite civil aircraft production rates projected to increase starting in 2022, market indications are that recovery to pre-pandemic levels will take two to four years dependent on whether the platform is twin-aisle or single-aisle. The pandemic has accelerated industry acknowledgement of the utilisation of our existing technology to drive internal efficiency and cost improvement and the need for further process and technology development to prepare the business for recovery and beyond. As a result, we secured multi-year contractual renewals with all our major customers and have a strong platform for stable growth as recovery begins.

The impact of the pandemic is not just lower aircraft production rates but also delays caused by customers reorganising staff and operations as they adapt to lower volumes. While this might impede new business discussions with aircraft manufacturers in the short term, we expect to see a positive approach in the future as they adapt to the new environment.

The Recovery

For this reason, we expect our recovery to include growth from rising production rates and new business opportunities. These opportunities will come as customers use Velocity's services to restore capacity without growing their fixed costs. This is particularly applicable around parts of their businesses they no longer consider core, such as composite material management and kitting.

Therefore, we have continued to invest in our digital technology and customer service model as we improve the efficiency and detail of our customer proposals. We now offer customers greater flexibility in terms of how our services can be deployed to support their global manufacturing programmes.

This, combined with our retained presence in the UK, North America and Asia throughout the pandemic, offers us the flexibility to offer two key customer service models. First, full outsourcing of the process to a Velocity facility; or second, a Velocity managed service with kit manufacture taking place on the customer's site. Both models utilise our digital technology and hardware to manage the end-to-end process, including demand management, raw material procurement and management, material nesting, production planning, kit manufacture, quality control and product traceability. We see no detriment to the customer selecting either option. As we enter the recovery in FY22 we will pilot the managed service model with existing customers where new projects fall outside the area of an existing Velocity facility. We will provide an update at the half-year.

Operational Progress

The financial year has been focused on cost management to support the adjusted EBITDA breakeven position in H2 FY21 and the integration of new proprietary digital technology to aid the delivery of future growth. Key highlights have been the enhancements to our nesting and traceability production system to permit larger, multi raw material batch nests containing more kits to improve material efficiency. The system now incorporates an optical inspection system to confirm individual piece level kit and material batch traceability. This system provides benefits for existing business, and future managed services.

To deliver this we have developed our production into a "digital cell" based structure where the entire kit manufacturing software and hardware is contained within identical modules. These can be deployed internally at Velocity, or remotely at a customer site. All this work has been developed at our Advanced Technology Development Centre, at our site in Burnley, UK.

These digital manufacturing cells can be replicated in a standardised format and brings a level of automation and central control that allows customer employees to operate. The cells enable remote deployment as our services are increasingly located further afield at customer sites. The hardware and software are fully integrated with our VRP system allowing real-time process management, part level efficiency and traceability and real-time analysis of planned versus actual performance to deliver continuous improvement.

Employees

Despite the disruption and challenges faced by the team over the period, I am pleased to report that staff turnover has remained low. After necessary headcount reductions were made in response to the pandemic and the anticipated ending of government support, our focus was on training and provide developments to our core teams. This enables us to deliver our customers' existing requirements, provide improvements to our cost targets and maintain sufficient capability to prepare for future recovery and growth.

Part of this focus was our participation in the ADS SC21 Competitiveness and Growth scheme. We utilised matched funding to deliver over 2400 hours of external training focused on policy deployment, leadership development and meeting a nationally recognised training standard. We are proud of developing our internal talent, giving our staff more career development while maintaining skills within the business.

Outlook

Looking ahead, I can see that the developments in our digital technology, service model, staff training, coupled with detailed cost control and margin improvement activities, have prepared the business well. Not only for the production rate recovery but also the expected market opportunity as the wider customer base recovers and returns to growth. As you can see from the 2021 market data from Airbus and Boeing, there are over 40,000 aircraft deliveries are expected in the next 20 years while the industry adapts and develops to meet net zero targets, such as in the IATA "waypoint 2050" sustainability strategy.

Key to this is the adoption of new fuels, propulsion sources and aerodynamic developments to allow aircraft to travel further and more efficient. The need for stronger, lighter and more blended airframes utilising the advantages of composite materials will be critical. I look forward to updating all stakeholders on what we believe will be a transformational year for our industry and Velocity Composites PLC.

Section 172 Statement

In accordance with section 172 of the Companies Act 2006, the Directors, collectively and individually, confirm that during the year ended 31 October 2021, they acted in good faith and have upheld their 'duty to promote the success of the Group' to the benefit of its Stakeholder Groups.

Directors acknowledge the importance of forming and retaining a constructive relationship with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions and is crucial for achieving the long-term success of the Group. The main mechanisms for wider stakeholder engagement and feedback can be found in the corporate governance section in the 2021 annual report.

Jonathan Bridges
Chief Executive Officer
23 January 2022

Financial Review

Statement of Comprehensive Income

Revenue for FY21 has seen the first full 12 months of COVID-19 impacted demand. Although we have been operational throughout the period, with the occasional customer shutdown and the latest demand from contracted programmes, we finished the period with sales 28% lower year-on-year at £9.8m (FY20: £13.6m).

Whilst H2 FY21 has shown a reassuring stabilisation of underlying sales, the market outlook is one of static aircraft production rates until end FY22, early FY23. In addition, the business continues to seek out new contracts to deliver some of the identified pipeline opportunities and has seen increased activity around these in recent months. The Company has made strong progress in improving gross margin throughout the year, increasing by 8.9 ppts from 17.1% in FY20 to 26.0% in FY21. Although this was partly driven by benefits related to proactive management of previously written down stock, focused investment in Velocity's nesting technology has supported an underlying margin improvement of 6.7 ppts to 23.8% in the period.

As reported last year, the full year effects of the Company's right-sizing efforts have mostly been realised in FY21, with administrative expenses including exceptional costs decreasing £1.6m from £5.5m to £3.9m. There were no exceptional costs in FY21. The lower overhead base, combined with a strong pipeline of potential sales and Velocity's maintained technology and engineering capabilities, will enable Velocity to positively leverage its high operational gearing as growth is expected to resume in FY22 and FY23.

The government continued to support the Company over the period with income from furlough of £0.2m (FY20: £0.4m) and a non-repayable Coronavirus support grant of £0.1m. Alongside the existing £2.0m Coronavirus Business Interruption Loan ("CBIL"), an additional asset-backed loan and further CBIL was obtained in June 2021 through Close Brothers totalling £0.9m.

The successful reduction in overheads combined with gross margin growth has driven the delivery of the previously stated goal of achieving adjusted EBITDA breakeven in H2 FY21 adjusted EBITDA (FY20: £(1.6)m), albeit supported by one-off benefits related to COVID-19 support and utilisation of previously written down inventory materials. On a consistent basis with last year, adjusted EBITDA has improved year-on-year by £1.4m to a £(0.5)m adjusted EBITDA loss for the year (FY20: £(1.9)m loss) excluding share-based payments and exceptional administrative costs of £nil in FY21 (FY20: £0.3m). Over the coming FY22 and FY23 periods, the Company will continue to carefully balance cost reductions with investment for growth to enable a full recovery and a sustainably profitable position.

The Company continues to benefit from being 70% naturally hedged from both US Dollar and Euro foreign exchange movements, with both revenues and direct material purchases being aligned contractually into the same currency where applicable.

Adjusted EBITDA[1] **Reconciliation from Operating Loss**	**31 October 2021** £'000	**31 October 2020** £'000
Operating Loss	(1,364)	(3,149)
Add back:		
Share-based payments	90	120
Depreciation & Amortisation*	305	341
Impairment of Intangible assets	-	72
Depreciation on Right of Use assets under IFRS 16*	421	350
Exceptional Administrative costs	-	341
Adjusted EBITDA[1]	(548)	(1,925)

Adjusted EBITDA[1] defined as earnings before finance charges, tax, amortisation, depreciation, impairment, share based payments, exceptional restructuring costs. Share-based payments are included highlight the movement year on year. Share based payments are added back to make the share based payment charge clear to stakeholders.

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

Cashflow and Capital Investment

The year end cash and cash equivalents increased by £0.2m to £3.5m (FY20: £3.3m). Cash generated/(utilised) from operations of £0.3m (FY20: £(0.8)m) in the year was driven by £0.9m cash generated from working capital movements, as the business focused on inventory reduction throughout the period, partly offset by the £(0.5)m adjusted EBITDA trading loss.

Cash used in Investing Activities of £(0.1)m (FY20: £(0.8)m) primarily related to the Purchase of Non-current assets. Financing activities generated £(0.1)m over the period (FY20: £1.5m) as the net proceeds of the additional CBILS and asset finance facility with Close Brothers (£0.9m) was offset by the first few repayments of the existing £2.0m, 5-year CBIL with NatWest, starting July 2021. The Close Brothers borrowings of £0.9m is made up of a £0.45m CBIL loan and a £0.45m loan to settle remaining lease liabilities, of this £0.18m was received as cash once the finance liability on the financed assets had been settled. The Invoice Discounting facility was not being utilised at 31 October 2021.

The cash balance at 31 October 2021 of £3.5m includes £2.3m CBIL proceeds and £0.7m of remaining EIS funds to be utilised in international growth and establishing production facilities abroad.

Despite the loss in the year, the business remains in a net cash position at year end, with £1.0m net cash (FY20: £1.3m). This includes Cash at bank, EIS cash balances and CBIL proceeds offset by the outstanding CBIL balance and hire purchase liabilities.

	Year ended 31 October 2021 £'000	**Year ended 31 October 2020** £'000
Cash	3,476	3,268
Cash Loans (excluding right to use assets):		
CBIL Loan	(2,516)	(2,000)
Invoice discounting facility	2	2
Net Cash/(Debt) (Note 1)	962	1,270

Note 1: The net cash/(debt) calculation is designed to explain the level of financial debt, net of cash at bank.

Working capital

Ongoing Inventory management efforts successfully decreased Inventory to £0.9m (FY20: £1.9m) at year end, generating £1.0m cash during the period and bringing the Company's Inventory levels in-line with current levels of demand.

Trade and other receivables decreased during the year by £0.3m to £2.2m as a result of the increased credit terms and continuing robust controls around debt collection. Receivable days have increased to 76 days (FY20: 44 days) due to revised credit period terms with two major customers as part of renewal negotiations in H1 FY21.

Trade and other payables also reduced during the year by £0.4m to £1.1m (FY20: £1.5m) as utilisation of existing stock and reduction in demand drove fewer material purchases.

Going concern

Management continues to undertake a significant level of cash flow forecasting, in-line with prior year and best practice over the pandemic period. This is now an ongoing process within the Company through Integrated Business Planning (IBP) which regularly stress-tests the forecasting assumptions against the continuously evolving circumstances, such as the latest COVID variant or government outlook. It was this work that also supported the application for additional CBILS support and its associated asset-financing with Close Brothers. Detailed financial projections for the following 24 month rolling period to 31 October 2023 were prepared and a number of sensitivities were run to stress test the forecasts and understand the cash flow impact of various scenarios. Even in the most severe down-side scenario modelled the business had sufficient liquidity to continue trading as a going concern

Our forecasts indicate the group's Invoice Discounting Facility, secured against Trade Debtors, will be utilised during certain months within the going concern period. Whilst this facility is designed to be short-term and can be withdrawn, the latest annual review in December reflected the banks' support for Velocity's growth strategy and extended the commitment of both parties to a minimum 3 months' notice and as such we expect this facility will remain available throughout the going concern period. Should alternative financing be required the Group would preserve cash through slowing investment in growth until longer-term funding could be implemented, such as asset-based financing against new capex or equity funding.

The cash flow forecasts are reviewed monthly through Management's IBP process and the forecasting assumptions are updated for any new knowledge to ensure there is no change in the Company's liquidity outlook. This is linked in with the Management's monthly risk review and should the outlook change significantly with no mitigating actions the Company's liquidity risk rating on the risk register will be adjusted to reflect this and subsequently discussed at Board through the Audit Committee's quarterly risk register review.

The aerospace sector lends itself to this kind of long-term planning due to the nature and length of customer programmes, typically a minimum of 3 years, but often 5 years or more. This has enabled the business to fully model the period to 31 October 2023 and undertake more strategic, longer-term planning for growth and full recovery emerging from the pandemic.

Although work is still needed to improve underlying performance, recent H2 FY21 results has shown that adjusted EBITDA breakeven is achievable for Velocity. Future recovery will be made possible through a combination of existing contracts recovering to pre-COVID-19 run rates over the 3-to-5-year period, as well as new contracts being won from the significant pipeline of opportunities and targeted investment being made to support this. Cost improvement programmes and efficiency drives also continue on an ongoing basis through the Budgeting process. Should the current strategy prove ineffective or insufficient to recover the performance of the business, Management have contingency plans ready to implement should this become clear.

Alongside the forecasting and governance process, the Company has demonstrated robust cash flow management over the FY21 period through successfully reducing Inventory levels by £1m and navigating through right-sizing efforts to deliver a £1.6m reduction in administrative overheads.

Having due regard for these recent deliverables and latest projections, with available cash at 31 October 2021 of £3.5m, an undrawn invoice discount facility where we can borrow up to £3m dependent on debtor levels, access to an invoice discounting facility with one of our major customers, and continued confidence from our banks and shareholders in our strategy, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

Chris Williams
Chief Financial Officer
23 January 2022

Consolidated statement of total comprehensive income

	Note	Year ended 31 October 2021 £'000	Year ended 31 October 2020 £'000
Revenue	4	9,767	13,561
Cost of sales		(7,228)	(11,237)
Gross profit		2,539	2,324
Administrative expenses excluding exceptional costs		(3,903)	(5,132)
Exceptional administrative expenses	7	-	(341)
Operating loss	5	(1,364)	(3,149)
Operating loss analysed as:			
Adjusted EBITDA	29	(548)	(1,925)
Depreciation of Property, plant and equipment*		(229)	(224)
Amortisation		(76)	(117)
Impairment of Intangible assets		-	(72)
Depreciation of Right to Use assets under IFRS 16		(421)	(350)
Share based payments		(90)	(120)
Exceptional administrative expenses		-	(341)
Finance income and expense	8	(182)	(98)

Loss before tax from continuing operations		(1,546)	(3,247)
Income tax income	9	340	117
Loss for the period and total comprehensive loss		(1,206)	(3,130)
Loss per share - Basic (£) from continuing operations	10	(£0.03)	(£0.08)
Loss per share - Diluted (£) from continuing operations	10	(£0.03)	(£0.08)

The notes below form part of these financial statements.

There were no discontinued operations in the current or prior period.

There is no other comprehensive income.

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

Consolidated and Company statement of financial position

	Note	Group 31 October 2021 £'000	Group 31 October 2020 £'000	Company 31 October 2021 £'000	Company 31 October 2020 £'000
Non-current assets					
Intangible assets	11	91	167	91	167
Property, plant and equipment*	12	1,051	1,216	1,051	1,216
Right-of-use assets*	19	1,688	1,634	1,688	1,634
Total non-current assets		2,830	3,017	2,830	3,017
Current assets					
Inventories	14	877	1,908	877	1,908
Trade and other receivables	15	2,162	2,464	2,195	2,490
Corporation tax		341	-	341	-
Cash and cash equivalents	16	3,476	3,268	3,470	3,265
Total current assets		6,856	7,640	6,883	7,663
Total assets		9,686	10,657	9,713	10,680
Current liabilities					
Loans	17	514	500	514	500
Trade and other payables	17	1,058	1,504	1,058	1,499
Obligations under lease liabilities	19	309	411	309	411
Total current liabilities		1,881	2,415	1,881	2,410
Non-current liabilities					
Loans	17	1,998	1,500	1,998	1,500
Obligations under lease liabilities	19	1,240	1,060	1,240	1,060
Total non-current liabilities		3,238	2,560	3,238	2,560
Total liabilities		5,119	4,975	5,119	4,970
Net assets		4,567	5,682	4,594	5,710
Equity attributable to equity holders of the company					
Share capital	22	91	91	91	91
Share premium account	22	9,727	9,727	9,727	9,727
Share-based payments reserve		539	490	539	490
Retained earnings		(5,790)	(4,626)	(5,763)	(4,598)
Total equity		4,567	5,682	4,564	5,710

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

The notes below form part of these financial statements.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and not presented its own statement of profit and loss in these financial statements. The loss for the year was (£1,206,000). The financial statements were approved and authorised for issue by the Board of Directors on 23 January 2022 and were signed on its behalf by;

Chris Williams
Director
Co No: 06389233

Consolidated statement of changes in equity

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve **£'000**	Total equity £'000
As at 31 October 2019	90	9,727	(1,663)	537	8,691
Loss for the year	-	-	(3,130)	-	(3,130)
	90	9,727	(4,793)	537	5,561
Transactions with shareholders:					
Share-based payments	-	-	-	120	120
Transfer of share option reserve on vesting of options and issue of equity	1	-	167	(167)	1
As at 31 October 2020	91	9,727	(4,626)	490	5,682

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve **£'000**	Total equity £'000
As at 31 October 2020	91	9,727	(4,626)	490	5,682
Loss for the year	-	-	(1,205)	-	(1,205)
	91	9,727	(5,831)	490	4,477
Transactions with shareholders:					
Share-based payments	-	-	-	90	90
Transfer of share option reserve on vesting of options and issue of equity	-	-	41	(41)	-
As at 31 October 2021	91	9,727	(5,790)	539	4,567

The notes below form part of these financial statements.

Consolidated and Company statement of changes in equity

Company statement of changes in equity

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve **£'000**	Total equity £'000
As at 31 October 2019	90	9,727	(1,642)	537	8,691
Loss for the year	-	-	(3,123)	-	(3,123)
	90	9,727	(4,765)	537	5,589
Transactions with shareholders:					

Share-based payments	-	-	-	120	120
Transfer of share option reserve on vesting of options and issue of equity	1	-	167	(167)	1
As at 31 October 2020	91	9,727	(4,598)	490	5,710

	Share capital £'000	**Share premium account** £'000	**Retained earnings** £'000	**Share-based payments reserve £'000**	**Total equity** £'000
As at 31 October 2020	91	9,727	(4,598)	490	5,710
Loss for the year	-	-	(1,206)	-	(1,206)
	91	9,727	(5,804)	490	4,504
Transactions with shareholders:					
Share-based payments	-	-	-	90	90
Transfer of share option reserve on vesting of options and issue of equity	-	-	41	(41)	-
As at 31 October 2021	91	9,727	(5,763)	539	4,594

The notes below form part of these financial statements.

Consolidated and Company Statement of cash flows

	Group Year ended 31 October 2021 £'000	**Group Year ended 31 October 2020** £'000	**Company Year ended 31 October 2021** £'000	**Company Year ended 31 October 2020** £'000
Operating activities				
Loss for the year	(1,206)	(3,130)	(1,206)	(3,123)
Taxation	(341)	(117)	(341)	(117)
Profit on sale of assets	(13)	-	(13)	-
Finance costs	182	98	181	98
Amortisation of intangible assets	76	118	76	118
Impairment of Intangible assets	-	72	-	72
Depreciation of property, plant and equipment*	229	223	229	223
Depreciation of right to use assets*	421	350	421	350
Share-based payments	90	120	90	120
Operating cash flows before movements in working capital	(562)	(2,266)	(562)	(2,259)
Decrease in trade and other receivables	302	1,685	294	1,688
Decrease in inventories	1,031	1,269	1,031	1,269
Decrease in trade and other payables	(446)	(1,526)	(441)	(1,531)
Cash generated from operations	325	(838)	322	(833)
Net cash Inflow/(Outflow) from operating activities	325	(838)	322	(833)

Investing activities				
Purchase of property, plant and equipment*	(64)	(782)	(64)	(782)
Development expenditure capitalised	-	(39)	-	(39)
Proceeds from the sale of property, plant and equipment	13	3	13	3
Net cash used in investing activities	(51)	(818)	(51)	(818)
Financing activities				
Loan received	634	2,000	634	2,000
Finance costs paid	(181)	(98)	(181)	(98)
Loan repayment	(119)	-	(119)	-
Repayment of lease liabilities capital	(400)	(402)	(400)	(404)
Net cash generated from financing activities	(66)	1,500	(66)	1,500
Net Increase/(Decrease) in cash and cash equivalents	208	(156)	205	(151)
Cash and cash equivalents at 01 November	3,268	3,424	3,265	3,416
Cash and cash equivalents at 31 October	**3,476**	3,268	3,470	3,265

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

Notes to the Financial Statements

1. General information

Velocity Composites Plc (the 'Company') is a public limited company incorporated and domiciled in England and Wales. The registered office of the Company is AMS Technology Park, Billington Road, Burnley, Lancashire, BB11 5UB, United Kingdom. The registered Company number is 06389233.

In order to prepare for future expansion in the Asia region, the Company established a wholly owned subsidiary company, Velocity Composites Sendirian Berhad, which is domiciled in Malaysia. The subsidiary company commenced trading on 18 April 2018. The Company also established a wholly owned subsidiary company, Velocity Composites Aerospace Inc. to prepare for future expansion in the United States of America. These subsidiaries together with Velocity Composites plc, now form the Velocity Composites Group ('the Group').

The Group's principal activity is that of the sale of kits of composite material and related products to the aerospace industry.

2. Accounting policies

Basis of preparation
The figures shown for the year ended 31 October 2021 are based on the Group's statutory accounts for that period and do not constitute the Group's statutory accounts for that period as defined in section 434 of the Companies Act 2006. The statutory accounts were prepared under International Financial Reporting Standards in conformity with the Companies Act 2006 the accounting policies have been applied as described in the Annual Report. The audit report on the accounts for the year ended 31 October 2021 was not qualified, did not include a reference to any matters to which the Auditor drew attention by way of emphasis without qualifying the report, and did not contain statements under section 498 (2) or (3) of the Companies Act 2006.

The financial statements have been prepared in compliance with the measurement and recognition criteria of International Accounting Standards in conformity with the requirements of the Companies Act 2006.

These financial statements have been prepared on a going concern basis and using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies. These policies have been consistently applied to all periods presented, unless otherwise stated. The financial statements are presented in sterling and have been rounded to the nearest thousand (£'000).

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and not presented its own statement of profit and loss in these financial statements.

Basis of consolidation
The consolidated financial statements incorporate the financial statements of the Company and its subsidiary undertakings made up to 31 October 2021. Subsidiaries are consolidated from the date of acquisition, using the purchase method.

Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group. The Group's subsidiaries have prepared their statutory financial statements in accordance with International Accounting Standards.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

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

Going concern
Management continues to undertake a significant level of cash flow forecasting, in-line with prior year and best practice over the pandemic period. This is now an ongoing process within the Company through Integrated Business Planning (IBP) which regularly stress-tests the forecasting assumptions against the continuously evolving circumstances, such as the latest COVID variant or government outlook. It was this work that also supported the application for additional CBILS support and its associated asset-financing with Close Brothers. Detailed financial projections for the following 24 month rolling period to 31 October 2023 were prepared and a number of sensitivities were run to stress test the forecasts and understand the cash flow impact of various scenarios. Even in the most severe down-side scenario modelled the business had sufficient liquidity to continue trading as a going concern

Our forecasts indicate the group's Invoice Discounting Facility, secured against Trade Debtors, will be utilised during certain months within the going concern period. Whilst this facility is designed to be short-term and can be withdrawn, the latest annual review in December reflected the banks' support for Velocity's growth strategy and extended the commitment of both parties to a minimum 3 months' notice and as such we expect this facility will remain available throughout the going concern period. Should alternative financing be required the Group would preserve cash through slowing investment in growth until longer-term funding could be implemented, such as asset-based financing against new capex or equity funding.

The cash flow forecasts are reviewed monthly through Management's IBP process and the forecasting assumptions are updated for any new knowledge to ensure there is no change in the Company's liquidity outlook. This is linked in with the Management's monthly risk review and should the outlook change significantly with no mitigating actions the Company's liquidity risk rating on the risk register will be adjusted to reflect this and subsequently discussed at Board through the Audit Committee's quarterly risk register review.

The aerospace sector lends itself to this kind of long-term planning due to the nature and length of customer programmes, typically a minimum of 3 years, but often 5 years or more. This has enabled the business to fully model the period to 31 October 2023 and undertake more strategic, longer-term planning for growth and full recovery emerging from the pandemic.

Although work is still needed to improve underlying performance, recent H2 FY21 results has shown that adjusted EBITDA breakeven is achievable for Velocity. Future recovery will be made possible through a combination of existing contracts recovering to pre-COVID-19 run rates over the 3-to-5-year period, as well as new contracts being won from the significant pipeline of opportunities and targeted investment being made to support this. Cost improvement programmes and efficiency drives also continue on an ongoing basis through the Budgeting process. Should the current strategy prove ineffective or insufficient to recover the performance of the business, Management have contingency plans ready to implement should this become clear.

Alongside the forecasting and governance process, the Company has demonstrated robust cash flow management over the FY21 period through successfully reducing Inventory levels by £1m and navigating through right-sizing efforts to deliver a £1.6m reduction in administrative overheads.

Having due regard for these recent deliverables and latest projections, with available cash at 31 October 2021 of £3.5m, an undrawn invoice discount facility where we can borrow up to £3m dependent on debtor levels, access to an invoice discounting facility with one of our major customers, and continued confidence from our banks and shareholders in our strategy, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

There are no other IFRSs or IFRIC interpretations that are not yet fully effective that could be expected to have a material impact on the Group.

Revenue Recognition

Revenue is recognised as performance obligations are satisfied as control of the goods and services is transferred to the customer. Contracts are satisfied over a period of time, with the dispatch of goods at a point in time. Revenue is therefore recognised when control is transferred to the customer, which is usually when legal title passes to the customer and the business has the right to payment, for example, on delivery.

The Group generate revenue from the sale of structural and consumable materials for use within the aerospace industry. This is the sole revenue stream of the Group.

At contract inception (which is upon receipt of a purchase order from a customer), an assessment is completed to identify the performance obligations in each contract. Performance obligations in a contract are the goods that are distinct.

At contract inception, the transaction price is determined, being the amount that the Group expects to receive for transferring the promised goods – this is a fixed price with no variable consideration. The transaction price is allocated to the performance obligations in the contract based on their relative standalone selling prices – this reflects the agreed price as per purchase order for each product. The Group has determined that the contractually stated price represents the standalone selling price for each performance obligation.

Revenue from sale of goods is recognised when a performance obligation has been satisfied by transferring the promised product to the customer at a point in time, usually when legal title passes to the customer and the business has the right to payment, for example, on delivery. Standard payment terms are in place for each customer.

Inventory

Inventory is stated at the lower of costs incurred in bringing each product to its present location and condition compared to net realisable value as follows:

- Raw materials, consumables and goods for resale – purchase cost on a first-in/first-out basis.
- Work in progress and finished goods – costs of direct materials and labour plus attributable overheads based on a normal level of activity

Net realisable value is based on an estimated selling price less any further costs expected to be incurred for completion and disposal.

Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Provision is made when an obligation exists for a future liability relating to a past event and where the amount of the obligation can be reliably estimated. Goods or services supplied in a foreign currency are recognised at the exchange rate ruling at the time of accounting for this expenditure.

Retirement Benefits: Defined contribution schemes

Contributions to defined contribution pension schemes are charged to the statement of comprehensive income in the year to which they relate.

Research and development expenditure
Research expenditure - Expenditure on research activities is recognised as an expense in the period in which it is incurred.

Development expenditure - An internally generated intangible asset arising from the Group's own development activity is recognised only if all of the following conditions are met:
- an asset is created that can be identified and is technically and commercially feasible;
- it is probable that the asset created will generate future economic benefits and the Group has available sufficient resources to complete the development and to subsequently sell and/or use the asset created; and
- the development cost of the asset can be measured reliably.

The amount recognised for development expenditure is the sum of all incurred expenditure from the date when the intangible asset first meets the recognition criteria listed above. This occurs when future sales are expected to flow from the work performed. Incurred expenditure largely relates to internal staff costs incurred by the Group.

Subsequent to initial recognition, internally generated intangible assets are reported at cost less accumulated amortisation and impairment.

Amortisation
Amortisation is calculated to write off the cost of intangible assets less their estimated residual values using the straight-line method over their estimated useful lives and is generally recognised in the statement of total comprehensive income. The estimated useful lives are based on the average life of a project as follows:

Development costs	5 years

Property, plant and equipment
Items of property, plant and equipment are initially recognised at cost. As well as the purchase price, cost includes directly attributable costs.

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

Land and buildings (right of use)	Over the term of the lease
Plant and machinery	15% straight line
Motor vehicles	25% straight line
Fixtures and fittings	15% straight line
Leasehold Improvements	Over the term of the lease

Exceptional items
Items which are both material and non-recurring are presented as exceptional items within the relevant income statement category. The separate reporting of exceptional items helps provide a better indication of the Group's underlying business performance.

Foreign currency translation
Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('its functional currency'). The consolidated financial statements are presented in sterling, which Velocity Composites plc's functional and presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates the transactions occur. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are recognised in the Consolidated comprehensive statement of income.

The results and financial position of foreign operations that have a functional currency different from the presentation currency are translated into the presentation currency, on consolidation, as follows:
- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet

- income and expenses for each statement of profit or loss and statement of comprehensive income are translated at average exchange rates, and
- all resulting exchange differences are recognised immediately in the Consolidated comprehensive statement of income.

Impairment of non-financial assets
The carrying values of non-financial assets are reviewed for impairment when there is an indication that assets might be impaired, and at the end of each reporting period. When 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 smallest grouping of assets in which the asset belongs for which there are separately identifiable cash flows).

Impairment charges are included in the income statement, except to the extent they reverse previous gains recognised in the statement of comprehensive income.

Financial Instruments
All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors encapsulating the normal day to day trading of the Group. The Group does not use derivative financial instruments such as forward currency contracts, or similar instruments. The Group does not issue or use financial instruments of a speculative nature.

Bank Borrowings
Interest-bearing loans are recorded initially at their fair value, net of direct transaction costs. Such instruments are subsequently carried at their amortised cost and finance charges are recognised in the statement of comprehensive income over the term of the instrument using an effective rate of interest. Finance charges are accounted for on an accrual's basis to the statement of comprehensive income.

The Group has current borrowings of CBIL loans and can utilise its invoice discounting facility in support of its working capital requirements, however it was not utilised in the year.

Financial assets
The Group classifies its financial assets into the categories discussed below and based upon the purpose for which the asset was acquired. The Group has not classified any of its financial assets as held to maturity.

<u>Trade and other receivables</u>
These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transactions costs that are directly attributable to their acquisition or issue and are subsequently carried at amortised cost using the effective interest method, less provision for impairment.

The Group's loans and receivables comprise trade and other receivables included within the statement of financial position.

Cash and cash equivalents include cash held at bank, bank overdrafts and marketable securities of very short-term maturity (typically three months or less) which are not expected to deteriorate significantly in value until maturity. Bank overdrafts are shown within loans and borrowings in current liabilities in the statement of financial position.

Impairment provisions are recognised through the expected credit losses model (ECL). IFRS 9's impairment requirements use forward-looking information to recognise expected credit losses – the 'expected credit loss (ECL) model'.

The Group considers a broader range of information when assessing credit risk and measuring expected credit losses, including past events, current conditions, reasonable and supportable forecasts that affect the expected collectability of the future cash flows of the instrument.

Trade and other payables
The Group classifies its financial liabilities as comprising trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method.

Share Capital
Financial instruments issued by the Group are treated as equity only to the extent that they do not meet the definition of a financial liability. The Group's ordinary shares are classified as equity instruments.

Share Premium
Share premium represents the excess of the issue price over the par value on shares issued less costs relating to the capital transaction arising on the issue.

Share-based payment
The Group operates an equity-settled share-based compensation plan in which the Group receives services from Directors and certain employees as consideration for share options. The fair value of the services is recognised as an expense over the vesting period, determined by reference to the fair value of the options granted.

Leased Assets
Leases
The Group makes the use of leasing arrangements principally for the buildings and motor vehicles. The rental contracts for offices are typically negotiated for terms of 5 and 10 years and some of these have extension terms. The Group does not enter into sale and leaseback arrangements. All the leases are negotiated on an individual basis and contain a wide variety of different terms and conditions.

The Group assesses whether a contract is or contains a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

Measurement and recognition
At lease commencement date, the Group recognises a right-of-use asset and a lease liability in its consolidated statement of financial position. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Group, and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date.

The Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group also assesses the right-of-use asset for impairment when such indicators exist.

At the commencement date, the Group measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the Group's incremental borrowing rate because as the lease contracts are negotiated with third parties it is not possible to determine the interest rate that is implicit in the lease.

The incremental borrowing rate is the estimated rate that the Group would have to pay to borrow the same amount over a similar term, and with similar security to obtain an asset of equivalent value. This rate is adjusted should the lessee entity have a different risk profile to that of the Group.

Subsequent to initial measurement, the liability will be reduced by lease payments that are allocated between repayments of principal and finance costs. The finance cost is the amount that produces a constant periodic rate of interest on the remaining balance of the lease liability.

The lease liability is reassessed when there is a change in the lease payments. Changes in lease payments arising from a change in the lease term or a change in the assessment of an option to purchase a leased asset. The revised lease payments are discounted using the Group's incremental borrowing rate at the date of reassessment when the rate implicit in the lease cannot be readily determined. The amount of the remeasurement of the lease liability is reflected as an adjustment to the carrying amount of the right-of-use asset. The exception being when the carrying amount of the right-of-use asset has been reduced to zero then any excess is recognised in profit or loss.

Payments under leases can also change when there is either a change in the amounts expected to be paid under residual value guarantees or when future payments change through an index or a rate used to determine those payments, including changes in market rental rates following a market rent review. The lease liability is remeasured only when the adjustment to lease payments takes effect and the revised contractual payments for the remainder of the lease term are discounted using an unchanged discount rate. Except for where the change in lease payments results from a change in floating interest rates, in which case the discount rate is amended to reflect the change in interest rates.

The remeasurement of the lease liability is dealt with by a reduction in the carrying amount of the right-of-use asset to reflect the full or partial termination of the lease for lease modifications that reduce the scope of the lease. Any gain or loss relating to the partial or full termination of the lease is recognised in profit or loss. The right-of-use asset is adjusted for all other lease modifications.

The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. These leases relate property security. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in profit or loss on a straight-line basis over the lease term.

See the accounting policy on Property plant and equipment for the depreciation methods and useful lives for assets held under lease.

Government Grants
Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received, and the group will comply with all attached conditions. Government grants relating to cost are deferred and recognised in the profit or loss by deducting from the related expense over the period necessary to match them with the costs that they are intended to compensate. Note, a government grant exists on the group's CBIL loans given they may be below a market interest rate – the impact of this has not been quantified on the grounds of materiality as there would be an equal and opposite finance charge, both recognised within the same financial statement line item.

Current taxation
The tax currently payable is based on the taxable profit of the period. Taxable profit differs from profit as reported in the Consolidated statement of comprehensive income because it excludes items of income and expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using rates that have been enacted or substantively enacted by the statement of financial position date.

R&D tax credit
R&D tax credits are recognised at the point when claims have been quantified relating to expenditure within current or previous periods and recovery of the asset is virtually certain, these tax credits relating to R&D are recognised within the tax on profit line of the income statement.

- 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.

Deferred taxation
Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the statement of financial position differs from its tax base, except for differences arising on:

- the initial recognition of goodwill;

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 substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.
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 on either the same taxable Company; or different Company entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Operating segments
Operating segments are reported in a manner consistent with the internal reporting provided to the executive directors. The Chief Operating Decision Makers have been identified as the Chief Executive Officer and the Chief Financial Officer. The Group supplies a single type of product into a single industry and so has a single operating segment. Additional information is given regarding the revenue receivable based on geographical location of the customer.

No differences exist between the basis of preparation of the performance measures used by management and the figures in the Group financial information.

Critical accounting estimates and judgements
The Group makes certain estimates and assumptions regarding the future. Estimates and judgements are continually evaluated based on historical experience and other factors, including the expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Critical accounting estimates

Provisions for inventory
Provisions are made for obsolete, out of life and slow-moving stock items. In estimating the provisions, the group makes use of key management experience, precedents and specific contract and customer issues to assess the likelihood and quantity. Stock is accounted for on a first in, first out basis.

The provision percentage is applied to various aging buckets dependent on stock type, this is a key estimate made by management based on judgement and if change is applied to the percentage for the aged stock, then the outcome of the value of the provision would differ.

Sensitivity analysis
A 5% increase in the levels of the current stock provision would lead to an finance impact of an increase in stock provision of £17k.

3. Financial instruments & Risk Management

The Board has overall responsibility for the determination of the Group's risk management objectives and policies. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility. The Group reports in Sterling. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Group does not use derivative financial instruments such as forward currency contracts, or similar instruments. The Group does not currently issue or use financial instruments of a speculative nature but as described in the strategic report, management may consider the potential utilisation of such instruments in the future. The Group utilises an invoice discounting facility with its bankers to assist in its cash flow management. In accordance with the terms of the current facility (which is available on demand) the risk and management of trade debtors is retained by the Group.

Financial instruments

Financial instruments by category	**Group Year ended 31 October 2021** £'000	**Company Year ended 31 October 2021** £'000	**Group Year ended 31 October 2020** £'000	**Company Year ended 31 October 2020** £'000
Current assets				
Trade and other receivables	1,902	1,902	2,205	2,205
Trade and other receivables – prepayments	260	293	259	285
	2,162	2,195	2,464	2,490
Cash and cash equivalents – loans and receivables	3,476	3,470	3,268	3,265
Total loans and receivables	5,638	5,665	5,732	5,755
Current liabilities				
Trade and other payables	921	921	919	919
Trade and other payables – accruals	137	137	585	580
	1,058	1,058	1,504	1,499
Loans	514	514	919	919
Obligations under lease liabilities	309	309	585	585
Total Current liabilities	1,881	1,881	3,008	3,003

For non-current liabilities please see note 17.

Risk management
The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. Risk management is carried out by the Board and their policies are outlined below.

a) Market risk

Foreign exchange risk
The Group is exposed to transaction foreign exchange risk in its operations both within the UK and overseas. Transactions are denominated in Sterling, US Dollars, Euros and Ringgits. The Group has commercial agreements in place which allow it to transact with its customers in the currency of the material purchase, thereby allowing currency risk to pass through the Group.

The carrying value of the Group's foreign currency denominated assets and liabilities comprise the trade receivables in Note 15, cash in Note 16 and trade payables in Note 17.

Whilst the majority of the Group's financial assets are held in Sterling, movements in the exchange rate of the US Dollar, Euro or Ringgit against Sterling do have an impact on both the result for the year and equity. he Group's assets and liabilities that are held in US Dollar, Euro or Ringgits are held in those currencies for normal trading activity in order to recover funds from customers or to pay funds to suppliers.

The Groups exposure to foreign currency risk is as follows. This is based on the carrying amount of monetary financial instruments.

As at 31 October 2021

	US Dollar £'000	**Euro £'000**	**Total £'000**
Trade debtors	1,651	194	1,845
Cash and cash equivalents	993	1,035	2,028
Trade payables	(408)	(35)	(443)
Balance sheet exposure	**2,236**	**1,194**	**3,430**

As at 31 October 2020

	US Dollar £'000	**Euro £'000**	**Total £'000**
Trade debtors	1,484	244	1,728
Cash and cash equivalents	483	159	641
Trade payables	(253)	14	(239)
Balance sheet exposure	**1,714**	**417**	**2,130**

Sensitivity analysis
A 5% strengthening of the following currencies against the pound sterling at the balance sheet date would have decreased profit of loss by the amounts shown below. This Calculation assumes that the change occurred at the balance sheet date and had to be applied to risk exposures existing at that date.

	31 October 2021 £'000	**31 October 2020 £'000**
US dollar	(112)	(86)
Euro	(60)	(21)

This analysis assumes that all other variables, in particular other exchange rates and interest rates remain constant.

A 5% weakening of the above currencies against pound sterling in any period would have had the equal but opposite effect to the amounts shown above, on the basis that all other variables remain constant.

Interest rate risk

The Group carries borrowings from leases and CBIL loans. Therefore, with the exception of the invoice discounting facility which attracts an interest rate of 2.25%, the Directors consider that there is no significant interest rate risk.

b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. In order to minimise this risk, the Group endeavours only to deal with companies which are demonstrably creditworthy and this, together with the aggregate financial exposure, is continuously monitored. The maximum exposure to credit risk is the value of the outstanding amount.

Supply of products by the Group results in trade receivables which the management consider to be of low risk, other receivables are likewise considered to be low risk. However, four of the customers comprise in excess of 10% of the revenue earned by the Group (see Note 4). Credit risk on cash and cash equivalents is considered to be small as the counterparties are all substantial banks with high credit ratings. The maximum exposure is the amount of the deposit.

c) Liquidity risk

The Group currently holds cash balances in Sterling, US Dollars, Euros and Ringgits to provide funding for normal trading activity. Trade and other payables are monitored as part of normal management routine. The Group also has access to banking facilities including invoice finance which it utilises when needed in order to manage its liquidity risk.

2020	**Within 1 year**	**One to two years**	**Two to five years**	**Over five years**
	£'000	£'000	£'000	£'000
Loan	500	1,500	-	-
Lease liability for right of use assets	480	317	899	-
Trade payables	487	-	-	-
Accruals	585	-	-	-
Other payables	15	-	-	-
Invoice discounting facility	-	-	-	-

2021	**Within 1 year**	**One to two years**	**Two to five years**	**Over five years**
	£'000	£'000	£'000	£'000
Loan	541	536	1,462	-
Lease liability for right of use assets	378	292	1,181	-
Trade payables	639	-	-	-
Accruals	137	-	-	-
Other payables	14	-	-	-
Invoice discounting facility	-	-	-	-

The lease liability is shown exclusive of interest payments.

c) Capital risk management

For the purpose of the Group's capital management, capital includes issued capital, and all other equity reserves attributable to the equity holders of the Group. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other members. The Group will also seek to minimise the cost of capital and attempt to optimise the capital structure.

4. Segmental analysis

The Group supplies a single type of product into a single industry and so has a single reportable segment. Additional information is given regarding the revenue receivable based on geographical location of the customer. An analysis of revenue by geographical market is given below:

	Year ended	**Year ended**

	31 October 2021 £'000	31 October 2020 £'000
Revenue		
United Kingdom	9,702	12,337
Europe	26	1,224
Rest of the World	39	-
	9,767	13,561

During the year four customers accounted for 95.0% of the Group's total revenue for the year ended 31 October 2021. This was split as follows; Customer A – 44.7% (2020: 43.6%), Customer B – 28.5% (2020: 27.2%), Customer C – 13.4% (2020: 12.9%) and Customer D – 8.51% (2020: 10.3%), please note customer D differs from the previous year customer D.

The majority of revenue arises from the sale of goods. Where engineering services form a part of revenue it is only in support of the development or sale of the goods.

During the current and previous year, the Group operated in Asia. No revenue was generated in Asia during the year ended 31 October 2021 and year ended 31 October 2020 as the site operates as an Engineering Support Office for the Group. The US subsidiary is currently dormant, and no revenue has been generated since the US subsidiary was incorporated.

5. Loss from operations

The operating loss is stated after charging / (crediting):

	Year ended 31 October 2021 £'000	Year ended 31 October 2020 £'000
Staff costs (see Note 6)	2,854	4,336
Cost of inventories	6,335	9,745
Foreign exchange loss/(gain)	156	(39)
Amortisation of development costs	76	118
Impairment of development costs	-	72
Depreciation:		
Property, plant and equipment*	229	223
Right-of-use assets*	421	349
(Profit) on disposal of assets	(13)	-
Auditor's remuneration:		
Audit of the accounts of the Group	62	60
Other audit related services (relating to interim review)	12	19
Taxation compliance services	8	5
Other taxation advisory services	13	11

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

6. Group and Company Staff costs

	Year ended 31 October 2021 £'000	Year ended 31 October 2020 £'000
Wages, salaries and bonuses	2,435	3,747
Social security costs	240	346
Pension costs	89	123
Share-based payments	90	120
	2,854	4,336

During the year the company took advantage of the government furlough scheme, in the year to 31 October 2021 £152k (2020: £445k) was claimed in relation to this scheme, this benefit is not included in the above totals.
Staff costs net of furlough claims amounted to £2.7m during the financial year.

The average monthly number of employees during the period was as follows:

	Year ended 31 October 2021	**Year ended 31 October 2020**
	Head count	Head count
Manufacturing	45	76
Administration	30	46
	75	122

Directors' costs

	Year ended 31 October 2021	**Year ended 31 October 2020**
	£'000	£'000
Directors' remuneration included in staff costs:		
Wages, salaries and bonuses	333	297
Compensation for retirement from office	-	-
Pension costs	21	18
	354	315
Remuneration of the highest paid director(s):		
Wages, salaries and bonuses or fees	120	142
Pension	11	15
	131	157

None of the share options exercised in the year related to directors.

7. Exceptional administrative expenses

	Year ended 31 October 2021	**Year ended 31 October 2020**
	£'000	£'000
Restructuring costs	-	341
	-	341

The exceptional items reported in 2020 £0.3m consist of cost of restructuring and redundancy costs in the year due to COVID-19.

8. Finance income and expenses

	Year ended 31 October 2021	**Year ended 31 October 2020**
	£'000	£'000
Finance expense		
Finance charge from lease liabilities	112	63
Other interest & invoice discounting charges	70	42
Finance Income	-	(7)
	182	98

9. Income tax

	Year ended 31 October 2021 £'000	Year ended 31 October 2020 £'000
Current tax (income)/expense		
UK corporation tax: in respect of prior years	(340)	(117)
	(340)	(117)
Total tax (income)/expense	**(340)**	**(117)**

The reasons for the difference between the actual tax charge for the year and the standard rate of corporation tax in the United Kingdom applied to profit for the year as follows:

Tax rate	19.00%	19.00%
(Loss) for the year before tax	(1,546)	(3,131)
Expected tax credit based on corporation tax rate	(294)	(595)
Expenses not deductible for tax purposes	(12)	595
Adjustment in respect of prior years - R&D credits	(340)	(51)
Tax losses not recognised	306	-
Total tax (income)/expense	**(340)**	**(117)**

In the Spring Budget 2021, the Government announced that from 1 April 2023 the corporation tax rate will
increase to 25%. This rate was substantively enacted as at the 31 October 2021 Balance Sheet date. This has had no material impact on the financial statements. The UK corporation tax rate for the year ended 31 October 2021 is calculated at 19% (2020: 19%).

10. Loss per share

	Year ended 31 October 2021 £	Year ended 31 October 2020 £
Loss for the year	(1,206,000)	(3,130,000)
	Shares	**Shares**
Weighted average number of shares in issue	36,270,917	35,995,289
Weighted average number of share options	1,856,366	2,143,440
Weighted average number of shares (diluted)	38,127,283	38,138,729
Loss per share (£) (basic)	(£0.03)	(£0.08)
Loss per share (£) (diluted)	(£0.03)	(£0.08)

Share options have not been included in the diluted calculation as they would be anti-dilutive with a loss being recognised.

11. Intangible assets

Group and Company	**Development Costs** £'000	**Group Total** £'000
Cost		
At 31 October 2019	599	599

Additions	39	39
Disposal	-	-
At 31 October 2020	638	638
Additions	-	-
Disposal	-	-
At 31 October 2021	638	638
Amortisation		
At 31 October 2019	282	282
Charge for the year	118	118
Impairment	72	72
Disposal	-	-
At 31 October 2020	472	472
Charge for the year	76	76
At 31 October 2021	548	548
Net book value		
At 31 October 2019	317	317
At 31 October 2020	167	167
At 31 October 2021	90	90

Impairment

The Group reviews the Development costs at each reporting period for indicators of impairment. An indication of impairment can be generated from the loss of a customer, or contracted sales. The Board have provided an impairment of £Nil (2020 - £72,000) relating to development costs capitalised but where no future economic benefits are currently expected to be generated for the Group.

12. Property, plant and equipment

Group and Company	**Leasehold Improvements** £'000	**Plant & machinery** £'000	**Motor vehicles** £'000	**Fixtures & Fittings** £'000	**Group Total** £'000
Cost					
At 31 October 2019	198	1,920	141	349	2,608
Additions	372	569	-	51	992
Disposal	(3)	-	-	-	(3)
At 31 October 2020	567	2,489	141	400	3,597
Prior period adjustment	(76)	(645)	(70)	-	(791)
Balance at 31 October 2020 (revised)	491	1,844	71	400	2,806
Additions	-	47	-	17	64
Disposal	-	-	(48)	-	(48)
At 31 October 2021	491	1,891	23	417	2,822
Depreciation					
At 31 October 2019	46	1,233	92	176	1,547
Charge for the year	33	233	17	45	328
Disposal	-	-	-	-	-
At 31 October 2020	79	1,466	109	221	1,875
Prior period adjustment	(30)	(217)	(38)	-	(285)
Balance at 31 October 2020 (revised)	49	1,249	71	221	1,590
Charge for the year	50	136	-	43	229
Disposal	-	-	(48)	-	(48)
At 31 October 2021	99	1,385	23	264	1,771
Net book value					
At 31 October 2019	97	390	-	173	660

At 31 October 2020	488	1,023	32	179	1,722
Prior period adjustment	(46)	(428)	(32)	-	(506)
At 31 October 2020 (revised)	442	595	-	179	1,216
At 31 October 2021	392	506	-	153	1,051

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

13. Investment in subsidiaries

	Group 31 October 2021 £'000	Group 31 October 2020 £'000	Company 31 October 2021 £'000	Company 31 October 2020 £'000
Subsidiary undertakings	-	-	-	-
	-	-	-	-

A list of all the investment in subsidiaries is as follows:

Name of company	Registered office	Country of registration	Type of shares	Proportion of shareholding and voting rights held	Nature of business
Directly owned					
Velocity Composites SDN. BHD	Pentagon Suite, ES-04, Level 3, Wisma Suria, Jalan Teknokrat 6, Cyber 5, 63000, Cyberjaya, Selangor	Malaysia	Ordinary	100%	Manufacturer of composite material products for the aerospace sector
Velocity Composites Aerospace, Inc.	Corporation Trust Center, 1209 N. Orange St, Wilmington, Delaware 19801	United States of America	Ordinary	100%	Manufacturer of composite material products for the aerospace sector

14. Inventories

	Group 31 October 2021 £'000	Group 31 October 2020 £'000	Company 31 October 2021 £'000	Company 31 October 2020 £'000
Raw materials & consumables	541	1,558	541	1,558
Finished goods	336	350	336	350
	877	1,908	877	1,908

Inventories totalling £877k (2020: £1,908k) are valued at the lower of cost and net realisable value. The Directors consider that this value represents the best estimate of the fair value of those inventories net of costs to sell. The release of inventories provision during the year amounted to £593k, in 2020 the release was not material.

The inventory at 31 October 2021 is after a stock provision of £264k (2020: £857k). The provision reflects the aged stock profile consistent with FY20, as well as specific provisions related to slow moving stock as a result of reduced demand.

Inventories recognised as an expense during the year ended 31 October 2021 amounted to £6,335k (2020: £9,745k), and these were included in cost of sales.

15. Trade and other receivables

	Group 31 October 2021 £'000	Group 31 October 2020 £'000	Company 31 October 2021 £'000	Company 31 October 2020 £'000
Trade receivables	1,883	1,954	1,883	1,954
Prepayments	260	259	259	257
Other receivables	19	251	19	250
Amounts due from subsidiary undertakings	-	-	34	29
	2,162	2,464	2,195	2,490

Trade receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. They are generally due for settlement within 76 days (2020: 45 days) and therefore are all classified as current. Trade receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The group holds the trade receivables with the objective to collect the contractual cash flows and therefore measures them subsequently at amortised cost. Details about the group's impairment policies and credit risk are provided in note 3.

Trade receivables overdue by:

	31 October 2021 £'000	31 October 2020 £'000
Not more than 3 months	13	249
More than 3 months but not more than 6 months	-	7
More than 6 months but not more than 1 year	-	5
More than 1 year	-	-
	13	261

The overall expected credit loss is trivial, (2020: trivial). There is no movement in allowance of impairment of trade receivables during each year.

Trade receivables held in currencies other than sterling are as follows:

	31 October 2021 £'000	31 October 2020 £'000
Euro	194	226
US Dollar	1,651	1395
	1,845	1,621

16. Cash and cash equivalents

	Group 31 October 2021 £'000	Group 31 October 2020 £'000	Company 31 October 2021 £'000	Company 31 October 2020 £'000
Cash at bank	3,476	3,268	3,470	3,265
	3,476	3,268	3,470	3,265

17. Trade and other payables

	Group	Group	Company	Company
	31 October 2021	31 October 2020	31 October 2021	31 October 2020
	£'000	£'000	£'000	£'000
Current				
Trade payables	639	487	639	486
Accruals	137	585	137	583
Other tax and social security	268	417	268	417
Other payables	14	15	14	13
	1,058	1,504	1,058	1,499

Book values approximate to fair values.

Bank Loan in the period

	Group	Group	Company	Company
	31 October 2021	31 October 2020	31 October 2021	31 October 2020
	£'000	£'000	£'000	£'000
Not later than one year	514	500	514	500
One to two years	536	1,500	536	1,500
Two to five years	1,462	-	1,462	-
	2,512	2,000	2,512	2,000

During the year the company took out a further Coronavirus Business Interruption Loan for £0.45m secured against owned non-current assets. This is to be paid over 5 years with the first payments due July 2021, the last payment date is June 2026. The loan is at interest free for the initial 12 months, followed by an interest rate of 11.1% per annum.

Another £0.45m loan was took out to settle remaining lease liabilities, of this £0.18m was received as cash once the finance liability on the financed assets had been settled this cash has been classified as a loan. This is to be paid over 5 years with the first payments due July 2021, the last payment date is June 2026. The loan is at interest free for the initial 12 months, followed by an interest rate of 11.1% per annum

During the previous year the company took out a Coronavirus Business Interruption Loan for £2.0m. On the 19 January 2021 the term of this loan was extended to 6 years, the first payments due August 2021, the last payment date is August 2026. The loan is at interest free for the initial 12 months, followed by an interest rate of 3.96%.

18. Grant income deferred

	Group	Group	Company	Company
	31 October 2021	31 October 2020	31 October 2021	31 October 2020
	£'000	£'000	£'000	£'000
Opening balance	-	-	-	-
Grant income amortisation	-	-	-	-
Closing balance	-	-	-	-

19. Leases

In the previous year, the Company adopted IFRS 16 and applied the modified retrospective approach. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 November 2019.

Right-of-use-assets

Group and Company

	Land and buildings £'000	**Plant and machinery** £'000	**Motor Vehicles** £'000	**Total** £'000
Cost				
Balance as at 1 November 2019	-	-	-	-
Adjustment on transition to IFRS 16 on 1 November 2019	479	-	9	488
Additions	885	-	-	885
Balance at 31 October 2020	1,364	-	9	1,373
Prior period adjustment	-	561	49	610
Balance at 31 October 2020 (revised)	1,364	561	58	1,983
Additions	414	-	61	475
Disposal	(137)	-	(9)	(146)
Balance at 31 October 2021	**1,641**	**561**	**110**	**2,312**
Depreciation and amortisation				
Balance as at 1 November 2019	-	-	-	-
Depreciation charge for the year	238	-	8	246
Balance at 31 October 2020	238	-	8	246
Prior period adjustment	-	86	17	103
Balance at 31 October 2020 (revised)	238	86	25	349
Depreciation charge for the year	298	104	19	421
Disposal	(137)	-	(9)	(146)
Balance at 31 October 2021	**399**	**190**	**35**	**624**
At 31 October 2020	1,126	475	33	1,634
At 31 October 2021	1,242	371	75	1,688

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

Upon initial measurement the associated right-of-use assets for property leases and other assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet.

Right-of-use lease liabilities

	£'000
At 1 November 2020	1,471
Repayment	(401)
Additions to right-of-use assets in exchange for increased lease liabilities	475
Other lease movements	4
At 31 October 2021	1,549

Analysis by length of liability	**Land and buildings** £'000	**Plant and equipment** £,000	**Motor Vehicles** £'000	**Total** £'000
Current	243	50	16	309
Non-current	1,000	206	34	1,240
Total	**1,243**	**256**	**50**	**1,549**
Number of right-to-use assets leased	5	5	2	
Range of remaining term	1-10yrs	1-10 yrs	1-4 yrs	

Lease Liabilities

Lease liabilities are presented in the consolidated statement of financial position as follows:

	Minimum lease payments	Interest	Present value
31 October 2020			
Not later than one year	480	69	411
Later than one year and not later than two years	317	51	266
Later than two years and not later than five years	899	105	794
	1,696	225	1,471
31 October 2021			
Not later than one year	378	69	309
Later than one year and not later than two years	292	67	225
Later than two years and not later than five years	1,181	166	1,015
	1,851	302	1,549

Low value leases

The Group leases motor vehicles and property, comprising both offices and assembly space, under low value leases. The total value of minimum lease payments due is payable as follows:

Group	**31 October 2021** £'000	**31 October 2020** £'000
Motor vehicles		
Not later than one year	-	-
Later than one year and not later than two years	-	-
	-	-
Property, plant and equipment		
Not later than one year	4	23
Later than one year and not later than two years	-	4
Later than two years and not later than five years	-	-
Later than five years	-	-
	4	27

Company	**31 October 2021** £'000	**31 October 2020** £'000
Motor vehicles		
Not later than one year	-	-
Later than one year and not later than two years	-	-
	-	-
Property, plant and equipment		
Not later than one year	4	23
Later than one year and not later than two years	-	4
Later than two years and not later than five years	-	-
Later than five years	-	-
	4	27

Low value leases not classed as right of use assets due to the minimal value of the lease, relate to a building security contract, all other prior year operating leases have been classed as right-to-use asset on transition to IFRS 16. Payments made under such leases are expensed on a straight-line basis.

20. Deferred Tax

Deferred tax is calculated in full on temporary differences under the liability method using tax rates appropriate for the period. The movement on the deferred tax account is as shown below:

The movement on the unrecognised deferred tax (asset)/liability is shown below:

Group and Company	**31 October 2021** £'000	**31 October 2020** £'000
Corporation tax losses brought forward	(534)	(534)
Corporation tax losses not recognised in the year	(306)	-
Closing tax not recognised (asset)	(840)	(534)

The Group has unused tax losses which were incurred by the holding company. A deferred tax asset of £840,000 (2020: £534,000 – this figure has been updated following the finalisation of the FY20 corporation tax computations) is not recognised in these accounts. Corporation tax losses can be carried forward indefinitely and can be offset against future profits which are subject to UK corporation tax.

21. Reconciliation of liabilities arising from financing activities

Group and Company	**Long-term borrowings** £'000	**Short-term borrowings** £'000	**Long term lease Liabilities** £'000	**Total** £'000
At 31 October 2019	-	4	290	294
Cash flows				
Repayment	-	-	(402)	(402)
Proceeds	2,000	-	-	2,000
Non-cash				
Foreign exchange differences	-	(4)	-	(4)
Reclassification Right of Use	-	-	1,583	1,583
Transfer from Long-term to short term borrowings	(500)	911	(411)	-
At 31 October 2020	1,500	911	1,060	3,471
Cash flows				
Repayment	(119)	-	(400)	(519)
Proceeds	634	-	-	634
Non-cash				
Foreign exchange differences	-	-	-	-
Additional lease Liabilities			475	475
Transfer from Long-term to short term borrowings	(17)	(88)	105	-
As 31 October 2021	**1,998**	**823**	**1,240**	**4,061**

We have amended prior year presentation to provide more detailed information. Lease liabilities have been split from long and short-term borrowings; the overall closing balances have not changed.

22. Share capital

	31 October 2021 £	31 October 2020 £
Share capital issued and fully paid		
36,303,064 Ordinary shares of £0.0025 each	90,758	90,569

Ordinary shares have a par value of 0.25p . They entitle the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote. The Company does not have a limited amount of authorised capital.

Options
Information relating to the Velocity Composites plc Employee Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the reporting period, is set out in note 23.

Movements in share capital	**Nominal value £**	**Number of shares**
Ordinary shares of £0.0025 each		
At the beginning of the year	90,569	36,227,459
Exercising of share options	189	75,605
Closing share capital at 31 October 2021	90,758	36,303,064

On 12/02/2021, the Company issued 38,605 new ordinary shares of £0.0025 each to satisfy the exercise of options granted under the Group's 2017 Share Option Scheme.
On the 28/05/2021, the company issued a further 37,000 new ordinary shares of £0.0025 each to satisfy the exercise of options granted under the Group's 2017 Share Option Scheme.

23. Share-based payment

The Group's employees are granted option awards under the Velocity Composites Limited Enterprise Management Incentive and Unapproved Scheme.

The share options dated 13 March & 17 October 2017 have no attached performance conditions and vest subject only to continued employment. All options under these arrangements were vested during the financial year. The options may be exercised at any point up to the 10th Anniversary of the grant date.

The 225,000 share options dated 29 October 2019 have no attached performance conditions and vest subject only to continued employment. They vest after 3 years, or earlier if a vesting event occurs as defined in the rules of the Scheme.

The 1,480,000 share options dated 29 October 2019 have attached performance conditions linked to adjusted EBITDA. They vest after two years, or earlier if a vesting event occurs in the rules of the Scheme. The options may be exercised at any point up to the 10th Anniversary grant date. During the year 765,000 of these share options lapsed due to people leaving the businesses and the performance criteria not being met.

The 615,065 shares options dated 30 October 2020 have no attached performance conditions and vest subject only to continued employment. They vest after 5 years, or earlier if a vesting event occurs as defined in the rules of the Scheme.

During the year ended 31 October 2021, share options were granted as follows:
278,805 shares options dated 01/04/2021 have no attached performance conditions and vest subject only to continued employment. They vest after 5 years, or earlier if a vesting event occurs as defined in the rules of the Scheme.
Vesting events are defined within the rules of the Scheme as a reorganisation, takeover, sale, listing (except on AIM), asset sales or death of the Option holder.

The Group recognised a cost of £90,000 (2020 – £120,000) relating to share-based payment transactions which are all equity settled, an equivalent amount being transferred to share-based payment reserve. This reflects the fair value of the options, which has been derived through use of the Black-Scholes model.

There were no cancellations or modifications to the awards in the period.

The following options were outstanding as at 31 October 2021:

Scheme and grant date	Exercise price £	Vesting date	Expiry date	Vested	Not vested	Total
13 March 2017	0.0025	13 Mar 2019	13 Mar 2027	507,525	171,281	603,201
17 October 2017	0.6926	17 Oct 2019	17 Oct 2027	-	35,000	35,000
29 October 2019	0.2065	29 Oct 2022	29 Oct 2031	-	225,000	225,000
29 October 2019	0.2065	29 Oct 2021	29 Oct 2031	-	1,480,000	1,480,000
30 October 2020	0.2065	01 Nov 2021	1 Nov 2026	-	615,065	615,065
01 April 2021	0.025	01 Apr 2021	01 Apr 2026	-	28,805	28,805
01 April 2021	0.13	01 Apr 2021	01 Apr 2026	-	125,000	125,000
01 April 2021	0.158	01 Apr 2021	01 Apr 2026	-	125,000	125,000
				507,525	2,729,546	3,237,071

The cost of share-based payments is included in "Administrative expenses" within the Statement of total comprehensive income. The share-based payments reserve is used to recognise the grant date fair value of options issued to employees but not exercised.

Movement in share options

Scheme and grant date	As at 30 Nov 2020	Issued	Expired	Exercised	Vested	As at 31 Oct 2021
1 January 2017	264,178	-	-	-	-	264,178
13 March 2017	95,889	-	-	-	(40,638)	55,251
17 October 2017	21,804	-	-	-	-	21,804
29 October 2019	108,000	2,826	(30,667)	-	-	80,159
30 October 2020	-	96,651	-	-	-	96,651
01 April 2021	-	7,370	-	-	-	7,370
01 April 2021	-	6,910	-	-	-	6,910
01 April 2021	-	6,910	-	-	-	6,910
	489,871	120,667	(30,667)	-	(40,638)	539,233

24. Related party transactions

Balances and transactions between the Company and its subsidiary, which are related parties, have been eliminated on consolidation. However, the key transactions with the Company are disclosed as follows:

Compensation of senior management personnel outside of Director's emoluments paid:

	31 October 2021 £'000	31 October 2020 £'000
Short term employment benefits	-	92
	-	92

No transactions took place with related parties (purchases or dividends)/sales in the current or prior year.

The Group has previously engaged IN4.0 Access Limited, which provides consulting services. One of the directors of IN4.0 Access Limited is a director of Velocity Composites Plc. The Group paid £nil (£nil – 2020) to IN4.0 Access Limited during the year and had £nil outstanding at the year end.

The following balances existed at periods end with related parties (payable)/receivable:

	31 October 2021 £'000	**31 October 2020** £'000
Related parties	-	-

25. Ultimate controlling party

The Directors do not consider there to be an ultimate controlling party due to no individual party owning a majority share in the Group.

26. Capital commitments

At 31 October 2021 the Group had £nil (2020: £nil) of capital commitments relating to the purchase of leasehold improvements, plant and machinery and fixture and fittings.

27. Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £89,337 (2020: £131,761) were charged to the Consolidated Income statement. Contributions outstanding at 31 October 2021 were £13,557 (2020: £22,142).

28. Contingent liabilities

At 31 October 2021 the Group had in place bank guarantees of £nil (2020: £nil) in respect of supplier trade accounts.

29. Adjusted EBITDA

EBITDA is considered by the Board to be a useful alternative performance measure reflecting the operational profitability of the business. Adjusted EBITDA is defined as earnings before finance charges, taxation, depreciation, amortisation, impairment, share-based payments and exceptional restructuring costs. Share based payments are added back to make the share based payment charge clear to stakeholders.

Adjusted EBITDA	**31 October 2021**	**31 October 2020**
Reconciliation from Operating Profit	£'000	£'000
Operating Loss	(1,364)	(3,149)
Add back:		
Share-based payments	90	120
Depreciation of Property, plant and equipment*	229	224
Amortisation	76	117
Impairment of Intangible assets	-	72
Depreciation of Right of Use assets under IFRS 16*	421	350
Exceptional Administrative costs	-	341
	(548)	(1,925)

** a prior year adjustment has been made between property, plant and equipment and right-of-use asset please see note 30 for details.*

30. Prior year adjustment

During the period the group and company reclassified balances relating to leased assets that were incorrectly presented within property, plant and equipment rather than right of use assets. This arose due to an oversight and finance leases were omitted when adopting IFRS 16. The adjustment had no impact on opening retaining earnings. Details of the adjustment can be found below.

Group and company statement of financial position	**Original presented** £'000	**Revised presented** £'000	**Adjustment** £'000
Property plant and equipment	3,597	2,806	(791)
Depreciation of Property, plant and equipment	(1,875)	(1,590)	285
Right of use assets	1,373	1,983	610
Depreciation Right of use assets	(246)	(350)	(104)
	2,849	2,849	-

Group and company income statement	**Original presented** £'000	**Revised presented** £'000	**Adjustment** £'000
Depreciation	327	223	(104)
Depreciation of Right to Use assets under IFRS 16	246	350	104
	573	573	-

Group and company statement of cashflows	**Original presented** £'000	**Revised presented** £'000	**Adjustment** £'000
Depreciation	327	223	(104)
Depreciation of Right to Use assets under IFRS 16	246	350	104
Purchase of plant and equipment from investing activities	(991)	(782)	209
Lease liabilities proceeds from financing activities	209	-	(209)
	(209)	(209)	-