# 2020 Annual Report & Financial Statements

For the year ended 31 October 2020

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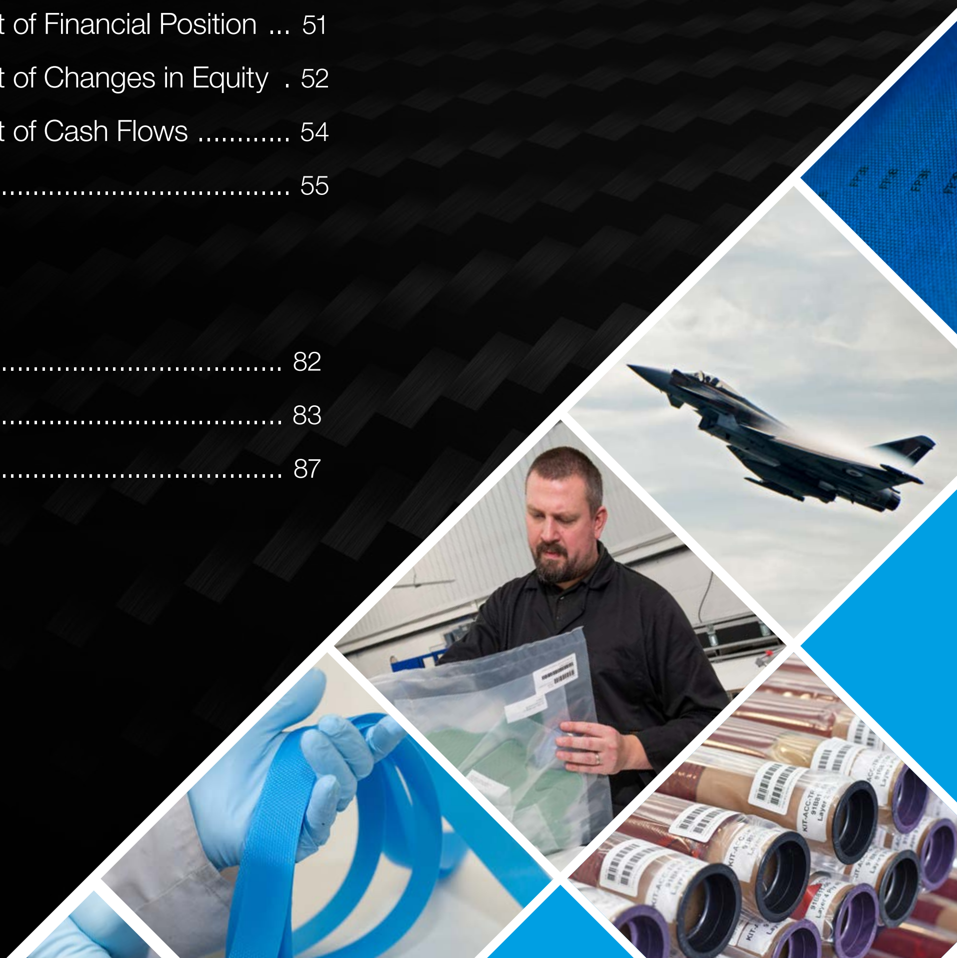


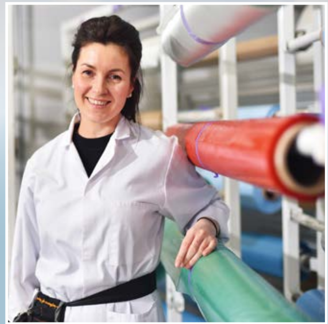
# Financial Highlights

| Revenue | Gross Margin % | Adjusted EBITDA[1] |
|---|---|---|
| **£13.6m** | **17.1%** | **£(1.9m)** |

| Cash at bank | Operating Profit / (Loss) |
|---|---|
| **£3.3m** | **£(3.1m)** |

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





# Chairman's Report

**Andy Beaden** Executive Chairman

"The Company is now highly operationally geared, such that any significant recovery in activity, even if only to below pre-pandemic levels, will have a strong positive impact on future profitability."

**We will all remember 2020 as a year of extraordinary events and in the Aerospace industry it has been one of the most challenging in living memory. For Velocity Composites plc, we entered the year with the objectives of securing new business and developing our strategy around being seen as the leading supplier of composite kitting technology in our industry.**

Despite the immense challenges, we have still advanced significantly in developing a full package of solutions for the composite aerospace sector around our core offering of Velocity Resource Planning. This has led to us winning new business and developing our relationships with the major composite aerospace manufacturers.

The pandemic has resulted in significant reductions in the manufacturing volumes of all civil aircraft frames by the primary manufacturers Airbus and Boeing. The dramatic impact across the airline industry has resulted in a series of lockdowns and temporary plant closures forced upon our customers and resulted directly to lower order levels for the Company. Revenues in the second half of our financial year were £4.1m, compared to £12.2m in H2 FY2019. As a result revenues for the full year were £13.6m (FY2019: £24.3m).

In response to prevailing macro and industry conditions, Velocity reacted swiftly to right size its business. In doing so, we sadly had to reduce our staffing levels from 132 at the start of the financial year to 70 by the end, and we utilised U.K. government support packages. We have also focussed attention on reducing inventory levels, working closely with both suppliers and customers in this area. While this has resulted in an improvement in working capital, the full benefit of the inventory reduction process will be realised in 2021.

In anticipation of a sharp fall in sales, the Board has been acutely focussed on ensuring that the Company maintained, and continues to maintain, sufficient financial liquidity. In this regard during the year we received support from our bank and the U.K. Government through the Coronavirus Business Interruption Loan scheme and secured £2.0m of new debt funding. This was repayable over two years from July 2020, with repayments starting in August 2021, but with the continued uncertainty we have recently agreed to extend this to a 6 year period. The interest cost is favourable and covenants are minimal, with no cost to the Company in the first year. The Company also secured Government grants under the Coronavirus Job Retention Scheme of £0.4m. This support, plus cost reductions, utilisation of HMRC salary furlough credits and inventory management, have meant we have controlled our cash position. Even with the new debt, we have retained a net positive cash position and expect to generate further cash through inventory reduction in 2021.

As a result of the effects of the pandemic, customer and Velocity shutdowns and some inventory obsolescence, the Company recorded an adjusted EBITDA loss in the year of £1.9m. Further details can be found in Note 29, with adjusted EBITDA being defined as earnings before finance charges, taxation, depreciation, amortisation, impairment, share-based payments and exceptional restructuring costs. As we enter 2021, the level of these losses has been narrowed as a result of the cost reduction programme, and the Board anticipates that going forward the Company will be EBITDA break-even at FY2020 levels of revenues. Given the disruption in early 2021, the realistic objective is for the Company to be EBITDA break-even by the second half of 2021. The Company is now highly operationally geared, such that any significant recovery in activity, even if only to below pre-pandemic levels, will have a strong positive impact on future profitability.

The Board is making no rash assumptions as to the recovery of build rates in the civil aircraft industry to pre-COVID levels, but Velocity is fortunate to have been awarded a series of new programmes with existing customers, who see our technology as a contributor to greater cost efficiency and improved margins in their own front end production processes. This new business, which will take time to qualify and ramp up, is expected to result in a significant improvement in sales for 2022 and beyond. It also means when we eventually do see the upturn in primary aircraft production rates, that upturn should push us above the pre-COVID sales levels. We also continue to pursue a number of further new business opportunities, including in the USA.

We have radically restructured our operations, with a focus on Industry 4.0 technology and customer service, as well as changes to our management team with the introduction of some new highly skilled individuals, particularly strengthening our commercial and financial functions. Colleagues have worked tirelessly in the demanding period and our push towards being seen as a leading engineering technology provider in our sector continues. This has been funded via the EIS money raised at the IPO and everyone at Velocity is energised by the exciting opportunities opening up for the business.

During the period we were also pleased to welcome Margaret Amos and Chris Williams to the Board. Margaret Amos brings with her nearly 30 years aerospace and financial management expertise. She has been appointed as our Audit Chair, along with supporting us in governance and strategy. Chris Williams was appointed as the Company's new permanent CFO in August 2020 and brings a diverse range of systems and commercial finance skills.

In summary, the industry wide demand reductions are disappointing, but with the prudent financial management and strategic re-alignment, we remain very confident of the long-term prospects. The business has gone through a major restructuring and is leaner than before, but better skilled for the future demands in our industry.

The Board is, and I am personally, extremely proud of Velocity's employees and the dedication they have shown throughout 2020 and the Company remains grateful for the ongoing support and backing received by customers and suppliers during the year.

**Andy Beaden**
Chairman
25 January 2021


Velocity HQ, Burnley, Lancashire, UK

# Business Strategy

### Market

The civil aerospace industry has gone through a large amount of uncertainty over the past 10 months as the immediate and severe effects on global flight schedules caused both Airbus and Boeing to reduce aircraft production rates to minimal levels as the long-term effects were understood. This in turn was replicated by the customers of Velocity as they adjusted the production rates of their sub-assemblies and the associated supply chains.

Both Airbus and Boeing publish detailed market outlook forecasts annually, usually with clear correlations between the two companies:

Airbus - www.airbus.com/aircraft/market/global-market-forecast

Boeing - www.boeing.com/commercial/market/commercial-market-outlook

At the time of writing only Boeing has updated its forecast taking into account COVID-19 effects, with both companies expecting to publish detailed updates by summer 2021. From this intermediate report it is clear that despite the picture remaining dynamic and the unprecedented disruption to the industry, the long-term growth drivers and fundamentals for air travel remain. In support of this, Boeing sets out a three-stage outlook for near term, medium term and long term recovery and growth:

### Near Term: Demand Focused on Fleet Renewal

Over the last decade, growth in passenger air travel averaged 6.5% per year, well above the long-term average of 5%. In this business environment, many of the world's airlines grew their fleets through deliveries of new airplanes and often delayed airplane retirements to accommodate passenger demand.

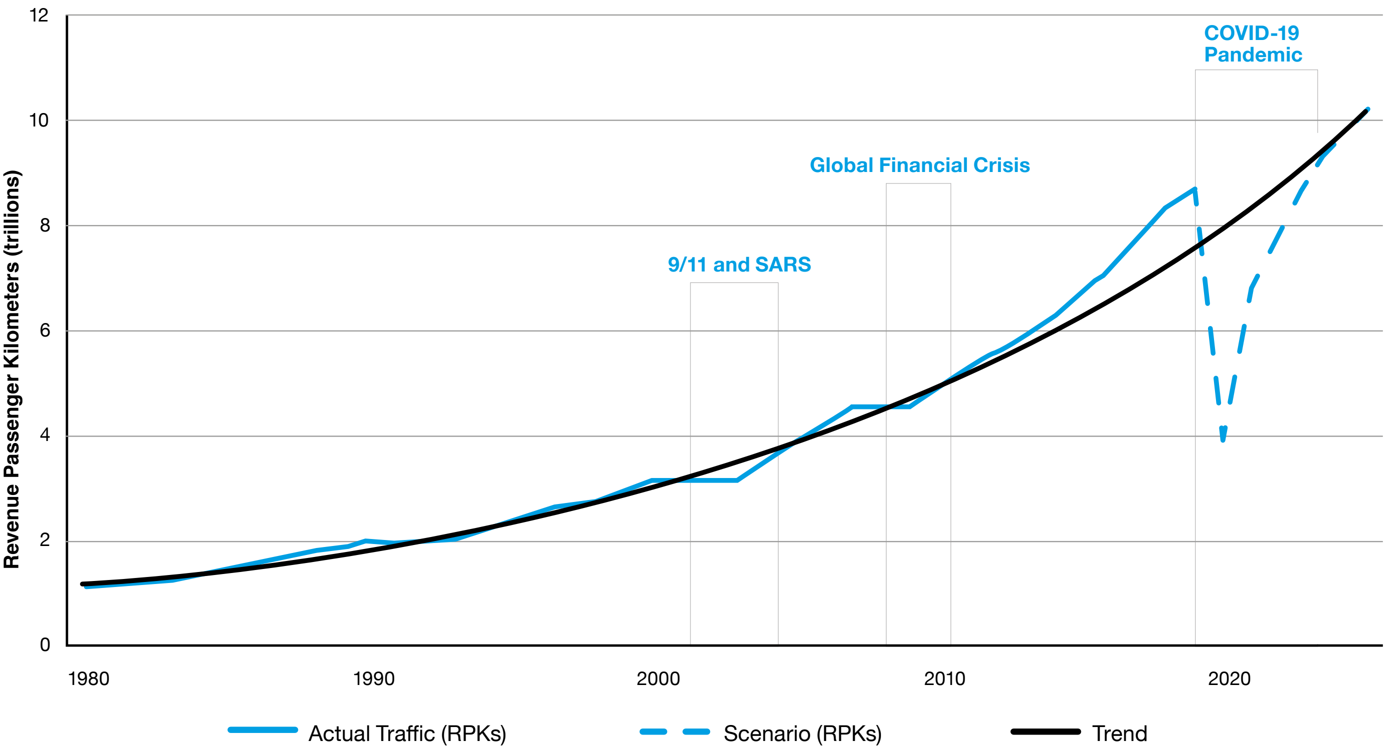
The current downturn is likely to lead to the replacement of many older passenger airplanes. This accelerated replacement cycle will position airlines for the future by improving the efficiency and sustainability of today's fleet.

**July 2020: British Airways aircraft sit in long term storage due to coronavirus**

## Medium Term: Aviation Has Proven Resilient

While aviation has seen periodic demand shocks since the beginning of the Jet Age, our industry has recovered from these downturns every time. Boeing currently believe it will likely take about three years for air travel to return to 2019 levels, and it will be a few years beyond that for the industry to return to long-term growth trends.  Aviation remains an integral part of transportation systems around the world.  The maturation of many emerging market economies will further increase consumer spending's share of economic activity, bolstering demand for air travel. In addition, coming out of every crisis, the industry has innovated by improving service and value for the travelling public.

## Aviation has proven resilient over and over again




ICAO scheduled traffic through 1999 / 2000-2019 EIATA stats / 2020F. IATA December 2019

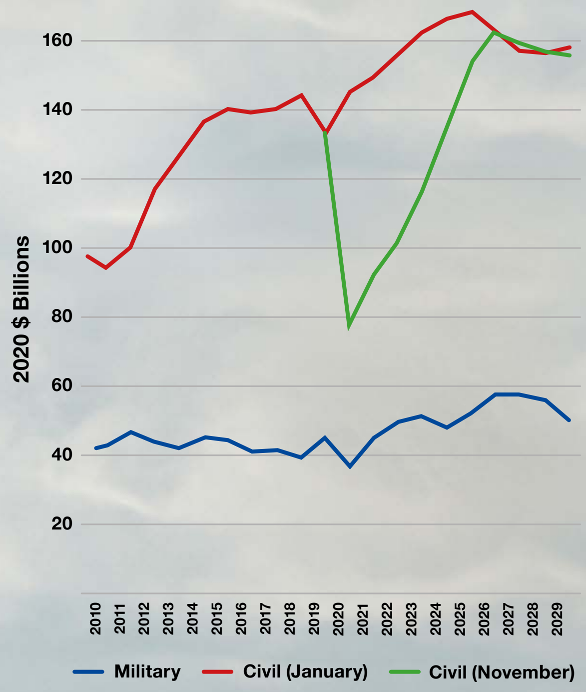
## Long Term: Emphasis on Fleet Versatility

The current market disruption will shape airline fleet strategies long into the future as airlines make decisions to renew their fleets and resume growth. Airlines will focus on building versatile fleets that provide future network flexibility, maximizing capability while minimizing risk, and improving efficiency and sustainability as the industry moves towards de-carbonisation by electrification and hydrogen power.

What this means for Velocity is that production rates are expected to recover over the next 3 years, led by single aisle platforms (A220, A320, B737) followed by the newer twin aisle platforms (A350, B777X, B787). Capacity has been lost due to the early retirement of predominantly metallic airframes and so airlines will be looking to replace these with newer, more fuel efficient/ sustainable aircraft which all utilise higher volumes of composite materials, both now and with future hydrocarbon free power technologies.

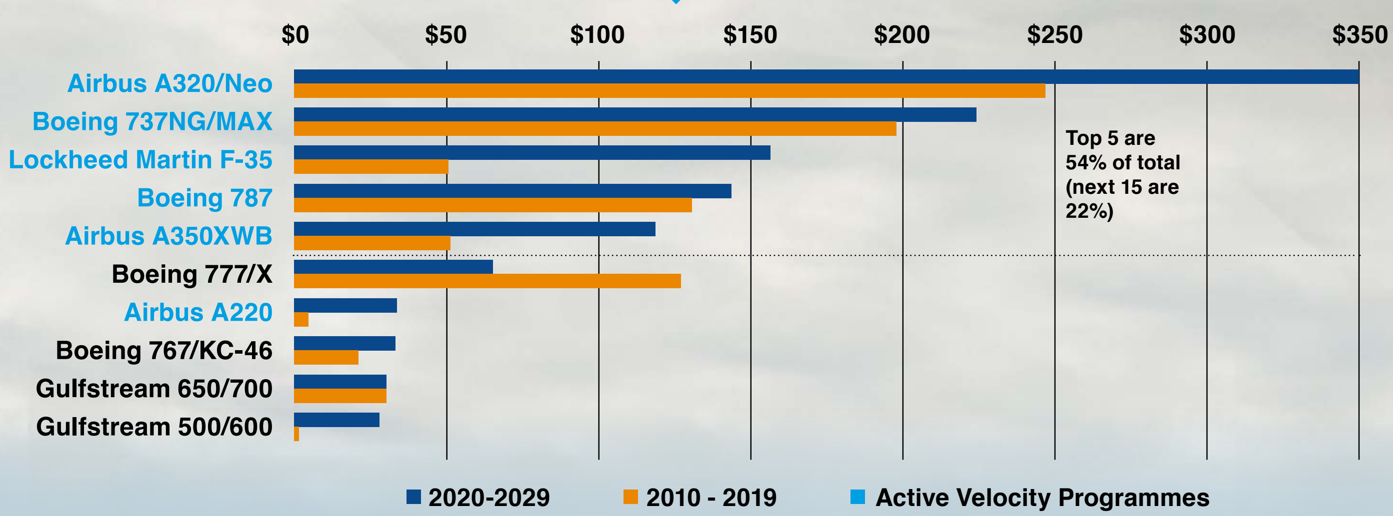
Regarding military platforms these have been less effected by rate reductions as they are not subject to the same commercial pressures. The outlook for both production rates and composite content on these platforms remains strong.

**WORLD AIRCRAFT DELIVERIES 2010 - 2029 (VALUE IN 2020 $BNS)**



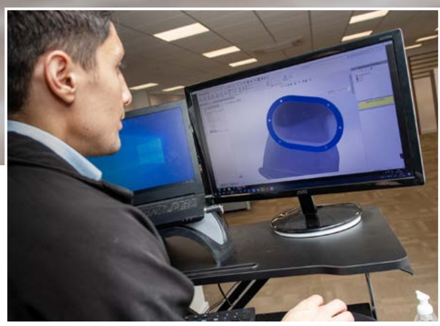

SOURCE: AERO MARKET, TEAL GROUP CORPORATION DEC 2020

**TOP 10 AVIATION PROGRAMS; CUMULATIVE DELIVERIES (VALUE IN 2020 $ BNS)**




SOURCE: AERO MARKET, TEAL GROUP CORPORATION DEC 2020


**Velocity's new Advanced Technology Centre at Burnley HQ**



## Strategy

Taking the market forecasts into account the long-term fundamentals of Velocity remain compelling, albeit subject to short-term disruption caused by production rate demand reductions, customer response to the demand reductions, travel restrictions for business development and general uncertainty in the aerospace market.

What the disruption has demonstrated is that despite the effects of a global pandemic (i.e. immediate one year of flight groundings followed by three years of production rate recovery) not being part of industry planning, the procedures, manufacturing processes and technology of Velocity facilitated an orderly and data driven transition for all customers and suppliers through the disruption in 2020. Once stabilised, the technology, IP and flexible service offering of Velocity has also allowed for newer, more relevant solutions to be developed for customers to help them reduce costs, right-size and manage the disruption through their manufacturing areas until production rates recover. This reaffirms the need of Velocity to remain at the forefront of raw material management, material utilisation and lean manufacturing integration, whilst having the flexibility to adapt to how the customer wants to use Velocity's IP to reduce their own costs. To this end Velocity will utilise the disruption period to focus on the following:

- Continued investment in digital technology, utilising the fully open Advanced Technology Centre on the Burnley, UK site, to further develop in-house Industry

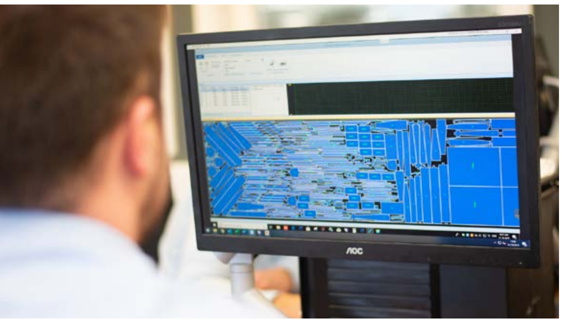
4.0 solutions around material nesting, real time vision system process augmentation, real time material resource planning technology (including AI), real time tracking of all life-managed raw materials using cloud computing and RFID, rapid prototyping using 3D scanning technology.

- The integration of the above technology into the in-house developed "VRP System" managing all aspects of the Company's services.
- Development of alternative service models utilising the licensing of the above technology for customers who want a more phased adoption of Velocity's model. This would be controlled by Velocity centrally, but deployed in a more flexible way to permit new customers to transition to Velocity by the sub-licence of Velocity technology and serviced without immediate resource intensive changes to their operational set-up.
- Investigations, with Velocity's industry partners (both supply chain and material suppliers), of alternative markets where the above technology can be deployed e.g. wind energy, surface transport, light weighting for electrification of road transport, medical, personal urban air vehicles and unmanned air vehicles.

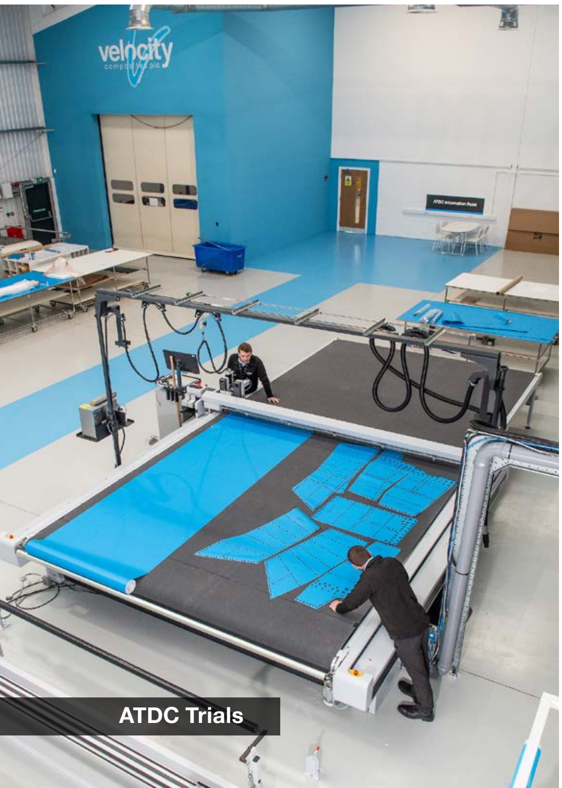
The above developments have been planned and budgeted as part of the Company's Integrated Business Plan for FY21. Recent headcount changes were structured to protect business development and technology development personnel and bring forward longer term development plans into a focussed and targeted plan for FY21 to deliver the above benefits.

It is expected that accelerated development and completion of the above plans will assist in the potential new-business pipeline of £50m over the next three financial years, by bringing further benefits and flexibility to existing customers, whilst creating a unique system of software tools, manufacturing technology and digital solutions to meet the global need in the advanced composites industry.


Our highly efficient nests



Engineers using our bespoke VRP system



ATDC Trials


Reverse Engineering

3D scanning technology

# CEO Report

**Jon Bridges** Chief Executive

> "The Company has accelerated activities to utilise our industry partners in both Europe and North America to investigate new composite markets where our technology can be applied, for example ground transportation, wind energy, military and transport electrification."

**So much has changed in the world during the last year that Velocity's annual report unsurprisingly reflects two very distinct periods; the period before the effects of COVID-19 became globally apparent and the time since.**

The year started with two key executive recruitment goals, to appoint both a new Customer Programmes Director and full time CFO, the latter of which had previously been filled (by Andrew Hebb) on an interim basis. Despite the onset of the COVID-19 pandemic during these processes, I am pleased to announce that both roles were filled by the preferred candidates, with James Eastbury taking up the position of Head of Customer Programmes in May 2020 and Chris Williams joining as Chief Financial Officer in August 2020. Both James and Chris bring significant and valuable skills and experience to their roles as the Company meets the challenges of the COVID-19 pandemic and plans for the recovery that will follow.

The year also started well in progressing the key strategic targets of working with a focused number of key customers for new business growth and utilising Velocity's technology to drive further efficiencies in the composites supply chain. These targets, however, were impacted by the onset of the COVID-19 pandemic, which led to an immediate and unprecedented reduction in air travel, and in turn, leading to the immediate reduction in aircraft production rates and the associated reduction in demand seen by Velocity's customers.

The response from Velocity was swift, based around the safety of our staff and the need to align the raw material supply chain with the new customer demand, inside of the usual extended lead times. From the onset of the pandemic, and through the summer months, the demand from customers was changing on a daily basis. Our industry sought to respond to the unprecedented circumstances, and the work to align the raw material supply chain with customer demand involved considerable real time planning and dynamic scenario modelling utilising Velocity's bespoke technology. During this period customer manufacturing plants were also closed for several intervals and at different times, as each customer utilised furlough schemes to help with the reduced demand build rates. The immediate reductions also lead to higher raw material stock levels for material that was already purchased by the Company, including stock positions put in place to mitigate any effects of Brexit disruption. As such, the Company continues to work collaboratively with customers to consume these stocks, whilst managing the wider supply chain effects of the COVID-19 pandemic.

During this period of maximum disruption, I am pleased to report that Velocity's sites remained open and responsive to customers along with home working and utilising the furlough scheme. As reported, the Company agreed terms for a £2.0m CBIL during this period

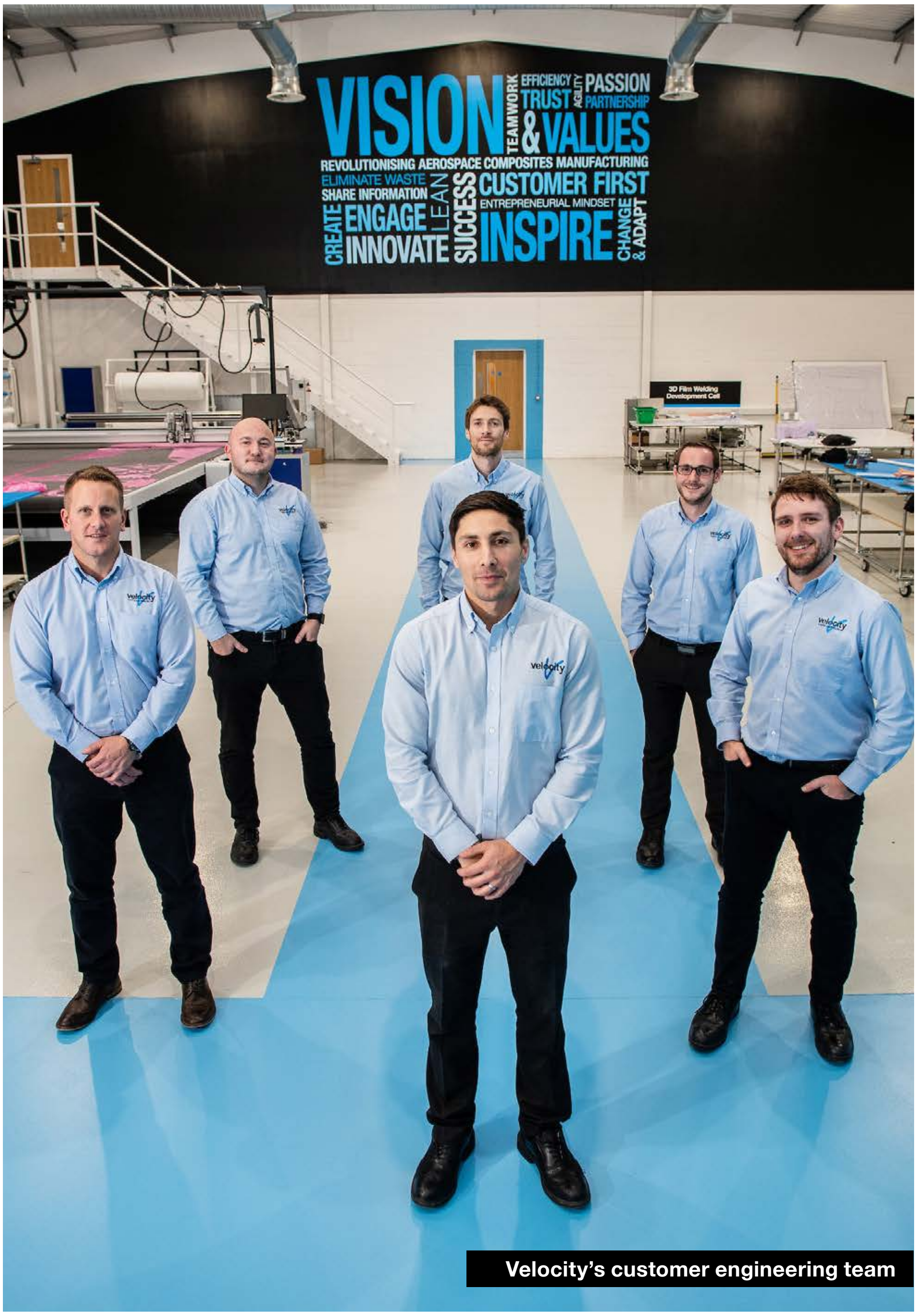
to provide further headroom as the disruption was better understood. As this period concluded, and the longer term effects of the pandemic were better understood, it became clearer that production rates would not recover in the short-term and government intervention around furlough support was limited in duration, so plans were enacted to right size both the direct and indirect headcount of the business based on the current demand, whilst protecting the delivery of products to current customers and the ability of the business to progress and respond to new business activities. Regrettably, this involved the reduction in headcount from 132 to 70 and I would like to personally thank all staff members involved in these difficult decisions for dealing with this restructuring in a professional and understanding way.

Looking forward there is still not a definitive picture around aircraft production rate recovery as both Boeing and Airbus are awaiting the return of air travel numbers before committing rates to the market, communicated publicly in their Market Forecast documents. Whilst there has been some recent exciting developments around vaccines and airport testing the industry needs demand to recover in air travel before this translates into new aircraft sales and aircraft part production. What is widely accepted is that single aisle rate recovery will be faster than twin aisle rate recovery and so along with military applications the Company continues to review its new customer portfolio to target the higher demand for its services.

During the year the government supported the Company with the Coronavirus Job Retention Grants of £0.4m, the Company also applied for a £2m Coronavirus Business Interruption Loan which was received in July 2020 (see note 17 for more details regarding the loan).

The Company has also worked closely with its existing customers to ensure that the service offering remains compelling during and after the disruption and rate reductions. Clearly this is a challenging

time for the whole industry and customers have had to revisit their entire industrial strategy as capacity created during previous growth years becomes available due to rate reductions. Significant work has been undertaken to work with customers to align future service with the new requirements, utilising Velocity's technology to identify enhanced efficiencies to assist customers. This has resulted in an extended long-term agreement with one key customer and additional packages of work with another. Work continues with our third key customer as part of a planned contract renewal exercise.




Velocity's customer engineering team

As the industry stabilises around the new production rates, the Company has a revised strategy to emerge more resilient from the unprecedented effects of the COVID-19 pandemic. Clearly like for like sales of existing business has been significantly reduced and so our priority in FY21 is to continue the cost reductions and new business growth to return the business to profit during the second half of the year. The Company is still working through a new business sales opportunity pipeline of £50m over the next three financial years, and utilising our technology, proven service levels and geared operational capacity we expect the new proposition process to form an important part of our customers response to the new production rates.

The Company has also accelerated activities to utilise our industry partners in both Europe and North America to investigate new composite markets where our technology can be applied, for example ground transportation, urban air vehicles, wind energy, hydrogen power and military and transport electrification. As part of this, the Velocity model will be developed to enable our technology to be licensed, or deployed internally, at new customers to accelerate the adoption in a cash light way.

Whilst there appears to be a roadmap to undo the physical restrictions of the COVID-19 pandemic, the effects, particularly in aerospace, will be felt for several years to come. At Velocity, the team are focused on dealing with those immediate effects, ensuring the long term sustainability of the business whilst adapting our technology and offering to meet the continued needs of our customers.

**Jonathan Bridges**
Chief Executive Officer
25 January 2021

# Financial Review

### Statement of Comprehensive Income

**Revenue for FY20 has understandably been impacted significantly by COVID-19, as has the wider aerospace sector. We have remained operational throughout the period, but with intermittent customer shutdowns and heavily reduced underlying demand on existing programmes, we have finished the period with sales 44% lower year-on-year at £13.6m (FY19: £24.3m) and had to adjust the business accordingly.**

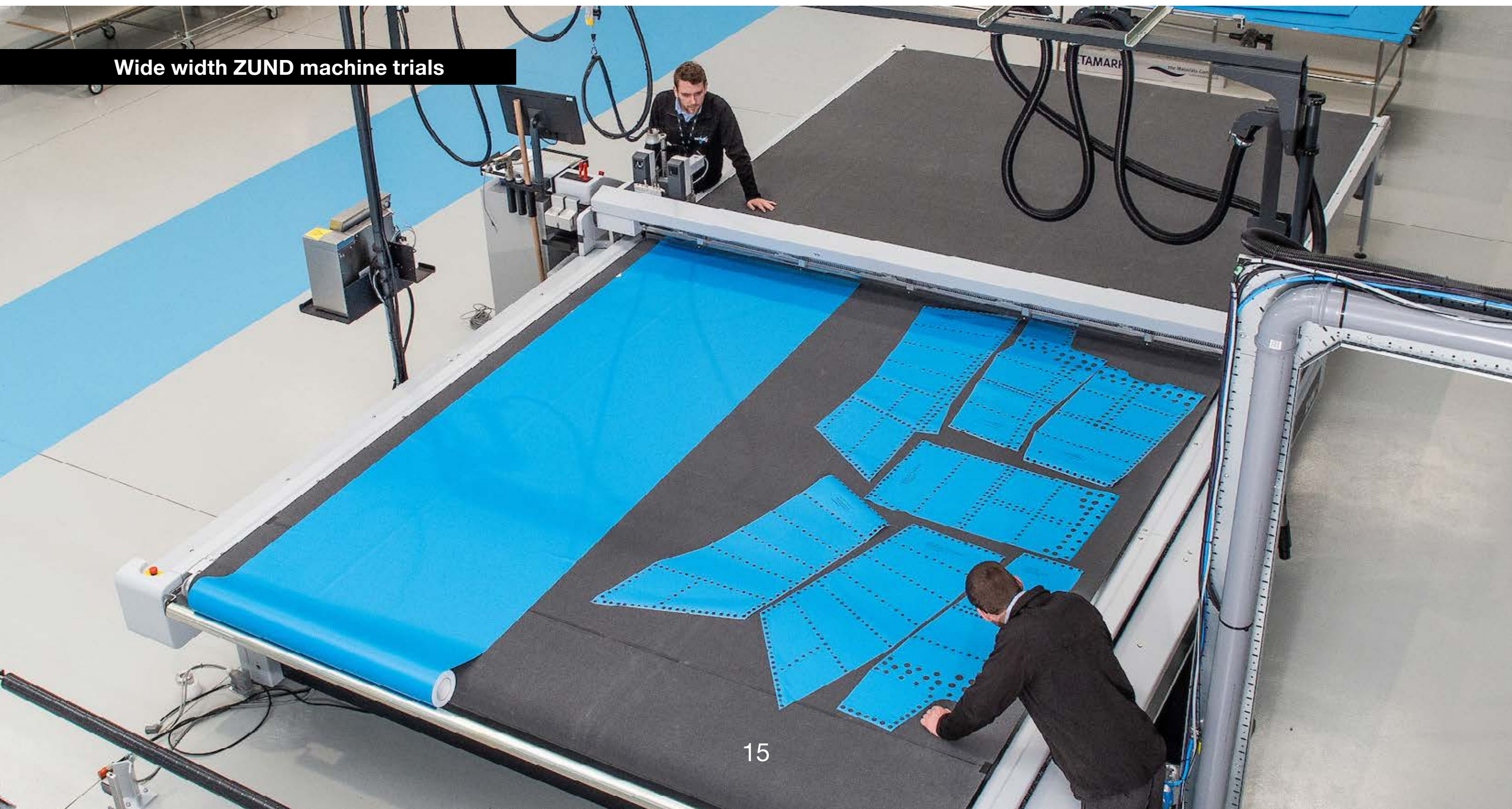
This sales decline was nearly all attributable to the last 7 months of the year, as the pandemic hit hard across the industry. As a result, sales for the first 5 months of the year were in line with management's expectations at £8.7m and continuing to display healthy demand. From March 2020 however, underlying aircraft production rates dropped significantly, flowing directly through into our demand with sales of £4.9m in the final 7 months. International sales and expansion has also paused over this period as international borders were closed and business commuting restricted, though the business is in a positive position to continue this once travel is again permitted.

Whilst this position has picked up to some extent in the final months of the year, we expect underlying volumes with existing programmes to remain suppressed into FY21 and starting to recover in FY22 and beyond. In addition, the business continues to seek out new contracts to deliver some of the identified pipeline opportunities.

The gross margin has declined to 17.1% (FY19: 21.7%), but this has been driven by one-off stock provisions reflecting a prudent stance regarding slow-moving stock caused by the disruption in the supply chain. Excluding these, the margin is in line with management's expectations given the movement in sales mix during the year. Year-on-year overheads have significantly reduced and the full-year-effect of management's right-sizing efforts will be seen as we go into FY21. This, combined with a strong pipeline of sales will enable Velocity to positively leverage its high operational gearing from H2 FY21 going into FY22 and beyond.

As explained above, increased stock provisions required for slow-moving stock have reduced our overall gross margin to 17.1% (FY19: 21.7%). Discussions are ongoing with customers to resolve these, but with high uncertainty in the current climate, we have taken a prudent position. Excluding the impact of slow-moving stock, and despite the lower volumes, underlying gross margin was in line with management's expectations, with a slight decline reflecting our movement in sales mix. The gross margin can be impacted by the mix between structural composite materials and lower cost process materials, which

Wide width ZUND machine trials



in 2020 led to a slightly negative margin impact.

The government supported the Company with the Coronavirus Job Retention Grants of £0.4m, the Company received a £2m Coronavirus Business Interruption Loan in July 2020 (see note 17 for more details).

Administrative expenses (excluding depreciation and share based payments) for the year have decreased by £0.4m to £4.3m (FY19: £4.7m) as the business has right-sized its cost base with the latest demand forecast. Despite utilising the government furlough scheme, the business has needed to undertake two rounds of restructuring. As a result, people costs have reduced by £0.8m in the year with headcount being reduced 47% from 132 to 70. In addition, a Cost Improvement Plan has been successfully implemented, bringing the overhead cost-base of the business down to a £13.5m sales revenue breakeven sales level. Further cost reductions plans are ongoing into FY21 to continue the work done in this area.

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

On a consistent basis with last year, adjusted EBITDA amounted to a £(1.9)m loss for the year (FY19: £0.8m profit). This excludes share-based payments and exceptional administrative costs relating to restructuring in response to the pandemic. The adjusted EBITDA has been impacted adversely by the dramatic sales fall, combined by some one-off costs in inventory valuation. The restructuring benefits will start to show through in the first part of 2021, with the full benefit seen by the second half of 2021.

## Adjusted EBITDA [1]

| Reconciliation from Operating Loss | 31 October 2020 £'000 | 31 October 2019 £'000 |
|---|---|---|
| Operating Loss | (3,149) | (594) |
| Add back: | | |
| Share-based payments | 120 | 66 |
| Depreciation & Amortisation | 445 | 431 |
| Impairment of Intangible assets | 72 | 18 |
| Depreciation on Right of Use assets under IFRS 16 (equivalent 2019 rent payments) | 246 | 221 |
| Exceptional Administrative costs | 341 | 692 |
| **Adjusted EBITDA [1]** | **(1,925)** | **834** |

Adjusted EBITDA[1] defined as earnings before finance charges, tax, amortisation, depreciation, impairment, share based payments, exceptional restructuring costs. During the year the Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. In the adjusted EBITDA for 2019 the rent payments for those assets now accounted for as Right of Use assets under IFRS 16 have been added back so that both years can be compared. The rent payments are not significantly different to the depreciation charge.




## Cashflow and Capital Investment

The year-end cash and cash equivalents reduced by £0.1m to £3.3m (FY19: £3.4m). Cash utilised from operations of £(0.8)m (FY19: £0.3m) in the year was driven by the £(1.9)m EBITDA offset partly by £1.3m favourable working capital position as the business right-sized. Cash used in Investing Activities of £(2.4)m (FY19: £(0.2)m) primarily related to the capitalisation of Right Of Use (leased) assets (£1.4m) as well as property, plant and equipment as the new business premises and Technology R&D centre were completed. Financing activities generated £3m over the period (FY19: £(0.8)m) with the benefit of the £2.0m CBIL facility agreed during the year, offset by £(0.5)m payments towards Hire Purchase commitments and Invoice Discounting arrangements. The Invoice Discounting facility was not being utilised at 31 October 2020.

The cash balance at 31 October 2020 of £3.3m includes £2.0m Coronavirus Business Interruption Loan (CBIL) proceeds and £0.7m remaining EIS funds to be utilised in establishing a production facility in the USA and to invest further in developing our mainland European activities when international travel resumes. Our focussed stock reduction programme is expected to yield additional cash upside as we continue through FY21.

Despite the loss in the year, the business remains in a net cash position at year end, with £0.9m net cash (FY19: £3.1m). This includes Cash at bank, EIS, and CBIL proceeds offset by the outstanding CBIL balance and hire purchase liabilities.

## Working Capital

Inventory levels decreased at the year-end by £(1.3)m to £1.9m (FY19: £3.2m) reflecting our increased stock provision and additional stock reduction efforts in-year as underlying demand has reduced.

Trade and other receivables reduced significantly during the year by £1.7m to £2.5m as a result of the reduced sales and continuing robust controls around debt collection improved monthly routines to manage the collection of debts. Debtor days have therefore decreased slightly to 44 days (FY19: 45 days).

Trade and other payables also reduced during the year by £1.7m to £1.5m due to reduction in Trade Creditors of £1.7m as the business utilises existing material stock.

| | Year ended 31 October 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| **Cash** | 3,264 | 3,424 |
| **Cash Loans** (excluding right to use assets) | (2,000) | - |
| CBIL Loan | (358) | (290) |
| Hire Purchase | 2 | (4) |
| Invoice discount Facility | | |
| **Net Cash/(Debt)** | **908** | **3,130** |

Note 1: The net cash/(debt) calculation is designed to explain the level of financial debt, net of cash at bank. It does not include the IFRS 16 presentation changes around property rental agreements and similar short-term operating rental lease agreements, where the rental liability and an equal asset right are both now recognised for the contract life, on the balance sheet.

## Going concern

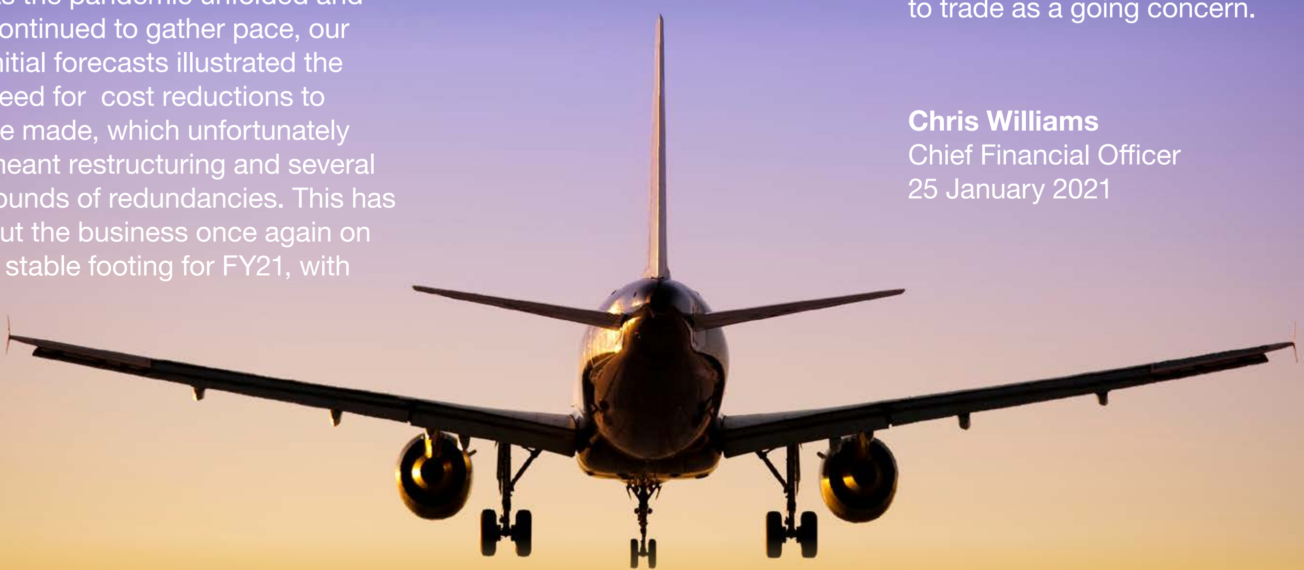
Under the current climate, Management have undergone a significant level of cash flow forecasting and scenario modelling. This work also supported the application for our CBIL and its extension. Detailed financial projections for the following 24 month rolling period were prepared, and then extended annually for a further 5 years. The Aerospace sector lends itself to this kind of long-term planning due to the nature and length of customer programmes, typically a minimum of 3 years, but often 5 years or more. This has enabled the business to fully model the impact of COVID-19 and the expected recovery period. Post year end the CBIL facility term has been extended from 2 to 6 years to better reflect the cash flow needs of the business and ongoing support from our bank.

As the pandemic unfolded and continued to gather pace, our initial forecasts illustrated the need for cost reductions to be made, which unfortunately meant restructuring and several rounds of redundancies. This has put the business once again on a stable footing for FY21, with positive operational gearing to leverage once growth resumes. Further scenario tests included losing major customers, failure to utilise slow-moving stock under new demand levels and not receiving additional CBIL support or extension of terms. Even in the worst of these cases, with all three downside scenarios happening, Management's mitigation plan meant the business could navigate the forecast period utilising its net cash position and existing facilities, albeit with some shorter-term decisions needed to be made. This recovery has been made possible by a combination of existing contracts recovering to pre-COVID-19 run rates over the 5 to 7 year period, as well as new contracts being won from the significant pipeline of opportunities being targeted.

Continued monthly monitoring of this forecast model is ongoing over a rolling 36 month period, with the business adopting a new Integrated Business Planning approach in January 2021. As a result, any departures from budget or future requirements for cash flow will be identified early on. Key cash flow projects within this, such as the stock reduction programme, have been flagged as priorities in the Velocity strategy, with project leads, KPIs and reporting mechanisms into the Board. Any gaps against forecast will be caught in this process and a recovery plan put in place to ensure delivery of results.

Having due regard for these projections and available cash at 31 October 2020 of £3.3m, an invoice discount facility where we can borrow up to £5m dependent on debtor levels, and the continued support of our bank, customers and shareholders during these difficult circumstances, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

**Chris Williams**
Chief Financial Officer
25 January 2021



# Financial Highlights

| Revenue | Cash at bank | Gross Margin % | Operating Profit / (Loss) | Adjusted EBITDA[1] |
|---|---|---|---|---|
| £13.6m | £3.3m | 17.1% | £(3.1m) | £(1.9m) |

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

# 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.**

With the COVID-19 pandemic there has clearly been an unprecedented impact on the aviation industry in the UK. As the pandemic has unfolded, its impact on the business in the immediate and longer-term has become clearer. In the shorter-term, Velocity has had to manage a significant drop in sales within existing customer contracts through right-sizing the cost base and working closely with our customers to understand ongoing demand. Whilst in the longer-term, Management have been focussed on managing cash flow needs, reviewing the Company's strategy and offering in the market.

In addition, the Group has undertaken various risk mitigation activities which included: planning ahead to ensure a smooth transition through Brexit 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, now more than ever, of exclusively operating in the aerospace sector, and is comfortable that the risk is mitigated by the strength of the longer-term outlook from the aircraft manufacturers and, reassured by past precedents of crisis in the industry have not stopped the underlying trends of growth in the market.

The Group's principal risks and our actions to mitigate these risks are set out in the table on the following pages. 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.

# Principal Risks and Uncertainties

| PRINCIPAL RISK | MANAGEMENT PRIORITY | IMPACT | MITIGATION |
|---|---|---|---|
| **Strategic Risks** | | | |
| **Loss of Key Contracts** | **High** | The aerospace sector has a concentration of very large primary aircraft manufacturers and Tier 1 suppliers. These form the core of the Company's customer base. Therefore the loss of any of the Company's major contracts with these large customers may have a material impact on the Company's business, prospects, financial condition or operations. Management have been particularly wary of this during the current period of significant upheaval in the aerospace sector. | 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. Aircrafts are increasingly being manufactured using composite material, a trend that is continuing despite the COVID-19 pandemic. We operate through Long Term Contracts and when an initial 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** | **High** | Changes in demand due to airworthiness issues, regulatory issues, safety issues with aircraft platforms, or, as we have seen this year, a global crisis. | 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. Spreading sales risk across many platforms has helped to offset some of the impact due to COVID-19. Where this has not been possible, a rapid response to right-sizing the business' cost base has been the best mitigation, in line with demand fluctuations. |

# Principal Risks and Uncertainties

| PRINCIPAL RISK | MANAGEMENT PRIORITY | IMPACT | MITIGATION |
|---|---|---|---|
| **Strategic Risks** | | | |
| **International Expansion** | **Medium** | 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, travel permitting. The successful implementation could lead to 5 or 6 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. | Although impacted by current International travel restrictions, we are continuing to develop partnerships with larger supply chain businesses, for example to develop the North American market we are working with Incora. We are taking a measured approach by investing in our first production facility to support customers in the South East 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** | **Low** | 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 capacity in our UK plants and a good structure of Executive and second line management to support additional demand. |

# Principal Risks and Uncertainties

| PRINCIPAL RISK | MANAGEMENT PRIORITY | IMPACT | MITIGATION |
|---|---|---|---|
| **Strategic Risks** | | | |
| **Research and Development** | **Low** | 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** | **Medium** | Not sufficient demand in the sector and particularly in the civil aerospace sector due to COVID-19 or similar disruption. | Risk is mitigated by the strength of the longer-term outlook of aircraft manufacturers and proven by past crisis that have failed to stop the underlying growth trends in the aerospace market. Longer term we plan to diversify away from this sector, through partnerships with our major suppliers and customers. The Company has also started to develop more its customer base around military aerospace which has been more robust in the last year. |

# Principal Risks and Uncertainties

| PRINCIPAL RISK | MANAGEMENT PRIORITY | IMPACT | MITIGATION |
|---|---|---|---|
| **Operational Risks** | | | |
| **Dependence on Third Party Supply** | **Low** | 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** | **Medium** | 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** | **Low** | Material price changes are flowed through to customers | Ensure any material price changes are flowed through from supplier to customer through contract. |

# Principal Risks and Uncertainties

| PRINCIPAL RISK | MANAGEMENT PRIORITY | IMPACT | MITIGATION |
|---|---|---|---|
| **Financial and Compliance Risks** | | | |
| **Treasury and Foreign Exchange Risk** | **Low** | 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.<br>Despite the challenges of COVID-19 and Brexit, this risk has not been as high risk as expected in the past and so is currently considered a lower risk to the Company. |
| **Liquidity Risk** | **High** | Insufficient cash to meet the needs of the business in near or long term | 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. These activities have been undertaken extensively throughout FY20, with longer-term scenario testing being done regularly as new data has come to light. This has been done in conjunction with utilising government offered support through the CBIL and furlough schemes, and right-sizing the cost-base in line with latest demand outlook. |

# Principal Risks and Uncertainties

| PRINCIPAL RISK | MANAGEMENT PRIORITY | IMPACT | MITIGATION |
|---|---|---|---|
| **Financial and Compliance Risks** | | | |
| **Credit Risk** | **Low** | 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** | **Low** | Insufficient cash to meet the needs of the business in near or long term | The Company seeks to manage its interest rate risk through minimising exposure wherever possible and regularly reviewing interest rates available in the marketplace. |





# 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 below:**

### 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 leading manufacturers with composite kits and consumables to eliminate waste and provide essential logistics and supply chain efficiencies to its customer base. Our current core focus is in the aerospace industry and our customer arrangements are almost exclusively based on long-term contracts, typically for a 3 to 5 year period. Our business strategy and business model are included in the strategic report section of our Annual Report, along with key performance indicators set out in the Finance Review to measure growth and profitability around 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 Chairman, Chief Executive Officer and 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 Directors 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, customers, 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 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 and regular oversight by the Non-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 general and capital expenditure as well as 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, Chief Executive Officer, Chief Financial Officer, Company Secretary and two Non-Executive Directors. During the year Margaret Amos joined the Board in April 2020, Group Financial Officer Chris Williams joined the Board in August 2020 and Group Financial Controller Adam Newton was appointed Company Secretary in September 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 Commercial & Supply Chain 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 two formal Board committees that meet independently of Board meetings and one additional Executive management committee:


Our engineers developing highly efficient nests

**Audit Committee**
The Audit Committee currently has three members, Margaret Amos (Chair),Andy Beaden and Rob Soen. The Chief Financial Officer and external auditors attend by invitation. The Audit Committee responsibilities include the review of the scope, results and effectiveness of the external audit, the review of the Interim and Annual accounts, and the review of the Group's risk management and internal control systems. The Audit Committee advises the Board on the appointment of the external auditors and monitors their performance.

**Remuneration Committee**
The Remuneration Committee has three members, Rob Soen (Chair), Andy Beaden and Margaret Amos. 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.

**Nomination Committee**
The Nomination Committee has three members, Andy Beaden (Chair), Rob Soen and Margaret Amos. 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 four members, two of which are Executive Directors. 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** | 11 | 3 | 2 | 2 |
| Andrew Beaden | 11 | 3 | 2 | 2 |
| Robert Soen | 11 | 3 | 2 | 2 |
| Jon Bridges | 11 | n/a | n/a | n/a |
| Margaret Amos* | 6 | 2 | 2 | 2 |
| Chris Williams** | 1 | n/a | n/a | n/a |

*appointed as Director on 7 April 2020
**appointed a Director on 4 August 2020
n/a - indicates that a Director was not a member of a particular committee

| | Andrew Beaden | Rob Soen | Jon Bridges | Margaret Amos | Chris Williams |
|---|---|---|---|---|---|
| Audit Committee (AC) | Member | Member | n/a | Chair | n/a |
| RemunerationCommittee | Member | Chair | n/a | Member | n/a |
| Nominations Committee | Chair | Member | n/a | Member | n/a |

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 pages 32 - 33 of this report.

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

Whilst the Board have continually looked to refine and improve working practices throughout the year, the COVID-19 pandemic has led to some short-term crisis management processes being required. As a testament to the previous years' focus on Board governance these were implemented swiftly and decisively. These were particularly focussed around cash flows and the ongoing health of Velocity.

Now that business has resumed with a semblance of steady-state, the new Board will continue to improve these working practices in line with the business need in the months to come.

### 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 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 report 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.

The Chairman, Chief Executive Officer and the 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.

**Andy Beaden**
Chairman
25 January 2021

# Board of Directors

**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, having trained with KPMG, 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).

**Jonathan 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.

**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 a Fellow of the Institute of Purchasing and Supply.

(l-r) Andy Beadon, Rob Soen (screen), Adam Newton, Jon Bridges, Margaret Amos & Chris Williams


Online board meeting

**Margaret Amos**

Margaret joined the Board of Velocity in April 2020. She has 27 years' experience working for Rolls Royce Holdings plc and held a number of important senior roles in Finance, Strategy Development, Supply Chain and Programme management, including the position of Divisional Finance Director - Engineering, IT and Corporate Sector. She has since developed a significant portfolio of Non-Executive roles, including NMCN plc, Trinity House and The Ombudsman Services. She is also a Corporate Fellow for Denstone College.

Margaret is a Fellow of both the Chartered Institute of Management Accountants (CIMA) and the Chartered Institute of Purchase and Supply (CIPs). She has a BA degree in Secretarial Administration and French and a Masters in Supply Chain Management from Nottingham University and is currently studying for a Doctorate in Professional Studies.

Margaret is Chair of the Audit Committee.

**Chris Williams**

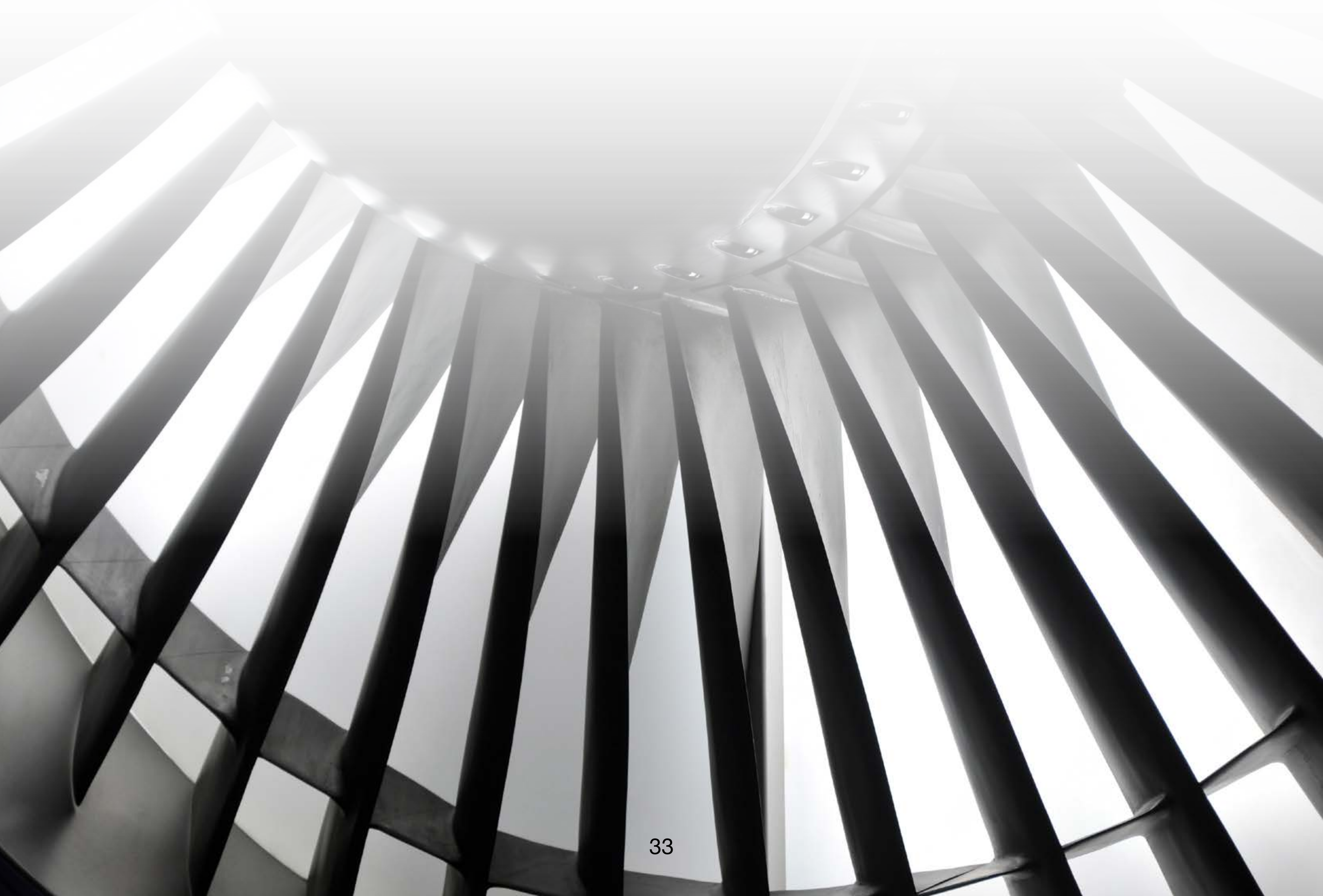
Chris joined Velocity in August 2020 as Chief Financial Officer. Chris brings with him a wealth of experience across many sectors, having previously been Finance Director for Bettys Tearooms, a multi-site hospitality business in Yorkshire, as well as Caparo Engineering, where he was a Divisional Finance Director for a number of Precision Engineering SMEs based in the Midlands.

Chris is a Chartered Accountant, having trained with KPMG, and holds a Masters degree in Physics from the University of Birmingham.

**Adam Newton**

Adam joined Velocity in January 2017 as Financial Controller, bringing with him many years of experience from varied roles in finance. Most recently he was Divisional Finance Business Partner at Well Pharmacy (formerly Co-operative Pharmacy) for 9 years, where he worked as part of the leadership team responsible for strategy and driving operational efficiencies. Adam comes from an audit background, having worked for several years in practice with a diverse client portfolio, from SME's to larger PLC businesses.

Adam is Fellow of the Association of Chartered Certified Accountants.



# Senior Management

### Commercial & Supply Chain Director

**Matthew Archer**

Matthew joined the Company as Chief Commercial Officer in February 2017 bringing extensive experience of the Defence and Aerospace sectors having worked for several of the world's leading companies in those industries.

Matthew previously worked for GKN Aerospace where he led the introduction of a global strategy for composite procurement across Europe, North America and Asia. Prior to this Matthew worked at Defence industry prime contractors and the UK Ministry of Defence.

### Customer Programmes Director

**James Eastbury**

James leads a team of technically skilled programme managers and new business engineers in developing and executing comprehensive multi-level plans of engagement with all of Velocity's customers. He is responsible for the expansion of Velocity's revenue, with existing & new customers, within all territories and future markets.

James has over 11 years' experience in the aerospace market, previously with Solvay Composite Materials, the advanced materials and specialty chemicals company, where he held a number of roles, most notably as Key Account Manager for Airbus.

### HR Business Partner

**Kelly McGrath**

With over 10 years HR experience and a qualified Associate Member of CIPD, Kelly is responsible for the development and delivery of the People Management Strategy.

Kelly joined Velocity in 2019 and works with the Executive Team to define and deliver business growth plans. A true HR Generalist and People Partner, Kelly gained experience within the Manufacturing and Aerospace Industries and supports all areas of the business but is particularly passionate about people development and engagement.

### Principal Engineer

**Emil Khan**

Emil began a career with Velocity in 2010 after graduating from University of Central Lancashire with an Engineering degree. Engineering lead on many key internal and external projects.

Responsible for engineer governance and managing the engineering team whilst supporting the team with individual projects. Revelled in the challenges Velocity has faced as a upcoming business in the aerospace industry and looking forward to future business prospects. Keen to optimise and grow the team to ensure standardisation in multi-site deployment.

### Site Operations Burnley

**Alex Roberts**

Alex joined Velocity in 2013 and has been a vital member of the Management team in ensuring the Business is future ready through the development of its growth plans.

Responsible for the Manufacturing areas at Burnley, Alex has recently taken on the rolling out of a robust Lean and Continuous Improvement culture across the Site and is a great supporter of people development. Alex holds a BA Honours Degree in Sport & Leisure Management and has over 13 years' experience within Operations Management.

### Site Operations Fareham

**Melissa Shirley**

After joining our Fareham facility in 2017 as a Production Quality Engineer she recently moved into the role of Manufacturing Manager. Melissa has extensive knowledge within the aerospace industry and specifically in composites manufacturing processes.

She achieved her master's degree in Mechanical Engineering from the University of Durham and spent the 10 years prior to Velocity in various Composite Engineering roles including GKN on the Isle of Wight and Hexion CCT on the south coast. Melissa brings her experience in quality compliance and Health & Safety knowledge gained through the achievement of her NEBOSH certificate.

# Directors' Report

**The directors present their report and the audited financial statements for the year ended 31 October 2020.**

## 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 of the business, as referenced in the Financial Review on pages 15 to 18 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 page 15.

## Capital structure

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

## Research and Development

The  Group continued to invest in research and development, in order to extend its geographical reach and improve the effectiveness of its technology. During the year the Group capitalised development costs of £0.04m (2019: £0.09m) 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 2020. Further details are provided in Note 2 to the financial statements.

## Directors

The Directors who held office at 31 October 2020 and their interest in the shares of the Company were as follows:

| | At 31 October 2020 | % Shareholding |
|---|---|---|
| Jonathan Karl Bridges | 5,515,929 | 15.23% |
| Andy Beaden | 400,000 [1] | 1.10% |
| Rob Soen | - | - |
| Margaret Amos | - | - |
| Chris Williams | - | - |

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

## Going concern

The Group has prepared extensive financial projections for the next two years, incorporating the impact of COVID-19 and modelling a number of 'worst case' scenarios. The forecasts include revenue projections based on current demand plus a weighting of opportunities in the pipeline, with an appropriate cost base reflective of the significant cost reductions that have already taken place in the Group.

Having due regard to these projections and available cash at 31 October 2020 of £3.3m, and an invoice discount facility where we can borrow up to £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. A more extensive review of going concern can be found in the financial review on page 15 - 18.

## Indemnification of Directors

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

## Substantial shareholdings

At 31 October 2020, 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 | 13.60% |
| Christopher Banks | 4,927,693 | 13.60% |
| TM Stonehage Fleming AIM Fund | 3,488,956 | 9.63% |
| Charles Stanley Clients | 1,753,047 | 4.84% |
| Herald Investment Trust | 1,431,177 | 3.95% |
| Hargreaves Lansdown Clients | 1,307,539 | 3.61% |
| Amati Global Investors | 1,150,294 | 3.18% |

## Corporate governance

The Statement of Corporate Governance on Pages 26 to 31 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 25 January 2021 and signed on its behalf by:

**Adam Newton**
Company Secretary
25 January 2021

# Directors' Remuneration Report

**This report covers the financial year ended 31 October 2020**

## Responsibilities

The Remuneration & Nomination Committee has three members with Robert Soen (Chairman), Andy Beaden and Margaret Amos (since joining the Board in April 2020). The Committee is responsible for setting the remuneration packages for the the 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

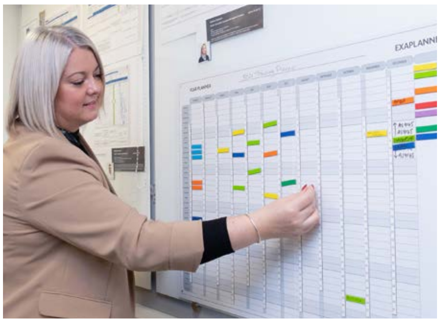
The Board is committed to maintaining high standards of corporate governance and has taken steps to comply with best practice in so far as it can be applied practically given the size of the Group.

### 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 2020 Options were issued to members of the Non Executive Directors and members of the Senior Management team. A total of 0.6m 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 2020 (or period of service) are summarised below:**

| | Salary £'000 | Pension £'000 | Benefit in kind £'000 | Year ended 31 October 2020 | Year ended 31 October 2019 |
|---|---|---|---|---|---|
| **Executive** | | | | | |
| Jonathan Bridges | 130 | 14 | 13 | 157 | 154 |
| Chris Williams (appointed 4 August 2020) | 18 | 2 | 2 | 22 | - |
| Alan Kershaw (resigned 31 January 2019) | - | - | - | - | 48 |
| **Non-Executive** | | | | | |
| Andy Beaden (appointed 26 July 2019) | 80 | 2 | - | 82 | 23 |
| Rob Soen | 35 | - | - | 35 | 10 |
| Margaret Amos (appointed 7 April 2020) | 20 | - | - | 20 | - |
| Mark Mills (resigned 25 March 2019) | - | - | - | - | 110* |
| Brian Tenner (resigned 24 July 2019) | - | - | - | - | 60 |
| Meera Parmar (resigned 24 July 2019) | - | - | - | - | 35 |
| **Total** | 283 | 18 | 15 | 316 | 440 |

* - emoluments included within exceptional costs

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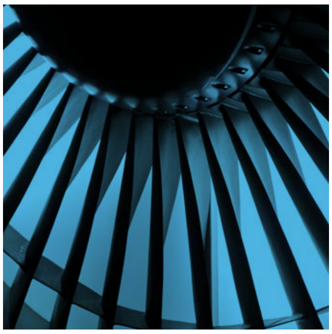
# Independent Auditor's Report
## to the Members of Velocity Composites Plc





velocity composites plc

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

## 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 2020, which comprise the Consolidated Statement of Total Comprehensive Income, the Consolidated and Company Statements 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 2020 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 United Kingdom Generally Accepted Accounting Practice; 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.

## The impact of macro-economic uncertainties on our audit

Our audit of the financial statements requires us to obtain an understanding of all relevant uncertainties, including those a rising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the directors and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment and the group's and the parent company's future prospects and performance.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties when assessing the group's and the parent company's future prospects and performance. However, no audit should be expected to predict the unknowable factors or all possible future implications for a group and a parent company associated with these particular events.

## 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.

In our evaluation of the directors' conclusions, we considered the risks associated with the group's and the parent company's business, including effects arising from macro-economic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the group's and the parent company's resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the group or the parent company will continue in operation.

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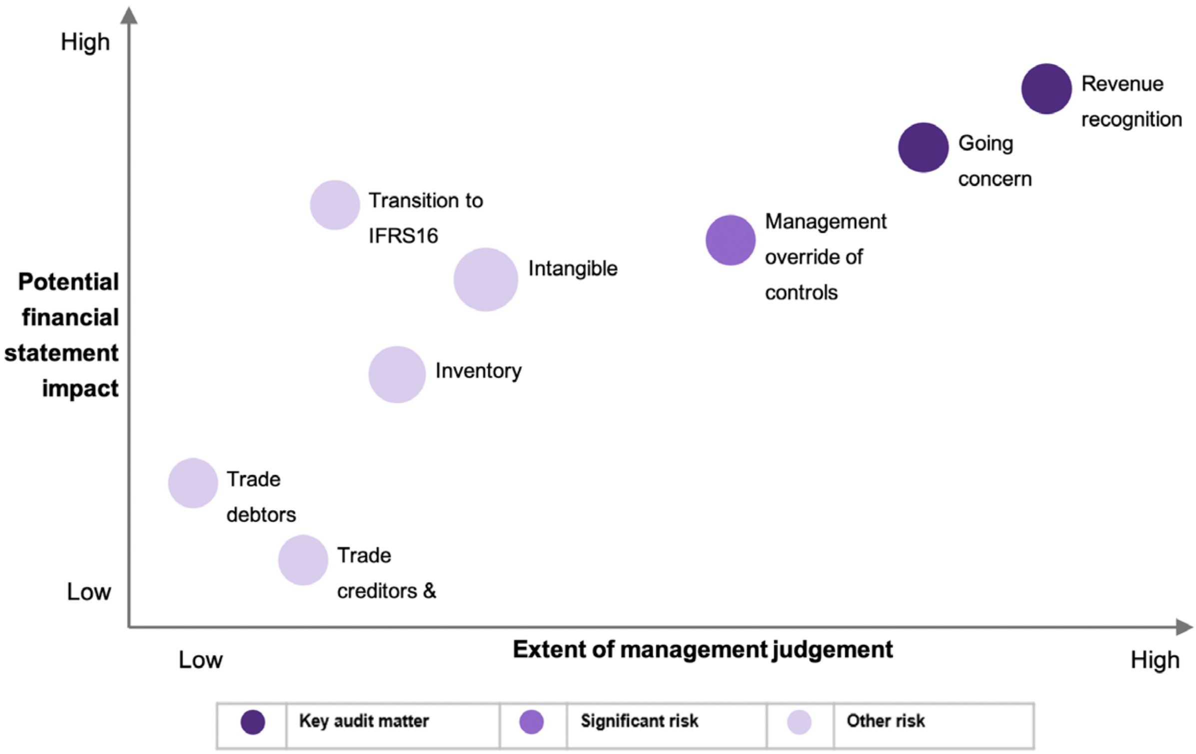
### Overview of our audit approach

- Overall materiality: £203,400, which represents 1.5% of the group's total revenues; and
- Key audit matters were identified as the risk that the revenue cycle includes fraudulent transactions and going concern assumption; and
- We performed full scope audit procedures on the financial statements of Velocity Composites Plc and analytical procedures on components which were considered immaterial based upon group materiality.

### Key audit matters

The graph below depicts the audit risks identified and their relative significance based on the extent of the financial statement impact and the extent of management judgement.




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 | How the matter was addressed in the audit - Group |
|---|---|
| **Revenue includes fraudulent transactions**<br><br>Revenue is a key performance indicator for stakeholders.<br>We have identified the risk of fraudulent journal entries or journal entries made in error as a key audit matter specifically within the unpaid revenue balance as the risk of revenue being incorrectly recorded is higher in this population.<br><br>We therefore identified the risk of fraudulent transactions in revenue as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>• assessing accounting policies for both consistency and appropriateness with 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;<br>• obtaining an understanding of the processes through which the business initiate, record, process and report revenue transactions;<br>• testing 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;<br>• performance of cut-off testing to ensure transactions have been recorded within the correct period;<br>• testing journal entries within revenue postings to supporting documentation;<br>• review of credit notes raised post year end to check for overstatement of revenue during the year; and<br>• trend analysis and ratio analysis to identify any potential unusual movements in revenue. Any movements outside of our expectations were investigated with management.<br><br>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.<br><br>**Key observations**<br>Our work did not identify any indicators of fraud within the revenue recorded for the year, and no adjustments have been proposed for potential errors. The revenue policy as set out on page 47 is applied in line with IFRS 15 'Revenue from Contracts with Customers'. |

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| Key audit matter – group | How the matter was addressed in the audit – Group |
|---|---|
| **Going concern**<br>As stated in the 'The impact of macro-economic uncertainties on our audit' section of our report, COVID-19 is amongst the most significant economic events currently faced by the UK, and at the date of this report its effects are subject to unprecedented levels of uncertainty. This event could adversely impact the future trading performance of the group and the parent company and, as such, increases the extent of judgement and estimation uncertainty associated with management's decision to adopt the going concern basis of accounting in the preparation of the financial statements. Further as a result of these uncertainties there is a higher risk that the disclosures are misleading.<br><br>We therefore identified going concern and related disclosures as a significant risk, which was one of the most significant assessed risks of material misstatement. | Our audit work included, but was not restricted to:<br>• obtaining management's base case cash flow forecasts covering the period from 1 November 2020 to 31 October 2022, assessing how these cash flow forecasts were compiled and assessing their appropriateness by applying relevant sensitivities to the underlying assumptions, and challenging those assumptions;<br>• assessing the accuracy of management's past forecasting by comparing management's forecasts for last year to the actual results for last year and considering the impact on the base case cash flow forecast;<br>• assessing the impact of the mitigating factors available to management in respect of the ability to restrict cash impact, including the level of available facilities; and<br>• assessing the adequacy of related discourse within the annual report.<br><br>The group's accounting policy on going concern is shown in note 2 to the financial statements. The Audit Committee identified going concern as a significant issue in its report on page 4, where the Audit Committee also described the action that is has taken to address the issue.<br><br>**Key observations**<br>We have nothing to report in addition to that stated in the 'Conclusions relating to going concern' section of our report. |

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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:

| Materiality measure | Group | Parent |
|---|---|---|
| Financial statements as a whole | £203,400 which is 1.5% of group 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.<br><br>Materiality for the current year is lower than the level that we determined for the year ended 31 October 2019 to reflect trading downturn as a result of the COVID-19 pandemic. | £202,700 which is 1.5% of 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.<br><br>Materiality for the current year is lower than the level that we determined for the year ended 31 October 2019 to reflect trading downturn as a result of the COVID-19 pandemic. |
| Performance materiality used to drive the extent of our testing | 75% of financial statement materiality. | 75% of financial statement materiality. |
| Specific materiality | We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions. | We determined a lower level of specific materiality for certain areas such as directors' remuneration and related party transactions. |
| Communication of misstatements to the audit committee | £10,200 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. | £10,100 and misstatements below that threshold that, in our view, warrant reporting on qualitative grounds. |

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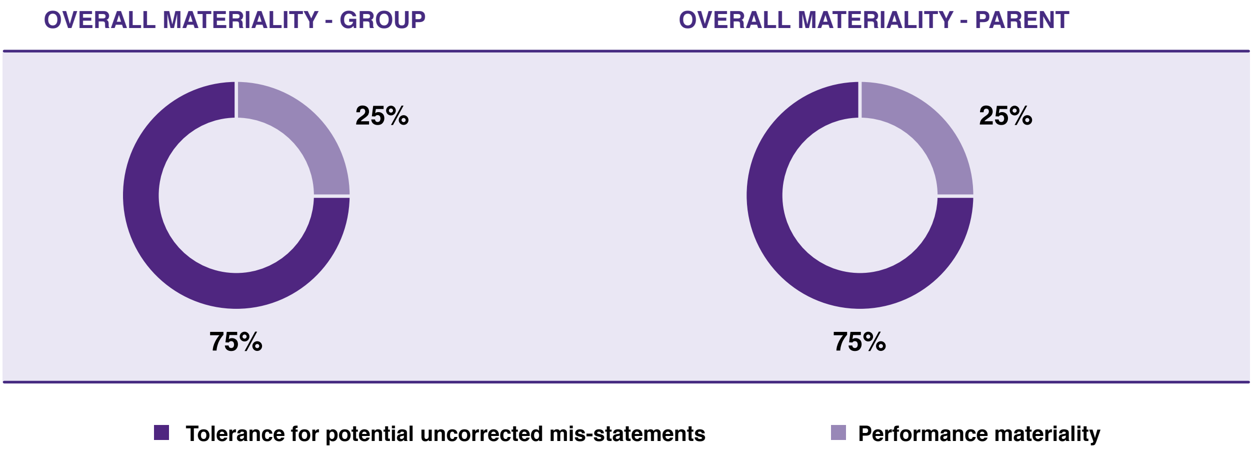
The graph below illustrates how performance materiality interacts with our overall materiality and the tolerance for potential uncorrected misstatements.




## 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:

- we identified and evaluated the components to assess their significance and to determine the planned audit response based on a measure of materiality. We determined significance as a percentage of the group' total assets, revenues and profit before taxation;
- based on our assessment of the group as above, we focused our group audit scope primarily on the parent company, which was subject to a full-scope audit and represented 99% of the group's revenue, profit before tax and net assets;
- at the group level we also tested the consolidation process, including re-performance of management's calculations and carried out analytical procedures for the remaining two components to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of those remaining components;
- we identified revenue recognition and the going concern assumption as key audit matters and the procedures performed in respect of these have been included in the Key audit matters section of our report; and
- there were no changes in scope from the prior year.

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### Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report, 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.

## Responsibilities of directors for the financial statements

As explained more fully in the directors' responsibilities statement set out on page 35, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the 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**
**25 January 2021**

# Consolidated statement of total comprehensive income

| | Note | Year ended 31 October 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|---|
| **Revenue** | 4 | 13,561 | 24,316 |
| Cost of sales | | (11,237) | (19,047) |
| **Gross profit** | | 2,324 | 5,269 |
| Administrative expenses excluding exceptional costs | | (5,132) | (5,177) |
| Exceptional administrative expenses | 7 | (341) | (692) |
| Other operating income | | - | 6 |
| **Operating loss** | 5 | (3,149) | (594) |
| Operating loss analysed as: | | | |
| Adjusted EBITDA | 29 | (1,925) | 834 |
| Depreciation & Amortisation | | (445) | (431) |
| Impairment of Intangible assets | | (72) | (18) |
| Depreciation of Right to Use assets under IFRS 16 (equivalent 2019 rent payments) | | (246) | *(221) |
| Share based payments | | (120) | (66) |
| Exceptional administrative expenses | | (341) | (692) |
| Finance income and expense | 8 | (98) | (58) |
| **Loss before tax from continuing operations** | | (3,247) | (652) |
| Income tax income | 9 | 117 | 16 |
| **Loss for the period and total comprehensive loss** | | (3,130) | (636) |
| **Loss per share - Basic (£) from continuing operations** | 10 | (£0.08) | (£0.02) |
| **Loss per share - Diluted (£) from continuing operations** | 10 | (£0.08) | (£0.02) |

The notes on Pages 55 to 81 form part of these financial statements

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

There is no other comprehensive income.

*The consolidated statement of total comprehensive income is not restated but to aid comparability the alternative performance measure adjusted EBITDA has been restated following implementation of IFRS 16 for further details see Note 29.

# Consolidated and Company statement of financial position

| | Note | Group 31 October 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|---|
| **Non-current assets** | | | | | |
| Intangible assets | 11 | 167 | 318 | 167 | 318 |
| Property, plant and equipment | 12 | 1,723 | 1,061 | 1,723 | 1,061 |
| Right-of-use assets | 19 | 1,127 | - | 1,127 | - |
| **Total non-current assets** | | 3,017 | 1,379 | 3,017 | 1,379 |
| **Current assets** | | | | | |
| Inventories | 14 | 1,908 | 3,177 | 1,908 | 3,177 |
| Trade and other receivables | 15 | 2,464 | 4,149 | 2,490 | 4,178 |
| Corporation tax | | - | 75 | - | 75 |
| Cash and cash equivalents | 16 | 3,268 | 3,424 | 3,265 | 3,416 |
| **Total current assets** | | 7,640 | 10,825 | 7,663 | 10,846 |
| **Total assets** | | 10,657 | 12,204 | 10,680 | 12,225 |
| **Current liabilities** | | | | | |
| Loans | 17 | 500 | - | 500 | - |
| Trade and other payables | 17 | 1,504 | 3,223 | 1,499 | 3,223 |
| Grant income deferred | 18 | - | - | - | - |
| Net obligations under finance leases | 19 | 411 | 121 | 411 | 121 |
| **Total current liabilities** | | 2,415 | 3,344 | 2,410 | 3,344 |
| **Non-current liabilities** | | | | | |
| Loans | 17 | 1,500 | - | 1,500 | - |
| Deferred tax liabilities | 20 | - | - | - | - |
| Net obligations under finance leases | 19 | 1,060 | 169 | 1,060 | 169 |
| **Total non-current liabilities** | | 2,560 | 169 | 2,560 | 169 |
| **Total liabilities** | | 4,975 | 3,513 | 4,970 | 3,513 |
| **Net assets** | | 5,682 | 8,691 | 5,710 | 8,712 |
| **Equity attributable to equity holders of the company** | | | | | |
| Share capital | 22 | 91 | 90 | 91 | 90 |
| Share premium account | 22 | 9,727 | 9,727 | 9,727 | 9,727 |
| Share-based payments reserve | | 490 | 537 | 490 | 537 |
| Retained earnings | | (4,626) | (1,663) | (4,598) | (1,642) |
| **Total equity** | | 5,682 | 8,691 | 5,710 | 8,712 |

The notes on Pages 55 to 81 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 (£3,123,000). The financial statements were approved and authorised for issue by the Board of Directors on 25 January 2021 and were signed on its behalf by;

**Christopher Williams**
Director
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 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 and issue of equity | 1 | - | 65 | (65) | 1 |
| **As at 31 October 2019** | 90 | 9,727 | (1,663) | 537 | 8,691 |

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

The notes on Pages 55 to 81 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 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 and issue of equity | 1 | - | 65 | (65) | 1 |
| **As at 31 October 2019** | 90 | 9,727 | (1,642) | 537 | 8,712 |

| | Share capital £'000 | Share premium account £'000 | Retained earnings £'000 | Share-based payments reserve £'000 | Total equity £'000 |
|---|---|---|---|---|---|
| **As at 31 October 2019** | 90 | 9,727 | (1,642) | 537 | 8,712 |
| Loss for the year | - | - | (3,123) | - | (3,123) |
| | 90 | 9,727 | (4,765) | 537 | 5,589 |
| **Transactions with shareholders:** | | | | | |
| Share-based payments | - | - | - | 120 | 120 |
| Transfer of share option reserve on vesting of options and issue of equity | 1 | - | 167 | (167) | 1 |
| **As at 31 October 2020** | 91 | 9,727 | (4,598) | 490 | 5,710 |

The notes on Pages 55 to 81 form part of these financial statements

# Consolidated and Company statement of cash flows

| | Group Year ended 31 October 2020 £'000 | Group Year ended 31 October 2019 £'000 | Company Year ended 31 October 2020 £'000 | Company Year ended 31 October 2019 £'000 |
|---|---|---|---|---|
| **Operating activities** | | | | |
| Loss for the year | (3,130) | (636) | (3,123) | (645) |
| Taxation | (117) | (16) | (117) | (16) |
| Loss on disposal of assets | - | (11) | - | (11) |
| Finance costs | 98 | 58 | 98 | 58 |
| Amortisation of intangible assets | 118 | 116 | 118 | 116 |
| Impairment of Intangible assets | 72 | 18 | 72 | 18 |
| Depreciation of property, plant and equipment | 327 | 315 | 327 | 315 |
| Depreciation of right to use assets | 246 | - | 246 | - |
| Share-based payments | 120 | 65 | 120 | 65 |
| Grant income amortisation | - | (6) | - | (6) |
| **Operating cash flows before movements in working capital** | (2,266) | (97) | (2,259) | (106) |
| Decrease in trade and other receivables | 1,685 | 1,579 | 1,688 | 1,588 |
| Decrease/(Increase) in inventories | 1,269 | (433) | 1,269 | (433) |
| Increase/(Decrease) in trade and other payables | (1,526) | (1,363) | (1,531) | (1,363) |
| **Cash generated from operations** | (838) | (314) | (833) | (314) |
| Income taxes received | - | 54 | - | 54 |
| **Net cash (Outflow) from operating activities** | (838) | (260) | (833) | (260) |
| **Investing activities** | | | | |
| Purchase of property, plant and equipment | (991) | (156) | (991) | (156) |
| Development expenditure capitalised | (39) | (89) | (39) | (89) |
| Proceeds from the sale of property, plant and equipment | 3 | 15 | 3 | 15 |
| **Net cash used in investing activities** | (1,027) | (230) | (1,027) | (230) |
| **Financing activities** | | | | |
| Loan received | 2,000 | - | 2,000 | - |
| Finance lease proceeds | 211 | - | 211 | - |
| Finance costs paid | (98) | (58) | (98) | (58) |
| Increase/(Decrease) in invoice discounting | - | (612) | - | (612) |
| Repayment of finance lease capital | (404) | (142) | (404) | (142) |
| **Net cash generated from financing activities** | 1,709 | (812) | 1,709 | (812) |
| **Net (Decrease) in cash and cash equivalents** | **(156)** | (1,302) | (151) | (1,302) |
| Cash and cash equivalents at 01 November | 3,424 | 4,726 | 3,416 | 4,718 |
| **Cash and cash equivalents at 31 October** | **3,268** | 3,424 | 3,265 | 3,416 |

# 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 2020. Subsidiaries 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.

***New Standards adopted at 1 November 2019***
IFRS 16 Accounting for leases has become applicable for the current reporting period, and the Group had to change its accounting policy as a result. The impact of the adoption of the leasing standard and the new policies are disclosed below.

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

## 2. Accounting policies (continued)

***Going concern***

Under the current climate and the business need for CBIL and furlough support, Management have invested a lot of time during the year in cash flow forecasting and scenario modelling. Detailed financial projections for the following 24 month rolling period were prepared, and then extended annually for a further 5 years. The Aerospace sector lends itself to this kind of long term planning due to the nature and length of customer programmes, typically a minimum of 3 years, but often 5 years or more. This has enabled the business to fully model the impact of Covid-19 and the expected recovery period.

Initial forecasts illustrated the need for further cost reduction, which unfortunately meant additional restructuring, but has put the business once again on a stable footing for FY21, with positive operational gearing to leverage once growth resumes. Further scenario tests included losing major customers, failure to utilise slow-moving stock under new demand levels and not receiving CBIL support or extension of terms. Even in the worst of these cases, with all three downside scenarios happening, Management's mitigation plans, meant the business could navigate the forecast period utilising its net cash position and existing facilities, albeit with some shorter-term decisions needed to be made. This recovery has been made possible by a combination of existing contracts recovering to pre-COVID-19 run rates over the 5-7 year period, as well as new contracts being won from the significant pipeline of opportunities being targeted.

Continued monthly monitoring of this forecast model is ongoing over a rolling 36 month period, with the business adopting the latest Integrated Business Planning approach in January 2021. As a result, any departures from budget or future requirements for cash flow will be identified early on. Key cash flow projects within this, such as the stock reduction programme, have been flagged as key priorities in the Velocity strategy, with project leads, KPIs and reporting mechanisms into Board. Any gaps against forecast will be caught in this process and a recovery plan put in place to ensure delivery of results.

Having due regard to these projections and available cash at 31 October 2020 of £3.3m, an invoice discount facility where we can borrow up to £5m dependent on debtor levels, and continued the support of our bank, customers and shareholders during these difficult circumstances, it is the opinion of the Board that Group has adequate resources to continue to trade as a going concern.

***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 2019:

***IFRS 16 'Leases'***

The Group has applied IFRS 16 using the modified retrospective approach and therefore the comparative information has not been restated and continues to be reported under IAS 17. This note explains the impact of the adoption of IFRS 16 on the Group's financial statements and discloses the new accounting policies that have been applied from 1 November 2019. The Group has adopted IFRS 16 retrospectively from 1 November 2019 but has not restated the comparative for the 2019 reporting period, as permitted under the specific transactional provisions in the standard. The reclassifications and the adjustments arising from the new leasing rules are therefore recognised in the opening balance sheet on 1 November 2019.

On adoption of IFRS, the Group recognised lease liabilities in relation to leases which had previously been Classified as 'operating leases' under the principles of IAS 17 Leases. These liabilities were measured at present value of the remaining lease payments, discounted using the Group's incremental borrowing rates as at 1 November 2019. The weighted average incremental borrowing rate applied to the lease liabilities on 1 November 2019 was 5.2%. In applying IFRS 16 for the first time, the Group has used the following practical expedients permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- reliance on the previous assessments on whether leases are onerous;
- the accounting of operating leases with a remaining lease term of less than 12 months as at 1 November 2020 as short term leases;
- the exclusion of initial direct costs for the measurement of the right -of-use asset at the date of initial application; and
- the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## 2. Accounting policies (continued)

**Impact of transition to IFRS 16**

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

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

Further recognition during the financial year of £885k related to the addition of Unit 5 at the Burnley site.

The change in accounting policy affected the above items in the balance sheet on 1 November 2020. The net impact on retained earnings at 1 November 2020 was £Nil. For the year ending 31 October 2020 operating lease rentals of £307k have been restated as deprecation £246k and finance costs of £47k, EBITDA has increased by £293k whereas profit before tax has reduced by £47k.

Further analysis of the impact of IFRS 16 is provided in note 19.

Further recognition during the financial year of £885k related to the addition of Unit 5 at the Burnley site.

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". The new standard requires clear identification of separate performance obligations and the revenue associated with those obligations with each new contract entered into is reviewed for consistency with the standard.

Revenue arises mainly from the sale of structural and consumable materials for the use within the Aerospace industry.

To Determine whether to recognise revenue, the Group follows a 5-step process:

1 Identifying the contract with a customer
2 Identifying the performance obligations
3 Determining the transaction price
4 Allocating the transaction price to the performance obligations
5 Recognising revenue when/as performance obligations are satisfied

*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

*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.

## 2. Accounting policies (continued)

***Inventory***

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

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

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

***Expenditure***

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

***Retirement Benefits: Defined contribution schemes***

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

***Research and development expenditure***

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

Development expenditure - An internally generated intangible asset arising from the Group's own development activity is recognised only if all of the following conditions are met:

- an asset is created that can be identified and is technically and commercially feasible;
- it is probable that the asset created will generate future economic benefits and the Group has available sufficient resources to complete the development and to subsequently sell and/or use the asset created; and
- the development cost of the asset can be measured reliably.

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

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

***Amortisation***

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

| | |
|---|---|
| Development costs | 5 years |

## 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:

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

## 2. Accounting policies (continued)

***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.

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.

## 2. Accounting policies (continued)

***Leased Assets***

<u>Finance Lease</u>

For Finance leases recognised until 2019 financial year, management apply judgement in considering the substance of a lease agreement and whether it transfers substantially all the risks and rewards incidental to ownership of the leased asset. Key factors considered include the length of the lease term in relation to the economic life of the asset, the present value of the minimum lease payments in relation to the asset's fair value, and whether the Group obtains ownership at the end of the lease term,

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

Minimum lease payments are apportioned between finance charges and the reduction of the outstanding liability. The finance charges are allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

<u>Operating Lease</u>

An operating lease is defined as a lease in which substantially all of the risks and rewards incidental to ownership remain with the lessor.

Any leases in the year end 31 October 2020 that are not defined as a right of use asset have been defined as an operating lease see note 19 for details.

***Government Grants***

Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the group will comply with all attached conditions. Government grants relating to cost are deferred and recognised in the profit or loss by deducting from the related expense over the period necessary to match them with the costs that they are intended to compensate.

***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.

## 2. Accounting policies (continued)

***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.

*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.

*Share based payments*
Further information about the assumptions made in measuring fair values is included in the following note 23.

## 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 2020** £'000 | **Year ended 31 October 2019** £'000 |
|---|---|---|
| **Current assets** | | |
| Trade and other receivables – loans and receivables | 2,205 | 3,912 |
| Trade and other receivables – non financial assets | 259 | 312 |
| | 2,464 | 4,224 |
| Cash and cash equivalents – loans and receivables | 3,268 | 3,424 |
| Total loans and receivables | 5,732 | 7,648 |
| **Current liabilities** | | |
| Trade and other payables – at amortised cost | 919 | 2,691 |
| Trade and other payables – non financial liabilities | 585 | 532 |
| | 1,504 | 3,223 |

***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.

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

## 3. Financial instruments & Risk Management (continued)

| 2020 | Within 1 year £'000 | One to two years £'000 | Two to five years £'000 | Over five years £'000 |
|---|---|---|---|---|
| Loan | 500 | 1,500 | - | - |
| Finance lease liability including right of use assets | 411 | 266 | 794 | - |
| Trade payables | 487 | - | - | - |
| Accruals | 585 | - | - | - |
| Other payables | 15 | - | - | - |
| Invoice discounting facility | - | - | - | - |

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 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| **Revenue** | | |
| United Kingdom | 12,337 | 21,850 |
| Europe | 1,224 | 2,435 |
| Rest of the World | - | 31 |
| | 13,561 | 24,316 |

During the year four customers accounted for 94.0% of the Group's total revenue for the year ended 31 October 2020. This was split as follows; Customer A – 43.6% (2019: 50.9%), Customer B – 27.2% (2019: 19.9%), Customer C – 12.9% (2019: 16.1%) and Customer D – 10.3% (2019: 9.5%). 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 2020 and year ended 31 October 2019 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 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| Staff costs (see Note 6) | 4,336 | 4,431 |
| Foreign exchange (gain) | (39) | (75) |
| Amortisation of development costs | 118 | 116 |
| Impairment of development costs | 72 | 18 |
| Depreciation: | | |
| Owned assets | 223 | 214 |
| Property, plant and equipment under-right-of-use assets | 246 | - |
| Assets held under finance leases | 104 | 101 |
| (Profit) on disposal of assets | - | (11) |
| Grant income amortisation | - | (6) |
| Operating lease payments | 59 | 272 |
| Auditor's remuneration: | | |
| Audit of the accounts of the Group | 60 | 52 |
| Other audit related services (relating to interim review) | 19 | 8 |
| Taxation compliance services | 5 | 4 |
| Other taxation advisory services | 11 | 12 |

Following the implementation of IFRS 16, assets under qualifying operating leases have been capitalised as 'Right-of-use-assets'. Lease rental cost is now replaced by depreciation charge and implied interest calculation on each qualifying lease.

## 6. Staff costs

| | Year ended 31 October 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| Wages, salaries and bonuses | 3,747 | 3,929 |
| Social security costs | 346 | 321 |
| Pension costs | 123 | 116 |
| Share-based payments | 120 | 65 |
| | 4,336 | 4,431 |

During the year the company took advantage of the government furlough scheme, in the year to 31 October 2020 £445k was claimed in relation to this scheme, this benefit is not included in the above totals.

Staff costs net of furlough claims amounted to £3.9m during the financial year.

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

| | Year ended 31 October 2020 Head count | Year ended 31 October 2019 Head count |
|---|---|---|
| Manufacturing | 76 | 83 |
| Administration | 46 | 49 |
| | 122 | 132 |

Directors costs

| | Year ended 31 October 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| Directors' remuneration included in staff costs: | | |
| Wages, salaries and bonuses | 333 | 325 |
| Compensation for retirement from office | - | 113 |
| Pension costs | 18 | 19 |
| | 352 | 457 |
| Remuneration of the highest paid director(s): | | |
| Wages, salaries and bonuses or fees | 175 | 172 |

## 7. Exceptional administrative expenses

| | Year ended 31 October 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| Restructuring costs | 341 | 692 |
| | 341 | 692 |

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

Prior year costs £0.7m were in relation to the resignations of the previous chairman and non-executive directors, settlement of a dispute with the founding shareholders, and various other associated costs relating to the restructuring of the board.

## 8. Finance income and expenses

| | Year ended 31 October 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| **Finance expense** | | |
| Finance charge from Finance leases | 16 | 21 |
| Right-of-use liability interest under IFRS 16 | 47 | - |
| Other interest & invoice discounting charges | 42 | 60 |
| Finance Income | (7) | (23) |
| | 98 | 58 |

Following the implementation of IFRS 16, assets under qualifying operating leases have been capitalised as 'Right-of-use-assets'. Lease rental cost is now replaced by depreciation charge and implied interest calculation on each qualifying lease.

## 9. Income tax

| | Year ended 31 October 2020 £'000 | Year ended 31 October 2019 £'000 |
|---|---|---|
| **Current tax (income)/expense** | | |
| UK corporation tax: in respect of prior years | (117) | (16) |
| | (117) | (16) |
| **Total tax (income)/expense** | **(117)** | **(16)** |

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

| | | |
|---|---|---|
| Tax rate | 19.00% | 19.00% |
| (Loss) for the year before tax | (3,131) | (652) |
| Expected tax credit based on corporation tax rate | (595) | (124) |
| Expenses not deductible for tax purposes | 595 | 124 |
| Other differences | (66) | - |
| Tax effect of R&D credits | (51) | (16) |
| **Total tax (income)/expense** | **(117)** | **(16)** |

The UK corporation tax rate reduced to 19% with effect from 1 April 2017. A reduction in the UK corporation tax rate from 19% to 17% was (effective from 1 April 2020) was substantively enacted on the 6 September 2016.

In the 11 March 2020, Budget it was announced that the UK tax rate will remain at the current 19% and not reduce to 17% from 1 April 2020.

The UK corporation tax rate for the year ended 31 October 2020 is calculated at 19% (2019: 19%).

## 10. Loss per share

| | Year ended 31 October 2020 £ | Year ended 31 October 2019 £ |
|---|---|---|
| Loss for the year | (3,130,000) | (636,000) |
| | **Shares** | **Shares** |
| Weighted average number of shares in issue | 35,995,289 | 35,860,652 |
| Weighted average number of share options | 2,143,440 | 587,101 |
| Weighted average number of shares (diluted) | 38,138,729 | 36,447,753 |
| Loss per share (£) (basic) | (£0.08) | (£0.02) |
| Loss per share (£) (diluted) | (£0.08) | (£0.02) |

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

## 11. Intangible assets

**Group and Company**

| | Development Costs £'000 | Group Total £'000 |
|---|---|---|
| **Cost** | | |
| At 31 October 2018 | 533 | 533 |
| Additions | 89 | 89 |
| Disposal | (23) | (23) |
| At 31 October 2019 | 599 | 599 |
| Additions | 39 | 39 |
| Disposal | (-) | (-) |
| At 31 October 2020 | 638 | 638 |
| **Amortisation** | | |
| At 31 October 2018 | 171 | 171 |
| Charge for the year | 116 | 116 |
| Impairment | 18 | 18 |
| Disposal | (23) | (23) |
| At 31 October 2019 | 282 | 282 |
| Charge for the year | 118 | 118 |
| Impairment | 72 | 72 |
| Disposal | - | - |
| At 31 October 2020 | 472 | 472 |
| **Net book value** | | |
| At 31 October 2018 | 362 | 362 |
| At 31 October 2019 | 317 | 317 |
| At 31 October 2020 | 167 | 167 |

***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 £72,000 (2019 - £18,000) 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 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 |
| Additions | 372 | 569 | - | 51 | 992 |
| Disposal | (3) | - | - | - | (3) |
| At 31 October 2020 | 567 | 2,489 | 141 | 400 | 3,597 |
| **Depreciation** | | | | | |
| 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 |
| Charge for the year | 33 | 233 | 17 | 44 | 327 |
| Disposal | - | - | - | - | - |
| At 31 October 2020 | 79 | 1,466 | 109 | 220 | 1,874 |
| **Net book value** | | | | | |
| At 31 October 2018 | 155 | 739 | 10 | 176 | 1,080 |
| At 31 October 2019 | 152 | 687 | 49 | 173 | 1,061 |
| At 31 October 2020 | 488 | 1,023 | 32 | 180 | 1,723 |

| Net book value of assets under finance lease agreements: | £000's |
|---|---|
| At 31 October 2018 | 457 |
| At 31 October 2019 | 421 |
| At 31 October 2020 | 536 |

Included within plant and machinery is £0.2m of assets not currently being depreciated, relating to two Zund Machines which are in storage in the USA. We expect these will be brought into use within the next 12 months, and once the assets come into use will be depreciated in line with the policy.

During the year right-to-use assets of £1,127k have been recognised under IFRS 16 and capitalised as tangible assets these have been split out as a separate asset to property, plant and equipment and details can be found in note 19.

## 13. Investment in subsidiaries

| | Group 31 October 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|
| Subsidiary undertakings | - | - | - | - |
| | - | - | - | - |

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

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

## 14. Inventories

| | Group 31 October 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|
| Raw materials & consumables | 1,558 | 2,230 | 1,558 | 2,230 |
| Finished goods | 350 | 947 | 350 | 947 |
| | 1,908 | 3,177 | 1,908 | 3,177 |

Inventories totalling £1,908k (2019: £3,177k) 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 2020 is after a stock provision of £857k (2019: £241k). The provision reflects the aged stock profile consistent with FY19, as well as specific provisions related to slow moving stock as a result of reduced demand.

Inventories recognised as an expense during the year ended 31 October 2020 amounted to £9,745k (2019: £16,787k), and these were included in cost of sales.

## 15. Trade and other receivables

| | Group 31 October 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|
| Trade receivables | 1,954 | 3,607 | 1,954 | 3,607 |
| Prepayments and accrued income | 259 | 312 | 257 | 312 |
| Other receivables | 251 | 230 | 250 | 230 |
| Amounts due from subsidiary undertakings | - | - | 29 | 29 |
| | 2,464 | 4,149 | 2,490 | 4,178 |

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 2020 £'000 | 31 October 2019 £'000 |
|---|---|---|
| Not more than 3 months | 249 | 22 |
| More than 3 months but not more than 6 months | 7 | - |
| More than 6 months but not more than 1 year | 5 | 8 |
| More than 1 year | - | - |
| | 261 | 30 |

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 2020 £'000 | 31 October 2019 £'000 |
|---|---|---|
| Euro | 268 | 367 |
| US Dollar | 1,910 | 2,594 |
| | 2,178 | 2,961 |

## 16. Cash and cash equivalents

| | Group 31 October 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|
| Cash at bank | 3,268 | 3,424 | 3,265 | 3,416 |
| | 3,268 | 3,424 | 3,265 | 3,416 |

Of the total cash balance, £745k (2019: £1,613k) 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 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|
| **Current** | | | | |
| Trade payables | 487 | 2,242 | 486 | 2,242 |
| Accruals | 585 | 532 | 583 | 532 |
| Other tax and social security | 417 | 432 | 417 | 432 |
| Other payables | 15 | 13 | 13 | 13 |
| Invoice discounting facility | - | 4 | - | 4 |
| | 1,504 | 3,223 | 1,499 | 3,223 |

Book values approximate to fair values.

### Bank Loan in the period

| | Group 31 October 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|
| Not later than one year | 500 | - | 500 | - |
| One to two years | 1,500 | - | 1,500 | - |
| | 2,000 | - | 2,000 | - |

During the year the company took out a Coronavirus Business Interruption Loan for £2m pounds, this is to be paid over 2 years with the first payments due August 2021, the last payment date is August 2022. The loan is at interest free for the initial 12 months, followed by an interest rate of 3% above the Bank of England base rate which currently stands at 0.1%.

## 18. Grant income deferred

| | Group 31 October 2020 £'000 | Group 31 October 2019 £'000 | Company 31 October 2020 £'000 | Company 31 October 2019 £'000 |
|---|---|---|---|---|
| Opening balance | - | 7 | - | 7 |
| Grant income amortisation | (-) | (7) | (-) | (7) |
| Closing balance | - | - | - | - |

## 19. Leases

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

**Right-of-use-assets**

**Group and Company**

| | Land and property £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|
| **Cost** | | | |
| Balance as at 1 November 2019 | - | - | - |
| Adjustment on transition to IFRS 16 on 1 November 2019 | 479 | 9 | 488 |
| Additions | 885 | - | 885 |
| **Balance at 31 October 2020** | **1,364** | **9** | **1,373** |
| **Depreciation and amortisation** | | | |
| Balance as at 1 November 2019 | - | - | - |
| Adjustment on transition to IFRS 16 on 1 November 2019 | - | - | - |
| Depreciation charge for the year | 238 | 8 | 246 |
| **Balance at 31 October 2020** | **238** | **8** | **246** |
| **Net book value** | | | |
| At 31 October 2020 | 1,126 | 1 | 1,127 |

The associated right-of-use assets for property leases and other assets were measured at the amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the balance sheet as at 31 October 2020.

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.

***Right-of-use lease liabilities***

| | £'000 |
|---|---|
| At 1 November 2019 | 488 |
| Repayment | (307) |
| Additions to right-of-use assets in exchange for increased lease liabilities | 885 |
| Other lease movements | 47 |
| At 31 October 2020 | 1,113 |

| ***Analysis by length of liability*** | Land and property £'000 | Motor Vehicles £'000 | Total £'000 |
|---|---|---|---|
| Current | 259 | - | 259 |
| Non-current | 854 | - | 854 |
| **Total** | **1,113** | **-** | **1,113** |
| Number of right-to-use assets leased | 5 | 2 | |
| Range of remaining term | 1-10 years | less than 1 year | |

## 19. Leases (continued)

**Finance leases and right to use**
The Group leases plant and equipment under finance leases which are secured against the assets. Future lease payments are due as follows these include the above split of right-of use lease liabilities:

| | Minimum lease payments | Interest | Present value |
|---|---|---|---|
| **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 |
| **31 October 2020** | | | |
| Not later than one year | 480 | 69 | 411 |
| Later than one year and not later than two years | 317 | 51 | 266 |
| Later than two years and not later than five years | 899 | 105 | 794 |
| Later than five years | - | - | - |
| | 1,696 | 225 | 1,471 |

*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 2020** £'000 | **31 October 2019** £'000 |
|---|---|---|
| **Motor vehicles** | | |
| Not later than one year | - | 5 |
| Later than one year and not later than two years | - | 2 |
| | - | 7 |
| **Land and buildings** | | |
| Not later than one year | 23 | 360 |
| Later than one year and not later than two years | 4 | 360 |
| Later than two years and not later than five years | - | 443 |
| Later than five years | - | 578 |
| | 27 | 1,741 |

## 19. Leases (continued)

**Company**

| | 31 October 2020 £'000 | 31 October 2019 £'000 |
|---|---|---|
| **Motor vehicles** | | |
| Not later than one year | - | 5 |
| Later than one year and not later than two years | - | 2 |
| | - | 7 |
| **Land and buildings** | | |
| Not later than one year | 23 | 360 |
| Later than one year and not later than two years | 4 | 360 |
| Later than two years and not later than five years | - | 443 |
| Later than five years | - | 578 |
| | 27 | 1,741 |

Operating leases not classed as right of use assets, relate to a building security contract, all other prior year operating leases have been classed as right-to-use asset on transition to IFRS 16.

## 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 2020 £'000 | 31 October 2019 £'000 |
|---|---|---|
| **Deferred tax liability** | | |
| Opening balance | - | - |
| Recognised in profit and loss | - | - |
| **Closing balance** | - | - |

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

| **Group and Company** | 31 October 2020 £'000 | 31 October 2019 £'000 |
|---|---|---|
| Excess of taxation allowances over depreciation of all non-current assets | - | 113 |
| Share options | | |
| Corporation tax losses carried forward | (139) | (252) |
| **Closing tax (asset)** | (139) | (139) |

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 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 | - |
| **At 31 October 2019** | 169 | 125 | 294 |
| **Cash flows** | | | |
| Repayment | | (15,434) | (15,434) |
| Proceeds | 3,302 | 15,303 | 18,605 |
| **Non-cash** | | | |
| Foreign exchange differences | - | 6 | 6 |
| Transfer from Long-term to short term borrowings | (511) | 511 | - |
| **As 31 October 2020** | **2,960** | **511** | **3,471** |

## 22. Share capital

| | 31 October 2020 £ | 31 October 2019 £ |
|---|---|---|
| **Share capital issued and fully paid** | | |
| 36,227,379 Ordinary shares of £0.0025 each | 90,569 | 89,791 |

Ordinary shares have a par value of 0.25p and an exercise price of £0.39 as at 31 October 2020. 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 | 89,791 | 35,916,179 |
| Exercising of share options | 778 | 311,200 |
| **Closing share capital at 31 October 2020** | 90,569 | 36,227,379 |

On 20 February 2020, the Company issued 70,000 new ordinary shares of £0.0025 each to satisfy the exercise of options granted under the Group's 2017 Share Option Scheme.
On the 15 September 2020, the company issued a further 241,200 new ordinary shares of £0.0025 each to satisfy the exercise of options granted under the Group's 2017 Share Option Scheme.

## 23. Share-based payment

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

The share options dated 13 March, 17 October 2017 have no attached performance conditions and vest subject only to continued employment. The options may be exercised at any point up to the 10th Anniversary of the grant date. 225,000 share options dated 29 October 2019 have no attached performance conditions and vest subject only to continued employment. They vest after 3 years, or earlier if a vesting event occurs as defined in the rules of the Scheme. The 1,480,000 share options dated 29 October 2019 have attached performance conditions linked to EBITDA. They vest after two years, or earlier if a vesting event occurs in the rules of the Scheme. The options may be exercised at any point up to the 10th Anniversary grant date. During the year £765,000 of these share options lapsed due to people leaving the business and the performance criteria not being met.

During the year ended 31 October 2020, share options were granted as follows:

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

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 £167,313 (2019 – £65,453) 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 2020:

| 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 | 431,920 | 171,281 | 603,201 |
| 17 October 2017 | 0.6926 | 17 Oct 2019 | 17 Oct 2027 | - | 35,000 | 35,000 |
| 29 October 2019 | 0.2065 | 29 Oct 2022 | 29 Oct 2031 | - | 225,000 | 225,000 |
| 29 October 2019 | 0.2065 | 29 Oct 2021 | 29 Oct 2031 | - | 1,480,000 | 1,480,000 |
| 30 October 2020 | 0.2065 | 1 Nov 2021 | 1 Nov 2026 | - | 615,065 | 615,065 |
| | | | | 431,920 | 2,526,346 | 2,958,266 |

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

**Movement in share options**

| Scheme and grant date | As at 30 Nov 2019 | Issued | Expired | Exercised | Vested | As at 31 Oct 2020 |
|---|---|---|---|---|---|---|
| 1 January 2017 | 264,178 | - | - | - | - | 264,178 |
| 13 March 2017 | 253,602 | 9,600 | - | - | (167,313) | 95,889 |
| 17 October 2017 | 19,404 | 2,400 | - | - | - | 21,804 |
| 29 October 2019 | - | 108,000 | - | - | - | 108,000 |
| 30 October 2020 | - | - | - | - | - | - |
| | 537,184 | 120,000 | - | - | (167,313) | 489,871 |

## 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 2020** £'000 | **31 October 2019** £'000 |
|---|---|---|
| Short term employment benefits | 92 | 724 |
| Share-based payments | - | 40 |
| | 92 | 764 |

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 £nil (£1,500 – 2019) 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 2020** £'000 | **31 October 2019** £'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 2020 the Group had £nil (2019: £445,369) 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 £131,761 (2019: £115,654) were charged to the Consolidated Income statement. Contributions outstanding at 31 October 2020 were £22,142 (2019: £24,374).

## 28. Contingent liabilities

At 31 October 2020 the Group had in place bank guarantees of £nil (2019: £nil) in respect of supplier trade accounts.

## 29. Adjusted EBITDA

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

| **Adjusted EBITDA**<br><br>**Reconciliation from Operating Loss** | **31 October 2020**<br>£'000 | **31 October 2019**<br>£'000 |
|---|---|---|
| Operating Loss | (3,149) | (594) |
| Add back: | | |
| Share-based payments | 120 | 66 |
| Depreciation & Amortisation | 445 | 431 |
| Impairment of Intangible assets | 72 | 18 |
| Depreciation of Right of Use assets under IFRS 16 (equivalent 2019 rent payments) | 246 | *221 |
| Exceptional Administrative costs | 341 | 692 |
| | (1,925) | 834 |

* In the adjusted EBITDA for 2019 the rent payments for those assets now accounted for as Right of Use assets under IFRS 16 have been added back so that both years can be compared. The rent payments are not significantly different to the depreciation charge.

# Advisors

| | | |
|---|---|---|
| **Company registration number:** | 06389233 | |
| **Company Secretary and Registered office:** | Adam Newton<br>AMS Technology Park<br>Billington Road<br>Burnley<br>Lancashire<br>BB11 5UB | |
| **Nominated advisor and broker** | Cenkos Securities Plc<br>6-8 Tokenhouse Yard<br>London<br>EC2R 7AS | |
| **Bankers:** | National Westminster Bank<br>1 Hardman Boulevard<br>Manchester<br>M3 3AQ | Royal Bank of Scotland<br>1 Hardman Boulevard<br>Manchester<br>M3 3AQ |
| **Legal Advisors** | DWF LLP<br>1 Scott Place<br>2 Hardman Street<br>Manchester<br>M3 3AA | Fieldfisher Manchester<br>Free Trade Exchange,<br>Level 5, 37 Peter Street<br>Manchester<br>M2 5GB |
| **Independent Auditor** | Grant Thornton UK LLP<br>Chartered Accountants & Statutory Auditor<br>4 Hardman Square<br>Spinningfields<br>Manchester<br>M3 3EB | |
| **Registrars** | Equiniti<br>Aspect House<br>Spencer Road<br>Lancing Business Park<br>West Sussex<br>BN99 6DA | |
| **Financial PR** | Belvedere Communications Ltd<br>25 Finsbury Circus<br>London<br>EC2M 7EE | |

# Notice of AGM

Notice is hereby given that the 2021 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 23 February 2021 at 10:00am to consider, and if thought fit, pass the following resolutions. Resolutions 1 to 9 (inclusive) will be proposed as ordinary resolutions and resolutions 10 and 11 will be proposed as special resolutions.

**COVID-19 and Annual General Meeting proceedings**

In light of the UK Government's responses to the COVID-19 outbreak, which currently includes restrictions on all non-essential travel, the Company is adopting the following Annual General Meeting arrangements in order to ensure that the health and safety of our shareholders, directors, employees and other key stakeholders is protected:

- The Annual General Meeting will only address the formal matters contained in this Notice of Annual General Meeting.
- In accordance with the Company's Articles of Association, the quorum necessary to constitute the Annual General Meeting is two members in person or proxy, therefore two members will be in attendance to form the quorum and conduct the business of the meeting. The board of directors will also attend by telephone and professional advisers will not be in attendance (but will be available by telephone).
- Attendance by additional shareholders is not considered as "essential for work purposes" and so would not be permitted under the Stay at Home Measures. Shareholders may not attend in person and will be refused entry to the Annual General Meeting given the Stay at Home Measures.
- There will be no form of broadcast, website, videoconference or dial in for the Annual General Meeting for all shareholders due to complexity and cost.
- All shareholders are urged to appoint the Chairman of the meeting as their proxy, with voting instructions. Please refer to the Notes to this Notice of Annual General Meeting for more information regarding proxy voting. It is emphasised that any forms of proxy being returned via a postal service should be submitted as soon as possible to allow for any delays to or suspensions of postal services in the United Kingdom as a result of measures being implemented by the Government of the United Kingdom.
- Please note that as shareholders will not be able to attend this year's Annual General Meeting the Company is proposing to allow shareholders the opportunity to raise any issues or concerns arising from the business proposed to be conducted at the meeting. Appropriate questions on the business of the meeting should be emailed to ir@velocity-composites.com before 6:30pm on 19 February 2021 and responses will be posted on the Company's website, www.velocity-composites.com on the morning of the Annual General Meeting. The Company must answer any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a

- In order to ensure a more accurate reflection of the views of shareholders and ensure that your proxy votes are recognised, voting on all resolutions to be proposed at the Annual General Meeting will be by way of a poll as permitted by the Company's Articles of Association. Resolutions 1 to 9 are proposed as ordinary resolutions. An ordinary resolution will be passed on a poll if it is passed by shareholders representing a simple majority of the total voting rights of shareholders who (being entitled to do so) vote at the Annual General Meeting. Resolutions 10 and 11 are proposed as special resolutions. A special resolution will be passed on a poll if it is passed by a majority of shareholders representing not less than 75% of the total voting rights of shareholders who (being entitled to do so) vote at the Annual General Meeting.

The UK Government may change current restrictions or implement further measures relating to the holding of general meetings prior to the Annual General Meeting. Any changes to the Annual General Meeting (including the arrangements outlined above) will be made available on the Company's website at www.velocity-composites.com and by means of the Regulatory Information Service.

**Ordinary business**

**Ordinary resolutions**

1. To receive and adopt the Annual Report and Accounts of the Company for the period ended 31 October 2020 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 2020.

3. To re-appoint as a director Christopher Williams 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 director Jonathan Karl Bridges 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 Margaret Mary Amos who retires from office in accordance with the Company's Articles of Association and offers herself for re-appointment.

6. 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.

7. 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.

8. 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 resolution**

9. 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:

   9.1 up to a maximum nominal amount (within the meaning of Section 551(3) and (6) of the Act) of £30,189.55 (such amount to be reduced by the nominal amount allotted or granted under paragraph 9.2 below in excess of such amount); and

   9.2 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 £60,379.10 (such amount to be reduced by any allotments or grants made under 9.1 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 23 May 2022), 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).

**Special resolution**

10. To resolve that, subject to the passing of resolution 9 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 and/or to sell ordinary shares held by the Company as treasury shares, as if Section 561 of the Act did not apply to any such allotment or sale, provided that such authority be limited:

    10.1 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 9.2 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 treasury shares, 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

    10.2 to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 10.1 above) up to an aggregate nominal amount of £9,056.85,

    such authority to expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 23 May 2022), 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).

11. 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:

    11.1 the maximum aggregate number of shares that may be purchased is 3,622,746;

    11.2 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;

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

        11.3.1 105 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

        11.3.2 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;

    11.4 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

    11.5 unless previously renewed, revoked or varied, this authority shall expire on 23 May 2022, or if earlier, at the conclusion of the next Annual General Meeting of the Company.

By order of the Board

**Adam Newton**

Company Secretary

25 January 2021

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

Registered in England and Wales No. 06389233

# Notes to the AGM

**Notes:**

1. Only those shareholders registered in the Company's register of members at: 6.30pm on Friday 19 February 2021; or if this meeting is adjourned, at 6.30pm on the day two days prior to the adjourned meeting (excluding non-business days) shall be entitled to vote at the meeting. Changes to the register of members after the relevant deadline shall be disregarded in determining the rights of any person to attend and vote at the meeting. In light of the UK Government's responses to the COVID-19 outbreak, which currently includes restrictions on all non-essential travel, attendance by additional shareholders is not considered as "essential for work purposes" and so would not be permitted under the Stay at Home Measures. Shareholders may not attend in person and will be refused entry to the Annual General Meeting given the Stay at Home Measures.

2. Any member wishing to vote at the meeting without attending in person or (in the case of a corporation) through its duly appointed representative must appoint a proxy to do so. 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. A proxy need not be a shareholder of the Company. Shareholders are not permitted to attend the meeting. As such shareholders are encouraged to appoint the Chairman of the meeting as their proxy rather than a named person who will not be permitted to attend the meeting. To be validly appointed, a proxy must be appointed using the procedures set out in these notes and in accordance with any specific proxy appointment instructions. If you appoint a proxy who is not the Chairman, please note that in light of the UK Government's responses to the COVID-19 outbreak, they will not be permitted to attend in person and will be refused entry to the Annual General Meeting given the Stay at Home Measures.

3. 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 19 February 2021.

4. If you return more than one proxy appointment, either by paper or electronic communication, the appointment received last by the registrar before the latest time for the receipt of proxies will take precedence. You are advised to read the terms and conditions of use carefully.

5. In the case of joint holders, where more than one of the joint holders completes a proxy appointment, only the appointment submitted by the most senior holder will be accepted. Seniority is determined by the order in which the names of the joint holders appear in the Company's register of members in respect of the joint holding (the first named being the most senior).

6. CREST members who wish to appoint a proxy or proxies through the CREST electronic proxy appointment service may do so for the meeting (and any adjournment of the meeting) by using the procedures described in the CREST manual (available from www.euroclear.com/site/public/EUI). CREST Personal Members or other CREST sponsored members, and those CREST members who have appointed a service provider(s), should refer

to their CREST sponsor or voting service provider(s), who will be able to take the appropriate action on their behalf.

7. 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 Annual General Meeting. 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.

8. In order to revoke a proxy instruction, you will need to inform the Company by sending a signed notice clearly stating your intention to revoke your proxy appointment to the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, by no later than 10.00am on Friday 19 February 2021. In the case of a member that is a company, the revocation notice must be executed under its common seal or signed on its behalf by an officer of the Company or a duly appointed attorney for the Company. Any power of attorney or any other authority under which the revocation notice is signed (or a duly certified copy of such power or authority) must be included with the revocation notice. The revocation notice must be received by Equiniti Limited no later than 10.00am on Friday 19 February 2021. If you attempt to revoke your proxy appointment but the revocation is received after the time specified, then your proxy appointment will remain valid.

9. As at 6.30pm on 22 January 2021 (the latest practicable date prior to the printing of this notice) (i) the Company's issued share capital consisted of 36,227,459 ordinary shares, carrying one vote each, and (ii) the total voting rights in the Company were 36,227,459. The Company's website will include information on the number of shares and voting rights.

10. Please note that as shareholders will not be able to attend this year's Annual General Meeting, the Company is proposing to allow shareholders the opportunity to raise any issues or concerns arising from the business proposed to be conducted at the meeting. Appropriate questions on the business of the meeting should be emailed to ir@velocity-composites.com before 6.30pm on 19 February 2021 and responses will be posted on the Company's website, www.velocity-composites.com on the morning of the Annual General Meeting. The Company must answer any such question relating to the business being dealt with at the meeting but no such answer need be given if (a) to do so would interfere unduly with the preparation for the meeting or involve the disclosure of confidential information, (b) the answer has already been given on a website in the form of an answer to a question, or (c) it is undesirable in the interests of the Company or the good order of the meeting that the question be answered.

11. 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, subject to restrictions in place for COVID-19 safety in accordance with UK Government guidelines, 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, subject to restrictions in place for COVID-19 safety in accordance with UK Government guidelines.

12. 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 19 February 2021 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.

13. You may not use any electronic address (within the meaning of Section 333(4) of the Companies Act 2006) provided in either this Notice or any related documents (including the form of proxy) to communicate with the Company for any purposes other than those expressly stated.

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

Velocity Composites Plc
AMS Technology Park
Billington Road
Burnley
Lancashire
BB11 5UB

www.velocity-composites.com