

Interim Report

For the six months ended 30 April 2017



Company Information

Registered number	06389233	
Registered office	AMS Technology Park Billington Road Burnley Lancashire BB11 5UB	
Directors	Jonathan Karl Bridges Alan Mark Kershaw Mark Richard Mills Peter Graham Turner Christopher Banks (resigned 21 April 2017) Gerard Antony Johnson (resigned 21 April 2017) Darren James Ingram (resigned 21 April 2017)	
Secretary	Alan Mark Kershaw	
Bankers	National Westminster Bank Ewood House Walker Office Park Walker Road Blackburn BB1 2QE	Royal Bank of Scotland 1 Hardman Boulevard Manchester M3 3AQ
Solicitors	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	
Nominated Adviser & Broker	finnCap Limited 60 New Broad Street London EC2M 1JJ	
Financial PR Advisers	Camarco 107 Cheapside London EC2V 6DN	
Registrars	Equiniti plc Aspect House Spencer Road Lancing West Sussex BN99 6DA	

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Chairman's Statement

For the six months ended 30 April 2017



I am pleased to report that our first set of interim results published as a publicly listed company are in line with expectations and ahead of the same period last year. The company's strategy of targeting customers where Velocity can generate savings in material and labour costs alongside other tangible benefits to aerospace manufacturers continues to provide strong visibility of future potential revenues for the remainder of the financial year.

Financial Highlights

The revenue outturn for the six months ending 30 April 2017 was £9.3m (2016: £7.1m) representing an increase of 31% and gross profit has improved to £1.9m (2016: £1.6m) being an increase of 19%, in the quieter half of our financial year. Profit before tax has decreased to £(35)k (2016: £97k) and EPS has reduced to 0p (2016 restated: 162p) as a result of the investment into the Company in preparation for the Initial Public Offering ("IPO") and for the opening of our second site in Fareham, Hampshire (UK).

Our successful IPO in May 2017 and the support from our new institutional shareholders are testament to the hard work of our wider team, brokers and advisers. The IPO raised net cash proceeds of £9.2m and provides us with the resources we need to continue to implement our rapid growth strategy with additional access to capital if the company requires it in the future.

Whilst the Company's transition from private ownership to a publicly listed company on the London Stock Exchange has only recently taken place since the reporting date, the credibility and authority is already being felt by our customers, suppliers and management team with, as anticipated, potential opportunities presenting themselves which are under careful consideration. The Company does not propose to pay a dividend this year to allow earnings to be re-invested for growth.

Business Model

The market for Velocity's products and services remains strong and the Company intends to use part of the flotation proceeds, as outlined during the IPO process, to augment the Business Development Team alongside New Product Development, to open a Research and Development Centre and add additional satellite facilities in close proximity to new customers as new contracts are signed. With the proceeds from the IPO, all matters are being accelerated as vigorously as is possible in order to allow Velocity to meet the latent demand for more efficient composite kit provision in the UK, Europe and further afield.

Chairman's Statement (continued)

Board and People

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 Velocity to operate on a Right First Time Every Time basis and the flotation solidifies our commitment to governance, quality and transparency.

We further strengthened the team with the appointment of Matthew Archer as Chief Commercial Officer who joined us from GKN during the period, and further appointments are being considered in order that the Company can meet the demands of new and existing customers during this phase of growth. It is often said, and in the case of Velocity it could not be more true, that one of the Company's key strengths is its highly skilled team and I would like to thank everyone for their continued hard work and commitment to Velocity Composites' success during the period. I very much look forward to working with the whole team as we continue to grow the business and within that, helping to provide more challenging and even more rewarding roles for everyone.

Outlook

We have excellent and committed staff, a high-quality client base, operate on growing aircraft platforms within the expanding aerospace composites market and with our clear focus on growth and with our supportive shareholder base, the Board looks to the future with confidence.

Mark Mills

Chairman

26 June 2017



Chief Executive Officer's Report

For the six months ended 30 April 2017



Introduction

Velocity Composites is delighted to report its first published interim results as a listed company. The six months ended 30 April 2017 have been a transformational period for the Company as we continued to successfully execute our growth strategy through the opening of our second manufacturing facility in Fareham, Hampshire (UK), delivering new contract wins and working towards the listing on the AIM market of the London Stock Exchange in May 2017 raising net cash proceeds of £9.2million via an over-subscribed placing.

We continue to see strong demand for our services as the aerospace composites industry enters a clear “make more for less” period, and our customers are looking for new ways to reduce the cost of manufacture, both in the supply chain and their own manufacturing areas.

Strategy

At Velocity, we use our industry knowledge, business processes and proprietary software to reduce the amount of raw material and process time needed by our customers to manufacture composite parts, whilst at the same time allowing our customers to outsource a significant area of non-value added activity from their business. This in turn makes the supply chain more efficient and less expensive for our customers within the aerospace composites industry and allows them to focus on their core business of manufacturing, testing and assembling composite structures. This subsequently enables aircraft manufacturers to reduce costs and increase production rates, allowing our customers to more readily meet the significant increases in aircraft build rates.

Having initially served regional UK customers in North West England we identified a number of key aerospace manufacturing customers in the south of England where we could replicate our business model, capitalising on growth in the aerospace composites sector. This resulted in key customer wins and the opening of our facility in Fareham.

Prior to our IPO we identified a number of key aerospace manufacturing clusters in Europe where we believe we can replicate our business model. The next stage of our strategic expansion is to engage with and look to open facilities close to these production clusters in order to support our customers wherever they have operations within Europe.

Chief Executive Officer's Report (continued)

Operational review

Trading review

Trading has been in line with management expectations and revenue has increased by 31% from the same period in FY16 as new programmes and new facilities begin to deliver revenue to the business. In addition, the increased costs experienced in FY16 due to exchange rate variance have been significantly reduced following the implementation of updated contractual arrangements with customers.

Opening of our Fareham facility

Velocity acquired a new site in September 2016 in Fareham to service additional customers within Southern England and also to offer its services to mainland northern Europe. The 10,000 sq ft facility is a replica of the Company's facility in Burnley and has the capability of manufacturing all types of aerospace kits under composite cleanroom conditions, whilst engineering, finance and quality functions remain based at the Burnley facility.

Production at Fareham commenced in March 2017 after the site was granted both AS9100 and Airbus approvals in January and February 2017, respectively. Whilst the site was opened for specific customer contract wins, its opening has enabled new business to be won based on its proximity to additional customers and programmes located in this aerospace cluster.

New regulatory / manufacturer approvals

We continue to make excellent progress towards securing internationally recognised, site specific, quality standard approvals. This is a requirement of aerospace manufacturers and during the period our Fareham production facility obtained the necessary approvals to match those held by our Burnley facility.

Order book / pipeline

We continue to see strong customer demand for our unique proposition from leading tier 1 aerospace manufacturers and are confident that the proceeds of the IPO can be used to expand the territorial footprint of the business from a predominantly UK business to a pan-European business with facilities in at least one of the major European aerospace composite clusters.

Financial performance overview

- Revenue continued to strengthen, up 31% to £9.3m (H1 2016: £7.1m) and gross profit was up 19% to £1.9m (H1 2016: £1.6m).
- Operating profit of £56k (2016: £131k) and profit before tax of £(35)k (2016: £97k) were lower following the Company's investment in its preparation for the IPO and in the new facility at Fareham.
- Net assets have strengthened from £603k (October 2016) to £629k (April 2017)

Chief Executive Officer's Report (continued)

Risk

For many businesses, the negotiations between the United Kingdom and European Union for its future relationship give cause for uncertainty and concern. Whilst the present 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 Company.

Outlook

The customer and aircraft programme pipeline remains strong as customers look to reduce costs and simplify the supply chain. The Board is seeing a stronger message from the industry around waste / cost reduction as the primes look to be able to deliver more for less in order to meet the order backlog and market dynamics and this has delivered an increase in discussions at the appropriate management level taking place with both existing and potential new customers.

As the customer base increases and the number of multi-site customers grow the Board sees further opportunity to meet customers requirement wherever they operate and to offer intra-customer optimisation across all their sites wherever they are located.

We have had a solid start to the year and the Board remains confident of meeting market forecasts for the full year. We have the right team, strategy and offering in place to strengthen our market leading position as supplier of total composite material kits to the aerospace sector and to create value for all of our shareholders and customers.

Jonathan Bridges

Chief Executive Officer

26 June 2017



Condensed statement of total comprehensive income

For the six months ended 30 April 2017

	Note	Half year ended 30 April 2017 (unaudited) £'000	Half year ended 30 April 2016 (unaudited) £'000	Year ended 31 October 2016 (audited) £'000
Revenue	3	9,327	7,098	14,614
Cost of sales		(7,388)	(5,477)	(11,135)
Gross profit		1,939	1,621	3,479
Administrative expenses		(1,894)	(1,501)	(3,770)
Other operating income		11	11	22
Operating profit / (loss)		56	131	(269)
Finance expense		(91)	(34)	(86)
(Loss)/profit before tax from continuing operations		(35)	97	(355)
Income tax (expense) / income		(10)	(33)	81
(Loss)/profit for the period and total comprehensive (loss) / income		(45)	64	(274)
(Losses)/Earnings per share - Basic (pence per share) from continuing operations	4	(0p)	162p	(692p)
(Losses)/Earnings per share - Diluted (pence per share) from continuing operations	4	(0p)	162p	(692p)

The notes on pages 13 to 15 form part of this interim report.

Condensed statement of financial position

At 30 April 2017

	Note	As at 30 April 2017 (unaudited) £'000	As at 30 April 2016 (unaudited) £'000	As at 31 October 2016 (audited) £'000
Non-current assets				
Property, plant and equipment		1,059	792	773
Total non-current assets		1,059	792	773
Current assets				
Inventories		2,777	1,953	2,345
Trade and other receivables		3,854	2,398	2,942
Corporation tax		19	-	29
Cash and cash equivalents		504	165	39
Total current assets		7,154	4,516	5,355
Total assets		8,213	5,308	6,128
Current liabilities				
Trade and other payables		6,934	3,635	5,187
Grant income deferred		32	54	43
Corporation tax		-	273	-
Net obligations under finance leases		164	198	92
Total current liabilities		7,130	4,160	5,322
Non-current liabilities				
Deferred tax liabilities		97	149	97
Net obligations under finance leases		357	58	106
Total non-current liabilities		454	207	203
Total liabilities		7,584	4,367	5,525
Net assets		629	941	603
Equity attributable to equity holders of the company				
Share capital	5	58	-	-
Share premium		13	-	-
Retained earnings		558	941	603
Total equity		629	941	603

The notes on pages 13 to 15 form part of this interim report.

Condensed statement of changes in equity

Six months ended 30 April 2017

	Note	Share capital £'000	Share premium £'000	Retained earnings £'000	Total equity £'000
As at 31 October 2015		-	-	916	916
Profit for the period		-	-	64	64
Total comprehensive income for the period		-	-	64	64
Dividend payment		-	-	(39)	(39)
Total transactions with owners		-	-	(39)	(39)
As at 30 April 2016		-	-	941	941
Loss for the period		-	-	(338)	(338)
Total comprehensive loss for the period		-	-	(338)	(338)
Dividend payment		-	-	-	-
Total transactions with owners		-	-	-	-
As at 31 October 2016		-	-	603	603
Loss for the period		-	-	(45)	(45)
Total comprehensive loss for the period		-	-	(45)	(45)
Dividend payment		-	-	-	-
Issue of new shares	5	58	13	-	71
Total transactions with owners		58	13	-	71
As at 30 April 2017		58	13	558	629

The notes on pages 13 to 15 form part of this interim report.

Condensed statement of cash flows

For the six months ended 30 April 2017

	Half year ended 30 April 2017 (unaudited)	Half year ended 30 April 2016 (unaudited)	Year ended 31 October 2016 (audited)
	£'000	£'000	£'000
Operating activities			
(Loss) / Profit for the period	(45)	64	(274)
Taxation	10	33	(81)
(Profit) / Loss on disposal of property, plant and equipment	(3)	-	1
Interest charge	91	34	86
Depreciation of property, plant and equipment	119	181	281
Grant income amortization	(11)	(11)	(22)
	161	301	(9)
(Increase)/Decrease in trade and other receivables	(912)	(364)	(908)
(Increase)/Decrease in inventories	(432)	(548)	(940)
Increase/(Decrease) in trade and other payables	1,747	782	2,334
Cash generated from operations	564	171	477
Income taxes paid	-	-	(240)
Net cash flows from operating activities	564	171	237
Investing activities			
Purchase of property, plant and equipment	(48)	(38)	(120)
Proceeds from disposal of property, plant and equipment	4	-	-
Net cash used in investing activities	(44)	(38)	(120)
Financing activities			
Interest paid	(91)	(34)	(86)
Repayment of finance lease capital	(35)	(56)	(114)
Dividends paid	-	(39)	(39)
Issue of new shares	71	-	-
Net cash used in financing activities	(55)	(129)	(239)
Net increase / (decrease) in cash and cash equivalents	465	4	(122)
Cash and cash equivalents at beginning of period	39	161	161
Cash and cash equivalents at end of period	504	165	39

Notes to Interim Report

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.

The Company's principal activity is that of the sale of kits of composite material and related products to the aerospace industry. The Company re-registered from a private limited company to a public limited company on 27 April 2017, and its shares were admitted to trading on the Alternative Investment Market (AIM) of the London Stock Exchange on 18 May 2017 (see note 6).

The condensed interim financial statements are unaudited and do not constitute statutory financial statements within the meaning of Section 435 of the Companies Act 2006. The auditor's review report on these interim financial statements is set out on page 13. The financial information for the year ended 31 October 2016 has been derived from the published statutory financial statements. A copy of the full accounts for that period, on which the auditor issued an unmodified report that did not contain statements under Section 498(2) or 498(3) of the Companies Act 2006, has been delivered to the Registrar of Companies.

These interim financial statements will be posted to all shareholders and are available from the Registered Office at AMS Technology Park, Billington Road, Burnley, Lancashire, BB11 5UB or from our website at www.velocity-composites.com.

2. Accounting policies

Basis of preparation

These condensed interim financial statements are for the six months ended 30 April 2017. This interim financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union, and has been prepared using consistent accounting policies as applied in the full year accounts to 31 October 2016 and as expected to be applied in the full year accounts to 31 October 2017. They have therefore 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).

Going concern

Having made reasonable enquiries, the Directors are of the opinion that the Company 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 to 31 October 2018 together with projections on that basis to 31 October 2020 to project the future growth of the Company, and flexing these forecasts through sensitivity analyses.

The forecasts include consideration of the cash position of the Company 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.

Notes to Interim Report

3. Segmental analysis

The Company supplies a single range of kitted products 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.

An analysis of revenue by geographical market:

	Half year ended 30 April 2017 (unaudited) £'000	Half year ended 30 April 2016 (unaudited) £'000	Year ended 31 October 2016 (audited) £'000
Revenue			
United Kingdom	9,225	7,055	14,517
Europe	102	43	97
	<u>9,327</u>	<u>7,098</u>	<u>14,614</u>

One customer of the Company is responsible for over 10% of the total revenue in each of the periods presented. 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.

4. (Losses)/earnings per share

	Half year ended 30 April 2017 (unaudited) £	Half year ended 30 April 2016 (unaudited) £	Year ended 31 October 2016 (audited) £
(Loss)/profit for the period	(45,000)	64,000	(274,000)
Earnings/(loss) per share (pence per share) (basic & diluted)	(0p)	162p	(692p)
	Shares	Shares	Shares
Weighted average number of shares in issue	<u>7,710,973</u>	<u>39,600*</u>	<u>39,600*</u>

* restated in accordance with the provisions of IAS33 to reflect the impact of the subdivision of shares on 02 March 2017.

5. Share capital

	Half year ended 30 April 2017 (unaudited) £	Half year ended 30 April 2016 (unaudited) £	Year ended 31 October 2016 (audited) £
Share capital issued and fully paid	58,812	99	99
Ordinary shares of £0.0025 each	23,524,800	-	-
Ordinary shares of £1 each	-	99	99

Continued...

Notes to Interim Report

5. Share capital (continued)

Ordinary shares carry the right to one vote per share at general meetings of the Company and the rights to share in any distribution of profits or returns of capital and to share in any residual assets available for distribution in the event of a winding up.

On 13 January 2017, the Company issued seven new £1 ordinary shares to Mark Mills and three new £1 ordinary shares each to Nigel Turner and Matthew Turner (being sons of Peter Turner). The shares were issued at nominal value for no consideration. The Company has received a deed of indemnification from Mark Mills and Peter Turner for all taxation costs (excluding employer's National Insurance) arising from the allotment of the shares.

On 14 February 2017, the Company issued a further two new £1 ordinary shares to Mark Mills and a further one new £1 ordinary share each to Nigel Turner and Matthew Turner. The shares were issued at nominal value with consideration at market value.

On 02 March 2017, the Company passed a resolution to reduce the share premium account by £58,696 and to apply such sum in paying up in full 58,696 ordinary shares of £1 each, and allot and issue 58,812 new shares to the existing shareholders. The Company then subdivided its entire issued share capital such that 58,812 issued ordinary shares of £1 each became 23,524,800 ordinary shares of £0.0025 nominal value each.

On 27 April 2017, the Company re-registered under the Companies Act 2006 as a public limited company, with its name changing from Velocity Composites Limited to Velocity Composites plc, in preparation for its shares being admitted to public trading.

6. Events after the reporting date

On 18 May 2017 the Company completed an Initial Public Offering comprising a Placing and Admission to the Alternative Investment Market (AIM) of the London Stock Exchange. As a result the Company increased its share capital by 12,270,739 shares to 35,795,539.

The Placing proceeds were discharged as follows:

Selling Shareholders	£'000
Advisers fees	4,000
Company net proceeds	1,188
Total proceeds	<u>9,242</u>
	<u>14,430</u>

If the transaction had occurred before the reporting date, £546,000 of the advisers' fees would be charged to the Statement of Comprehensive Income with £685,000 capitalised to equity in share premium.

Independent Review Report



Independent Review Report to the Members of Velocity Composites Plc

Introduction

We have reviewed the condensed set of financial statements in the half-yearly financial report of Velocity Composites Plc for the six months ended 30 April 2017 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. We have read the other information contained in the half yearly financial report which comprises the Chairman's Report and Chief Executive's Report, and considered whether they contain any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the company's members, as a body, in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information performed by the Independent Auditor of the Entity'. Our review 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 independent review 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 review work, for this report, or for the conclusion we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the directors.

As disclosed in note 2, the interim financial statements of the company are prepared in accordance with International Financial Reporting Standards as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Our responsibility

Our responsibility is to express a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410, 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity'. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the six months ended 30 April 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34, 'Interim Financial Reporting', as adopted by the European Union.

Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
26 June 2017

