2019 Annual Report & Financial Statements

For the year ended 31 October 2019

Registered No. 06389233

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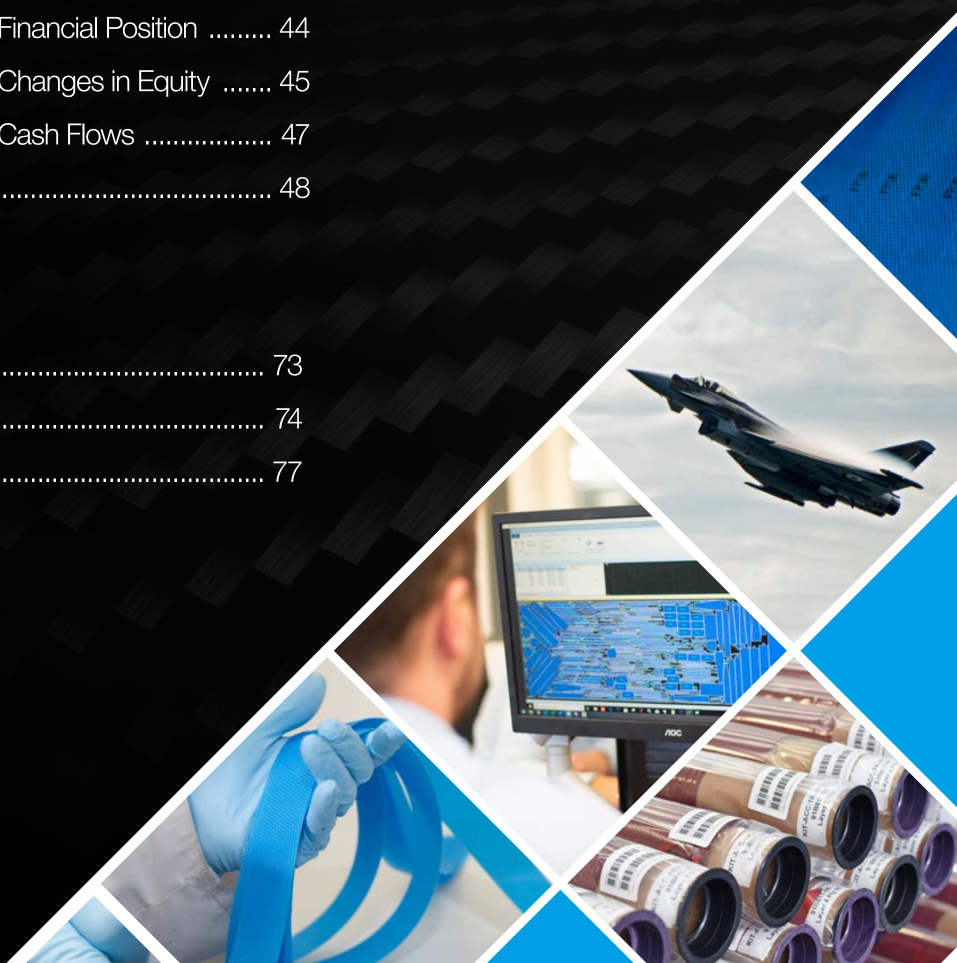


Our Mission

To revolutionise aerospace composites manufacturing by enabling our customers to reduce waste/costs whilst meeting increased global demand by creating a lean and scalable supply chain in a more-for-less era, delivering real value for all stakeholders.

Financial Highlights

Revenue
stable
£24.3m

International Sales
up by £2.0m to
£2.5m

Gross Margin %
up to
21.7%

EBITDA [1]
positive to
£0.6m

Operating Loss
reduced to
£0.6m

Net Cash
of
£3.4m

1 Earnings before Interest, Tax, Depreciation, Amortisation, adjusted for exceptional administrative costs and share based payments

Chairman's Report

Andy Beaden Executive Chairman

Our focus in 2020 is firmly on the development of new sales opportunities, which will benefit the top line in future years and establishing a strong foothold in the US civil aerospace market, as well as growing our sales in Europe.

This is my first report to shareholders since taking over as the Chairman of the Board of Directors of Velocity Composites plc. I am pleased to report that my first months at Velocity have more than confirmed that this is an exciting and ambitious business with talented staff who are focused on creating shareholder value through revenue growth and lean manufacturing-based operational excellence.

Revenue for the 12 months ended 31 October 2019 was broadly in line with the previous year at £24.3m (FY18: £24.5m), however, gross margin improved significantly to 21.7% (FY18: 18.3%) through a continued focus on operational excellence. The improvement on gross margins, combined with careful cost management, enabled the Group to achieve Adjusted EBITDA of £0.6m (FY18: loss £0.2m). The reported operating loss of £0.6m (FY18: loss £1.1m) includes an exceptional administrative charge of £0.7m, without which the Group would have achieved breakeven.

Board and Management

Rob Soen and I were appointed directors of the Company in July, following a period of significant disruption at board level. Mark Mills, Brian Tenner, Meera Parma and Alan Kershaw all resigned as directors during the last year, along with Alan Kershaw resigning as Company Secretary. We also saw the departure of two of Velocity Composites founders, Gerry Johnson and Chris Banks, from their roles as executive managers. Both Gerry and Chris are deeply respected in the business for what they achieved establishing the business from scratch alongside Jon Bridges and other early stage employees. The Board thanks everyone who has left the Company during the year and wishes them well.

Since joining the Board, Rob and I have set out to stabilise the leadership of Velocity, re-establish good corporate governance, evaluate the strategy with the input of key management and assess the health and status of the business. Jon Bridges, who was acting CEO in a non-board capacity, was immediately reappointed to the Board. We believe it is vital that senior management are represented directly at board level. Rob and I have now formed a close working relationship with the senior management team, with whom we have regular direct consultation and open communication. This has helped restore and build confidence within the business and empower all staff to achieve the future growth and operational targets our stakeholders have been supporting for some time.

Equally important is strengthening the new Board further. We have begun the search for a new suitably experienced independent Non-Executive Director. This process is underway, and we look forward to updating shareholders in due course. This year, we have benefited from a very experienced interim CFO, Andrew Hebb. It is our intention to hire a new permanent Chief Financial Officer in 2020 to continue his good work developing our financial systems and people.

Strategy

The strategy has been re-aligned with a new business development plan focused on key larger customer opportunities, deeper development of partnering within the supply chain and exploiting multiple opportunities available through penetration into the US and mainland European aerospace markets. Asia remains a longer-term target for growth. Europe remains our home base, however, it is entering the US market where Velocity's best in class value-engineered kitting services can immediately add value in the composite aerospace sector. This is a very large market and our entry strategy is to work with our world class partner, Wesco, and leverage our own blue-chip customer base, established over many years within Europe.

Our year end cash balance of £3.4m, combined with our Invoice Discounting facility of up to £5.5m, gives us the financial resources necessary to make the next stage investments in facilities, people and working capital.

Growth requires investment in both facilities and, critically, business development and operations people and the potential for high returns on those investments is tangible. New satellite facilities run on a lean-manufacturing basis and, when filled with new business, will generate a significant return on capital employed. We are also developing a number of approaches for deploying our services on a flexible basis, which will include customer onsite kitting, as well as from separate facilities nearby. The strategic driver for this approach is to help the customer ensure maximum waste reduction, inventory optimisation and labour efficiency, but it will be implemented with an eye of driving return on capital too.

Our sales cycle is often an extended one. A detailed professional approach is required to pitch and agree the gains customers can achieve through our services, followed by the onboarding process and regulatory approval maintenance. The benefits of this approach are longer term contracts, visibility on demand and barriers to entry for a competitor.

As part of our refreshed strategy, technology will play a central role in advancing operational excellence and, critically, in improving customer service. We continue to invest in the software platform we use for our nesting calculations, which in turn enables us to reduce wastage in materials. We also need to develop systems which support our international expansion and multi-site approach. We are investing in our research and development capabilities to improve further our offering to customers and support their growth ambitions.

Summary and Outlook

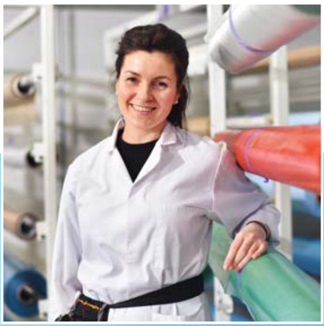
The new financial year has started well, and the team has made good progress strategically with milestones being achieved around contract renewals and new aerospace qualifications. We are carrying additional inventory to protect our customers from any Brexit disruption, but hopefully, we will be able to reduce inventory stocks as the UK's exit plan from the EU becomes clearer later in the year.

Our focus in 2020 is firmly on the development of new sales opportunities, which will benefit the top line in future years and establishing a strong foothold in the US civil aerospace market, as well as growing our sales in Europe. We aim to maintain a strong profile and presence in the geographic homes of the two major OEMs of Europe and the North America in seeking to secure further orders in what is anticipated to be a period of exceptional growth for the industry. We have already announced extended terms to our largest, long-term supply agreement with a UK customer and expanded another supply agreement to include Boeing higher value structural composite kits. The Group now has approvals in both the Airbus and Boeing supply chains, along with a number of other key aerospace approvals, for both civil and military aircraft platforms. We are particularly pleased with our growing relationship with Airbus directly. Though we know the 737 Max programme has some current issues around production levels, being qualified for Boeing is of immense strategic significance for Velocity.

To further align staff to shareholder values, we are changing the way we reward staff. All our people will be part of a new annual cash reward plan linked to our internal budget targets on profitable growth. In 2020 all staff will be able to participate in a new HMRC Velocity Share Investment Plan; management rewards for profitable growth will be through both cash and equity. We want all staff to be aligned and rewarded in growing shareholder value.

As a new Board, we would like to thank all our staff, investors, customers, advisers and suppliers for their support during this year of change. By working together, we believe the best years for Velocity Composites plc lie ahead.

Andy Beaden
Chairman
27 January 2020



Velocity HQ, Burnley, Lancashire, UK

Business Strategy

The Expanded Group

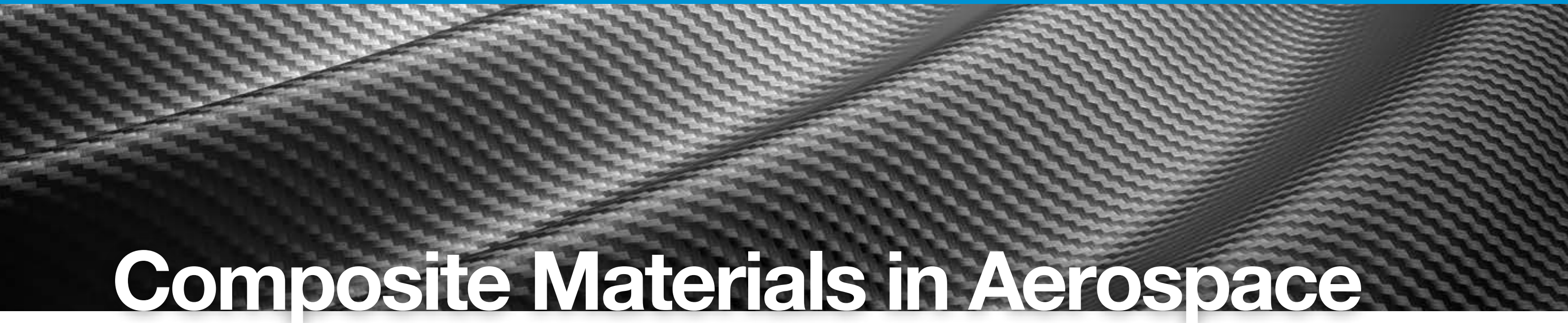
Velocity has continued its growth trajectory from its inception in 2007 through its admission to AIM in 2017 to its position today as a strategically important and unique interface between the chemical manufacturers of composite raw materials and the aerospace structural component makers, eliminating 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 offer, through its growing 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 strong 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, European and USA markets. Asia will not be an immediate area of focus unless an opportunity arises with one of our current customers or the work can be undertaken from our facilities in the UK. 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 in the past 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. However, we believe the major areas of new business opportunities in the near term remain in Europe and the USA, and this is where we are focusing in 2020.



Composite Materials in Aerospace

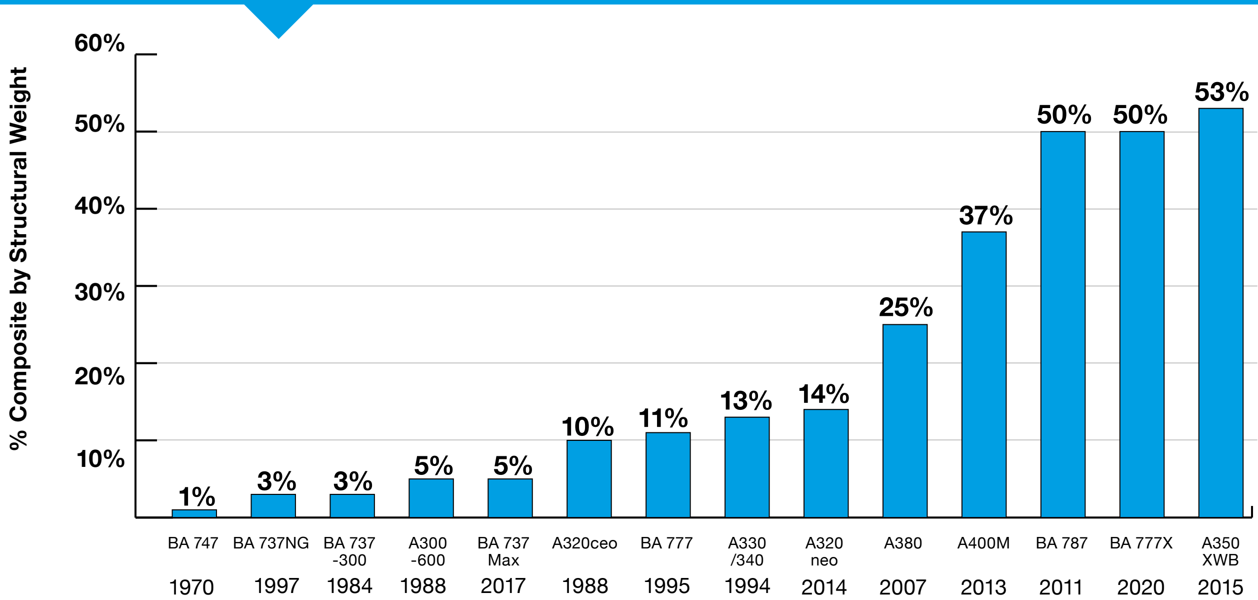
The use of composites has rapidly increased over recent years, and this is set to continue as the single aisle airframes are upgraded to composite materials to follow the lead taken by the twin aisle airframes. The use of composites in the aerospace sector is driven by the need to reduce cost per passenger 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.

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.

Commercial aircraft carbon fibre content with entry into service dates



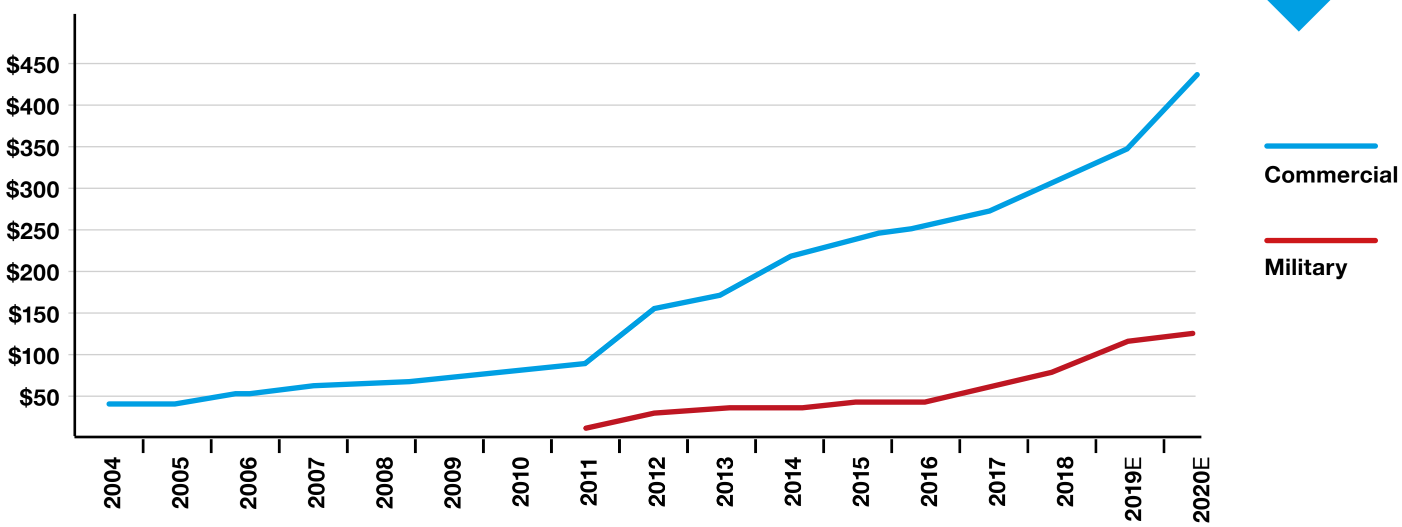
SOURCE: COMPANY INFORMATION JEFFERIES

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.

We have seen some challenges in the introduction of new platforms, such as the issues around the 737 Max, which is a strategically important programme for the composite aerospace industry, but it should be noted those issues are not related to the increased use of composite materials. Though disruption in the production of this high volume single aisle plane will impact demand in the composite supply chain, strategically there is very significant demand for such new aircraft and their advanced efficiency. This means Velocity Composites will continue to seek to penetrate the supply chain of such programmes, where we believe the long-term growth can be transformational for the business.

Carbon Fibre Demand ($MM) for Key Commercial & Military Platforms



SOURCE: COMPANY INFORMATION JEFFERIES

Sustainability

Landfill Reduction
Carbon Fibre Waste
12 tonnes
per year

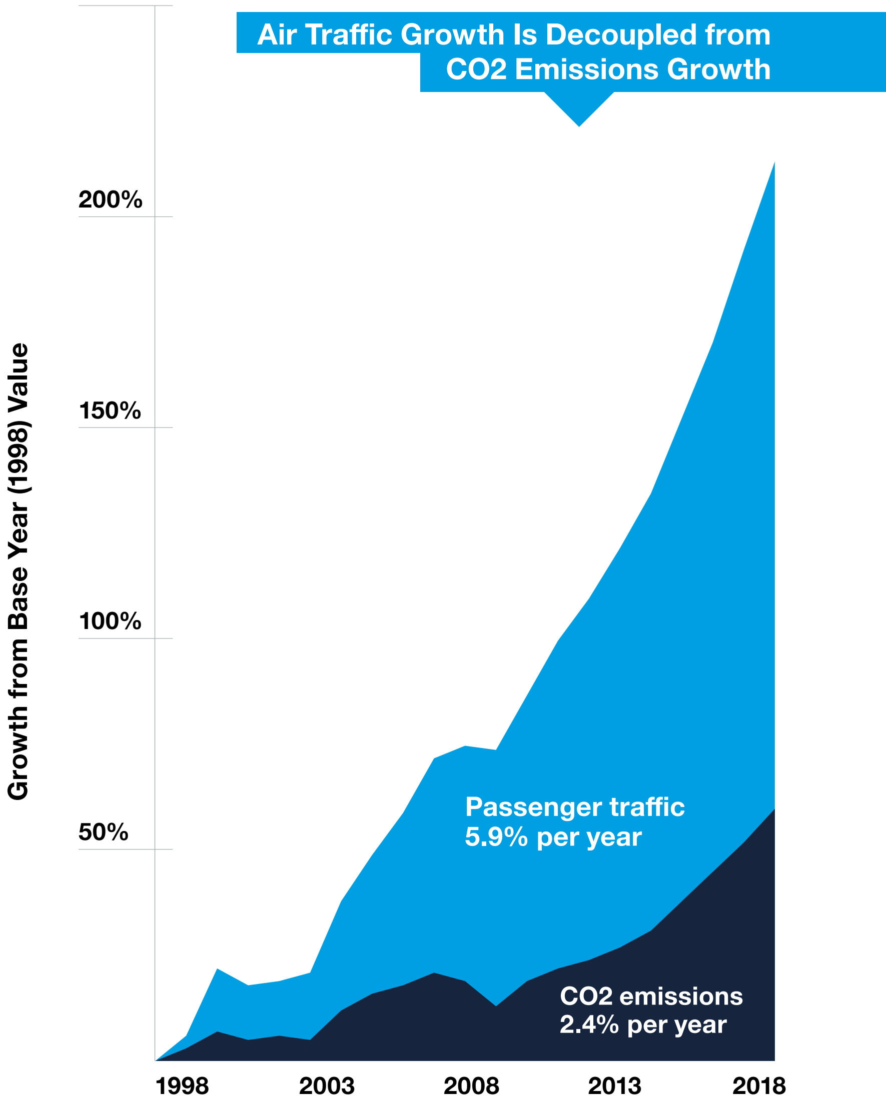
CO^2
Emission Reduction
15 tonnes
per year due to solar panel use

Velocity's aim is to reduce waste from the aerospace composites supply chain in all forms for our customers, so that more of the raw materials manufactured end up flying on an aircraft and less non-value added time is needed by our customers. We perform our role mindful of the impact of our actions on the environment and ensure we positively contribute to the sustainability of the whole industry.

Action we take internally include basing ourselves in modern, energy efficient buildings using air source heat pumps for all our heating and air conditioning. We use solar power to augment the local supply and feed excess power back into the grid. We consolidate shipping of raw material to ensure there are less journeys and fuller loads. We recycle all packaging and look for ways to reduce packaging as shipments are reduced.

Every square meter of material we save results not only in lower costs for our customers, but also less raw material manufacturing costs, less shipping cost, less refrigeration costs and less disposal costs, all with less waste energy, less CO2 production and the associated waste.

Lets not forget composite aircraft are allowing longer journeys with less emissions, and Velocity has proved that the supply chain has an important part to play in the sustainability for the current and future aviation industry.



Note: CO2 growth estimated for 2017 & 2018

SOURCE: ICAO, BOEING ANALYSIS

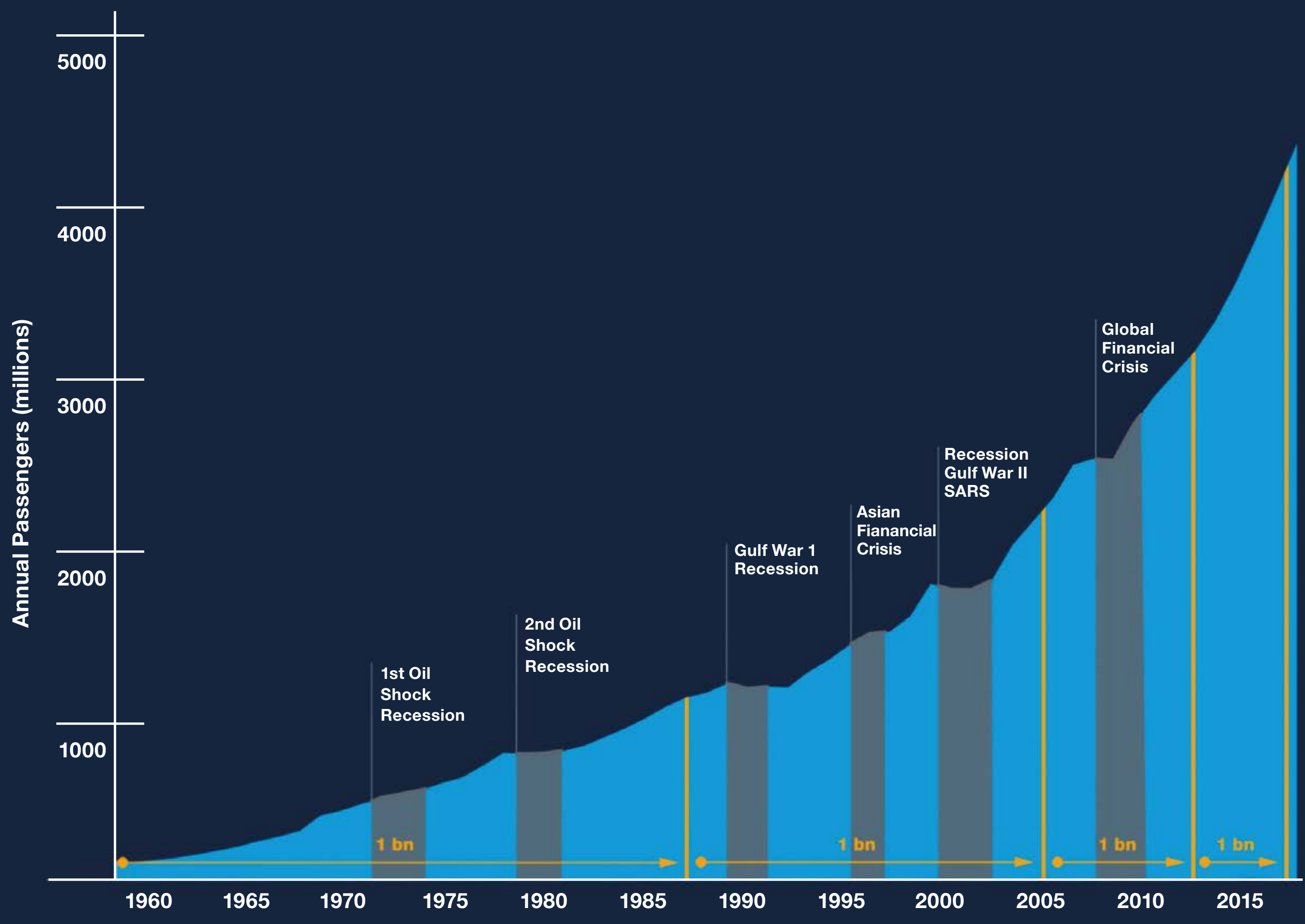
Our place in the market

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, therefore 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 is to commit the Group to a US showroom facility where significant demand is available in the region supporting the site, which can then be expanded to a full production facility when a customer has committed contractually. This can either positioned onsite at a customer or offsite. In the USA the partnership with Wesco enables us to expand our reach with a reduced level of operational risk.

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.

Air Travel Resilience Despite Financial & Geopolitical Challenges



GRAPH: BOEING COMMERCIAL MARKET OUTLOOK 2019-2038 SOURCE: ICAO / IATA DECEMBER 2018

CEO Report

Jon Bridges Chief Executive

"I have great confidence in the direction and prospects of the Company. With improving margins, profitable operations, good capital reserves…coupled with the re-energised executive management team and a clear strategic plan."

Having returned to the Board in July 2019, I am pleased to report that full year revenue and Adjusted EBITDA are in line with market expectations. This has been achieved despite a period of significant change at the board level and product churn, associated with our customers' A320 and A330 programmes changing from the CEO (current engine option) to NEO (new engine option) variants. This resilient performance is testament to the hard work of all the great people within Velocity and their commitment to the vision and values of the company.

Board and People

I would like to welcome Andy Beaden and Rob Soen to the Board. They bring a broad and unique mix of experience, and their full profiles can be read later in this report. In the final three months of the financial year, following their appointment, the new Board and executive team worked to develop and reshape the business in order to meet the significant opportunities and challenges of the global aerospace composites industry. These changes have been focused on two key areas: new business growth and operational excellence. These are now embedded in a new Integrated Business Plan (IBP), developed and embraced by the executive and management teams, who are working together to deliver the budgeted strategic objectives.

During the year, we made a number of senior hires, including a new Quality Manager, Programme Manager and HR Manager. We are in the process of recruiting a third Non-Executive Director and seeking hires to our business development and customer programmes management team. Andrew Hebb has provided excellent support as interim Chief Financial Officer during the last 12 months but the Board is now seeking a permanent CFO to join the Board in 2020.

With the new team in place the Company is well placed to enter the next phase of growth with the strong aerospace focused executive and experienced non-executive leadership needed.

Trading

Revenues in the financial year were broadly unchanged on the previous year at £24.3m (FY18: £24.5m). The majority of revenue during the financial year was delivered from current contracts that were in place at the start of the year, which included a significant amount of programme churn due to changes in customer demand and new, lower cost materials being introduced by customers, rather than volume changes. Much of which related to the Airbus transition from CEO to NEO variants as mentioned earlier.

Critically, we have a strong pipeline of new business opportunities and have now prioritised around new business growth concentrated on a smaller number of larger opportunities, leveraging established global partners where there is a benefit to capitalise on existing relationships, existing infrastructure and addressing any perceived risk around the Company's relative size. This also allows our internal teams to focus on these opportunities and bring customers through the sales cycle on a more focused and controlled basis. The addressable market is sizeable and is growing, with Velocity playing a key role in helping its blue-chip customers become more efficient as the aerospace composites industry drives to meet the affordability targets of the two global OEM's on both current and future platforms. The Board believes that this can be achieved with a strong return on capital, as we develop our operating model with our partners and scale up and fill existing production areas.

Operationally, we improved our performance during the year, leading to improved gross margin of 21.7% (FY18: 18.3%) and therefore achieving an adjusted EBITDA of £0.6 compared to a loss in the previous financial year (FY18: loss £0.2m). This was mainly achieved through continuing focus on gross margin, which showed consistent improvement during the year. Administrative expenses, excluding non-recurring restructuring costs, were 3% lower at £5.2m (FY18: £5.3m). Improving the Company's internal efficiency through operational excellence is a key pillar of the new integrated business plan. This has involved improvements to the real time data analysis of manufacturing operations, not only to ensure internal compliance to efficiency targets, but also to measure the effects of continuous improvement activities and drive improvements through all aspects of our operations. To achieve this we have invested further in our proprietary software to allow us to utilise real time data extracted from our freezer storage, cutting machines and inspection areas, coupled with real time analysis and reporting on manufacturing. Further improvements are planned, as we build and integrate our data analysis, whilst incorporating it with the wider ERP/MRP system across all sites, based on industry 4.0 technologies. All these initiatives are aimed at maintaining and improving customer service, which in turn provides the platform for growth through new business wins.




Regulatory

This year has also contained sobering reminders within our industry as to why the focus on quality, traceability, process adherence and a relentless push for product excellence are linked to the safety of airline passengers. Velocity's operations are entirely focused upon the aerospace market and, therefore, our processes and systems have been designed from the ground up to meet the most stringent industry standards. I am pleased to report that we have maintained all of our industry approvals with highly complementary feedback from every third-party audit team tasked with reporting on all aspects of our operations. In pursuing new business opportunities, we will be required to obtain further approvals and are confident that the processes we have developed, and continue to develop, will ensure that Velocity and our customers remain fully aligned with global industry standards. After the year end we were very proud to achieve key new Boeing approvals which then opened up the opportunity of new business starting in 2020.

Advanced vision systems to verify production processes

Research and Development

The construction of our new Technical Centre is nearing completion and when open will allow the business to enhance its current service offerings and develop the next generation of products and processes, with all trials and new business activities being performed separately from the day-to-day operations. As Velocity continues to exploit key Industry 4.0 technologies and bring benefits to the composites supply chain, our focus will be around enhanced data analytics, automated optical verification, advanced real-time nesting, 3D rapid prototyping and paperless traceability. As we develop and integrate these technologies into our systems, it will allow us to remove further waste and non-value-added activity from our processes, allowing us to create even more compelling business cases for our customers. In addition, several new products and processes have already been identified which allow Velocity to integrate further vertically within our customers process and we are working together with our customers and technology partners to work collaboratively to deliver these products and service offerings, both existing and new, as we invest to become the long term supplier of choice for our customers.

Governance and Risk

The principal risks and uncertainties are detailed in the Governance section of this report. With regards to Brexit the Group has undertaken various risk mitigation activities which include maintaining higher than usual stock levels over the past nine months of the financial year. This remains the position, but we do intend to reduce these to more normal levels over the coming financial year.

The production issues around the 737 Max have not impacted us in the year under review to any significant degree, but as we have explained earlier, this high volume programme is strategically important to us as we win new business in the Boeing supply chain.

The Board has reaffirmed its previously decision 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 24 to 29, and on the Group's website at www.velocity-composites.com.

The Health and Safety of all our staff is a priority item for the Board and management team and is reviewed on a monthly basis at both Board meetings and the Operational review meeting. In the year under review, we had only one reportable accident, which resulted from a slip by a member of staff. We actively encourage staff to report near misses so that we can ensure appropriate remedial action is taken.

Outlook

Following the substantial changes made to the Group and its management over the last six months, I have great confidence in the direction and prospects of the Company. With improving margins, profitable operations, good capital reserves and the VCT/EIS spending committed and approved, coupled with the re-energised executive management team and a clear strategic plan embedded through the whole organisation, we believe that Velocity has a solid platform from which to exploit the substantial growth forecast in the civil aerospace industry. We are well placed to deliver extensive, long term, stable commercial propositions to our customers and growth for all stakeholders.

We look forward to the remainder of FY20 and beyond with renewed confidence and energy.

Jonathan Bridges
Chief Executive Officer
27 January 2020

One of Velocity's advanced cleanroom manufacturing areas

Financial Review

Statement of Comprehensive Income

We achieved a similar level of revenue to last financial year without the beneficial impact of any significant new contracts. Our current customers saw a considerable change to a number of their programmes, which we were required to accommodate through change requests, including the move to better priced material types in some cases. Overall revenue was down slightly by 0.7% during the year ended 31 October 2019 to £24.3m (FY18: £24.5m), but this can be explained by the change in value of composite materials. The Company benefited from both the dollar and euro strength, particularly in the last quarter of FY19, with a positive impact of £0.1m (FY18: £0.1). International sales increased to £2.5m (2018: £0.5m) through work contracted with a customer in continental Europe. We expect sales from customers in regions outside the UK and Europe to increase significantly over the next few years, as we target new business in the USA and eventually Asia.

The key financial success in this last year was in the stabilisation of operating margins, with great work from our operations team. This meant gross profit at £5.3m was an increase of 17% over 2018 at£4.5m. Gross margin was much more stable throughout the year improving further in the 2H to 22.4% compared to 20.9% in H1, with an overall margin of 21.7%. We have worked hard to reset contractual positions so we can minimise both material price risk and FX risks to protect our margins. This means 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 decreased during the year by £0.2m due to a focus on a general reduction in other costs. We have continued to invest in our people though, including training and development, as we seek to build an international growth-oriented business.

The Company 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 2019 of £0.7m (FY18: £0.3m) consist of costs in relation to the resignations of the previous chairman and non-executive directors, settlement of a dispute with the founder shareholders, and various other associated costs relating to the restructuring of the Board.

Before exceptional items, the Company produced a profit before tax of £0.1m compared to a loss of £0.7m in FY18.

The statutory disclosed Operating Loss was £0.6m (2018: Loss £1.1m) for the full year. From the Adjusted EBITDA of £0.6m costs of restructuring of £(0.7)m, Amortisation and Depreciation of £(0.4) m and Finance charges £(0.1)m leave Operating Loss at £0.6m.

Historically the Company has used Adjusted profit before tax as an alternate performance measure to reflect adjustment for expenditure on growth opportunities in the UK and Overseas and exceptional restructuring costs. Growth is at the heart of our strategic plan so we will continue to invest every year in achieving this ambition. Going forward we will focus upon Adjusted EBITDA as a better key performance measure to reflect the operational performance of the business. In addition, we propose to comment on specific large investments in production facilities that in year could have a material impact on Adjusted EBITDA.

Adjusted EBITDA amounted to £0.6m, an increase of £0.9m over the prior year due to improved gross margins and a reduction in overheads. EBITDA margin improved to 2.5% (FY18: loss 1.0%).

Adjusted EBITDA

Reconciliation from Operating Profit	**31 October 2019 £'000**	**31 October 2018 £'000**
Operating Loss	(594)	(1,072)
Add back:		
Share-based payments	66	169
Depreciation & Amortisation	449	413
Exceptional Administrative costs	692	252
Adjusted EBITDA [1]	**613**	**(238)**

[1] Adjusted EBITDA defined as earnings before finance charges, tax, amortisation, depreciation, share based payments, exceptional restructuring costs.




Cashflow and Capital Investment

The year-end cash and cash equivalents reduced by £1.3m to £3.4m (2018: £4.7m). Cash utilised from operations of £0.3m (2018: generated from operations £0.5m) in particular due to an improvement in cash collection and a significant reduction in overdue debts, offset by an increase in inventories and a reduction in trade creditors. Cash used in Investing activities of £(0.2)m (2018: £(0.4)m) primarily related to property, plant and equipment and development expenditure capitalised. Financing activities utilised £0.8m including a decrease in the use of our Invoice Discounting facility by £0.6m. The Invoice Discounting facility was not utilised at 31 October 2019 (2018: £0.6m), reflecting the reduced use during the financial year, thanks mainly to tighter credit control systems now implemented.

The cash balance at 31 October 2019 of £3.4m included £1.61m being the balance remaining from the money raised to be invested in EIS activities. The Company has to date spent the EIS funds on its research and development activities and on its exploration of new territories in Europe, USA and Asia. The board intends that the remaining EIS funds will be deployed on establishing a production facility in the USA, due to open in 2020; buying equipment for the new R&D centre due to open in H1 2020; and to investment further in developing further our Central European activities.

Working Capital

Inventory levels increased at the year-end by £0.5m to £3.2m reflecting additional stock levels in relation to the Company's Brexit strategy.

Trade and other receivables reduced significantly during the year by £1.7m to £4.2m as a result of improved monthly routines to manage the collection of debts. Debtor days have therefore also decreased significantly to 52 days (2018: 72 days), with less than £0.1m beyond terms.

Trade and other payables also reduced during the year by £2.0m to £3.2m due to reduction in Trade Creditors of £1.4m and the reduction in the invoice discounting facility £0.6m which was undrawn at the year end.

Financial Key Performance Indicators (KPI's)

The board have monitored the performance of the Company with particular reference to the relevant key performance indicators (KPI's) which are set out below.

During the year several of our key performance indicators showed improvements which was encouraging including the improvement in gross margins and the positive EBITDA.

	Year ended 31 October 2019	Year ended 31 October 2018
Revenue growth	(0.7%)	14.5%
Revenue growth International markets	400.0%	2.0%
Gross Margin	21.7%	18.3%
Adjusted EBITDA	2.5%	(1.0)%
Operating Margin	(2.4)%	(4.1)%

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 the USA and continental Europe. The board will review both the financial and non-financial KPI's to ensure that the Company is focused upon and properly targets measurement of the key drivers for the business. Longer term the Company intends to also monitor return on capital and earnings per share.

Going concern

The Group has prepared financial projections for the following two years, year one reflecting the budget. The forecasts include revenue projections based on current demand plus a weighting of opportunities in the pipeline. Capital expenditure has been included to reflect the establishment of a site in the USA in 2020 and Europe in 2021. This expenditure can be flexed if required along with operational spend if revenue was to fall short of forecast. Having due regard to these projections and available cash at 31 October 2019 of £3.4m, and an invoice discounting facility where we can borrow up to £5.5m dependent on debtor levels, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

The Strategic Report as set out in the Chairman's Report, CEO Report, Business Strategy and the Financial Review on pages 4 to 23 has been approved by the Board.

Andrew Hebb
Interim Chief Financial Officer
27 January 2020

Financial Highlights

Revenue
stable
£24.3m

International Sales
up by £2.0m to
£2.5m

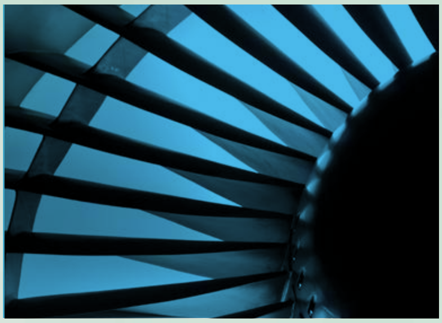
Gross Margin %
up to
21.7%

EBITDA
positive to
£0.6m

Operating Loss
reduced to
£0.6m

Net Cash
of
£3.4m

1 Earnings before Interest, Tax, Depreciation, Amortisation, adjusted for exceptional administrative costs and share based payments



Principal Risks and Uncertainties

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.

For many businesses, the negotiations between the United Kingdom and European Union for its future relationship give cause for uncertainty and concern. Opening a production unit in the USA will bring a larger international revenue mix. 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.

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.

The Group's principal risks and our actions to mitigate these risks is set out in the table below. These are the risks that we feel are most material to the business and which might prevent us from achieving the Group's strategic objectives.

STRATEGIC RISKS

Principal Risk	Impact	Mitigation
Loss of Key Contracts	The loss of any of the company's major contracts may have a material impact on the company's business, prospects, financial condition or operations.	We nurture relationships with all our customers in order to understand our customers business and identify further opportunities to support them and win new business. We work very hard to deliver excellent customer service levels. We are actively developing our business development pipeline to secure new contracts. The demand for aircraft is increasing each year and the use of composites within aircraft manufacture is also growing. When a contractual period comes to an end, unless the customer invokes the termination clause, the supply of product continues on the basis of 4-week firm demand commitment and 12-month forward demand forecast against which the company places orders on material suppliers with purchase order cover. Customers are contractually committed to any material orders within lead time placed on their behalf.
Airworthiness issues	Changes in demand due to airworthiness issues, regulatory issues, safety issues with aircraft platforms	If the demand forecast is reduced due to one of these issues, then it has the potential to have an impact on the company's revenues until resolved or alternative contracts can be won. The best way the Company can mitigate this risk is through a diversified set of customers and aircraft programmes.
International Expansion	Our strategy is to expand our production facilities into new markets that cannot be serviced from our UK production facilities. We have started planning to open a new production unit in the SE USA in 2020. The successful implementation could lead to five or six such plants servicing the geographical clusters across the USA with opportunities in Canada and Mexico. In addition, new business development in Europe could offer up the need for a production unit. International expansion has inherent risks, along with potential delays in setting up new facilities.	We are developing partnerships with larger supply chain businesses, for example to develop the North American market we are working with Wesco. We are taking a measured approach by investing in our first production facility to support customers in SE USA region. Expansion into other markets i.e. Europe will be timed to manage the risks around cash flow, management time and bandwidth.
Winning a Large customer contract	The winning of a large customer contract in the UK could absorb the capacity headroom and lead to supply issues if not closely managed. It could also be a distraction to management.	We will aim to optimise the performance of our production units by working on efficiency improvements and using our space more effectively and scheduling the work in the most efficient way. Technology investments will also make a difference. We currently have about one third of expandable capacity in our UK plants. We have a good structure of Executive and second line management to support additional demand.

STRATEGIC RISKS

Principal Risk	Impact	Mitigation
Research and Development	The company invests in R&D projects in order to develop innovative new products.	R&D projects are reviewed by the Board and development opportunities are carefully reviewed by management at various stages to minimise any potential losses.
Exclusively operating in the aerospace sector	Not sufficient demand	Risk is mitigated by the forward order books of aircraft manufacturers and the strength of the growing aerospace market.

OPERATIONAL RISKS

Principal Risk	Impact	Mitigation
Dependence on Third Party Supply	The company's business depends on products and services provided by third parties. Any interruption to the supply of products or services by third parties or problems maintaining quality standards and delivering product to specification, or problems in upgrading such products or services, the company's business will be adversely affected. Appropriate stock levels maintained to meet customer contractual requirements.	The Group manages its relationships with suppliers through the commercial and operational teams. Many products are single sourced for Airplane frames, the product type being defined by Airbus/Boeing. We place orders according to the supplier delivery schedule, pay on time and maintain contractual buffer stocks to ensure that we do not run out of stock.
Reliance on Key Individuals	The success of the Group will depend largely upon the expertise and relationships of the Board and other senior employees. The loss of any of the key individuals could impact the Group's ability to deliver its strategic goals.	Salary and benefit levels are competitive and reviewed on a regular basis. In, addition the business has bonus and equity schemes to reward longer term performance. The company has a clear set of values which it promotes. We have invested in a strong second tier management team. Annual performance reviews and development plans take place.
Material Price	Material price changes are flowed through to customers	Ensure any material price changes are flowed through from supplier to customer through contract.

FINANCIAL AND COMPLIANCE RISKS

Principal Risk	Impact	Mitigation
Treasury and Foreign Exchange Risk	The company has an approved Treasury policy which is managed and monitored by the CFO. As the company purchases and sells product on a global basis, it is exposed to foreign exchange gains and losses linked to US$ and Euros. Group policy is to naturally hedge wherever possible and approximately 70% of our activity is naturally hedged. Cash deposits are maintained within the policy limits.	Monitor short term purchase forecasts and debtor levels and sell surplus currency according to a board agreed Treasury policy. Match revenue and purchases with all new contracts wherever possible.
Liquidity Risk	In-sufficient cash to meet the needs of the business	The company seeks to manage this risk by ensuring sufficient liquidity is available to meet foreseeable needs, by the use of cash forecasts, invoice discounting, loans and other bank facilities.
Credit Risk	Unable to collect due receivables from customers	The Company's trade receivables relate to amounts owed by aerospace supply chain companies who by their nature are very large. Given the size and stability of its core receivables, the Directors do not believe that the credit risk to the company is significant. Overdue debts are monitored on a weekly basis and action taken to resolve any issues.
Interest rate risk		The Company seeks to manage its interest rate risk through minimising exposure wherever possible and regularly reviewing interest rates available in the marketplace.
Retention of the company's certificates and other licences	The aerospace industry Is highly regulated and each country in which the company operates is subject to a stringent legal and regulatory regime. Regulatory approvals are required to sell the kit and consumable products to our clients. The Group has stringent internal controls in order to comply with the relevant legal and regulatory conditions. Maintenance of Airbus, Boeing and NADCAP approvals are critical to our operations.	The Group has stringent internal controls to comply with all legal and regulatory requirements. The Group has a dedicated quality department to monitor compliance in the business and liaises with the regulatory authorities.
IT Systems reliance	Disruption in critical IT systems could have a negative impact on production and important business processes. The Company has intellectual property that It needs to protect, this can be in the form of new products, new ideas, marketing specifications, customer requirements, cutting and nesting technology and financial data relating to the profitability of the company.	Manage the upgrade paths to both software and hardware systems to ensure safe implementation across the business. Maintain a clear IT policy to ensure users do not put the business at risk. Ensure the Group's business continuity plan is in place and tested regularly. Ensure all intellectual property is protected by licence and encryption.

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 adopted the Quoted Companies Alliance (QCA) Corporate Governance Code. The Board believes that the QCA Code is most appropriate for the size, risks, complexity and operations of the Company and is reflective of the Group's values. Details of the Group's compliance with the ten principles of the Code are set out here:

1. Establish a strategy and business model which promotes long-term value for the shareholders

Velocity's strategy is to supply Prime and Tier 1 aerospace manufacturers with composite kits and consumables to eliminate waste and provide essential logistics and supply chain efficiencies to its customer base. These arrangements are almost exclusively based on long-term contracts with our customers, typically for a three to five-year period.

Our business strategy and business model are included in the strategic report section of the Annual Report. Our key performance indicators set out in the Finance Review measure growth and profitability reflecting our business model.

2. Seek to understand and meet shareholder needs and expectations

Under the new Board structure Velocity is seeking to engage in regular dialogue with its shareholders through a structured Investor Relations programme. The Company seeks to provide effective communications through the Interim and Annual reports, as well as regular trading updates through Regulatory News Service announcements. Information is also made available to shareholders through the Company's website (www.velocity-composites.com).

We offer to meet with those institutional and major private investors that wish to do so at least twice a year in the results period. These meetings include a presentation of the latest financial

performance, a wider business update and discussion of the longer-term plan. These meetings are normally attended by the Chief Executive Officer and Interim Chief Financial Officer. The presentation given at these meetings is also made available on the Company's website.

We welcome engagement with our other key shareholders. The Chairman and other executives meet both private and institutional shareholders from time to time. The Annual General Meeting presents a further opportunity for all shareholders to meet the Board and other senior managers from across the business.

3. Take into account wider stakeholder and social responsibilities and their implications for long-term success

The Board and senior management seek to engage with all stakeholders including our employees, clients, suppliers, shareholders, industry bodies and local communities in a way to promote the longer-term success of the business.

The main mechanisms for wider stakeholder engagement and feedback can be summarised as follows:

Customers
We have dedicated staff in the businesses that are responsible for customer relationships. In addition, the technical support and development teams will regularly engage with customers as a fundamental part of delivering ongoing services. Through these well-established channels, Velocity seeks to ensure that the needs of our customers are fully understood. We are then well positioned to initiate appropriate actions in response.

Suppliers
The third-party supply base can be the key to the success of the Velocity business. As such, there are processes in place within the business to actively manage supplier relationships in the normal course of business, taking appropriate feedback and developing actions as necessary.

Employees
We are an equal opportunity employer regardless of race, religion, gender, age, disability or sexual orientation. With our staff we have implemented firm wide half yearly briefings following our results announcements, monthly departmental staff briefings, a quarterly staff newsletter as well as completing an annual engagement survey.

Industry Bodies
We are members of industry bodies such as Northwest Aerospace Alliance ('NWAA') and the National Aerospace and Defence Contractors NADCAP who are influential in how the Group is perceived by clients.

Community
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 are firm believers in supporting the local economies in which we operate and therefore always look to employ local people and engage local trades where possible.

4. Embed effective risk management, considering both opportunities and threats, throughout the organisation

The Board has overall responsibility for the Group's system of internal control. The Board recognises that it has overall responsibility for ensuring that the Group maintains proper accounting records and a system of internal control to provide it with reasonable assurance regarding effective and efficient operations, internal financial control and compliance with laws and regulations. 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. As expected, a key control during the period was the day-to-day supervision of the business by the Executive Directors.

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.

5. Maintain the board as a well-functioning, balanced team led by the chair

At the date of this report the Board comprises of the Chairman, Executive Director and one Non-Executive Director. In the first half of the financial year Mark Mills resigned as Executive Chairman. Brian Tenner and Meera Parmar resigned from the Board as Non-Executive Directors in July 2019. In the same month And Beaden was appointed Chairman and Rob Soen as Non-Executive Director. Andrew Hebb has been Company Secretary and Interim Chief Financial Officer since the resignation of Alan Kershaw on the 31 January 2019. An additional Non-Executive Director is planned for 2020.

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 Information 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 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.

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

Audit Committee
The Audit Committee currently The Audit Committee currently has two members, Andy Beaden (Chair) and Rob Soen. The Interim 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. It is intended a new additional independent non-executive director will be appointed to chair the Audit Committee in 2020 onwards.

Our engineers developing highly efficient nests

Remuneration Committee
The Remuneration Committee has two members, Rob Soen (Chair) and Andy Beaden. 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 met on one occasion during the year.

Nomination Committee
The Nomination Committee has three members, Andy Beaden (Chair), Jon Bridges and Rob Soen. 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.

A summary of the attendance at board and committee meetings by the directors who served during the year is set out below.

	Board Meetings	Audit Committee	Remuneration Committee	Nomination Committee
No Meetings in Year	**10**	**3**	**1**	**1**
Andrew Beaden ****	**3**	**1**	**1**	**1**
Robert Soen ****	**3**	**1**	**1**	**1**
Brain Tenner ***	**8**	**2**	**0**	**0**
Meera Parmar ***	**7**	**1**	**0**	**0**
Mark Mills **	**4**	**1**	**0**	**0**
Alan Kershaw *	**4**	**1**	**n/a**	**n/a**
Jon Bridges *****	**3**	**n/a**	**n/a**	**0**

* resigned as Company Secretary and Director on 31 January 2019
** resigned as Director on 25 March 2019
*** resigned as Director on 24 July 2019
**** appointed as Director on 24 July 2019
*****appointed as Director on 26 July 2019
n/a - indicates that a Director was not a member of a particular committee

Membership of the Board on Committees:	Andrew Beaden	Robert Soen	Jonathan Bridges
Audit Committee (AC)	Interim Chair	Member	n/a
RemunerationCommittee	Member	Chair	n/a
Nominations Committee	Chair	Member	Member

non-members are invited to attend committees as appropriate

6. Ensure that between them the directors have the necessary up-to-date experience, skills and capabilities

Details on each of the directors, and their respective roles within the Company, are set out on page 30 of this report.

7. Evaluate board performance based upon clear and relevant objectives, seeking continuous improvement

The last Board and management evaluation process led by the previous 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. The new Chairman will complete an evaluation process during the coming year. 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 on site Board discussions over the Group's short, medium, and long-term strategic direction.

8. Promote a culture that is based on ethical values and behaviour

Our long-term growth is underpinned by our seven core values:

i) We place our staff first, putting ourselves in their shoes to understand the current and future needs of those who work with us.

ii) We value our customers determining how to anticipate their current and future needs and how to exceed their expectations.

iii) We place importance on our suppliers and pay invoices promptly, are clear in negotiations and have an ongoing dialogue.

iv) We communicate with our shareholders and explain our strategy clearly and the challenges Velocity faces.

v) We are team players who recognise that Velocity is a company worth much more than the sum of its parts and we are committed to learning from one another.

vi) We are committed to innovation in what we do and how we do it, and to working smarter rather than harder to reduce costs, increase efficiency and help aircraft parts' manufacturers to increase build rates.

vii) We respect one another and are courteous, honest and straightforward in all our dealings, we honour diversity, individuality and personal differences, and are committed to conducting our business with the highest personal, professional and ethical standards.

The culture of the Group is characterised by these values which are communicated regularly to staff through internal communications and forums. The core values are communicated to prospective employees in the Group's recruitment programmes and are considered as part of the selection process.

The Board believes that a culture that is based on the seven core values is a competitive advantage and consistent with fulfilment of the Group's mission and execution of its strategy. It is the responsibility of the executive management committee to evaluate how the company might better achieve these objectives, and reports to the Board on a regular basis.

9. Maintain governance structures and processes that are fit for purpose and support good decision-making by the board

Details of the governance structures and processes adopted by the Company are set out on the Company website.

10. Communicate how the company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

The Board believes that corporate governance is more than just a set of guidelines; rather it is a framework which underpins the core values for running the business in which we all believe. The Board has formal responsibilities and agendas and three sub-committees; in addition, strong informal relations are maintained between Executive and Non-executive Directors. Non-executive Directors meet with other senior managers and give advice and assistance between meetings. Board dinners are held from time to time to provide opportunities for broader discussions.

The Chairman, Chief Executive Officer and the Interim Chief Financial Officer make presentations to institutional shareholders and analysts each year immediately following the release of interim and full year results. They also attend retail shareholder events. The slides used for such presentations are made available on the Group's website under the Annual Reports section. They also meet regularly with the Group's Nomad/broker and discuss any shareholder feedback – the Board is briefed accordingly.

All Directors attend the Annual General Meeting and engage both formally and informally with shareholders during and after the meeting. The results of voting at the AGM is communicated to shareholders via RNS and on the Group's website.

The Group engages a professional investor relations company to be the main contact point for our shareholders and to assist us with communicating with and receiving feedback from shareholders and financial analysts.

Andy Beaden
Chairman
27 January 2019

Board of Directors

Jon Bridges

Jon co-founded Velocity Composites in October 2007. Jon has over 25 years' experience within the advanced composites industry and is an experienced composite engineer. Previously, Jon was an Aerospace and Lean Solutions Specialist at Cytec Process Materials where he was responsible for direct sales support of UK and European based clients.

From 2003 to 2005 Jon was a manufacturing engineer for Safran Nacelles where he was responsible for the manufacturing function for a growing, highly loaded aerospace unit supplying multiple assembly lines. Jon was re-appointed to the Board as an Executive Director in July 2019.

Mr Bridges has a BSc in Materials Science from Coventry University.

Andy Beaden Chairman

Andy was appointed Non-Executive Chairman of Velocity in July 2019. He most recently served as Group Finance Director and a member of the board of Luxfer Holding plc, a developer and producer of highly engineered advanced materials, from 2011 to 2017, having joined its predecessor British Aluminium in 1997. Luxfer (LXFR) is listed on the New York Stock Exchange. Mr Beaden is a co-founder and Chairman of IN4.0 Group Limited, a company encouraging growth through the use of industry 4.0 technologies.

Mr Beaden is a Chartered Accountant, holds a degree in economics and econometrics from Nottingham University and is a Fellow of the RSA (Royal Society for the Encouragement of the Arts, Manufactures and Commerce).

Rob Soen

Robert joined Velocity in July 2019 as an Independent Non-Executive Director. Mr Soen has been appointed to the Board as an independent Non-Executive Director. He has worked extensively in aerospace and automotive supply chains, ending his executive career as Senior Vice President Supply Chain in GKN Aerospace Services Limited. Mr Soen is currently a Non-executive Director of Nasmyth Group Limited, a global precision engineering and metal treatment business.

Mr Soen is a Fellow of the Institute of Purchasing and Supply.

Directors' Report

The directors present their report and the audited financial statements for the year ended 31 October 2019.

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 16 to 19 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 23.

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 2019. Further details are provided in Note 2 to the financial statements.

Directors

The Directors who held office at 31 October 2019 and their interest in the shares of the Company were as follows:

	At 31 October 2019	% Shareholding
Jonathan Karl Bridges (appointed 26 July 2019)	5,515,929	15.36%
Andy Beaden (appointed 24 July 2019)	400,000 [1]	1.11%
Rob Soen (appointed 24 July 2019)	-	-

[1] Includes 50,000 shares in the name of Mrs S Beaden

Going concern

The Group has prepared financial projections for the following two years, year one reflecting the budget. The forecasts include revenue projections based on current demand plus a weighting of opportunities in the pipeline. Capital expenditure has been included to reflect the establishment of a site in the USA in 2020 and Europe in 2021. This expenditure can be flexed if required along with operational spend if revenue was to fall short of forecast. Having due regard to these projections and available cash at 31 October 2019 of £3.4m, and an invoice discounting facility where we can borrow up to £5.5m dependent on debtor levels, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

Indemnification of Directors

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

Substantial shareholdings

At 31 October 2019, notification had been received of the following interests which exceed a 3% interest in the issued share capital of the Company, in addition to those of the Directors referred to above:

	Number of Ordinary Shares	% of issued share capital
Gerard Antony Johnson	4,927,693	13.72%
Christopher Banks	4,927,693	13.72%
Cavendish Asset Management	2,600,446	7.24%
Octopus Investment Management	1,762,940	4.93%
Herald Investment Management	1,431,177	3.98%
Mark Mills	1,294,025	3.60%
Hargreaves Lansdown Asset Managers	1,202,853	3.35%
Amati Global Investors	1,150,294	3.20%
Charles Stanley Clients	1,126,036	3.14%

Corporate governance

The Statement of Corporate Governance on pages 24 to 29 sets out the Group's approach to good corporate governance.

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.

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 27 January 2020 and signed on its behalf by:

Andrew Hebb
Company Secretary
27 January 2020

Directors' Remuneration Report

This report covers the financial year ended 31 October 2019

Responsibilities
The Remuneration Committee has two members with Robert Soen (Chairman) and Andy Beaden members since joining the Board in July 2019. The Committee is responsible for setting the remuneration packages for Executive team as well as approving, where appropriate the remuneration of senior staff. The Committee sets incentive plans for the Executive team to align their interests with those of the shareholders and to encourage the strategic development of the business.

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 marketplace.

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. In October 2019 initial Options were issued to 2 members of the Executive team and performance-based options were issued to 3 members of the Executive team and 11 members of the management team. A total of 1.7m Options were issued.

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 2019 (or period of service) are summarised below:

	Year ended 31 October 2019	Year ended 31 October 2018
Executive		
Jonathan Bridges (appointed 26 July 2019)	154,144	139,121
Alan Kershaw (resigned 31 January 2019)	47,851	180,338*
Non-Executive		
Andy Beaden (appointed Chairman 26 July 2019)	22,519	-
Rob Soen (appointed 24 July 2019	9,853	-
Mark Mills (resigned 25 March 2019)	110,449*	122,000
Peter Turner (resigned 02 August 2018)	-	43,946
Brian Tenner (resigned 24 July 2019)	60,257	8,808
Meera Parmar (resigned 24 July 2019	34,807	4,750
TOTAL	439,880	498,963

* - Emoluments included exceptional costs

Directors' share options for the year ended 31 October 2019 are summarised below:

120,640 options were exercised on the 10 April 2019 at an exercise price of £0.0025p. Based on the share price that day the options had a fair value of £27,747, resulting in a gain for the respective former Director, Alan Kershaw of £27,445

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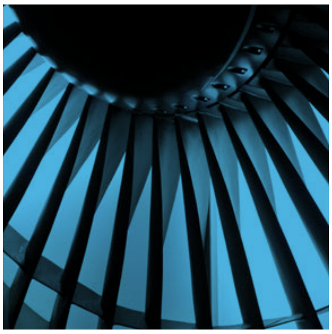
Independent Auditor's Report
to the Members of Velocity Composites Plc








velocity composites plc

Grant Thornton

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

OPINION

Our opinion on the financial statements is unmodified

We have audited the financial statements of Velocity Composites plc (the 'parent company') and its subsidiaries (the 'group' for the year ended 31 October 2019, which comprise 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 2019 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 the 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.

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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.

Overview of our audit approach

- Overall materiality: £243,000, which represents 1% of the company's total revenues; and
- Key audit matters were identified as the risk that the revenue cycle includes fraudulent transactions.

Key audit matters

Key audit matters are those matters that, in our professional judgement, 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.

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Key audit matter – group and parent company	**How the matter was addressed in the audit – 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 • We believe the risk of fraudulent entries to be heightened around unpaid revenue and the implementation of IFRS 15 'Revenue from Contracts with Customers' and this is where our work has been focused.	• Our audit work included, but was not restricted to: Assessing accounting policies to ensure compliance with the financial reporting framework (IFRS 15 'Revenue from Contracts with Customers') and in particular that revenue was recognised at the point when the satisfaction of performance obligations were fulfilled Evaluating managements approach to assessing the impact of IFRS 15 Testing of a sample of unpaid revenue transactions in the year through agreement to source documentation including signed delivery notes in order to verify the sale and the point at which the revenue was recognised Testing a sample of revenue transactions pre and post year end to ensure that the transactions have been recorded within the correct financial year Trend analysis and ratio analysis to identify any potential unusual movements in revenue. Any movements outside of our expectation were investigated with management. • 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 policy as set out on page 49 is applied in line with IFRS 15 'Revenue from Contracts with Customers'. Disclosures included within the financial statements have been tested to ensure they are free from material misstatement.

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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 audit work and in evaluating the results of that work.

Materiality was determined as follows:

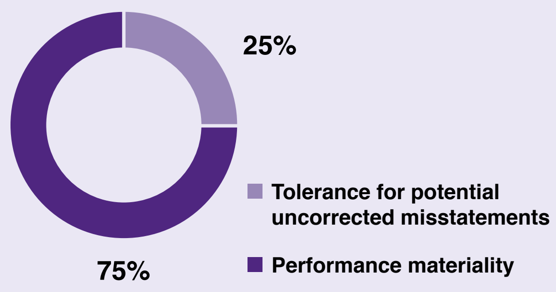
We determined materiality for the audit of the group financial statements as a whole to be £243,000, which is 1% of the company's total revenues. This benchmark is considered the most appropriate because of the importance that management apply to this measure in relation to the performance of the business, 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 2018.

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

OVERALL MATERIALITY



We also determine a lower level of specific materiality of £100,000 for assessing the level of unadjusted misstatements, in order to consider such in line with the trading results for the year ended 31 October 2019.

We determined the threshold at which we will communicate misstatements to the audit committee to be £12,200. 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 a risk-based approach founded on a thorough understanding of the group's business, its environment and risk profile and in particular included:

- an evaluation of the group's components and their significance to the financial statements. Evaluation of such found no components significant to the group, as such we have performed analytical reviews across all components at group level as required under ISA (UK) 600.
- 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 judgements
- during the year, the company established a further wholly owned subsidiary in the US (Velocity Composites Aerospace Inc) as part of its future growth strategy following the establishment of the Malaysian subsidiary in the prior year (Velocity Composites Sendirian Berhad). During our risk assessment stage we planned to take a targeted approach, performing testing across all material balances. Following further review, we note that the US subsidiary was dormant for the year and therefore its results were immaterial to the financial statements. Therefore as the subsidiary was not material to the group financial statements this had no significant impact on the scope of the audit and no targeted testing procedures were performed.

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 - 35, 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 in 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.

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.

Grant Thornton

Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 33, 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 group 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 group or the parent 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.

Use of our report

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.

Michael Frankish
Senior Statutory Auditor
for and on behalf of Grant Thornton UK LLP
Statutory Auditor, Chartered Accountants
Manchester
27 January 2020

Consolidated statement of total comprehensive income

	Note	Year ended 31 October 2019 £'000	Year ended 31 October 2018 £'000
Revenue	4	24,316	24,478
Cost of sales		(19,047)	(19,991)
Gross profit		5,269	4,487
Administrative expenses excluding exceptional costs		(5,177)	(5,322)
Exceptional administrative expenses	7	(692)	(252)
Other operating income		6	15
Operating loss	5	(594)	(1,072)
Operating loss analysed as:			
Adjusted EBITDA	29	613	(238)
Depreciation & Amortisation		(449)	(413)
Share based payments		(66)	(169)
Exceptional administrative expenses		(692)	(252)
Finance income and expense	8	(58)	(135)
Loss before tax from continuing operations		(652)	(1,207)
Income tax income/(expense)	9	16	213
Loss for the period and total comprehensive loss		(636)	(994)
Loss per share - Basic (£) from continuing operations	10	(£0.02)	(£0.03)
Loss per share - Diluted (£) from continuing operations	10	(£0.02)	(£0.03)

The notes on pages 48 to 72 form part of these financial statements.

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

Consolidated and Company statement of financial position

	Note	Group 31 October 2019 £'000	Group 31 October 2018 £'000	Company 31 October 2019 £'000	Company 31 October 2018 £'000
Non-current assets					
Intangible assets	11	318	362	318	362
Property, plant and equipment	12	1,061	1,080	1,061	1,080
Investment in subsidiaries	13	-	-		-
Total non-current assets		1,379	1,442	1,379	1,442
Current assets					
Inventories	14	3,177	2,744	3,177	2,744
Trade and other receivables	15	4,149	5,727	4,178	5,758
Corporation tax		75	113	75	113
Cash and cash equivalents	16	3,424	4,726	3,416	4,718
Total current assets		10,825	13,310	10,846	13,333
Total assets		12,204	14,752	12,225	14,775
Current liabilities					
Trade and other payables	17	3,223	5,197	3,223	5,191
Grant income deferred	18	-	7	-	7
Net obligations under finance leases	19	121	116	121	116
Total current liabilities		3,344	5,320	3,344	5,314
Non-current liabilities					
Deferred tax liabilities	20	-	-	-	-
Net obligations under finance leases	19	169	171	169	171
Total non-current liabilities		169	171	169	171
Total liabilities		3,513	5,491	3,513	5,485
Net assets		8,691	9,261	8,712	9,290
Equity attributable to equity holders of the company					
Share capital	22	90	89	90	89
Share premium account	22	9,727	9,727	9,727	9,727
Share-based payments reserve		537	536	537	536
Retained earnings		(1,663)	(1,091)	(1,642)	(1,062)
Total equity		8,691	9,261	8,712	9,290

The notes on pages 48 to 72 form part of these financial statements.

The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and not presented its own statement of profit and loss in these financial statements. The loss for the year was (£645,000). The financial statements were approved and authorised for issue by the Board of Directors on 28 January 2020 and were signed on its behalf by

Andrew Hebb
Company Secretary
Co No: 06389233

Consolidated and Company statement of changes in equity

Consolidated statement of changes in equity

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 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

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2018	89	9,727	(1,091)	536	9,261
Loss for the year	-	-	(636)	-	(636)
	89	9,727	(1,728)	536	8,624
Transactions with shareholders:					
Share-based payments	-	-	-	66	66
Transfer of share option reserve on vesting of options	1	-	65	(65)	1
As at 31 October 2019	90	9,727	(1,663)	537	8,691

The notes on pages 48 to 72 form part of these financial statements.

Consolidated and Company statement of changes in equity

Company statement of changes in equity

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 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

	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2018	89	9,727	(1,062)	536	9,290
Loss for the year	-	-	(645)	-	(645)
	89	9,727	(1,707)	536	8,645
Transactions with shareholders:					
Share-based payments	-	-	-	66	66
Transfer of share option reserve on vesting of options	1	-	65	(65)	1
As at 31 October 2019	90	9,727	(1,642)	537	8,712

The notes on pages 48 to 72 form part of these financial statements.

Consolidated and Company statement of cash flows

	Group Year ended 31 October 2019 £'000	Group Year ended 31 October 2018 £'000	Company Year ended 31 October 2019 £'000	Company Year ended 31 October 2018 £'000
Operating activities				
Loss for the year	(636)	(994)	(645)	(965)
Taxation	(16)	(213)	(16)	(213)
(Profit)/ loss on disposal of assets	(11)	7	(11)	7
Finance costs	58	135	58	135
Amortisation of intangible assets	134	107	134	107
Depreciation of property, plant and equipment	315	306	315	306
Share-based payments	65	169	65	169
Grant income amortisation	(6)	(15)	(6)	(15)
Operating cash flows before movements in working capital	(97)	(498)	(106)	(469)
Decrease in trade and other receivables	1,579	424	1,588	393
(Increase)/Decrease in inventories	(433)	522	(433)	522
(Decrease)/Increase in trade and other payables	(1,363)	98	(1,363)	92
Cash generated from operations	(314)	546	(314)	538
Income taxes received/ (paid)	54	(40)	54	(40)
Net cash (Outflow)/ Inflow from operating activities	(260)	506	(260)	498
Investing activities				
Purchase of property, plant and equipment	(156)	(220)	(156)	(220)
Development expenditure capitalised	(89)	(152)	(89)	(152)
Proceeds from the sale of property, plant and equipment	15	-	15	-
Net cash used in investing activities	(230)	(372)	(230)	(372)
Financing activities				
Proceeds from issue of shares	-	-	-	-
Payments of share issue costs	-	-	-	-
Finance costs paid	(58)	(135)	(58)	(135)
Decrease in invoice discounting	(612)	(528)	(612)	(528)
Repayment of finance lease capital	(142)	(159)	(142)	(159)
Net cash generated from financing activities	(812)	(822)	(812)	(822)
Net (decrease) in cash and cash equivalents	**(1,302)**	(688)	(1,302)	(696)
Cash and cash equivalents at 01 November	4,726	5,414	4,718	5,414
Cash and cash equivalents at 31 October	**3,424**	4,726	3,416	4,718

Notes to the Financial Statements

1. General information

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

In order to prepare for future expansion in the Asia region, the Company established a wholly owned subsidiary company, Velocity Composites Sendirian Berhad, which is domiciled in Malaysia. The subsidiary company commenced trading on 18 April 2018. The Company also established a wholly owned subsidiary company, Velocity Composites Aerospace Inc. to prepare for future expansion in the United States of America. These subsidiaries together with Velocity Composites plc, now 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 2019. 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 two years to 31 October 2021 to project the future growth of the Group and flexing these forecasts through sensitivity analyses.

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

The Group has applied the following accounting standards and amendments for the first time for their annual reporting period commencing on the 1 November 2018:

- IFRS 9 'Financial Instruments'. This standard applied from the 1 November 2018 and is reflected in the Group's financial reporting for the year ended 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. There has been no material impact to the accounts.
- IFRS 15 'Revenue from Contracts with Customers'. This standard applied from the 1 November 2018 and is reflected in the Group's financial reporting for the year ended 31 October 2019. The Group had to change its accounting policies following the adoption of IFRS 15. There was no material impact to the accounts from transition.

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 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 in relation to material rent agreements. The Group does have other non-property related operating leases, but these are not as significant as the property leases. A full assessment has been performed and approved by the board, with further details on the impact of transition in note 19.

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
From the 1 November 2019, the Group has applied IFRS 15 "Revenue from Contracts with Customers". There has been no restatement of the prior year figures. The new standard requires clear identification of separate performance obligations and the revenue associated with those obligations

Performance obligations
Upon approval by the parties to a contract, the contract is assessed to identify each promise to transfer a series of distinct goods or services that are substantially the same and have the same pattern of transfer to the customer. Goods and services are distinct and accounted for as separate performance obligations in the contract if the customer can benefit from them either on their own or together with other resources that are readily available to the customer and they are separately identifiable in the contract.

The Group provides warranties to its customers to give them assurance that its products and services will function in line with agreed-upon specifications. Warranties are not provided separately and, therefore, do not represent separate performance obligations

2. Accounting policies (continued)

Recognition

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

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

2. Accounting policies (continued)

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

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

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.

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 through the expected credit losses model (ECL). IFRS 9 Financial instruments is effective from 1 November 2018 for Velocity Composites Plc. IFRS 9 addresses the classification and measurement of financial assets and liabilities and replaces IAS 39. Fundamentally, the standard introduces a forward-looking credit loss impairment model whereby the Company needs to consider and recognise impairment that might occur in the future through an "expected loss" model. The Company applies a simplified approach for measuring and impairing financial assets. When an expected credit loss is calculated, the amount is recorded in a separate account and recognised as an administrative expense in the income statement.

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.

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.

Critical accounting judgements
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.

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.

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

Critical accounting estimates
Where a reasonably possible change in a key assumption could give rise to a change the amount reported, this is disclosed within the relevant note to the accounts.

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 2019** £'000	**Year ended 31 October 2018** £'000
Current assets		
Trade and other receivables – loans and receivables	3,912	5,571
Trade and other receivables – non financial assets	312	269
	4,224	5,840
Cash and cash equivalents – loans and receivables	3,424	4,726
Total loans and receivables	7,648	10,297
Current liabilities		
Trade and other payables – at amortised cost	2,691	4,688
Trade and other payables – non financial liabilities	532	509
	3,223	5,197

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.

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 also mitigates foreign currency risk by arranging forward currency swaps to hedge the net currencies held against any significant movements in exchange rates.

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.

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

3. Financial instruments & Risk Management (continued)

2019	Within 1 year £'000	One to two years £'000	Two to five years £'000	Over five years £'000
Finance lease liability	121	110	59	-
Trade payables	2,242	-	-	-
Accruals	532	-	-	-
Other payables	13	-	-	-
Invoice discounting facility	4	-	-	-

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 2019 £'000	Year ended 31 October 2018 £'000
Revenue		
United Kingdom	21,850	23,984
Europe	2,435	494
Rest of the World	31	-
	24,316	24,478

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 – 50.91% (2018: 46.7%), Customer B – 19.9% (2018: 22.2%), Customer C – 16.1% (2018: 13.2%) and Customer D – 9.5% (2018: 13.9%). The majority of revenue arises from the sale of goods. Where engineering services form a part of revenue it is only in support of the development or sale of the goods.

During the current and previous year, the Group operated in Asia. No revenue was generated in Asia during the year ended 31 October 2019 and year ended 31 October 2018 as the site operates as an Engineering Support Office for the Group.

5. Loss from operations

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

	Year ended 31 October 2019 £'000	Year ended 31 October 2018 £'000
Staff costs (see Note 6)	4,431	4,475
Foreign exchange (gain)/ losses	(75)	(68)
Amortisation of development costs	116	96
Impairment of development costs	18	11
Depreciation:		
Owned assets	214	184
Assets held under finance leases	101	122
(Profit)/ Loss on disposal of assets	(11)	7
Grant income amortisation	(6)	(15)
Operating lease payments	272	260
Auditor's remuneration:		
Audit of the accounts of the Group	52	43
Other audit related services (relating to interim review)	8	8
Taxation compliance services	4	4
Other taxation advisory services	12	19

6. Staff costs

	Year ended 31 October 2019 £'000	Year ended 31 October 2018 £'000
Wages, salaries and bonuses	3,929	3,839
Social security costs	321	359
Pension costs	116	108
Share-based payments	65	169
	4,431	4,475

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

	Year ended 31 October 2019 Head count	Year ended 31 October 2018 Head count
Manufacturing	83	85
Administration	49	47
	132	132

Directors costs

	Year ended 31 October 2019 £'000	Year ended 31 October 2018 £'000
Directors' remuneration included in staff costs:		
Wages, salaries and bonuses	325	419
Compensation for retirement from office	113	60
Pension costs	19	20
Share-based payments	-	-
	457	499
Remuneration of the highest paid director(s):		
Wages, salaries and bonuses or fees	172	180

7. Exceptional administrative expenses

	Year ended 31 October 2019 £'000	Year ended 31 October 2018 £'000
Restructuring costs	692	252
	692	252

The exceptional items reported in 2019 of £0.7m (FY18: £0.3m) consist of costs in relation to the resignations of the previous chairman and non-executive directors, settlement of a dispute with the founder shareholders, and various other associated costs relating to the restructuring of the board. The disputes has been fully resolved, all costs settled and there are no further liabilities in relation to these matters.

8. Finance income and expenses

	Year ended 31 October 2019 £'000	Year ended 31 October 2018 £'000
Finance expense		
Finance charge from Finance leases	21	29
Other interest & invoice discounting charges	60	106
Finance Income	(23)	-
	58	135

9. Income tax

	Year ended 31 October 2019 £'000	Year ended 31 October 2018 £'000
Current tax (income)/expense		
UK corporation tax: in respect of this year	-	(69)
UK corporation tax: in respect of prior years	(16)	(38)
Adjustment for under provision in prior periods	-	-
	(16)	(107)
Deferred tax (income)/expense		
Deferred tax in respect of this year	-	(106)
Adjustments in respect of prior periods	-	-
Rates adjustment	-	-
	(16)	(106)
Total tax (income)/expense	**(16)**	**(213)**

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%	19.0%
(Loss) for the year before tax	(652)	(1,207)
Expected tax credit based on corporation tax rate	(124)	(229)
Expenses not deductible for tax purposes	124	39
Other differences	-	-
Tax effect of R&D credits	(16)	(38)
Timing differences	-	15
Total tax (income)/expense	**(16)**	**(213)**

The UK corporation tax 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 2019 and 31 October 2018 is calculated at 19% based upon 12 months at 19%.

10. Loss per share

	Year ended 31 October 2019 £	Year ended 31 October 2018 £
Loss for the year	(636,000)	(994,000)
	Shares	**Shares**
Weighted average number of shares in issue	35,860,652	35,795,539
Weighted average number of share options	587,101	638,200
Weighted average number of shares (diluted)	36,447,753	36,433,739
Loss per share (£) (basic)	(£0.02)	(£0.03)
Loss per share (£) (diluted)	(£0.02)	(£0.03)

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 2017	397	397
Additions	152	152
Disposal	(16)	(16)
At 31 October 2018	533	533
Additions	89	89
Disposal	(23)	(23)
At 31 October 2019	599	599
Amortisation		
At 31 October 2017	80	80
Charge for the year	96	96
Impairment	11	11
Disposal	(16)	(16)
At 31 October 2018	171	171
Charge for the year	116	116
Impairment	18	18
Disposal	(23)	(23)
At 31 October 2019	282	282
Net book value		
At 31 October 2017	317	317
At 31 October 2018	362	362
At 31 October 2019	318	318

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 £18,000 (2018 - £11,000) relating to development costs capitalised but where no future economic benefits are currently expected to be generated for the Group.

12. Property, plant and equipment

Group and Company	Leasehold Improvements £'000	Plant & machinery £'000	Motor vehicles £'000	Fixtures & Fittings £'000	Group Total £'000
Cost					
At 31 October 2017	171	1,521	146	256	2,094
Additions	11	223	-	75	309
Disposal	-	(12)	-	(2)	(14)
At 31 October 2018	182	1,732	146	329	2,389
Additions	16	188	51	45	300
Disposal	-	-	(56)	(25)	(81)
At 31 October 2019	198	1,920	141	349	2,608
Depreciation					
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
Charge for the year	19	240	12	44	315
Disposal	-	-	(56)	(21)	(77)
At 31 October 2019	46	1,233	92	176	1,547
Net book value					
At 31 October 2017	159	749	35	140	1,083
At 31 October 2018	155	739	10	176	1,080
At 31 October 2019	152	687	49	172	1,061

Net book value of assets under finance lease agreements:	£000's
At 31 October 2017	506
At 31 October 2018	457
At 31 October 2019	421

13. Investment in subsidiaries

	Group 31 October 2019 £'000	Group 31 October 2018 £'000	Company 31 October 2019 £'000	Company 31 October 2018 £'000
Subsidiary undertakings	-	-	-	-
	-	-	-	-

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
Velocity Composites Aerospace, Inc.	Corporation Trust Center, 1209 N. Orange St, Wilmington, Delaware 19801	United States of America	Ordinary	100%	Manufacturer of composite material products for the Aerospace sector

14. Inventories

	Group 31 October 2019 £'000	Group 31 October 2018 £'000	Company 31 October 2019 £'000	Company 31 October 2018 £'000
Raw materials & consumables	2,230	2,129	2,230	2,129
Finished goods	947	615	947	615
	3,177	2,744	3,177	2,744

Inventories totalling £3,177k (2018: £2,744k) 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 2019 is after a stock provision of £241k (2018: £89k).

Inventories recognised as an expense during the year ended 31 October 2019 amounted to £16,787k (2018: £17,791k), and these were included in cost of sales.

15. Trade and other receivables

	Group 31 October 2019 £'000	Group 31 October 2018 £'000	Company 31 October 2019 £'000	Company 31 October 2018 £'000
Trade receivables	3,607	5,159	3,607	5,159
Prepayments and accrued income	312	269	312	269
Other receivables	230	412	230	412
Amounts due from subsidiary undertakings	-	-	29	31
	4,149	5,840	4,178	5,871

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 2019 £'000	**31 October 2018** £'000
Not more than 3 months	22	831
More than 3 months but not more than 6 months	-	65
More than 6 months but not more than 1 year	8	25
More than 1 year	-	-
	30	921

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 2019 £'000	**31 October 2018** £'000
Euro	367	673
US Dollar	2,594	3,443
	2,961	4,116

16. Cash and cash equivalents

	Group	**Group**	**Company**	**Company**
	31 October 2019 £'000	**31 October 2018** £'000	**31 October 2019** £'000	**31 October 2018** £'000
Cash at bank	3,424	4,726	3,416	4,718
	3,424	4,726	3,416	4,718

Of the total cash balance, £1,613k (2018: £3,756k) 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.

17. Trade and other payables

	Group 31 October 2019 £'000	Group 31 October 2018 £'000	Company 31 October 2019 £'000	Company 31 October 2018 £'000
Current				
Trade payables	2,242	3,251	2,242	3,251
Accruals	532	804	532	798
Other tax and social security	432	509	432	509
Other payables	13	17	13	17
Invoice discounting facility	4	616	4	616
	3,223	5,197	3,223	5,191

Book values approximate to fair values.

18. Grant income deferred

	Group 31 October 2019 £'000	Group 31 October 2018 £'000	Company 31 October 2019 £'000	Company 31 October 2018 £'000
Opening balance	7	22	7	22
Grant income amortisation	(7)	(15)	(7)	(15)
Closing balance	-	7	-	7

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 2019 £'000	31 October 2018 £'000
Motor vehicles		
Not later than one year	5	23
Later than one year and not later than two years	2	5
Later than two years and not later than five years	-	1
Later than five years	-	-
	7	29
Land and buildings		
Not later than one year	360	249
Later than one year and not later than two years	360	245
Later than two years and not later than five years	443	362
Later than five years	578	-
	1,741	856

Company	31 October 2019 £'000	31 October 2018 £'000
Motor vehicles		
Not later than one year	5	23
Later than one year and not later than two years	2	5
Later than two years and not later than five years	-	1
Later than five years	-	-
	7	29
Land and buildings		
Not later than one year	360	246
Later than one year and not later than two years	360	245
Later than two years and not later than five years	443	362
Later than five years	578	-
	1,741	853

The Group and Company have committed to an operating lease in relation to a new building at its current premises. This new lease represents the majority of change from 2018 to 2019.

As from 1 November 2019, the Group will apply IFRS 16 'Leases'. The accounting standard will replace IAS 17 "Leases" and will require lease liabilities and "right of use" assets to be recognised on the balance sheet for operating leases. This is expected to result in an increase in assets and liabilities as set out below.

19. Leases (continued)

The cost of operating leases currently included within operating costs will be split and the financing element of the operating charge will be reported within finance expenses. Velocity Composites plc will implement IFRS 16 applying the modified retrospective approach, whereby the right of use asset will match the liability on the transition date of 1 November 2019. As the leases are basic in nature, the net impact to the Income statement is the interest charged based on a discount factor. Due to the nature in interest, the interest cost at the start of the lease will be higher.

On the transition date of 1 November 2019, the Group will recognise the following transactions:

	£'000
Right of use assets:	
Land and buildings	479
Motor Vehicles	13
	492
Lease liability	(492)

On the transition date, there is no impact on deferred tax. From the 1 November 2019, the assets will be classified for capital allowances, with interest based on a discount factor being allowable for corporation tax purposes.

The Group will also recognise the following for new operating leases committed to during this financial year, but yet to commence:

	£'000
Right of use assets:	
Land and buildings	885
Lease liability	(885)

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 2018			
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 2019			
Not later than one year	135	14	121
Later than one year and not later than two years	123	13	110
Later than two years and not later than five years	66	7	59
Later than five years	-	-	-
	324	34	290

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 2019** £'000	**31 October 2018** £'000
Deferred tax liability		
Opening balance	-	106
Recognised in profit and loss	-	(106)
Closing balance	-	-

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

Group and Company	**31 October 2019** £'000	**31 October 2018** £'000
Excess of taxation allowances over depreciation of all non-current assets	113	117
Share options		-
Corporation tax losses carried forward	(252)	(128)
Closing tax (asset)	(139)	(11)

The Group has unused tax losses which were incurred by the holding company. A net deferred tax asset of £139,000 is not recognised in these accounts. Corporation tax losses can be carried forward indefinitely and can be offset against future profits which are subject to UK corporation tax.

21. Reconciliation of liabilities arising from financing activities

Group and Company	Long-term borrowings £'000	Short-term borrowings £'000	Total £'000
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	-
At 31 October 2018	171	732	903
Cash flows			
Repayment	-	(29,494)	(29,494)
Proceeds	119	28,784	28,903
Non-cash			
Foreign exchange differences	-	(18)	(18)
Transfer from Long-term to short term borrowings	(121)	121	-
As 31 October 2019	**169**	**125**	**294**

22. Share capital

	31 October 2019 £	31 October 2018 £
Share capital issued and fully paid		
35,916,179 Ordinary shares of £0.0025 each	89,791	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**
Ordinary shares of £0.0025 each		
At the beginning of the year	89,489	35,795,539
Exercising of share options	302	120,640
Closing share capital at 31 October 2019	89,791	35,916,179

On 18 April 2019, the Company issued 120,640 new ordinary shares of £0.0025 each to satisfy the exercise of options granted under the Group's 2017 Share Option Scheme.

23. Share-based payment

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

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

During the year ended 31 October 2019, share options were granted as follows:

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

1,480,000 share options dated 29 October 2019 have attached performance conditions linked to EBITDA. They vest after 2 years, or earlier if a vesting event occurs as defined in the rules of the Scheme. The options may be exercised at any point up to the 10th Anniversary of the grant date.

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 £65,453 (2018 – £168,745) 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 2019:

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	120,640	482,560	603,200
17 October 2017	0.6926	17 Oct 2019	17 Oct 2027	-	35,000	35,000
29 October 2019	0.2065	29 Oct 2022	29 Oct 2031	-	225,000	225,000
29 October 2019	0.2065	29 Oct 2021	29 Oct 2031	-	1,480,000	1,480,000
				120,640	2,222,560	2,343,200

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.

Movement in share options

Scheme and grant date	As at Nov 2018	Issued	Expired	Exercised	Vested	As at 31 Oct 2019
1 January 2017	264,178	-	-	-	-	264,178
13 March 2017	265,150	59,070	-	-	(64,844)	259,376
17 October 2017	6,638	6,383	-	-	-	13,021
29 October 2019	-	-	-	-	-	-
29 October 2019	-	-	-	-	-	-
	535,966	65,453	-	-	(64,844)	536,575

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 2019 £'000	31 October 2018 £'000
Short term employment benefits	724	1,016
Share-based payments	40	102
	764	1,118

Included within compensation of key management personnel are directors' settlements. These costs are included within exceptional administration expenses in both the current and prior year.

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

The Group engages IN4.0 Access Limited, which provides consulting services. One of the directors of IN4.0 Access Limited is a director of Velocity Composites Plc. The Group paid £1,500 (£nil – 2018) to IN4.0 Access Limited during the year and had £nil outstanding at the year end.

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

	31 October 2019 £'000	31 October 2018 £'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 2019 the Group had £445,369 (2018: £78,500) of capital commitments relating to the purchase of leasehold improvements, plant and machinery and fixture and fittings.

27. Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £115,654 (2018: £107,573) were charged to the Consolidated Income statement. Contributions outstanding at 31 October 2019 were £24,374 (2018: £17,013).

28. Contingent liabilities

At 31 October 2019 the Group had in place bank guarantees of £nil (2018: £250,000) in respect of supplier trade accounts.

29. Adjusted EBITDA

EBITDA is considered by the Board to be a useful alternative performance measure reflecting the operational profitability of the business. Adjusted EBITDA is defined as earnings before finance charges, taxation, depreciation, amortisation, share-based payments and exceptional restructuring costs.

Adjusted EBITDA **Reconciliation from Operating Profit**	**31 October 2019** £'000	**31 October 2018** £'000
Operating Loss	(594)	(1,072)
Add back:		
Share-based payments	66	169
Depreciation & Amortisation	449	413
Exceptional Administrative costs	692	252
	613	(238)

Advisors

Company registration number:	06389233
Company Secretary and Registered office:	Andrew Hebb AMS Technology Park Billington Road Burnley Lancashire BB11 5UB
Nominated advisor and broker	Cenkos Securities Plc 6-8 Tokenhouse Yard London EC2R 7AS
Bankers:	National Westminster Bank 1 Hardman Boulevard Manchester M3 3AQ Royal Bank of Scotland 1 Hardman Boulevard Manchester M3 3AQ
Legal Advisor	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
Financial PR	Belvedere Communications Ltd 25 Finsbury Circus London EC2M 7EE

Notice of AGM

Notice is hereby given that the 2020 Annual General Meeting of Velocity Composites plc (the **"Company"**) will be held at the offices of AMS Technology Park, Billington Rd, Burnley BB11 5UB on 25 February 2020 at 10.00am to consider, and if thought fit, pass the following resolutions. Resolutions 1 to 8 (inclusive) will be proposed as ordinary resolutions and resolutions 9 and 10 will be proposed as special resolutions.

Ordinary business

Ordinary resolutions

1. To receive and adopt the Annual Report and Accounts of the Company for the period ended 31 October 2019 and the reports of the directors and independent auditors thereon.
2. To approve the Directors' Remuneration Report contained within the Company's Annual Report and Accounts for the period ended 31 October 2019.
3. To re-appoint as a director Jonathan Karl Bridges who retires from office in accordance with the Company's Articles of Association and offers himself for re-appointment.
4. To re-appoint as a non-executive director Andrew Michael Beaden who retires from office in accordance with the Company's Articles of Association and offers himself for re-appointment.
5. To re-appoint as a non-executive director Robert Murray Soen who retires from office in accordance with the Company's Articles of Association and offers himself for re-appointment.
6. To re-appoint Grant Thornton UK LLP as independent auditors of the Company, from the conclusion of this Annual General Meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the directors to determine the auditors' remuneration.

Special business

Ordinary resolutions

7. To resolve that the directors be and are hereby generally and unconditionally authorised for the purposes of Section 551 of the Companies Act 2006 (the "**Act**"), to exercise all the powers of the Company to allot shares and grant rights to subscribe for, or convert any security into, shares:

   7.1 up to a maximum nominal amount (within the meaning of Section 551(3) and (6) of the Act) of £29,930.14 (such amount to be reduced by the nominal amount allotted or granted under paragraph 7.2 below in excess of such amount); and

   7.2 comprising equity securities (as defined in Section 560(1) of the Act) up to an aggregate nominal amount (within the meaning of Section 551(3) and (6) of the Act) of £59,860.29 (such amount to be reduced by any allotments or grants made under 7.1 above) in connection with or pursuant to an offer by way of a rights issue in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities), but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, treasury shares, record dates or legal, regulatory or practical difficulties which may arise under the laws of, or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever,

these authorisations to expire at the conclusion of the next Annual General Meeting of the Company (or if earlier on 24 February 2021), unless previously revoked or varied by the Company (save that the Company may before such expiry make any offer or agreement which would or might require shares to be allotted or rights to be granted after such expiry, and the directors may allot shares, or grant rights to subscribe for or to convert any security into shares in pursuance of any such offer or agreement as if the authorisations conferred hereby had not expired).

8. To resolve that:

   8.1 the rules of the Velocity Composites plc UK Share Incentive Plan 2020 (UK SIP) (the principal features of which are summarised in the explanatory notes of this document and a copy of which will be produced to the meeting and initialled by the chairperson for the purposes of identification) and that the directors be authorised to make such modifications to the UK SIP as they may consider necessary to maintain its tax advantaged status and to take account of best practice and to adopt the UK SIP as so modified; and

   8.2 the directors to be authorised to do all acts and things which they may consider necessary or expedient for the purposes of implementing and giving effect to the UK SIP.

Special resolution

9. To resolve that, subject to the passing of resolution 7 set out above, the directors be and are hereby given power pursuant to Sections 570(1) and 573 of the Act to allot equity securities (as defined in Section 560(1) of the Act) for cash pursuant to the authorisation conferred by that resolution, as if Section 561 of the Act did not apply to any such allotment, provided that such authority be limited:

   9.1 to the allotment of equity securities for cash in connection with or pursuant to an offer of, or invitation to acquire, equity securities (but in the case of the authorisation granted under resolution 7.2 above, by way of a rights issue only) in favour of holders of ordinary shares in proportion (as nearly as practicable) to the respective number of ordinary shares held by them on the record date for such allotment (and holders of any other class of equity securities entitled to participate therein or if the directors consider it necessary, as permitted by the rights of those securities) but subject to such exclusions or other arrangements as the directors may consider necessary or appropriate to deal with fractional entitlements, record dates or legal, regulatory or practical difficulties which may arise under the laws of or the requirements of any regulatory body or stock exchange in any territory or any other matter whatsoever; and

   9.2 to the allotment of equity securities (otherwise than under paragraph 9.1 above) up to an aggregate nominal amount of £8,948.89,

such authority to expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 24 February 2021), unless previously revoked or varied by the Company (save that the Company may before such expiry make any offer or agreement that would or might require equity securities to be allotted, or treasury shares to be sold, after such expiry and the directors may allot equity securities, or sell treasury shares in pursuance of any such offer or agreement as if the power conferred hereby had not expired).

Notice of AGM

10. To authorise the Company generally and unconditionally for the purposes of section 701 of the Act to make market purchases (within the meaning of section 693(4) of the Act) of any of the ordinary shares in the capital of the Company on such terms and in such manner as the directors may from time to time determine, such shares to be either held as treasury shares or cancelled as the board may determine, provided that:

    10.1 the maximum aggregate number of shares that may be purchased is 3,591,617;

    10.2 the minimum price that may be paid for each ordinary share is the nominal amount of such share which amount shall be exclusive of expenses, if any.

    10.3 the maximum price (exclusive of expenses) which may be paid for each ordinary share is an amount equal to the higher of:

        10.3.1 105 per cent of the average of the middle market quotations for the ordinary shares of the Company (as derived from the AIM Appendix to the Daily Official List of London Stock Exchange plc) for the five business days immediately preceding the day on which such share is contracted to be purchased; and

        10.3.2 the higher of the price of the last independent trade and the highest current independent bid on the London Stock Exchange as stipulated by the Commission-adopted Regulatory Technical Standards pursuant to article 5(6) of the Market Abuse Regulation;

    10.4 the Company may, before this authority expires, make a contract to purchase ordinary shares that would or might be executed wholly or partly after the expiry of this authority, and may make purchases of ordinary shares pursuant to it as if this authority had not expired; and

    10.5 unless previously renewed, revoked or varied, this authority shall expire on 24 February 2021, or if earlier, at the conclusion of the next annual general meeting of the Company.

By order of the Board

Andrew Hebb
Company Secretary
27 January 2020

Registered Office: AMS Technology Park, Billington Road, Burnley, Lancashire, BB11 5UB

Registered in England and Wales No. 06389233

Notes to the AGM

1. All members who hold ordinary shares are entitled to attend and vote at the meeting. A member who is entitled to attend and vote may appoint one or more proxies to attend and vote instead of him/her, and a proxy need not also be a member. A form of proxy accompanies this notice and the notes to the proxy form explain how to direct your proxy how to vote on each resolution or withhold their vote. If you do not intend being present at the meeting please sign and return it so as to reach the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, by no later than 10.00am on Friday 21 February 2020. The return by a member of a duly completed form of proxy will not preclude any such member from attending in person and voting at the meeting. If you wish to attend the meeting in person, we advise arriving at least 15 minutes prior to the meeting.

2. You may appoint more than one proxy provided that each proxy is appointed to exercise the rights attached to different shares. You may not appoint more than one proxy to exercise rights attached to any one share. To appoint more than one proxy, please return a separate form in relation to each proxy to the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, clearly indicating next to the name of each proxy the number and class of shares in respect of which he is appointed. Failure to specify the number of shares to which each proxy appointment relates or specifying a number in excess of those held by the shareholder will result in the proxy appointment being invalid. If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.

3. The register of directors' interests in the shares of the Company and copies of the directors' service contracts and letters of appointment, other than those expiring or determinable without payment of compensation within one year, are available for inspection at the registered office of the Company during the usual business hours on any weekday (Saturdays, Sundays and public holidays excluded) from the date of this notice until the Annual General Meeting and will be available for inspection at the place of the Annual General Meeting for at least 15 minutes prior to and during the meeting.

4. Pursuant to regulation 41 of the Uncertificated Securities Regulations 2001, only those shareholders registered in the register of members of the Company by 6.30pm on Friday 21 February 2020 shall be entitled to attend and vote at the Annual General Meeting in respect of the number of shares registered in their name at that time. Any changes to the register of members after such time shall be disregarded in determining the rights of any person to attend or vote at the meeting.

5. There are set out below notes to the resolutions to be passed at the AGM. If you require further guidance you should contact your solicitor or financial adviser.

6. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Equiniti Limited (ID: RA19) not later than 48 hours before the time fixed for the AGM. For this purpose, the time of receipt will be taken to be the time (as determined by the timestamp applied to the message by the CREST Applications Host) from which Equiniti is able to retrieve the message by enquiry to CREST. After this time any change of instructions to proxies appointed through CREST should be communicated to the appointee through other means. Euroclear UK & Ireland Limited does not make available special procedures in CREST for any particular messages and normal system timings and limitations will apply in relation to the input of a CREST Proxy Instruction. It is the responsibility of the CREST member concerned to take such action as shall be necessary to ensure that a message is transmitted by means of the CREST system by any particular time. The Company may treat as invalid a CREST Proxy Instruction in the circumstances set out in Regulation 35(5)(a) of the Uncertificated Securities Regulations 2001.

Explanatory Notes to the Resolutions to be proposed at the Annual General Meeting

Resolution 1

Report and accounts

The directors will present the audited financial statements of the Company for the period ended 31 October 2019 together with the directors' report and the auditor's report on those financial statements.

Resolution 2

Remuneration report

The directors will present the remuneration report for the period ended 31 October 2019 for approval. This vote is not mandatory but is considered best practice.

Resolutions 3 to 5 inclusive

Re-election of directors

Under the articles of association of the Company, all directors appointed by the Board after the first annual general meeting shall retire at the annual general meeting following appointment and shall then be eligible for re-election and at least one third of the total number of directors shall retire at the annual general meeting and shall then be eligible for re-election.

Resolution 6

Re-appointment of auditors and fixing of auditors' remuneration

At every Annual General Meeting at which accounts are laid before shareholders, the Company is required to appoint an auditor to hold office from the end of the meeting until the next such meeting. This Resolution 6 proposes that Grant Thornton UK LLP be re-appointed as the Company's auditors to hold office until the next Annual General Meeting and that the directors be authorised to set their remuneration.

Resolution 7

General authority to allot new shares

Resolution 7, if passed, will grant authority for the directors to issue new shares within the best practice limits set by The Investment Association. The authority set out in paragraph 7.1 would permit allotments of new shares up to approximately one-third of the current issued share capital. The authority set out in paragraph 7.2 would permit allotments of new shares up to approximately two-thirds of the current issued share capital but would apply only in the case of an allotment of shares made pursuant to a rights issue (pre-emptive offer).

Resolution 8

Resolution 8, which is proposed as an ordinary resolution, has been included as the Company is seeking shareholder approval to adopt the Velocity Composites plc UK Share Incentive Plan 2020 (UK SIP).

The UK SIP is an all employee share incentive plan designed to be a tax advantaged which complies with schedule 2 to the Income Tax (Earnings and Pensions) Act 2003 (Schedule 2). The UK SIP will be administered by the Company's Board of Directors or a duly authorised committee of the Board

The UK SIP, which will need to be registered with HM Revenue & Customs, offers up to four ways in which an employee of the Company can acquire shares in the Company which benefits from tax advantaged status (subject to a minimum holding period):

(a) By an issue of free shares with a market value of £3,600;

(b) By an acquisition of partnership shares with a market value of up to a maximum of the lesser of £1,800 per year and 10% of pay from pre-tax salary;

(c) By an issue of matching shares, of a maximum of two shares for every one partnership share acquired; and

(d) By acquiring dividend shares by using dividends paid out on the above shares to acquire further shares.

No cash alternatives are permitted to encourage employees to acquire shares in the Company. It is at the discretion of the Company's Board of Directors whether any or all of these are available to the Company's employees at all times or at some times.

Resolution 9

General disapplication of pre-emption rights

Resolution 9, which is proposed as a special resolution, will, if passed, disapply the statutory pre-emption provisions that otherwise restrict directors from issuing new shares other than pursuant to a rights issue. The relaxation of the statutory restriction proposed in this resolution would apply to 10 per cent. of the Company's current issued share capital.

Resolution 10

Resolution 10, which is proposed as a special resolution will give the Company authority to purchase its own shares in the market up to a limit of approximately 10 per cent. of its issued ordinary share capital (excluding treasury shares) at 27 January 2020, being the latest practicable date prior to the publication of this notice. The maximum and minimum prices are stated in the resolution. Whilst they do not currently have any intention to utilise this authority the directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. The directors will exercise this authority only if they are satisfied that a purchase would result in an increase in expected earnings per share and would be in the interests of shareholders generally.

In the event that shares are purchased, they would either be cancelled (and the number of shares in issue would be reduced accordingly) or, in accordance with the Companies Act 2006, be retained as treasury shares. The Company may consider holding repurchased shares pursuant to the authority conferred by this resolution as treasury shares. This gives the Company the ability to transfer treasury shares quickly and cost effectively and would provide the Company with additional flexibility in the management of its capital base.

Velocity Composites Plc
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www.velocity-composites.com