Financial Statements

For the year ended 31 October 2018

velocity composites plc

Registered number: 06389233

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Highlights

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

- Year on year revenue growth from new and existing customers of 14% to £24.5m (FY17: £21.4m)
- Gross margin of 18% for FY18 (FY17: 18%) with an increased second half margin of 21% following recovery from lower first half margins arising from unforeseen customer changes and onboarding multiple programmes
- Operating loss for FY18 of £1.1m (FY17: £0.5m), with an adjustment operating profit of £0.1m in second half FY18 (before exceptional costs of £0.3m) arising from the continued investment in growth and the above improvements to gross margin in H2 FY18
- Net cash at 31 October 2018 of £4.1m (FY17: £4.3m) (after invoice discounting) including £3.8m of EIS funds
- The Group is no longer able to employ the EIS funds by the May 2019 deadline
- Contracted business of over £67m for the FY19-FY21 period, subject to customer demand fluctuations (including £17m of contract renewals)
- International NADCAP accreditation awarded for kitting service provider to all aerospace primes
- Award of three-year contract to supply complex design consumable kits to Boeing 737 Max programme (£3m)
- Award from a new customer in continental Europe to supply composite material kits for a two year period for the component parts for the Leading Edge Aviation Propulsion ("LEAP") engines used on the Airbus A320 NEO and Boeing 737 Max ($6m)
- Twelve month contract extension awarded providing composite material kits across the Airbus range of aircraft and regional business jets (£10m)
- Appointment of two new Independent Non-Executive Directors, Meera Parmar and Brian Tenner
- The Board expects the revenue and gross margin ratio to be at similar levels in FY19

velocity composites plc

Executive Chairman's Report

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Overview

I am pleased to report that our results for the year ended 31st October 2018 showed a revenue growth of 14% to £24.5m and a net cash balance of £4.1m which whilst pleasing for the growth and underlying profitability, was disappointing compared to our plans for the year. Business performance improved in the second half of the year resulting in an adjusted operating profit of £0.1m (before exceptional costs of £0.3m), and a Gross Margin of 21% for this period giving an 18% Gross Margin for the whole year.

Velocity has continued its strategy of disrupting the composites supply chain and targeting customers where savings can be generated in material and labour costs alongside other tangible benefits to aerospace parts' manufacturers. The Group's agreements with customers provide good visibility of future potential revenue, subject to customer demand fluctuations.

The Board believes that post flotation the Company could have shown more potential customers in greater detail how Velocity could help their businesses to manage costs, and this has delayed our winning of new work. For that reason, during the reporting period, Velocity continued its investment programme to recruit additional engineers and increase its business development team to support sales and business development activities. To stay ahead of the market, the Group remains committed to investing in a new Research and Development Centre to bring innovative products and services to our existing and potential customers, in order to help them to reduce operating costs and to increase the Group's revenues.

In terms of new business acquisition, to demonstrate commitment to customers (existing and potential) we opened an Engineering Support Office in Malaysia during the year, with a small team now based in Selangor, Malaysia. Since the period under review, we have progressed our plans to open a similar office in Poland. Both areas represent different and significant opportunities and complement our UK facilities in Burnley and Fareham.

During the year the Group was awarded a contract to supply complex designed consumable kits for the Boeing 737 Max programme (£3m), a tactical project supplying structural material kitting for an Airbus A320 aircraft engine (£0.7m), a package from a new continental European customer who is a Tier 1 manufacturer of component parts for the Leading Edge Aviation Propulsion ("LEAP") engines used on the Airbus A320 NEO and Boeing 737 Max ($6m), and an extension to a Long Term Agreement with an existing UK customer manufacturing component parts across the Airbus fleet and on regional business jets (£10m).

There were challenges faced by Velocity during the year in respect of its growth aspirations and actions were taken to mature the business and innovate and challenge the industry to enable the Group to become the "go to" provider when aerospace manufacturers seek to reduce composite manufacturing costs.

Executive Chairman's Report (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Financial Highlights

- New business wins totalled £18m for delivery over the next three years
- Revenue continued to strengthen, up 14% to £24.5m (2017: £21.4m) and gross profit was up 14% to £4.5m (2017: £3.9m)
- Operating loss of £1.1m (2017: £0.5m) and loss before tax of £1.2m (2017: £0.6m) incorporated impact of additional administrative expenses
- Net assets have reduced from £10.1m (October 2017) to £9.5m (October 2018)
- Development costs capitalised as intangible asset (£0.2m)

The revenue outturn for the twelve months ended 31st October 2018 is £24.5m (2017: £21.4m) representing an overall increase of 14% and gross profit of £4.5m (2017: £3.9m). Gross profit in the period improved as some programmes which took longer than originally expected to onboard have stabilised and started to increase rates. The business continued to invest in business development and engineering resource in order that new significant contracts can be secured and additional sites opened. In addition, operational and functional investments were also made during the year to support the business growth. The full year costs associated with being on AIM are also reflected in these accounts which all combined resulted in a loss before tax of £1.2m (2017: £0.6m) with Loss per Share remaining stable at £(0.03) (2017: £(0.02)).

The cash balance at the year-end was slightly better than expected and stood at £4.7m (2017: £5.4m) with other cash facilities reducing this to a net cash position of £4.1m. At the year end, the Group still retained £3.8m of EIS/VCT qualifying funds which it is required to employ by May 2019 to meet HMRC requirements. However, due to the slower growth trajectory than planned, and the more recent uncertainty following the recent executive Board changes and discussions with the founding shareholders, the Group sees that it is no longer able to employ these funds on EIS qualifying expenditure by May 2019. For the avoidance of doubt, the Group understands that any EIS funds that are not spent by this date will become part of the Group's unrestricted cash resources going forward.

The impact of one-off exceptional restructuring costs and the expenditure on growth opportunities both in the UK and overseas, means that underlying trading can be more fairly reflected by an Adjusted Loss before tax of £(0.3)m (2017 Adjusted Profit before tax: £0.7m), and Adjusted Loss Per Share of £(0.01) (2017: £(0.02)) (see below and Note 29).

	31 October 2018 £'000	***31 October 2017 £'000***
Reported (loss) before tax	(1,207)	(627)
Adjustments:		
Future growth expenditure relating to UK and overseas	675	446
Exceptional restructuring costs	252	-
Exceptional IPO related administrative expenses	-	667
Exceptional share-based payments	-	264
Adjusted (loss)/ profit before tax	(279)	750

Executive Chairman's Report (continued)

As at the year end, the Group had visibility of over £67m of revenues in the coming three financial years, subject as always to fluctuations in the demand signals that the customers have provided, upon which this visibility is based. Included within this revenue visibility are assumed renewals of existing contracts generating £17m of revenue over the latter part of this three year period.

Further commentary relating to the Financial Review can be found on pages 12 to 15.

Business Strategy

As previously outlined, Velocity uses industry knowledge, business processes and proprietary software to reduce the amount of material and labour required by our customers to manufacture composite parts within the aerospace composites industry and enable our customers to outsource a significant area of non-value-added activity from their own businesses.

In turn, the supply chain becomes more efficient and lower cost and this gives our customers a competitive advantage when bidding for new packages of work. Feedback from our customers remains that they wish to focus on their core business of manufacturing, testing and assembling composite structures but they need to reduce costs and increase production rates to allow the aircraft manufacturers to meet the significant increases in aircraft build rates driven by increasing global demand.

Velocity continues to seek from its target customers, located globally within the key aerospace manufacturing clusters, a long-term engagement which will allow us to replicate our UK business model with strategic manufacturing facilities located where we can service our customers with just in time deliveries. Potential customers continue to be visited both in Europe and further afield and this activity is being increased as the Board was not satisfied with the reported levels of activity previously. Long term plans are being developed with supporting site roll-out plans as each customer approaches contract award. Once Velocity has secured additional customer contracts in near Europe, we will proceed to open manufacturing sites, with the medium-term ambition being to engage with local partners and customers direct in both North America and Asia in order to develop potential opportunities in these regions.

As the global growth opportunity continues to be explored by the Group, we will seek the most appropriate funding routes available for both the investment into those new territories and to support our cash flow to facilitate the purchase of materials for kits supplied to our customers.

Governance and Risk

The Board has continued its previously made decision at IPO to adhere to the Quoted Companies Alliance (QCA) Corporate Governance Code for small and mid-size quoted companies, and further details can be found in the Statement of Corporate Governance on pages 17 to 19, and on the Group's website at www.velocity-composites.com.

In preparing these financial statements, management are required to make accounting assumptions and estimates. The assumptions and estimation methods have been consistently applied throughout the period. The principal risks and uncertainties that may have a material impact on activities and results of the Group remain as set out on pages 12 to 15 of the Financial Review.

Executive Chairman's Report (continued)

Trading review

We continue to see demand for our services as the aerospace composites industry continues in its "make more-for-less" period which is expected to continue for some time, and our customers look for new ways to reduce the cost of manufacture, both in terms of material and labour. Despite this desire by our customers and Velocity's active engagement with these customers, the Group has experienced uncertainty over the precise timing of the award and the onboarding of contracts, and the resultant impact on revenues and profits.

Trading and revenue has been lower than planned for the year but has increased by 14% compared to the last financial year as new programmes and our Fareham facility delivered additional revenue to the business.

The Board was pleased to announce during the year that it successfully achieved Nadcap Special Process accreditation for Composites scope KSP (Kitting Service Provider), for demonstrating its ongoing commitment to quality by satisfying customer requirements and industry specifications. As reported, Nadcap ("National Aerospace and Defence Contractors Accreditation Program") is the leading worldwide cooperative program of major aerospace Primes and is designed to manage a cost-effective consensus approach to special processes and products and provide continual improvement within the aerospace and defence industries. NADCAP provides an industry managed supply chain oversight program that improves quality, while reducing costs, by assessing process capability for compliance to industry standards and customer requirements. The accreditation came after Velocity had been working with various customers over a long and sustained period and the accreditation provides an enhanced ability to secure work on both Airbus and Boeing programmes around the world in the medium and long term.

To supplement the engineering bases in our Burnley and Fareham facilities, and as a part of the employment of the investment funds received at IPO, the Group opened an Engineering Support Office in Selangor near Kuala Lumpur in Malaysia and after the year end, contracts have been exchanged to erect a new building at our Burnley site to house a Research and Development facility alongside a new stores area, additional offices and additional manufacturing space. Once completed, the Group intends to broaden the services offered to its aerospace customers by innovating and investing in the composites arena to help customers to deliver additional cost savings.

Board and People

As outlined last year, the transition from private ownership to a publicly listed company listed on the Alternative Investment Market (AIM) of the London Stock Exchange offered both challenges and opportunities to the business. During the year, I was delighted to welcome Meera Parmar and Brian Tenner to the Board and I would like to thank them for their contributions which have been noteworthy during a period of uncertainty for the Group.

Towards the year end, two of Velocity's co-founders left the business as part of a strategic restructuring plan to reduce ongoing costs and some one-off costs were incurred. In addition, Jonathan (Jon) Bridges (co-founder) who had moved from Chief Executive Officer after the trading update in September 2018 to the role of Chief Technical Officer, left the Board. Following this, the Group has experienced a period of uncertainty which has delayed the Group in its growth plans. The Board has worked hard to resolve and clarify matters for all shareholders and to offer reassurance to the Velocity team, customers and its supply chain. At the present time, the Board and founding shareholders are working collaboratively to attempt to progress these matters toward resolution and it is hopeful but not yet certain that a way forward will be agreed shortly. Additional one-off costs have also been incurred as a result which will adversely affect the FY19 results.

Executive Chairman's Report (continued)

Also, following the September 2018 trading update, Alan Kershaw, Chief Financial Officer decided to pursue new opportunities and the Board thanks Alan for his continued contribution to Velocity during this transition period and his professional and orderly handover to Interim CFO, Andrew Hebb, ahead of the recruitment of a new permanent CFO which is progressing.

I always take this opportunity to thank the whole Velocity team for their efforts during the period and on this occasion, as I have been more involved in the day-today running of Velocity since September 2018, I would like to compliment everybody for their contribution, feedback and tolerance during an unsettling period, and for their hard work to make Velocity the great place it is to work.

I look forward, more than ever, to working with the team and its new members as we grow Velocity and provide cost saving services for more customers.

Outlook

The Board recognises the need to reset investor expectations in relation to the speed of growth and profitability. The recent uncertainty created in the minds of our customers means that the Board expects the new financial year ending 31 October 2019 to be a period of consolidation and re-building of customer confidence and our sales pipeline. As a result, the Board expects to deliver revenue and gross margin ratio at a similar level in the coming year.

The Board acknowledges the disappointment and adverse financial impact on the tax position of certain investors as the EIS funds are not able to be fully employed by the due date in May 2019. However, the Board has concluded that it is important that only high quality approved investments should be made, and given the shortfall in new business highlighted above, it has not been possible to deliver these opportunities in the time period available. The EIS funds will remain available for the Group to use in high quality growth investments, although the majority of this is expected to take place after the due date and any associated tax relief for EIS investors is unlikely to be available.

We have an excellent and committed team looking after a high-quality customer base which is becoming more international and we operate on growing aircraft platforms within the growing composites market with clear focus on scaling Velocity up.

The Board is confident that once the current dialogue with the founding shareholders has been concluded, the Group will be able to refocus on its long-term strategic growth, which is to deliver cost savings for our customers in the aerospace manufacturing supply chain in a profitable way for the Group, and in the short-term performance of the Group where it has the resources and skills available, both business and financial, to enable it to continue to deliver the services it has built its reputation on in a way which provides a profitable return to the Group.

Mark Mills
Chairman
21 January 2019

Our Business in the Aerospace Market

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

The expanded Group

Velocity has continued its growth trajectory from its inception in 2007 through its listing in 2017 to its position today as a strategically important and unique interface between the chemical manufacturers of composite raw materials and the aerospace structural component makers, eliminating waste and providing essential logistics and supply chain efficiencies to its customer base.

Velocity offers a compelling business proposition to its customers in the aerospace supply chain and can usually offer, through its scale, an efficient outsourced solution. This market has traditionally been served through a diverse production process often in non-core factory functions, experiencing low efficiency, material waste and long delivery times. Velocity offers kits delivered in "the form of use" giving attractive material and efficiency cost savings to its customers, who are typically Tier 1 manufacturers, looking to reduce costs by outsourcing this area of the supply chain to Velocity.

The aerospace market operates on very long-time frames, where materials are often specified for up to 20 years in the component part manufacturing process. The industry has good visibility of the long-term future production patterns, and Velocity facilitates the smoothing of short term demand fluctuations for its customers. The customer proposition offers good cash flow characteristics, based on decent aerospace margins, attractive working capital terms and relatively low equipment and capital requirements.

The Group has seen steady growth and remains focused on the UK and European market initially, with the remainder of EMEA, Asia and the Americas also under active investigation. The potential market opportunity across all of these regions will allow the Group's business model to easily be replicated, and provide the added value outlined above throughout the global aerospace manufacturing supply chain.

The Company took the decision to invest in a subsidiary operation based in Malaysia (Velocity Composites Seridian Berhad) to enable it to establish an Asian presence providing it with a foothold for meeting customer opportunities in the region, and also to introduce an offshore base to support a "follow the sun model" of support to its customers. This decision has proven to be beneficial with an operating model experiencing lower costs than the UK having a minimal impact on the Group's results and with the additional capacity provided augmenting the service provision.

Composite Materials in Aerospace

The use of composites has rapidly increased over recent years, and this is set to continue as the single aisle airframes are upgraded to composite materials to follow the lead taken by the twin aisle airframes. The use of composites in the aerospace sector is driven by the need to reduce cost per passenger mile (reducing weight, increasing range) as well as the requirement to reduce emissions. The recent introduction of ultra-long-range flights from Australasia and the Far East to Europe and North America has been driven by the introduction of these materials. Composites now form nearly half of the airframe by weight of the Boeing 787, compared with 12% in its predecessor the Boeing 777. The Airbus A350 also contains just over 50% composite content by weight, and all new airframe variants from both Boeing and Airbus are heavily dominated by composite materials.

Our Business in the Aerospace Market (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Composites have important demand drivers such as:

- The use of composites in structural and non-structural airframe parts achieves a significant weight saving as compared with aluminium (20% according to Boeing).
- Lower weight enables a reduction in fuel usage and therefore assists aerospace manufacturers and airlines to achieve their emissions reduction targets whilst also offering improved economics.
- Composites require lower maintenance costs than aluminium. The Boeing 777 composite tail is 25% larger than the 767's aluminium tail but needs 35% fewer scheduled maintenance hours, with reduced risk of fatigue and corrosion. Airbus has increased the service interval in the A350 to 12 years from 6 years for its predecessor the A330. Similarly, Airbus says the high carbon fibre content on the A350 will reduce fatigue and corrosion related maintenance by 60%.
- Composites are expected to have a longer lifespan. This, coupled with the other attributes mentioned above, should lead to higher residual values over time and therefore improve the economics of plane aircraft leasing.

The aerospace market for carbon fibre is forecast for rapid growth. The aerospace supply chain enjoys a high-quality earnings stream, which derives from a relatively small number of large and highly professional manufacturers, with long-term design and production cycles, long-term visibility of high-level production schedules and high regulatory and quality thresholds. Composite materials have provided an answer to major environmental and efficiency issues, and composite parts are recognised as robust and durable.

The entire aerospace composites industry is facing a challenge to scale up its production as components transition from niche batch-built parts towards volume manufacture. The composites supply chain and logistics will need investment to enable this growth. Velocity is in a unique position in this supply chain to deliver its solution enabling the supply chain to scale up and meet this demand.

Our place in the market

The aerospace composites market currently has the strongest market outlook for a decade. Airbus and Boeing both continue to have significant backlogs of civil aircraft orders and Velocity's model helps manufacturers to meet rates more quickly and it is imperative that we secure and onboard customers. In addition, military aircraft demand is forecast to grow, particularly the F-35 and also on other military platforms on a smaller scale but which remain significant to Velocity, such as the Typhoon.

Velocity's business model remains to only commit the Group to the opening of a new site once a customer contract of import has been agreed and only where latent demand for more efficient composite kit provision can be contracted on an aircraft platform.

The aerospace composite market remains strong as customers look to reduce costs and simplify supply chains, with strong indicators around waste and cost reduction whilst order backlogs and market capacity challenges exist.

Financial Review

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Review of the Year

Statement of Comprehensive Income

Our revenue grew by 14.5% during the year ended 31 October 2018 to £24.5m (FY17: £21.4m). During the financial year new contracts were awarded with both existing and new customers which delivered over £2m in revenue in the year, with an expectation of higher revenue levels from these contracts in future years. European sales increased to £0.5m (2017: £0.1m) through work contracted with a customer in continental Europe. No sales have as yet been achieved in the Asia region.

Gross profit at £4.5m increased by 14% over 2017 (£3.9m). Gross margin was stable year on year at 18.3%, although margin in H1 was lower than expected due to unforeseen customer changes and the onboarding of multiple programs across our UK sites. Management action resulted in an improvement in the H2 margin to 21.2% (H1: 15.2%). The reduction in margin in H1 negatively impacted profitability for the year by £0.6m. Some 70% of revenues and direct costs relating to material purchases are naturally hedged which helps to minimise the effects of exchange rate fluctuation.

Administrative expenses excluding exceptional items increased during the year by £1.8m due primarily to the investment in people related costs to strengthen programme management, engineering, operations and functional teams (£1.2m). As a result of this investment, administrative headcount increased by 15 during the year to finish the year with 47 people.

In addition, the following costs increased year on year: Full year effect of costs incurred by the Group being on AIM £0.2m, EIS related costs of £0.2m, Fareham facility full year costs of £0.1m, Depreciation and Amortisation £0.1m.

The Group presents certain items as Exceptional that are non-recurring and significant. These relate to items which, in the Board's judgement, need to be disclosed by virtue of their size and incidence in order to obtain a meaningful understanding of the underlying trading position. The exceptional items reported in 2018 consist of £0.3m in relation to the departure of two of the Founders and also the Chief Financial Officer.

Operating Loss was £(1.1)m (2017: £(0.5)m) for the full year with an Operating Loss in H2 of £0.2m. The Operating Loss in 2017 included £0.9m of costs associated with the Company listing on AIM covering fees associated with the AIM listing and share based payments.

The impact of one off exceptional restructuring costs and the expenditure on growth opportunities both in the UK and overseas, means that underlying trading can be more fairly reflected by an Adjusted Loss before tax of £(0.3)m (2017: £0.7m), and Adjusted Loss per share of £(0.01) (2017: £(0.02)) (see Note 29). The Group internally uses Adjusted Profit before tax as an alternate performance measure in addition to the statutory reported profit measures.

Cashflow and Capital Investment

The year-end cash and cash equivalents reduced by £0.7m to £4.7m (2017: £5.4m). Cash generated from operations of £0.5m (2017: £(2.4m)) was offset by cash used in Investing activities of £(0.4)m (2017: £(0.7)m) primarily related to property, plant and equipment and Development expenditure capitalised. Financing activities utilised £0.8m including a decrease in the use of the Invoice Discounting facility by £0.5m. The Invoice Discounting facility was utilised to the extent of £0.6m at 31 October 2018 (2017: £1.1m).

Of the £4.1m of net cash at 31 October 2018 £3.8m is the balance remaining from the money raised to be invested in EIS activities. In the financial year the Group utilised £0.7m of EIS money. The Group has to date spent the EIS funds on its research and development activities and on its exploration of new territories in Europe and Asia in particular. The Group sees that it is no longer able to employ the remaining EIS funds by the 24-month anniversary of the Company's IPO due

Financial Review (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

to the slower growth trajectory than planned, and the more recent uncertainty following the recent executive Board changes and discussions with the founding shareholders. The slower growth trajectory has arisen because not enough customers were visited immediately post IPO, given the gestation period between first visit and contract award, which has resulted in a smaller pipeline of fully developed opportunities.

Working Capital

Inventory levels were reduced at the year-end by £0.5m to £2.7m through strategies to more closely align stock levels with customer demand over raw materials.

Trade and other receivables reduced during the year by £0.4m to £5.7m. This arose from an increase in trade receivables of £0.5m and a reduction in sundry debtors of £0.9m following a one-off VAT recovery at last year end. Whilst debtor days have increased to 72 days (2017: 66 days), only £0.1m of the total receivable balance represents receivables more than 3 months overdue.

Trade and other payables also reduced during the year by £0.4m to £5.2m primarily due to the reduction in the invoice discounting facility use at the year end.

Financial Key Performance Indicators (KPI's)

The Board have monitored the performance of the Group with particular reference to the relevant key performance indicators (KPI's) which are set out below:

	Year ended 31 October 2018	***Year ended 31 October 2017***
Revenue growth (%)	14.5%	46.2%
Gross Margin%	18.3%	18.4%
Operating Margin%	(4.4%)	2.2%
Adjusted Loss before Tax	£(279)k	£750k

The Board use the above KPI's to represent the strategic targets it has set to grow the business to a sustainably higher level of revenue and profits arising from the replication of its UK business model into continental Europe and further afield. The Board is planning to undertake a review of both the financial and non financial KPI's that the Group needs to target its performance upon following the appointment of new Board members.

Share price during the year

The share price range during the year from 1 November 2017 to 31 October 2018 was 86p to 29p.

Principal risks and uncertainties

The Board is committed to operating to high standards of corporate governance, as we believe that doing so will contribute to the delivery of long-term shareholder value. The aerospace market also requires the Group to operate on a Right First Time Every Time basis and the Company's listed status has solidified our commitment to governance, quality and transparency and as importantly, further improved the perception of Velocity in our customers' and potential customers' eyes.

The principal activity risks and uncertainties of the Group are considered to be the loss of key contracts. Demand has remained firm in the short term despite the ongoing uncertainty arising in the UK economy regarding BREXIT, and the Group's view remains that the demand levels within aerospace manufacturing will continue to increase due to the global aircraft production backlogs which currently are estimated to be between five and ten years, and the increasing use of composites within aerospace manufacturing. Despite this, the business has been able to continue to grow its customer base, and to win additional business with its existing customers.

Financial Review (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

For many businesses, the negotiations between the United Kingdom and European Union for its future relationship give cause for uncertainty and concern. The planned opening of Velocity's new office in Poland (and recently opened office in Malaysia) go towards mitigating these uncertainties. Whilst the ongoing uncertainty is a natural cause for concern, the aerospace sector is a global market which unlike many other sectors is largely tariff free. The UK is the second largest aerospace market in the world and works in global alliance on long term projects which last for many years. For Velocity, its strategy remains to be country agnostic and to co-locate in aerospace clusters alongside its customers, which helps to mitigate some of the risk that Brexit may otherwise bring to the Group.

In addition, the Group has undertaken various risk mitigation activities which included planning to hold additional stock levels during the Brexit transition dates to mitigate any supply chain issues, undertaking other capacity planning assessments with customers and suppliers, ensuring any tariff and tax changes are fully covered in our contracts and liaising with Government bodies to be prepared for the different outcomes which may come to pass. Supplier risks are detailed below under operational risks.

The Board is also conscious of the risk of exclusively operating in the aerospace sector, foregoing many offers from automotive manufacturers for example, and is comfortable that the risk is mitigated by the forward order books of the aircraft manufacturers and strength of the growing aerospace market.

Financial risk management

The Group uses financial instruments including loans, cash and other items such as trade receivables and trade payables that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations.

The existence of these financial instruments exposes the Group to a number of financial risks. These are liquidity risk, credit risk, interest rate risk and exchange rate risk. The Directors review and agree policies for managing each of these risks and they are summarised below.

Liquidity risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet its foreseeable needs, by the use of invoice discounting, loans and other bank facilities, and to invest cash assets safely and profitably. The Group also has the ability to seek additional funds from the equity markets if necessary.

Credit risk

The Group's trade receivables relate to amounts owed by aerospace supply chain manufacturers. Given the size and stability of the core receivables, the Directors do not believe that credit risk to the Group is significant. The Directors monitor any default risk on a regular and ongoing basis.

Interest rate risk

The Group seeks to manage its interest rate risk through regularly reviewing the interest rates available within the financial marketplace.

Exchange rate risk

The Group seeks to manage the exposure to exchange rate fluctuation it experiences with purchasing raw materials in Sterling, US Dollars and Euros and selling finished kits in the same currency. The Directors monitor the future projected exchange rates and look to mitigate any significant exposure where possible, including by matching receipts and payments in currency and utilising currency exchange facilities.

Financial Review (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Operational Risks

The Group has a number of areas of Operational risk which are actively managed including materials and products uniquely provided by a small number of third parties, reliance on key individuals and health and safety. The Group's business depends on materials and products uniquely provided by a small number of third parties in the supply chain. If there is any interruption to the supply of products by these third parties or timing delays, or problems maintaining quality standards then the Group's business will be adversely affected. We meet regularly with our customers to understand their demand needs which change on a regular basis, as well as being in regular contact with suppliers. Given the long lead times on supply this can lead to shortages of products. We have planned increases in our buffer stocks of products to give us additional stock holdings assuming we exit the European Union at the end of March.

The success of the Group will depend upon the continuing efforts (as referred to in the Business Strategy section of the Executive Chairman's report above) to convince customers to outsource their cutting and kitting activities to the Group, and also to then renew these appointments upon contract expiration. This is largely dependent upon the continuation of the high quality service provided by the Group and also by the expertise and relationships of the Board and other Senior employees with these key customers. Without these contract wins, the operational success and growth of the Group will be put at risk.

The Health and Safety of all our staff is a priority item for the Board and a Health and Safety report is presented at each Board meeting.

Outlook

Despite the above risks that the Group faces, the Board remains confident of the ability of the Group to meet the needs of its existing customer base and to use the resources it has available to extend this offering to both existing and new customers.

The Strategic Report as set out in the Executive Chairman's Report, Our Business in the Aerospace Market and the Financial Review on pages 5 to 15 has been approved by the Board.

Alan M Kershaw

Alan Kershaw

Chief Financial Officer
21 January 2019

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Statement of Corporate Governance

Statement of Corporate Governance

All members of the Board believe strongly in the value and importance of good corporate governance and in our accountability to all of Velocity's stakeholders, including investors, staff, customers and suppliers. The Board has continued to adhere to the Quoted Companies Alliance (QCA) Corporate Governance Code for small and mid-size quoted companies. The corporate governance framework which the Group operates, including Board leadership and effectiveness, Board remuneration, and internal control is based upon practices which the Board believes are proportional to the size, risks, complexity and operations of the business and is reflective of the Group's values.

The Directors are committed to continuing to enhance the corporate governance framework of the Group in order to ensure that it meets the high standards that it expects, as these are critical to business integrity and to maintaining trust with its customers, suppliers, employees and other important stakeholders. One example of this enhancement has been the appointment of two independent Non-Executive Directors in the period, as detailed below.

In applying the principle that the Board should maintain a sound system of internal control to safeguard the Group, the Directors recognise that they have overall responsibility for ensuring that the Group maintains proper accounting records and a system of internal control to provide them with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. There are however, inherent limitations in any system of internal control and hence even the most effective system can only provide reasonable, and not absolute, assurance particularly against misstatement or loss. As expected, a key control during the period was the day-to-day supervision of the business by the Executive Directors.

The Board

At the date of this report the Board comprises of the Executive Chairman, the Chief Financial Officer and two Non-Executive Directors. In the latter half of the financial year Jonathan Bridges left the Board after a move from Chief Executive Officer to the role of Chief Technical Officer, Mark Mills then became Executive Chairman on an interim basis and Brian Tenner and Meera Parmar joined the Board as Non-Executive Directors after Peter Turner resigned as a Non-Executive Director. Due to the size of the Board the roles of Chief Financial Officer and Company Secretary are carried out by the same individual. Alan Kershaw has also indicated that he will in due course be leaving to pursue new opportunities, and has begun a handover to Andrew Hebb, Interim CFO, ahead of the recruitment of a new permanent CFO.

The Chairman has overall responsibility for corporate governance and in promoting high standards throughout the Group. He leads and chairs the Board, ensuring that the committees are properly structured and reviewed on a regular basis, leads in the development of strategy and setting objectives, and oversees communication between the Group and its shareholders.

The Board meets on a regular (usually monthly) basis to deal with matters reserved for its decision. These include agreeing and monitoring strategic plans and financial targets, major decisions on resource, overseeing management of the Group and ensuring processes are in place to manage major risks, treasury matters, changes in accounting policy, corporate governance issues, litigation and reporting to Shareholders.

The monthly Board meetings have a regular agenda with standing items of Health and Safety, Chief Technical Officer report, Chief Operating Officer report, Chief Commercial Officer report, Chief Programmes Officer report, Chief Financial Officer report and management accounts. The Board also receives committee updates on a

Statement of Corporate Governance (continued)

regular basis. To enable the Board to discharge its duties all Directors receive appropriate and timely information. Briefing papers are distributed by the Company Secretary to all Directors in advance of the meetings.

The Non-Executive Directors are considered by the Board to be independent of management and have both the breadth and depth of skills and experience to fulfil their roles. They meet independently without Executive Directors present and maintain ongoing communications with Executive Directors between formal meetings.

A Board and management evaluation process led by the Chairman took place in March 2018. As a result of the process a number of refinements to working practices were identified and have been adopted. As the business grows, the Executive Directors will be challenged to identify internal candidates who could potentially occupy Board positions and set out development plans for these individuals.

In support of the QCA objective of delivering growth in long term shareholder value during the year the Group undertook off site Board discussions over the Group's short, medium and long term strategic direction, and enabled senior management engagement with strategic advisers over the SC21 C&G processes (the Aerospace and Defence Supply Chain Improvement programme) to meet sector expectations.

Board Committees

There are three formal Board committees that meet independently of Board meetings and one additional executive and senior management meeting as follows:

Audit Committee

The Audit Committee currently has three members, Brian Tenner (Chair), Mark Mills and Meera Parmar. The Chief Financial Officer and external auditors attend by invitation. The Audit Committee responsibilities include the review of the scope, results and effectiveness of the external audit, the review of the Interim and Annual accounts, and the review of the Group's risk management and internal control systems. The Audit Committee advises the Board on the appointment of the external auditors and monitors their performance. The Audit Committee met on three occasions during the year.

Remuneration Committee

The Remuneration Committee has three members, Meera Parmar (Chair), Mark Mills and Brian Tenner. The Committee is responsible for setting the remuneration arrangements, short term bonus and long-term incentives for the Executive Directors and senior management. In addition the committee oversees the creation and implementation of all employee share plans. The Committee did not meet separately to the Board during the year.

Nomination Committee

The Nomination Committee has three members, Mark Mills (Chair), Brian Tenner and Meera Parmar. The Nomination Committee meets as required and is responsible for proposing candidates for appointment to the Board and the structure and composition of the Board as a whole, as well as succession planning. The Committee's responsibilities were discussed as a part of the Board meetings during the year.

Executive Committee

The Executive Committee handles the implementation of the Group strategy on behalf of the Board. The Committee comprises of the Executive Directors and other senior managers. It focuses on the long-term vision and strategy for the Group. Primary responsibilities include the oversight of the development, maintenance and implementation of the strategy, management of the overall financial results for the Group, directing operational management and managing shareholder, corporate governance and growth.

Statement of Corporate Governance (continued)

Relations with Shareholders

Velocity maintains an active dialogue with its Shareholders through a programme of Investor Relations. We seek to provide effective communications through our Interim and Annual reports, Trading Updates along with Regulatory News Service announcements. Information is also made available to Shareholders through the company's website (www.velocity-composites.com). The Executive Chairman and other Executives meet both private and institutional Shareholders from time to time and all Directors make themselves available to meet Shareholders at the Annual General Meeting. The Executive Chairman and Chief Financial Officer meet with Institutional shareholders and analysts following the release of full-year and half year results, and through a combination of formal meetings, roadshows and informal briefings. Following the year end, Brian Tenner and Meera Parmar have engaged with certain institutional investors as requested, in relation to the ongoing discussions between the Company and the founding shareholders.

Engagement with Wider Stakeholders and Social Responsibilities

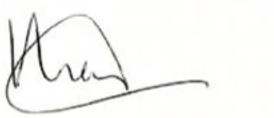
The Board and senior management engage with wider stakeholders including our staff, clients, suppliers, shareholders, industry bodies and communities in a way to promote the longer-term success of the business. With our staff we have implemented monthly staff briefings, a quarterly staff newsletter as well as completing an annual engagement survey. We are members of industry bodies such as NWAA and NADCAP who are influential in how the Group is perceived by clients. We actively participate in the community through our Social Engagement Team and participate in apprenticeship and other schemes to provide opportunities for young people. We also engage with our clients and suppliers in a number of ways: through dialogue; maintaining high levels of quality; ensuring security of data; delivering continuous availability.

Internal Control

The Board has overall responsibility for the Group's system of internal control. The system of internal control is designed to manage rather than eliminate the risk of failure to achieve business objectives. In pursuing these objectives, internal controls can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board performs a regular review of the effectiveness of the system of internal control and takes action as necessary to remedy any significant failings or weaknesses identified in the review. The processes used by the Board to review the effectiveness of the system of internal control include the following:

- An ongoing process of risk assessment to identify, evaluate and manage business risks;
- Management structure with clearly defined responsibilities and authority limits;
- A comprehensive system of reporting financial results to the Board;
- The Audit Committee reviews the effectiveness of the Group's risk management process and significant risk issues are referred to the Board for consideration;
- Appraisal and authorisation of capital expenditure and research and development projects;
- Dual signatories on all bank accounts



Mark Mills
Chairman
21 January 2019

Board of Directors

Mark Mills
Executive Chairman

Mark has over 25 years of City and commercial experience and was Founder and Chief Executive of Cardpoint Plc, which he floated on AIM and grew it both organically and through acquisition to become one of the largest cash machine deployers in the world. Mark has been Non-Executive Chairman of a number of private companies in recent years, enabling four of them to achieve successful sales to other companies or attract significant investment.

Brian Tenner
Non-Executive Director

Brian is a chartered accountant and a highly experienced commercial, operational and financial professional with over 25 years industry experience. Brian is currently CFO / COO at Nanoco Group plc after having held similar roles in Main Listed (NCC Group Plc / Renold Plc) and AIM Listed (Scapa Group Plc) businesses. Brian also holds an LLB (Hons) degree in Law from Edinburgh University and completed an Advanced Management Programme at INSEAD in 2006.

Meera Parmar
Non-Executive Director

Meera is a Chartered Accountant and qualified tax practitioner and brings over 28 years' audit and finance experience to the Group. She started her career at KPMG in the tax and audit practices, before moving to become Tax Partner at Cowgill Holloway LLP. Meera now has a business consultancy practice advising owners of SMEs across a wide range of industry sectors on business strategy and turnaround, capital raising, accessing SME tax incentives and wider financial matters. Meera holds a BSc. degree in Economics from London School of Economics and Political Science.

Alan Kershaw
Chief Financial Officer

Alan, a Chartered Accountant, is an accomplished financial executive with over 25 years' experience of shaping and leading the finance functions of companies, both privately and publicly held. Alan has previously served as Finance Director for Ultrasis plc, an international provider of health care to retail and corporate clients and as Finance and Operations Director at WH Ireland Group Plc, a financial services provider to retail and corporate clients. Alan was also instrumental in successfully establishing JP Morgan Invest (UK), a subsidiary within JP Morgan Chase, serving as its Vice President – Head of Technology and Operations. Alan has indicated his plan to move on to pastures new and has begun a handover to an Interim CFO, ahead of the recruitment of a permanent CFO.

Directors' Report

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

For the year ended 31 October 2018

The Directors present their report and the audited financial statements for the year ended 31 October 2018.

Principal activities

The Group is a provider of engineered composite material kits to the aerospace industry.

Review of business and future developments

The Board has continued the development and growth of the business, as referenced in the Financial Review on pages 12 to 15 and is pleased with the progress made in the past year.

Financial risk management

Details of the Board's approach to Financial risk management can be found in the Financial Review on pages 12 to 15.

Capital Structure

Details of the Company's share capital, together with details of the movements, are set out in Note 22 to the Consolidated Financial Statements. The Company has one class of Ordinary Share which carry no right to fixed income.

Research and Development

The Group continued to invest in research and development, in order to extend its geographical reach and improve the effectiveness of its technology. During the year the Group incurred costs in relation to the development and expansion of its activities totalling £0.7m (2017: £0.4m) and capitalised development costs of £0.2m (2017: £0.4m) in line with the Group's accounting policy.

Basis of preparation of the financial statements

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In accordance with IFRS, the financial statements reflect the results of the Group for the year ended 31 October 2018. Further details are provided in Note 1 to the financial statements.

Directors

The Directors who held office during the year and their interest in the shares of the Company were as follows:

	At 31 October 2018	At 31 October 2017
Mark Richard Mills	2,124,024	1,825,200
Alan Mark Kershaw	29,412	29,412
Jonathan Karl Bridges (resigned 26 October 2018)	-	5,515,929
Peter Graham Turner (resigned 02 August 2018)	-	-
Brian Thomas Tenner (appointed 02 August 2018)	-	-
Meera Menon Parmar (appointed 05 September 2018)	-	-

Directors' Report (continued)

Going concern

Having made reasonable enquiries, the Directors are of the opinion that the Group has sufficient resources to continue in operational existence for the foreseeable future and hence these financial statements have been prepared on a going concern basis. This includes undertaking forecasting projections for the next three years to project the future growth of the Group and flexing these assumptions through sensitivity analyses. We have also discussed with our bankers and other financial advisers the resultant trading performance and they have indicated a strong desire to continue to support the funding of these growth activities.

Indemnification of Directors

The Group provides Directors and Officers Insurance cover and is contractually committed to provide cover.

Substantial shareholdings

At 31 October 2018, notification had been received of the following interest which exceed a 3% interest in the issued share capital of the Company, in addition to those of the current Directors referred to above:

	Number of Ordinary Shares	*% of issued share capital*
Jonathan Karl Bridges	**5,515,929**	**15.41%**
Gerard Antony Johnson	**4,927,693**	**13.77%**
Christopher Banks	**4,927,693**	**13.77%**
Octopus Investment Management	**1,762,940**	**4.93%**
Cavendish Asset Management	**1,600,446**	**4.47%**
Herald Investment Management1	**1,431,177**	**4.00%**
Amati Global Investors	**1,175,294**	**3.28%**
Canaccord Genuity Wealth Management	**1,129,411**	**3.16%**
Share Centre Investment Management	**1,080,389**	**3.02%**

Corporate governance

The Statement of Corporate Governance on Pages 17 to 19 sets out the Group's approach to good corporate governance.

Directors' Report (continued)

Statement of Directors' responsibilities

The Directors are responsible for preparing the Strategic report, the Directors' report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have prepared the financial statements in accordance with International Financial Reporting Standards as adopted by the European Union (IFRS). Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and the profit or loss of the company for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and accounting estimates that are reasonable and prudent;
- state whether applicable IFRSs have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group and Company's performance, business model and strategy.

Each of the Directors, whose names and functions are listed in the Directors Report confirm that to the best of their knowledge:

- The Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the European Union, give a true and fair view of the assets, liabilities, financial position and profit of the Group; and
- The Directors' Report includes a fair review of the development and performance of the business and the position of the Group and Company, together with a description of the principal risks and uncertainties that it faces.

Directors' Report (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Disclosure of information to auditor

Each of the persons who are Directors at the time when this Directors' report is approved has confirmed that:

- so far as that Director is aware, there is no relevant audit information of which the Group's auditor is unaware, and
- that Director has taken all the steps that they ought to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

Auditor

Grant Thornton UK LLP, having expressed its willingness to continue in office, will be proposed for reappointment for the next financial year at the Annual General Meeting, in accordance with section 489 of the Companies Act 2006.

This report was approved by the Board of Directors on 21 January 2019 and signed on its behalf by:

Alan Kershaw
Company Secretary
21 January 2019

Directors' Remuneration Report

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

This report to shareholders for the year ended 31 October 2018 sets out the Group's remuneration policies.

Executive Directors

The Board is committed to maintaining high standards of corporate governance and has taken steps to comply with best practice in so far as it can be applied practically given the size of the Group.

Remuneration Policy

The Board aims to ensure that the total remuneration for the Executive Directors is soundly based, internally consistent, market competitive and aligned with the interests of the shareholders. To design a balanced package for the Executive Directors and senior management, the Board considers the individual's experience and the nature and complexity of their work in order to pay a competitive salary and benefits package that attracts and retains management of the highest quality. The Board also considers the link between the individual's remuneration package and the Group's long-term performance.

Basic Salary

Salaries are reviewed annually and are benchmarked against businesses acting within the aerospace manufacturing sector. The review process is undertaken having regard to the development of the Group and the contribution that individuals will continue to make as well as the need to retain and motivate individuals. The Executive Directors and senior management are also awarded other benefits (for example pension contributions) which are commensurate with their position within the Group and with the competitive market place.

Share Options

Share options are awarded in order to provide a long-term incentive to the Executive Directors and senior management which aligns the interests of the Group and of its shareholders, with those of the individuals tasked with delivering the Group's strategic aims.

Non-Executive Directors

The salary of the Chairman is determined by the Board and the salaries of the Non-Executive Directors are determined by the Board following a recommendation from the Chairman. The Chairman and Non-Executive Directors are not involved in any discussions or decisions about their own remuneration.

Directors' emoluments for the year ended 31 October 2018 (or period of service) are summarised below:

	Year ended 31 Oct 2018 £	Year ended 31 Oct 2017 £
Executive		
Jonathan Bridges (resigned 26.10.18)	139,121	143,953
Alan Kershaw	180,338**	119,370
Non-Executive		
Mark Mills (Executive Chairman from 5.9.18)	122,000	240,516*
Peter Turner (resigned 2.8.18)	43,946	158,947*
Brian Tenner (appointed 2.8.18)	8,808	-
Meera Parmar (appointed 5.9.18)	4,750	-
Total	498,963	579,979

* Emoluments included share related payments in year ended 31 October 2017
** Emoluments included exceptional costs accrued but not yet due relating to pre year end matters

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velocity composites plc

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Independent Auditor's Report

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

velocity composites plc

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Independent Auditor's Report to the Members of Velocity Composites Plc

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Opinion

Our opinion on the financial statements is unmodified

We have audited the group financial statements of Velocity Composites PLC for the year ended 31 October 2018 which comprise the Consolidated Statement of Total Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006.

In our opinion, the financial statements:

- give a true and fair view of the state of the group's and of the parent company's affairs as at 31 October 2018 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

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

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

continued...

Independent Auditor's Report to the Members of Velocity Composites Plc (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Overview of our audit approach

- Overall materiality: £184,000, which represents 0.75% of the company's total revenues; and
- Key audit matters were identified as the risk that the revenue cycle includes fraudulent transactions.
- During the year, the company established a wholly owned subsidiary in Malaysia, and as a result group financial statements have been prepared. As the subsidiary was not material to the group financial statements this had no significant impact on the scope of the audit.

Key audit matters

- Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those that had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter – group and parent company

The revenue cycle includes fraudulent transactions

There is a risk that revenue has been misstated through fraudulent entries, or entries made in error. This is considered to be a key audit risk given the importance of reported revenue to key stakeholders. Under ISA (UK) 240 'The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements', this is also a presumed risk, present in all entities. We therefore identified this risk as a significant risk, which was one of the most significant assessed risks of material misstatement.

How the matter was addressed in the audit – group and parent company

Our audit work included, but was not restricted to:

- Assessing the accounting policies to ensure compliance with the financial reporting framework and in particular that revenue was recognised at the point when the risks and rewards of ownership were transferred to the customer
- Testing of a sample of revenue transactions in the year through agreement to source documentation in order to verify the sale and the point at which the revenue was recognised
- Testing a sample of revenue transactions just prior and post the 31 October 2018 year end to ensure that the transactions have been recorded in the correct financial year
- Trend analysis and ratio analysis to identify any potential unusual movements in revenue.

The group's accounting policy on revenue recognition is shown in note 2 to the financial statements and related disclosures are included in note 4.

Key observations

Our work did not result in any indicators of fraud within the revenue recorded for the year, and no adjustments have been proposed for potential errors. We conclude that the revenue recognition policy as set out on page 39 is applied consistently, and in line with IAS 18 'Revenue'. Disclosures included within the financial statements have been tested to ensure they are free from material misstatement.

continued...

Independent Auditor's Report to the Members of Velocity Composites Plc (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Our application of materiality

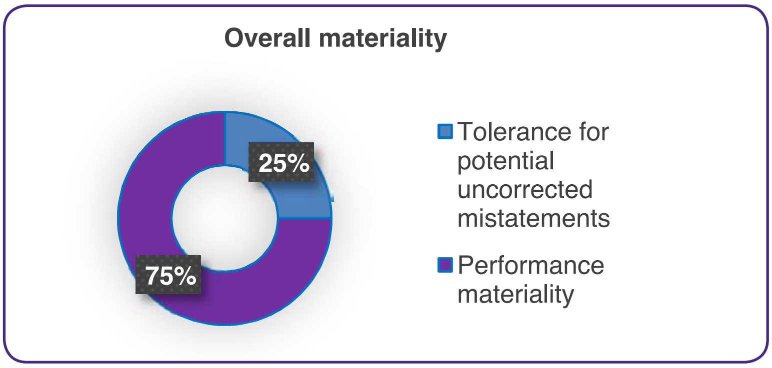
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our work and in evaluating the results of that work.

We determined materiality for the audit of the financial statements as a whole to be £184,000, which is 0.75% of the company's total revenues. This benchmark is considered the most appropriate because of the importance that management apply to this measure in relation to the performance of the business, and the measure on which growth is monitored.

Materiality for the current year is higher than the level that we determined for the year ended 31 October 2017 to reflect the growth of the business, as highlighted through the increase in revenue in the year from £21,369,000 to £24,478,000.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality.

The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.



We determined the threshold at which we will communicate misstatements to the audit committee to be £9,200. In addition we will communicate misstatements below that threshold that, in our view, warrant reporting on qualitative grounds.

An overview of the scope of our audit

Our audit approach was based on a thorough understanding of the group's business and is risk based, and in particular included:

- evaluation of the group's internal controls environment including its IT systems and controls.
- an assessment of material accounting policies for compliance with the financial reporting framework
- an evaluation of significant management estimates or judgments
- during the year, the company established a wholly owned subsidiary in Malaysia, and as a result group financial statements have been prepared. As the subsidiary was not material to the group financial statements this had no significant impact on the scope of the audit.

continued...

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Independent Auditor's Report to the Members of Velocity Composites Plc (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report set out on pages 4 to 15, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matter on which we are required to report under the Companies Act 2006

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or the Directors' Report.

continued...

Independent Auditor's Report to the Members of Velocity Composites Plc (continued)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Matters on which we are required to report by exception

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

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

Responsibilities of Directors for the financial statements

As explained more fully in the Statement of directors' responsibilities set out on page 23, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
21 January 2019

Consolidated Statement of Total Comprehensive Income

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

	Note	Year ended 31 October 2018 £'000	Year ended 31 October 2017 £'000
Revenue	4	24,478	21,369
Cost of sales		(19,991)	(17,438)
Gross profit		4,487	3,931
Administrative expenses excluding exceptional costs		(5,322)	(3,481)
Exceptional administrative expenses	7	(252)	(931)
Other operating income		15	21
Operating loss	5	(1,072)	(460)
Finance expense	8	(135)	(167)
Loss before tax from continuing operations		(1,207)	(627)
Income tax income/(expense)	9	213	(73)
Loss for the period and total comprehensive loss		(994)	(700)
Loss per share - Basic (£) from continuing operations	10	(£0.03)	(£0.02)
Loss per share - Diluted (£) from continuing operations	10	(£0.03)	(£0.02)

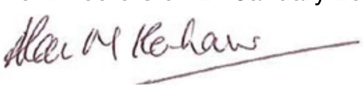
There were no discontinued operations in the current or prior period.

Consolidated and Company Statement of Financial Position

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

	Note	Group 31 October 2018 £'000	Group 31 October 2017 £'000	Company 31 October 2018 £'000	Company 31 October 2017 £'000
Non-current assets					
Intangible assets	11	362	317	362	317
Property, plant and equipment	12	1,080	1,083	1,080	1,083
Total non-current assets		1,442	1,400	1,442	1,400
Current assets					
Inventories	14	2,744	3,266	2,744	3,266
Trade and other receivables	15	5,727	6,148	5,758	6,148
Corporation tax		113	-	113	-
Cash and cash equivalents	16	4,726	5,414	4,718	5,414
Total current assets		13,310	14,828	13,333	14,828
Total assets		14,752	16,228	14,775	16,228
Current liabilities					
Trade and other payables	17	5,197	5,623	5,191	5,623
Grant income deferred	18	7	22	7	22
Corporation tax		-	35	-	35
Net obligations under finance leases	19	116	145	116	145
Total current liabilities		5,320	5,825	5,314	5,825
Non-current liabilities					
Deferred tax liabilities	20	-	106	-	106
Net obligations under finance leases	19	171	211	171	211
Total non-current liabilities		171	317	171	317
Total liabilities		5,491	6,142	5,485	6,142
Net assets		9,261	10,086	9,290	10,086
Equity attributable to equity holders of the company					
Share capital	22	89	89	89	89
Share premium account	22	9,727	9,727	9,727	9,727
Share-based payments reserve		536	367	536	367
Retained earnings		(1,091)	(97)	(1,062)	(97)
Total equity		9,261	10,086	9,290	10,086

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 result for the year was (£965,000). The financial statements were approved and authorised for issue by the Board of Directors on 21 January 2019 and were signed on its behalf by



Alan Kershaw
Company Secretary
Co No: 06389233

The notes on pages 38-61 form part of these financial statements

Consolidated and Company Statement of Changes in Equity

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2016	-	-	603	-	603
Loss for the year	-	-	(700)	-	(700)
	-	-	(97)	-	(97)
Transactions with shareholders:					
Issue of ordinary share capital	30	10,471	-	-	10,501
Bonus issue of ordinary share capital	59	(59)	-	-	-
Share-based payments	-	-	-	367	367
Costs associated with issue of equity (from the AIM listing)	-	(685)	-	-	(685)
As at 31 October 2017	89	9,727	(97)	367	10,086

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2017	89	9,727	(97)	367	10,086
Loss for the year	-	-	(994)	-	(994)
	89	9,727	(1,091)	367	9,092
Transactions with shareholders:					
Share-based payments	-	-	-	169	169
As at 31 October 2018	89	9,727	(1,091)	536	9,261

The notes on pages 38-61 form part of these financial statements

Consolidated and Company Statement of Changes in Equity

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2016	-	-	603	-	603
Loss for the year	-	-	(700)	-	(700)
	-	-	(97)	-	(97)
Transactions with shareholders:					
Issue of ordinary share capital	30	10,471	-	-	10,501
Bonus issue of ordinary share capital	59	(59)	-	-	-
Share-based payments	-	-	-	367	367
Costs associated with issue of equity (from the AIM listing)	-	(685)	-	-	(685)
As at 31 October 2017	89	9,727	(97)	367	10,086

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2017	89	9,727	(97)	367	10,086
Loss for the year	-	-	(965)	-	(965)
	89	9,727	(1,062)	367	9,121
Transactions with shareholders:					
Share-based payments	-	-	-	169	169
As at 31 October 2018	89	9,727	(1,062)	536	9,290

The notes on pages 38-61 form part of these financial statements

Consolidated and Company Statement of Cash Flows

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

	Group Year ended 31 October 2018 £'000	Group Year ended 31 October 2017 £'000	Company Year ended 31 October 2018 £'000	Company Year ended 31 October 2017 £'000
Operating activities				
Loss for the year	(994)	(700)	(965)	(700)
Taxation	(213)	73	(213)	73
Loss/ (Profit) on disposal of assets	7	(3)	7	(3)
Finance costs	135	167	135	167
Amortisation of intangible assets	107	80	107	80
Depreciation of property, plant and equipment	306	263	306	263
Share-based payments	169	367	169	367
Grant income amortisation	(15)	(21)	(15)	(21)
Operating cash flows before movements in working capital	(498)	226	(469)	226
Decrease/(Increase) in trade and other receivables	424	(3,206)	393	(3,206)
Decrease/(Increase) in inventories	522	(921)	522	(921)
Increase in trade and other payables	98	1,461	92	1,461
Cash generated from operations	546	(2,440)	538	(2,440)
Income taxes paid	(40)	-	(40)	-
Net cash Inflow/ (outflow) from operating activities	506	(2,440)	498	(2,440)
Investing activities				
Purchase of property, plant and equipment	(220)	(271)	(220)	(271)
Development expenditure capitalised	(152)	(397)	(152)	(397)
Proceeds from the sale of property, plant and equipment	-	4	-	4
Net cash used in investing activities	(372)	(664)	(372)	(664)
Financing activities				
Proceeds from issue of shares	-	10,501	-	10,501
Payments of share issue costs	-	(685)	-	(685)
Finance costs paid	(135)	(167)	(135)	(167)
Decrease in invoice discounting	(528)	(1,025)	(528)	(1,025)
Repayment of finance lease capital	(159)	(145)	(159)	(145)
Dividends paid	-	-	-	-
Net cash generated from financing activities	(822)	8,479	(822)	8,479
Net (decrease)/ increase in cash and cash equivalents	(688)	5,375	(696)	5,375
Cash and cash equivalents at 01 November	5,414	39	5,414	39
Cash and cash equivalents at 31 October	4,726	5,414	4,718	5,414

The notes on pages 38-61 form part of these financial statements

Notes to the Financial Statements

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

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. This subsidiary company together with Velocity Composites plc, now forms 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 financial statements have been prepared in compliance with the measurement and recognition criteria of IFRS as adopted by the European Union.

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 2018. Subsidiaries acquired during the year are consolidated from the date of acquisition, using the purchase method (see "Business combinations" below).

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 Adopted IFRS, as from 1 May 2015.

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 gains arising from transactions with equity-accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Going concern

Having made reasonable enquiries, the Directors are of the opinion that the Group has sufficient resources to continue in operational existence for the foreseeable future and hence these financial statements have been prepared on a going concern basis. This assessment has been supported by the preparation and consideration of detailed forecasts for the three years to 31 October 2021 to project the future growth of the Group, and flexing these forecasts through sensitivity analyses.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

2. Accounting policies (continued)

The forecasts include the revenue of the Group's existing contracts based on demand information provided by its customers, consideration of the cash position of the Group and the appropriate utilisation of the various facilities available for funding this growth. We have also discussed with our bankers and other financial advisers the resultant trading performance and they have indicated a strong desire to continue to support the funding of these growth activities.

Changes in accounting policies

New standards, amendments and interpretations issued and not applied to these financial statements:
The International Accounting Standards Board (IASB) and the IFRS Interpretations Committee (IFRS IC) have issued the following standards which are yet to be applied by the Group:

- IFRS 9 'Financial Instruments'. This standard is effective for accounting periods beginning on or after 1 January 2018 and will be required to be first applied to the Group's financial reporting for the year ending 31 October 2019. The standard addresses the accounting principles for the financial reporting of financial assets and financial liabilities, including classification, measurement, impairment, derecognition and hedge accounting. Financial assets will continue to be measured at amortised cost. The impairment model under IFRS 9 will reflect 'expected' credit losses, as opposed to 'incurred' credit losses under IAS 39. It is no longer necessary for a credit event to have occurred before credit losses are recognised. As the Group activity monitors the ageing profile of trade receivables, impairments are made where credit risk is apparent. The Directors are undertaking a detailed assessment of the potential impact of IFRS 9.
- IFRS 15 'Revenue from Contracts with Customers'. This standard is effective for accounting periods beginning on or after 1 January 2018 and will be required to be first applied to the Group's financial reporting for the year ending 31 October 2019. The directors have undertaken an assessment of the impact of IFRS 15. Goods are delivered to customers, and, on their acceptance by the customer, revenue is recognised. At this point, the Group does not have any continued involvement or control over the goods delivered. Customers rarely place specific orders on the Group, and when this occurs will normally take the delivery once available. The Directors are undertaking a detailed assessment of the potential impact of IFRS 15.
- IFRS 16 'Leases'. This standard was issued on 13 January 2016 and is effective for accounting periods beginning on or after 1 January 2019 and will first apply to the Group's financial reporting for the year ending 31 October 2020. The standard requires lessees to recognise assets and liabilities for all leases with lease terms of more than 12 months, unless the underlying asset is of low value. The most significant impact will be from the Group's operational sites, specifically Burnley, Fareham & Malaysia. The Group does have other non-property related operating leases, but these are not as significant as the property leases. The directors are undertaking a detailed assessment of the potential impact of IFRS 16.

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 derived from the engineering and sale of goods and is measured at the fair value of the consideration received or receivable excluding discounts, VAT and other sales taxes or duty. The Group recognises revenue when the engineered goods are delivered to the customer, at which stage the risks and rewards have transferred to the customer and it is probable that future economic benefits will flow to the entity. Invoices raised by the Group are incorporated into the invoice discounting facility provided by the Group's bankers. The asset or liability arising is recognised within the statement of financial position.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

2. Accounting policies (continued)

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.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

2. Accounting policies (continued)

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:

Plant and machinery	15% straight line
Motor vehicles	25% straight line
Fixtures and fittings	15% straight line
Leasehold Improvements	10% straight line

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, interest rate swaps or similar instruments. The Group does not issue or use financial instruments of a speculative nature.

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.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

2. Accounting policies (continued)

Loans and receivables
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 when there is objective evidence (such as significant financial difficulties on the part of the counterparty or default or significant delay in payment) that the Group will be unable to collect all of the amounts due under the terms receivable, the amount of such a provision being the difference between the net carrying amount and the present value of the future expected cash flows associated with the impaired receivable. For trade receivables, which are reported net, such provisions are recorded in a separate allowance account with the loss being recognised within administrative expenses in the income statement. On confirmation that the trade receivables will not be collectable, the gross carrying value of the asset is written off against the associated provision. The Group does not currently carry a provision for uncollectable receivables.

Financial liabilities
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. The Group does not currently have any borrowings and utilises invoice discounting in support of its working capital requirements.

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
Finance Lease
Where substantially all the risks and rewards incidental to ownership of a leased asset have been transferred to the Group (a 'finance lease') the asset is treated as if it had been purchased outright. The amount initially recognised as an asset is the lower of the fair value of the leased asset and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to the Consolidated statement of comprehensive income over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

2. Accounting policies (continued)

Operating Lease
Where substantially all of the risks and rewards incidental to ownership are not transferred to the Group (an 'operating lease'), the total rentals payable under the lease are charged to the Consolidated statement of comprehensive income on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognised as a reduction of the rental expense over the lease term on a straight-line basis.

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.

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;
- 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.

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 chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. The Group supplies a single type of product into a single industry and so has a single 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.

Useful lives of depreciable assets
Management reviews the useful lives of depreciable assets (both tangible and intangible) at each reporting date. At the reporting date management assesses that the useful economic lives represent the expected life of the assets to the Group. Actual results, however, may vary due to unforeseen events.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

2. Accounting policies (continued)

Impairment of tangible and intangible assets
At each balance sheet date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment.

If the recoverable amount of an asset (or subsidiary) is estimated to be less than its carrying amount, the carrying amount of the asset (is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Stock provisions
Stock provisions are made for obsolete, out of life and slow-moving stock items assessed by key management. Stock is accounted for on a first in, first out basis.

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, interest rate swaps 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	**Year ended 31 October 2018** £'000	**Year ended 31 October 2017** £'000
Current assets		
Trade and other receivables – loans and receivables	5,571	5,921
Trade and other receivables – non financial assets	269	227
	5,840	6,148
Cash and cash equivalents – loans and receivables	4,726	5,414
Total loans and receivables	10,297	11,335
Current liabilities		
Trade and other payables – at amortised cost	4,688	5,045
Trade and other payables – non financial liabilities	509	578
	5,197	5,623

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.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

3. Financial instruments & Risk Management (continued)

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 inventories in Note 14, 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. The 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 Group does not speculatively hold positions in US Dollar, Euro or Ringgits, and therefore the Group considers the residual risk at the yearend to be insignificant.

Interest rate risk
The Group carries no significant borrowings apart from leases. 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.

2017	**Within 1 year** £'000	**One to two years** £'000	**Two to five years** £'000	**Over five years** £'000
Finance lease liability	172	137	103	-
Trade payables	3,421	-	-	-
Accruals	480	-	-	-
Other payables	-	-	-	-
Invoice discounting facility	1,144	-	-	-

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

3. Financial instruments & Risk Management (continued)

2018	Within 1 year £'000	One to two years £'000	Two to five years £'000	Over five years £'000
Finance lease liability	134	82	111	-
Trade payables	3,251	-	-	-
Accruals	804	-	-	-
Other payables	17	-	-	-
Invoice discounting facility	616	-	-	-

The finance lease liability is shown gross, inclusive 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. The Group's subsidiary company, Velocity Composites Sendirian Berhad, is located in Malaysia. 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 31 October 2018 £'000	Year ended 31 October 2017 £'000
Revenue		
United Kingdom	23,984	21,225
Europe	494	144
	24,478	21,369

During the year four customers accounted for 82.8% of the Group's total revenue for the year ended 31 October 2018. This was split as follows; Customer A – 46.7% (2017: 53.9%), Customer B – 22.2% (2017: 13.7%), Customer C – 13.9% (2017: 10.7%) and Customer D – 13.2% (2017: 8.3%). 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 year the Group operated in Asia. No revenue was generated in Asia during the year ended 31 October 2018 as the site operates as an Engineering Support Office.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

5. Loss from operations

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

	Year ended 31 October 2018 £'000	Year ended 31 October 2017 £'000
Staff costs (see Note 6)	4,475	3,634
Foreign exchange (gain)/ losses	(68)	8
Amortisation of development costs	96	80
Impairment of development costs	11	-
Depreciation:		
Owned assets	184	158
Assets held under finance leases	122	105
Loss/ (Profit) on disposal of assets	7	(3)
Grant income amortisation	(15)	(21)
Operating lease payments	260	226
Auditor's remuneration:		
Audit of the accounts of the Group	43	37
Other audit related services (relating to interim review)	8	9
Taxation compliance services	4	3
Other taxation advisory services	19	51
Other assurance services (relating to IPO)	-	134

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

6. Staff costs

	Year ended 31 October 2018 £'000	**Year ended 31 October 2017** £'000
Wages, salaries and bonuses	3,839	2,931
Social security costs	359	329
Pension costs	108	39
Share-based payments	169	335
	4,475	3,634

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

	Year ended 31 October 2018 Head count	**Year ended 31 October 2017** Head count
Manufacturing	85.0	74.5
Administration	47.0	31.5
	132.0	106.0

Directors costs

	Year ended 31 October 2018 £'000	**Year ended 31 October 2017** £'000
Directors' remuneration included in staff costs:		
Wages, salaries and bonuses	419	613
Compensation for retirement from office	60	-
Pension costs	20	12
Share-based payments	-	232
	499	857
In addition to the remuneration above, the non-executive directors have submitted invoices for their fees as follows:	-	18
Remuneration of the highest paid director(s): Wages, salaries and bonuses or fees	180	241

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

7. Exceptional administrative expenses

	Year ended 31 October 2018 £'000	Year ended 31 October 2017 £'000
Restructuring costs	252	-
Fees associated with AIM Listing	-	667
Share-based payments	-	264
	252	931

Exceptional expenses incurred during the financial year are in relation to restructuring costs within the business. These costs relate to unavoidable non-recurring costs following key management decisions.

Exceptional expenses incurred during the previous financial year are in relation to costs of converting the Company from a private limited company to a public limited company and the subsequent admission of the Company to trading on AIM during the year. Total costs incurred were £1,352,000 with £685,000 charged to share premium as being directly related to newly issued shares. In addition, shares were issued to Mark Mills, Matthew Turner and Nigel Turner in January 2017 which resulted in an exceptional charge of £264,000 due to the one off nature of the activity.

8. Finance income and expenses

	Year ended 31 October 2018 £'000	Year ended 31 October 2017 £'000
Finance expense		
Finance charge from Finance leases	29	55
Other interest & invoice discounting charges	106	112
	135	167

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

9. Income tax

	Year ended 31 October 2018 £'000	Year ended 31 October 2017 £'000
Current tax (income)/expense		
UK corporation tax: in respect of this year	(69)	70
UK corporation tax: in respect of prior years	(38)	
Adjustment for under provision in prior periods	-	(6)
	(107)	64
Deferred tax (income)/expense		
Deferred tax in respect of this year	(106)	9
Adjustments in respect of prior periods	-	-
Rates adjustment	-	-
	(106)	9
Total tax (income)/expense	**(213)**	**73**

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	19.0%	19.50%
(Loss) for the year before tax	(1,207)	(627)
Expected tax credit based on corporation tax rate	(229)	(122)
Expenses not deductible for tax purposes	39	198
Other differences	-	3
Tax effect of R&D credits	(38)	-
Timing differences	15	(6)
Total tax (income)/expense	**(213)**	**73**

The UK corporation tax rate was 20% between the period 1 April 2015 to 31 March 2017. The rate reduced to 19% with effect from 1 April 2017 and will reduce to 17% with effect from 1 April 2020. This will reduce the Group's future current tax credit/charge accordingly.

The UK corporation tax rate for the year ended 31 October 2018 is calculated at 19% based upon 12 months at 19%. The UK corporation tax rate for the year ended 31 October 2017 is calculated at 19.50% based upon five months at 20% and six months at 19%.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

10. Loss per share

	Year ended 31 October 2018 £	Year ended 31 October 2017 £
Loss for the year	(994,000)	(700,000)
	Shares	**Shares**
Weighted average number of shares in issue	35,795,539	28,378,444
Share options	638,200	638,200
Weighted average number of shares (diluted)	36,433,739	29,016,644
Loss per share (£) (basic)	(£0.03)	(£0.02)
Loss per share (£) (diluted)	(£0.03)	(£0.02)

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 2016	-	-
Additions	397	397
At 31 October 2017	397	397
Additions	152	152
Disposal	(16)	(16)
At 31 October 2018	533	533
Amortisation		
At 31 October 2016	-	-
Charge for the year	80	80
At 31 October 2017	80	80
Charge for the year	96	96
Impairment	11	11
Disposal	(16)	(16)
At 31 October 2018	171	171
Net book value		
At 31 October 2016	-	-
At 31 October 2017	317	317
At 31 October 2018	362	362

Annual test for impairment

The Group tests Development costs at each reporting period for impairment in accordance with IAS 36 'Impairment of Assets', and more frequently if there is an indication that the carrying value might be impaired. An indication of impairment can be generated from the loss of a customer, or contracted sales. The Board have provided an impairment of £11,000 relating to development costs capitalised but where no future economic benefits are currently expected to be generated for the Group.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

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 2016	57	1,163	136	173	1,529
Additions	114	358	19	83	576
Disposal	-	-	(9)	-	(9)
At 31 October 2017	171	1,521	146	256	2,096
Additions	11	223	-	75	325
Disposal	-	(12)	-	(2)	(14)
At 31 October 2018	182	1,732	146	329	2,405
Depreciation					
At 31 October 2016	-	580	87	89	756
Charge for the year	12	192	32	27	263
Disposal	-	-	(8)	-	(8)
At 31 October 2017	12	772	111	116	1,011
Charge for the year	15	227	25	39	306
Disposal	-	(6)	-	(2)	(8)
At 31 October 2018	27	993	136	153	1,309
Net book value					
At 31 October 2016	57	583	49	84	773
At 31 October 2017	159	749	35	140	1,083
At 31 October 2018	155	739	10	176	1,080

Net book value of assets under finance lease agreements:	£000's
At 31 October 2016	330
At 31 October 2017	506
At 31 October 2018	457

13. Investment in subsidiaries

	Group 31 October 2018 £'000	Group 31 October 2017 £'000	Company 31 October 2018 £'000	Company 31 October 2017 £'000
Subsidiary undertakings	-	-	-	-
	-	-	-	-

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

13. Investment in subsidiaries (continued)

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

14. Inventories

	Group 31 October 2018 £'000	Group 31 October 2017 £'000	Company 31 October 2018 £'000	Company 31 October 2017 £'000
Raw materials & consumables	2,129	2,792	2,129	2,792
Finished goods	615	474	615	474
	2,744	3,266	2,744	3,266

Inventories totalling £2,744k (2017 - £3,266k) 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 write off of inventories during the year is not material.

The inventory at 31 October 2018 is after a stock provision of £89k (2017: £nil).

Inventories recognised as an expense during the year ended 31 October 2018 amounted to £17,791k (2017: £15,655k), and these were included in cost of sales.

15. Trade and other receivables

	Group 31 October 2018 £'000	Group 31 October 2017 £'000	Company 31 October 2018 £'000	Company 31 October 2017 £'000
Trade receivables	5,159	4,647	5,159	4,647
Prepayments and accrued income	269	227	269	227
Other receivables	412	1,274	412	1,274
Amounts due from subsidiary undertakings	-	-	31	-
	5,840	6,148	5,871	6,148

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

15. Trade and other receivables (Continued)

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 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 2018 £'000	31 October 2017 £'000
Not more than 3 months	831	565
More than 3 months but not more than 6 months	65	56
More than 6 months but not more than 1 year	25	42
More than 1 year	-	4
	921	667

No receivables have been impaired as none are considered to be uncollectable.

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

	31 October 2018 £'000	31 October 2017 £'000
Euro	673	891
US Dollar	3,443	2,316
	4,116	3,207

16. Cash and cash equivalents

	Group 31 October 2018 £'000	Group 31 October 2017 £'000	Company 31 October 2018 £'000	Company 31 October 2017 £'000
Cash at bank	4,726	5,414	4,718	5,414
	4,726	5,414	4,718	5,414

Of the total cash balance, £3,756k (2017: £4,554k) relates to cash to be used in compliance with the conditions relating to the EIS investment i.e. new product development and investment into new overseas territories. The Group is required to employ the funds by May 2019 to satisfy EIS conditions.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

17. Trade and other payables

	Group 31 October 2018 £'000	Group 31 October 2017 £'000	Company 31 October 2018 £'000	Company 31 October 2017 £'000
Current				
Trade payables	3,251	3,421	3,251	3,421
Accruals	804	480	798	480
Other tax and social security	509	578	509	578
Other payables	17	-	17	-
Invoice discounting facility	616	1,144	616	1,144
	5,197	5,623	5,191	5,623

Book values approximate to fair values.

18. Grant income deferred

	Group 31 October 2018 £'000	Group 31 October 2017 £'000	Company 31 October 2018 £'000	Company 31 October 2017 £'000
Opening balance	22	43	22	43
Grant income amortisation	(15)	(21)	(15)	(21)
Closing balance	7	22	7	22

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

19. Leases

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

Group	31 October 2018 £'000	31 October 2017 £'000
Motor vehicles		
Not later than one year	23	20
Later than one year and not later than two years	5	10
Later than two years and not later than five years	1	-
Later than five years	-	-
	29	30
Land and buildings		
Not later than one year	249	219
Later than one year and not later than two years	245	219
Later than two years and not later than five years	362	559
Later than five years	-	-
	856	997

Company	31 October 2018 £'000	31 October 2017 £'000
Motor vehicles		
Not later than one year	23	20
Later than one year and not later than two years	5	10
Later than two years and not later than five years	1	-
Later than five years	-	-
	29	30
Land and buildings		
Not later than one year	246	219
Later than one year and not later than two years	245	219
Later than two years and not later than five years	362	559
Later than five years	-	-
	853	997

As from 1 November 2019, the Group will apply IFRS 16 'Leases'. The expected impact of this change in operating leases will be replaced by fixed assets, in the form of a 'Right of Use asset' and debt on the balance sheet.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

19. Leases (continued)

Finance leases
The Group leases plant and equipment under finance leases which are secured against the assets. Future lease payments are due as follows:

	Minimum lease payments	Interest	Present value
31 October 2017			
Not later than one year	172	27	145
Later than one year and not later than two years	137	18	119
Later than two years and not later than five years	103	11	92
Later than five years	-	-	-
	412	56	356
31 October 2018			
Not later than one year	134	18	116
Later than one year and not later than two years	82	9	73
Later than two years and not later than five years	111	13	98
Later than five years	-	-	-
	327	40	287

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:

Group and Company	**31 October 2018** £'000	**31 October 2017** £'000
Deferred tax liability		
Opening balance	106	97
Recognised in profit and loss	(106)	9
Closing balance	-	106

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

Group and Company	**31 October 2018** £'000	**31 October 2017** £'000
Excess of taxation allowances over depreciation of all non-current assets	117	106
Share options	-	-
Corporation tax losses carried forward	(128)	-
Closing (Asset)/ Liability	(11)	106

The Group has unused tax losses which were incurred by the holding company. A net deferred tax asset of £10,676 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.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

21. Reconciliation of liabilities arising from financing activities

Group and Company	Long-term borrowings £'000	Short-term borrowings £'000	Total £'000
At 31 October 2016	106	2,260	2,366
Cash flows			
Repayment	-	(23,534)	(23,534)
Proceeds	250	22,491	22,741
Non-cash			
Foreign exchange differences	-	(73)	(73)
Transfer from Long-term to short term borrowings	(145)	145	-
At 31 October 2017	211	1,289	1,500
Cash flows			
Repayment	-	(29,121)	(29,121)
Proceeds	76	28,454	28,530
Non-cash			
Foreign exchange differences	-	(6)	(6)
Transfer from Long-term to short term borrowings	(116)	116	-
As 31 October 2018	**171**	**732**	**903**

22. Share capital

	31 October 2018 £	31 October 2017 £
Share capital issued and fully paid		
35,795,539 Ordinary shares of £0.0025 each	89,489	89,489

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
99 Ordinary shares of £1 each	89,489	35,795,539
At the beginning of the year & closing share capital at 31 October 2018	89,489	35,795,539

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

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 have no attached performance conditions and vest subject only to continued employment. They vest after 2 years, or earlier if a vesting event occurs as defined in the rules of the Scheme. Once vested, options may be exercised at any point up to the 10th Anniversary of the grant.

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 £168,745 (2017 – £367,472) 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 2018:

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	-	603,200	603,200
17 October 2017	0.6926	17 Oct 2019	17 Oct 2027	-	35,000	35,000
				-	638,200	638,200

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.

Shares were issued in the prior period to Mark Mills and to Matthew Turner and Nigel Turner (Peter Turner's sons) the costs attributed to which (£264,000) are also treated as share-based payments, and included in Exceptional administrative expenses (Note 7).

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 key management personnel:

	31 October 2018 £'000	31 October 2017 £'000
Short term employment benefits	1,016	841
Share-based payments	102	326
	1,118	1,167

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

24. Related party transactions (Continued)

The following transactions took place with related parties (purchases or dividends)/sales:

The Group engages Abode Services Limited, which provides graphic design services. One of the directors of Abode is Christopher Banks (key management personnel during the period). The Group paid £7,290 (2017: £5,076) to Abode 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 2018 £'000	31 October 2017 £'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 2018 the Group had £78,500 (2017: £90,320) of capital commitments relating to the purchase of plant and machinery.

27. Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £107,573 (2017: £39,007) were charged to the Consolidated Income statement. Contributions outstanding at 31 October 2018 were £17,013 (2017: £nil).

28. Contingent liabilities

At 31 October 2018 the Group had in place bank guarantees of £250,000 (2017: £250,000) in respect of supplier trade accounts. The Group is not aware of any conditions which would realise these contingent liabilities.

Notes to the Financial Statements (cont)

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

29. Reconciliation of Reported and Adjusted Profit

The reported results have been adjusted for exceptional items and for the additional expenditure on future growth within the UK and Overseas.

Profit before tax	**31 October 2018** £'000	**31 October 2017** £'000
Reported (loss) before tax	(1,207)	(627)
Adjustments:		
Future growth expenditure relating to UK and overseas	675	446
Exceptional restructuring costs	252	-
Exceptional IPO related administrative expenses	-	667
Exceptional share-based payments	-	264
Adjusted (loss)/ profit before tax	(279)	750

Earnings per share	**31 October 2018** £'000	**31 October 2017** £'000
Adjusted (loss)/ profit before tax	(279)	750
Income tax (expense) / income	213	(73)
Adjusted (loss)/ profit for the year	(66)	677
	Shares	**Shares**
Weighted average number of shares in issue	35,795,539	28,378,444
Share options	638,200	638,200
Weighted average number of shares (diluted)	36,433,739	29,016,644
Adjusted (loss) / earnings per share (£) (basic)	(£0.01)	£0.02
Adjusted (loss) / earnings per share (£) (diluted)	(£0.00)	£0.02

The Directors utilise the adjusted profit measures in order to more fairly reflect the underlying trading performance of the Group. The above adjustments are made in order to remove one off, exceptional or developmental spend which is a part of the Group's growth plans.

The above adjustments for FY18 reflect the impact of one-off exceptional restructuring costs and the expenditure on growth opportunities in the UK and overseas which comprise the cost of time spent on these opportunities, external consultancy costs, travel costs and the cost of the new operations in these overseas territories. For FY17 this also included exceptional expenditure in relation to the listing of the holding company on the stock market.

4. Shareholder Information

Advisers 63

Advisers

Velocity Composites Plc - Financial statements for the year ended 31 October 2018

Company registration number:	06389233
Company Secretary and Registered office:	Alan Mark Kershaw AMS Technology Park Billington Road Burnley Lancashire BB11 5UB
Nominated adviser and broker:	FinnCap Limited 60 New Broad Street London EC2M 1JJ
Bankers:	National Westminster Bank 1 Spinningfields Square Manchester M3 3AP
	Royal Bank of Scotland 1 Hardman Boulevard Manchester M3 3AQ
Legal Advisers:	DWF LLP 1 Scott Place 2 Hardman Street Manchester M3 3AA
Independent Auditor:	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 4 Hardman Square Spinningfields Manchester M3 3EB
Registrars	Equiniti Aspect House Spencer Road Lancing Business Park West Sussex BN99 6DA

velocity
composites plc