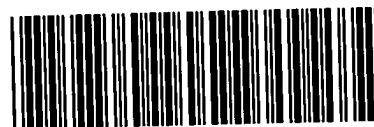


2023 ANNUAL REPORT AND FINANCIAL STATEMENTS **Velocity Composites plc**

For the year ended 31 October 2023

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Velocity Composites plc
Financial statements for the year ended 31 October 2023

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Highlights

Financial Highlights and Group Key Performance Indicators

Revenue
£16.4m

Gross Margin%
18.8%

Adjusted EBITDA¹
£(1.6)m

Cash at Bank
£3.2m

Operating Loss
£(2.8)m

¹ Earnings before interest, tax, depreciation, amortisation, exceptionals and adjusted for 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. Share based payments are added back to make the share-based payment charge clear to stakeholders. Workings are provided on p9 of the 2023 Annual Report and Financial Statements.

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Chairmans Report

Overview

In the financial year ended 31 October 2023, Velocity Composites has grown significantly, with revenue up 37% to £16.4m (FY22: £12.0m) of which £2.0m was derived from the Group's maiden revenues from the US (FY22: nil). We provide critical carbon fibre kitting and supply chain management services to large Tier One aerospace part manufacturers. Our technology, which has been developed over many years, is proven to improve material efficiency and speed up production times. This technology is in increasing demand as the aerospace manufacturing sector recovers from the pandemic.

GKN Aerospace

At the start of the financial year, we were excited to announce our first US-contract with GKN Aerospace. The US is the global centre for aircraft manufacturing. To support the contract, which is worth \$20m per annum in revenue over at least the next five years starting from 1 January 2024, we established a facility in Tallassee, Alabama.

Much of the management team's focus over the last year has been on commissioning the new facility in the US and starting to on-board the new business. As expected in the aerospace industry, this is a complex and lengthy process, including a detailed qualification procedure known as First Article Inspection ("FAI"). The new facility has been a significant financial investment however it will provide solid long-term contracted revenues for the Group. We expect the initial five-year GKN contract to rollover to a much longer period, with the opportunity to add more contracts from other US manufacturers. The costs associated with such an expansion are the primary driver the operating loss was £2.8m during the year as this included the hiring and training of a completely new team in the US as well as the FAI work and the additional central resources required to support this expansion in services. Once the US facility is fully operational, with the key programmes transferred over from GKN, then it is expected to be profitable and to have justified these upfront costs. In doing so and provide a solid return on investment even prior to securing additional contracts for which the facility has capacity.

The complexity of the onboarding and qualification processes required do therefore provide a high barrier to entry for any potential competitors, protecting our long-term revenues. We have learnt a lot from the onboarding process, which we will be able to utilise when we win future US business to drive greater efficiencies and returns. The new team we have built and trained in the US will be an important resource and revenue driver for the Group in the future.

Industry Developments

It is pleasing to report that the prior headwinds of Covid-19 have been replaced with the structural tailwind of a drive to deliver more sustainable air travel through the greater use of carbon fibre in aerospace manufacture. This means that the global industry needs what we do. They can either try and reinvent our solutions for themselves or simply utilise our Velocity Resource Planning services, and we firmly believe that many will choose the latter.

Greater lightweighting of aircraft is required to achieve aerospace industry sustainability targets and the need for improved fuel performance. This need is driving the increased usage of high-end carbon fibre materials in critical structural aircraft parts. Leading manufacturers like Boeing and Airbus are planning for a huge upturn in composite rich aircraft production. They will need to increase the capability of their supply chains to deliver this. This means that our main contracts in the UK and USA should grow organically, and any new business beyond this could have a significant financial upside. Airbus and Boeing global market forecasts that there will be ten times as many carbon fibre intensive new generation civil aircraft in service by the early 2040s.

Fundraising and Balance Sheet

Given the scale of the opportunities available to us, we sought new investment from shareholders in August 2023, raising £6.1m net of costs. To effectively grow the Company, and take on new contracts like GKN, requires upfront investment in new people, engineering skills training, as well as advanced technology and machinery. These funds will support our growth and have strengthened our balance sheet. As at 31 October 2023, our Cash at Bank was £3.2m, after paying down the Invoice Discounting Facility in the UK which is still available to use.

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Chairman's Report

As reported above, the investment needed to deliver the GKN contract means our results show an operating loss of £2.8m. This year, however, we have established significant commercial assets, through a new US site, with trained staff, advanced the FAI processes, developed and rolled-out new digital manufacturing technologies now being used to deliver the contract, and ensured that we have the engineering resources that can support a much larger business than we are currently. While we will continue to invest as needed, we have enough contracted business that, at full production rates, will mean in 2024 we should move from operating losses to profitability. The Board expects that the second half of FY24 will report an operating profit and is expected to roll into a more significant full year profit in 2025. The Board and Executive Management of Velocity Composites understand that only a profitable business can grow and be successful in the long-term. Our expected near-term growth supports the corporate objectives of a 25% plus gross margin, 10% EBITDA margin and a 25% return on capital. It should be noted that FY23 gross margin was heavily impacted by charges for staff and some materials in relation to the US facility. Whilst it is not at an optimal level of production, along with a lag in pass-through of non-material costs in the UK, we should start to see these dynamics change in 2024, enabling a higher gross margin to be achieved.

Management Changes

In preparation for this exciting future, we have ensured that the Board and management team have the required aerospace and composite manufacturing expertise to accommodate the planned growth in the US and the UK. In July 2023, we appointed Kevin Hickey as Group Chief Operating Officer (a non-Board position). Kevin previously worked at Velocity between early 2017 and late 2020, where he was responsible for the establishment, ramp up and ongoing management of the Company's production facility in Fareham, UK. Prior to this, Kevin held a range of senior operational management roles both in the UK and internationally at GE Aviation and brings a wealth of experience in the industry and the Company's processes as Velocity's existing facilities grow, and new facilities are established.

In August 2023, we also welcomed back Andrew Hebb as non-Board Interim Chief Financial Officer and Company Secretary to replace Adam Holden while we recruit a full time CFO. Andrew was Velocity's non-Board Interim Chief Financial Officer and Company Secretary between November 2018, and August 2020 so has a detailed understanding of the business.

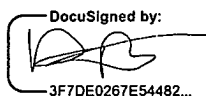
Outlook

Looking ahead, we have engaged key customers in the US and Europe that will enable us to grow Velocity Composites into a very sizeable, profitable business, from 2024. Our current contracted business is worth at least £30m (\$36m - \$43m) annually. Our existing facilities could support up to £70m annually, with a current qualified pipeline of approximately £200m (\$250m) annually.

As the first movers in the industry, we are the only company proven to provide a complete outsourced solution to composite aerostructure manufacturers, meaning we are well placed for the future. We have a strong industry reputation and all the global approvals to deliver the service which provide strong barriers to entry for others.

I would like to thank colleagues for their continued dedication and customers, suppliers and investors for their support. We look forward to a successful 2024.

Andrew Beaden
Chairman
22 January 2024

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CEO Report

Overview

2023 was the year when our customers started to plan for aircraft production rate increases. Across the global industry, aircraft order books are strengthening as air travel recovers from lockdowns. For the first time, we are expecting simultaneous production rate increases across most aircraft platforms over the next three years albeit from the historically low numbers caused by the pandemic.

This welcome increase in production is happening after customers have seen their manufacturing base, internal know-how and capacity reduced since 2020 and creates challenges for which Velocity's services provide a proven solution. Working with us allows them to focus their resources on aerostructure part manufacture and expanding their internal operational capacity. Velocity's customers need to do more-for-less to meet the production rate increases of aircraft and outsourcing is easier when aircraft production rates are increasing.

US expansion

In this financial year, a significant portion of our resources were focused on the successful site opening and production ramp up in Alabama to serve our new GKN contract. This included not only the local site team being recruited and trained, but also support from the central UK teams, specifically New Business Engineering, Operations, Supply Chain, Quality, Information Systems, Finance and Human Resources. Everyone within the Company has had a part to play in the critical expansion of the business and myself and the wider executive team are immensely proud and grateful for their hard work. It is especially pleasing to see a whole new team develop in Alabama and they have quickly grasped Velocity's processes and values in order to support the GKN contract. We operate in a highly regulated industry, and it was important that the new site in Alabama mirrored the proven way of the working of the two UK sites. It has been inspiring to see how the UK teams have trained their new colleagues, and how the US team has adopted the Velocity culture.

As we have documented in our investor communications throughout the year, the GKN contract award in December 2022 was the culmination of more than 12 months of detailed business development, bid creation and contract negotiation with the customer. This required not only a detailed understanding of the customer's "current state", but also the onboarding into the Velocity system of around 1,300 individual kits to allow for the detailed costing and creation of the Velocity "future state" so we could complete the business case submission. At the same time the team was also busy setting up the production facility in Alabama under a separate Authority to Proceed agreement which underwrote the costs and meant that the transfer project could begin immediately rather than having to wait until the full contract was signed.

After the contract award, our focus shifted to the project delivery stage, particularly the detailed and highly regulated FAI process which is a key enabler on the route to volume production and sales. The total project was split into individual aircraft programme blocks and a 12-month plan agreed on a sequential basis and involved close co-operation between us and GKN to verify that the kit engineering data for each block had been transferred accurately, and that the first kit produced by Velocity was identical to the kits that had been produced by the customer. To verify this, Velocity produced a detailed report per kit which was subject to a desktop verification, followed by one of each kit which was manufactured and then assessed and used by the customer against the current standard.

The scale, complexity and resource-intensive nature of this process for both parties means that the actual sequence and timing of each block can change during the transfer, hence the trading update that was issued in July 2023. Once transferred however, Velocity becomes the sole approved supplier of the kits and an integral long-term partner to our customer, hence the extension of the contract with the customer to ensure the initial term did not commence until the FAI process was completed. Only once each block completes the FAI process does Velocity then begin to ramp it up into volume production, which in itself can take weeks or months depending on the size and number of kits in the block.

As we worked through the total project with our first customer in Alabama, we ended FY23 with the first two blocks fully completed and ramped up, which accounts for over 50% of the total project, and the third block in FAI and the fourth block ready to begin FAI. The period also saw the focus change from site stand up to volume production.

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CEO Report

Future Contracts

We have continued our business development activities in the US to utilise the capacity in our new business engineering and operations created as the GKN contract moves to sustained production. We have a live bid with a large tier one customer under a Memorandum of Understanding, and a third business development plan with another large tier one customer.

In Europe, our stated focus is around managing the rate increases with our existing customers, along with targeted business development with existing customers at other sites they have within mainland Europe. This is expected to accelerate in FY24 as rate recovery drives make/buy decisions as customer plants become more capacity constrained.

As our contractual agreements with customers are typically repeatedly extended we will also refine the contract terms to account for material and labour cost inflation, interest rates and energy inflation so as to protect both parties from any global economic factors.

With the completion of the equity fundraise we were able to resource our plans around people and technology to support the continued expansion of our services at our three sites. We recognise that continued investment in our key technology areas (real time digitisation of supply chain management, material efficiency and operational performance) along with our new business engineering teams gives us both a clear differentiator from our customers (who are also our competitors when it comes to make/buy decisions) along with the continued refinement of our bid development, business case creation and new business implementation through FAI, to support and deliver the continued flow of new business opportunity as our customers look to build back better.

This also further strengthens the barriers to entry for any competition as our global approvals, industry reputation, digital toolbox, new business engineering capacity, proven cost saving delivery and geographic footprint allow us to create and deliver business cases which support both our own and our customers growth plans. Our entry into the US market also presents an opportunity for the business to further position our orderbook across both civil aerospace and defence projects, both of which are equally applicable to Velocity's services but have different global growth drivers for risk mitigation.

Outlook

Velocity Composites has put into effect a clear strategy to capitalise on the significant growth in the use of composites within aerospace. Manufacturers need to outsource non-core processes and reduce costs to meet demand. Manufacturers are now approaching us for our solutions, leading to a current qualified pipeline of opportunities of £200m (\$250m) annually.

Looking forward into FY24, the business is fully committed and resourced to deliver on its existing projects, both in Europe and the US, whilst developing the next opportunities within a sustainable capital and profitability structure for the benefit of all customers and stakeholders.

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
CEO Report

Section 172 Statement

In accordance with section 172 of the Companies Act 2006, the Directors, collectively and individually, confirm that during the year ended 31 October 2023, they acted in good faith and have upheld their 'duty to promote the success of the Group' to the benefit of its stakeholder groups.

The Directors acknowledge the importance of forming and retaining a constructive relationship with all stakeholder groups. Effective engagement with stakeholders enables the Board to ensure stakeholder interests are considered when making decisions which is crucial for achieving the long-term success of the Group. The main mechanisms for wider stakeholder engagement and feedback can be found on page 19 onwards in the Statement on Corporate Governance.

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Jonathan Bridges
Chief Executive Officer
22 January 2024

Velocity Composites plc
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Financial Review

Statement of Comprehensive Income

Revenue for FY23 of £16.4m (FY22: £12.0m) represents an increase of 37% and is driven by a combination of a 20% increase in UK sales as the market continues to recover to pre-pandemic levels, and also first-year sales from the new US site which contributed £2.0m.

The increased volume has generated a gross profit of £3.1m, £0.4m ahead of FY22. There was a reduction in the reported gross margin percentage to 18.8% (FY22: 23.0%), however this is expected to be temporary as the reduction results from the start-up of the US site where volumes were lower than needed to recover labour costs at normal margins and a lag in some increased cost pressures, when compared to revising contracted pricing with customers.

Administrative expenses (excluding exceptional) have increased £1.7m from £4.1m in FY22 to £5.8m in FY23. The US costs were £1.2m (FY22: £0.0m) with the onboarding of key roles to directly support operations in the US. The remaining support is directly provided by the UK. The increase in volume has therefore been offset by the investment in overheads to support the future growth, resulting in an adjusted EBITDA² loss of £1.6m (FY22: loss of £0.5m).

	31 October 2023 £'000	31 October 2022 £'000
Reconciliation from operating loss		
Operating loss	(2,817)	(1,317)
Add back:		
Share-based payments	206	170
Depreciation and amortisation	413	263
Depreciation on right of use assets under IFRS 16	472	432
Exceptional administrative costs	120	-
Adjusted EBITDA	(1,606)	(452)

The continued investment in a new US facility, business development, technology and staff during FY23 means the Group is well placed for contracted volume growth in the forthcoming year. US growth will be delivered through the Work Package Agreement with GKN with the remaining projects completing First Article Inspection (FAI) during the first half of FY24 and full volumes being achieved in the second half. In addition, we expect to start onboarding a second customer once contracts are signed. Growth in the UK will be through a small increase to existing contract volumes and also new opportunities with existing customers.

Therefore, Velocity is in an excellent position to deliver this growth, without a linear increase to its overhead base and will also benefit in FY24 from the technological investments that have driven efficiencies in the operational process as volumes grow.

Fundraise and Capital Reduction

The Group completed a fundraise in October 2023 raising £6.1m net of transaction costs. The funds are being used to support capital expenditure in particular for the US facility, technology development, recruiting additional personnel in the US, and working capital. In the short term we will reduce usage of the UK Invoice Financing facility.

As part of the fundraise to enable participation of EIS/VCT funds, the Group took the opportunity with Shareholder support and Court approval to undertake a capital reduction, reducing the share premium

² Earnings before interest, tax, depreciation, amortisation, exceptional and adjusted for 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. Share-based payments are added back to make the share-based payment charge clear to stakeholders.

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Financial Review

by £10,920k and adjusting retained earnings creating positive retained earnings which at the year-end for the Group were £1,087k. This will help support the Group to pay dividends at the appropriate time.

Cashflow and Capital Investment

The increase in the year-end cash and cash equivalents position of £0.9m to £3.2m (FY22: £2.3m) reflects the Company receiving net proceeds of £6.1m following completion of a fundraise by way of a firm placing, EIS/VCT placing and retail offer. This has been partially offset by the investment from Velocity Composites PLC to the US subsidiary of £3.1m to help finance US operations in order to win and start fulfilling the contract won in the US.

Losses after tax for the year for the Group amounted to £3.1m (FY22: £1.3m). Of these losses, £1.6m related to the US subsidiary.

There was an operating cash outflow before working capital movements of £1.7m (FY22: £0.5m outflow), this being attributable to the US start-up costs. The movements in working capital netted to a £0.1m outflow in FY23 (FY22: £0.3m inflow), and after other adjustments for taxation, the final cash outflow from operations was £1.8m (FY22: £0.3m inflow, including tax credits of £0.5m).

Working capital movements can be further analysed as follows: There was a positive working capital movement through a £2.4m increase in trade and other payables from suppliers (FY22: increase of £1.1m). However, this has been offset by a £1.3m increase in inventory (FY22: increase of £0.5m), largely due to the inventory required to meet demand in the US and a £1.1m increase in trade and other receivables due from customers (FY22: increase of £0.4m), £1m of the increase relates to the US outstanding trade debtors at the year end. Overall trade receivable days were 71 days, compared to 68 days at the end of FY22.

A cash outflow from investment activities of £2.1m is a combination of the purchase of property, plant and equipment mainly in the US of £1.3m (FY22: £0.3m) and an increase in intangible assets to support the development of the production facility in the US of £0.8m (FY22: £0.1m).

In financing facilities £1.3m (2022: £1.1m) represents the repayment of the CBILS loan, the capital element of the Group's lease liabilities and associated financing costs. The remaining amount represents the fundraise net of the transaction costs in issuing the ordinary shares.

The Company was in a Net Cash position at the end of the year, of £1.6m (FY22: £0.2m). This includes Cash at Bank, offset by the outstanding CBILS balance and invoice discounting facility.

	31 October 2023 £'000	31 October 2022 £'000
Cash	3,178	2,344
CBILS loan	(1,473)	(2,009)
Invoice discounting facility	(68)	(175)
Net cash	1,637	160

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Financial Review

Going Concern

Management continues to undertake a significant level of cash flow forecasting and detailed financial projections for the following 24-month period to 31 October 2025 have been prepared. A number of sensitivities have been performed to understand the cash flow impact of various scenarios and even in the most severe down-side scenario modelled, the business had sufficient liquidity to continue trading as a going concern.

The aerospace sector lends itself to long-term planning due to the nature and length of customer programmes, typically a minimum of three years, but often five years or more. This has enabled the business to fully model the period to 31 October 2025 and undertake more strategic, longer-term planning for growth and full recovery emerging from the pandemic.


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

In preparing the latest two-year forecasts, Management has included revenue projections based on current contracted demand, the Work Package Agreement with GKN in the US,. The cost base included in the projections is reflective of the significant cost reductions that took place during Covid to right size the Group, but also realistic about the investment required to implement the growth.

It is the investment in growth and technological advancements throughout FY23, which is anticipated to continue in FY24, that has resulted in the forecasts indicating that the Group's Invoice Discounting Facility, secured against Trade Debtors, will be utilised during certain months within the going concern period. Whilst this facility is designed to be short-term and can be withdrawn with 3 months' notice, the latest discussions have reflected the Bank's support for Velocity's growth strategy and as such we expect this facility will remain available for the foreseeable future. Utilisation of the facility is forecast to be temporary as the benefits from the investment in growth become tangible. However, should alternative financing be required, the Group would preserve cash by delaying certain investment activities until longer-term funding could be implemented, such as asset-based financing against new capital expenditure or equity funding.

Having due regard for these recent deliverables and latest projections, with available cash at 31 October 2023 of £3.2m, an invoice discount facility where the Group can borrow up to £3m dependent on debtor levels, access to an invoice discounting facility with one of our major customers, and continued support from our banks and shareholders, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

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Andrew Hebb
Interim Chief Financial Officer
22 January 2024

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Financial Review

**Financial Highlights and Group Key
Performance Indicators**

Revenue
£16.4m

Gross Margin%
18.8%

Adjusted EBITDA³
£(1.6)m

Cash at Bank
£3.2m

Operating Loss
£(2.8)m

³ Earnings before interest, tax, depreciation, amortisation, exceptionals and adjusted for 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. Share based payments are added back to make the share-based payment charge clear to stakeholders. Workings are provided on p9 of the 2023 Annual Report and Financial Statements.

Principal Risks and Uncertainties

The Board is committed to managing risk within the business and maintains a risk register that is kept up to date with input from the senior management team. The Covid-19 pandemic clearly had an unprecedented impact on the aviation industry in the UK and the Board was required to quickly re-evaluate the business risks as the pandemic unfolded. Velocity had to manage a significant drop in sales from existing contracts by right sizing the cost base and working closely with customers to understand the ongoing demand. Management was also focused on managing cash flow, but mindful of the need for future investment to support the Company's growth strategy and offering to the market.

In addition, the Group undertook various risk mitigation activities which included planning ahead to help mitigate supply chain disruption; undertaking other capacity planning assessments with customers and suppliers; ensuring any tariff and tax changes were fully covered in contracts; and liaising with Government bodies to prepare for the different outcomes which may come to pass.

Moving into the post-pandemic period, the mitigating activities noted above remain extremely relevant. The expansion into the US using existing resources means that cash flow forecasting and capacity planning both remain key priorities, whilst also becoming familiar with trading regulations in a new geographical market will bring further challenges that the Group is looking forward to managing.

The Board is also conscious of the risk of exclusively operating in the aerospace sector. The risk is, however, mitigated by the strength of the longer-term outlook from the aircraft manufacturers which suggests that there will be a 10-fold increase (Source: Airbus and Boeing Global Market Forecast) in the use of composites over the next 20 years. The Board is reassured by past precedents of crises in the industry that have not curtailed the underlying trend of growth in the market.

The Group's principal risks and actions to mitigate these risks are set out in the table below. These are the risks that Management feel are most material to the business and which might prevent the Group from achieving its strategic objectives if not managed accordingly.

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Principal Risks and Uncertainties

Principal Risk	Management Priority	Impact	Mitigation
Strategic Risks			
Loss of Key Contracts	Medium	<p>The aerospace sector has a concentration of very large primary aircraft manufacturers and Tier 1 suppliers. These form the core of the Group's customer base. The loss of any of the Group's major contracts with these large customers may have a material impact on the business, prospects, financial condition, or operations. Management have been particularly wary of this during the current period of significant upheaval in the aerospace sector.</p>	<p>The Group nurtures relationships with key customers in order to understand their business and to identify further opportunities to support them. In addition to working tirelessly to deliver excellent customer service levels for the existing business, the Group is actively developing its pipeline with the aim of securing new contracts. Aircraft are increasingly being manufactured using composite material, a trend that has continued, despite the Covid-19 pandemic and will only add to the pipeline of work. Key to any mitigation is that the business operates 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 the lead time placed on their behalf. The Company's three biggest historic customers were successfully renewed during FY21, each for a minimum of 3 years. The first large US customer contract is for 5 years.</p>
International Expansion	High	<p>As evidenced by the announcement of the Work Package Agreement with GKN Aerospace in the United States, the Group's strategy is to expand into new markets that cannot be serviced from the Company's UK production facilities. The successful implementation in Tallahassee could lead to further plants servicing the geographical clusters across the USA, with further international</p>	<p>The Group has not only signed the Work Package Agreement with GKN Aerospace in the United States but has seen other international customers actively engage. Management is therefore taking a measured approach by investing in the first production facility in the Southeast USA region and expansion into other markets (i.e. Europe) will be timed to manage the risks around cash flow, management time and bandwidth. In addition, any site development will be supported with contractual commitments from customers prior to any significant financial commitment by Velocity.</p>

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Principal Risks and Uncertainties

		<p>opportunities. 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.</p>	
Winning a Large Customer Contract	Medium	<p>The winning of additional large customer contracts could absorb the capacity headroom and lead to supply issues if not closely managed. It could also be a distraction to Management.</p>	<p>Optimising the performance of the production units by working on efficiency improvements, utilising space more effectively and scheduling the work in the most efficient way is a key target for the business. In addition, the Group manages the on-boarding of individual projects to ensure timely First Article Inspection (FAI) and ramp up of production to meet the agreed customer timelines. Technological investments will also make a difference. The Group currently has capacity and a good structure of Executive and second line management to support additional demand but has recruited accordingly to ensure the Work Package Agreement with GKN Aerospace in the US is a success.</p>
Sustainability Credentials	Low	<p>The Group recognises the importance of trading as a sustainable and socially responsible organisation and the impact on the environment of not putting in place measures that will help it to do so.</p>	<p>Management believes this a low risk, with Velocity's offering naturally supporting an increasingly green agenda. The Group minimises waste of composite material throughout the supply chain and recycles material which cannot be utilised, often something customers are unable to focus on. In addition, operating in the composite sector naturally supports many green or alternative energy sectors, such as electric vehicles, wind power and hydrogen cell production. The Company also has adopted an EV car scheme and offers on-site charging at its Burnley facilities for employees, supported by green energy generated through its on-premises solar panels. Further recognising the importance of operating sustainably, the Board has introduced a Sustainability Committee, chaired by a Non-executive Director, to identify additional methods of promoting sustainability throughout the business.</p>

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Principal Risks and Uncertainties

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	Insufficient demand in the sector and particularly in the civil aerospace sector due to disruption such as the Covid-19 pandemic.	Risk is mitigated by the strength of the longer-term outlook of aircraft manufacturers which forecast that aircraft numbers will double in the next 20 years, with new aircraft being made using a much higher carbon fibre content. Though the Covid-19 pandemic did not have a long term impact on the underlying growth trends in the aerospace market. The Company has also started to develop more of its customer base around military aerospace which has proven to be more robust during the pandemic. Given the strength of the civil and military aerospace, the Company will diversify into defence given the substantial demand in this area before investing in new sectors at this stage.

Operational Risks

Dependence on Third Party Supply	Low	The Group's business depends on products and services provided by third parties. Any interruption to the supply of products or services by third parties, 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 must be 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 the customer. Orders are placed according to the supplier delivery schedule, paid for on time and contractual buffer stocks maintained. Our rigorous forecasting processes allow us to identify shortages in supply early and where lead times are extended beyond our control, three-way discussions are actively sought out early between Velocity, the end customer and the material supplier to resolve.
Cyber Security	Medium	With an ever-increasing number of reported data leaks and ransomware events, there is a growing risk of cyber attack in	Management regularly reviews the strength of the IT infrastructure within the business and undertakes third party audits to reinforce this. Through a combination of encryption, regular backups, firewalls and limited third

Velocity Composites plc
Financial statements for the year ended 31 October 2023

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Principal Risks and Uncertainties

		today's society. With the sensitive data used by Velocity and the growth strategy projected, this will become increasingly prominent.	party access points the current structure is deemed secure.
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, with bonus and equity schemes to reward longer term performance. Annual performance reviews and development plans are carried out throughout the organisation whilst operational staff are also benchmarked regularly to ensure Velocity remains an attractive place to work, with compensation reflective of a high-value manufacturer.
Price Inflation	High	Significant levels of inflation may adversely impact the performance of the Group.	Material price changes are contractually passed through from the supplier to the customer. Labour cost inflation is being added to all new contracts as an automatic annual increase. All other inflation must be considered, and prices re-negotiated with the customer where appropriate.

Financial and Compliance Risks

Foreign Exchange Risk	Medium	As the Group purchases and sells products on a global basis, it is exposed to gains and losses linked to movements in the US Dollar and Euro foreign exchange rates. Group policy is to naturally hedge wherever possible. These exposures will increase with international expansion, particularly with the US Dollar to Sterling exchange rate. A weaker US Dollar would be expected to reduce profits and cash flows, and vice-versa for a weaker pound Sterling.	There is an approved Treasury policy which is managed and monitored by the Chief Financial Officer. However, the Group will look to naturally hedge wherever possible, matching foreign currency revenue with purchases of the same currency. In addition, short term cash flow forecasts highlight future surplus or shortfalls in foreign currency, allowing funding levels to be managed accordingly.
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Principal Risks and Uncertainties

Liquidity Risk	High	Insufficient cash to meet the needs of the business in near or long term.	<p>Preparation of detailed cash flow forecasts allow the Group to understand the financial position both now and, in the future, and can be used to mitigate the risk of there being insufficient funds available. The forecasts are kept up to date and reflect the latest views on sales, purchases and facilities available. Scenario analysis is also carried out to understand the liquidity implications should performance be favourable or adverse to forecast. Moving into FY2024 and financing the US growth through existing resources will continue to be one of the key challenges facing the business.</p> <p>Ultimately the Company has access to both debt and equity financing and the listing on the AIM market helps provide access to equity finance if significant growth requires further significant investment. The fundraise in FY2023 has added significant cash resources to the Company.</p>
Credit Risk	Low	Unable to collect due receivables from customers.	<p>The Group's trade receivables relate to amounts owed by aerospace supply chain companies who, by their nature, are large. Given the size and stability of its core receivables, together with the procedures in place to follow up any overdue debts, the Directors do not believe that the credit risk to the Group is significant.</p>
Interest Rate Risk	Low	Ability to minimise exposure.	<p>The Group seeks to manage its interest rate risk through minimising exposure wherever possible and regularly reviewing interest rates available in the marketplace.</p>

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 Group. 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 be the leading supplier of composite material kits to aerospace and other high-performance manufacturers, that reduce costs and improve sustainability.

Velocity manufactures advanced composite material kits for use in the production of carbon fibre composite parts for aerospace and other high-performance manufacturers, such as automotive OEM's, and pioneers of renewable energy applications. There has been a step-change in the use of carbon fibre in aircraft as manufacturers look to reduce aircraft weight and improve their efficiency to deliver greater sustainability. By using Velocity's proprietary technology, manufacturers can also reduce costs and free up internal resources to focus on their core business. Velocity has significant potential for expansion, both in the UK and abroad, including into new market areas, such as wind energy and electric vehicles, where the demand for composites is expected to grow.

The core focus has predominantly been in the aerospace industry and the customer arrangements are almost exclusively based on long-term contracts, typically for a 3-to-5-year period. The Group's strategy and business model are included in the strategic report section of our Annual Report, along with key performance indicators set out in the Financial Review to measure growth and profitability.

2. Seek to understand and meet shareholder needs and expectations

Under the current Board structure, Velocity engages in regular dialogue with its shareholders through a structured Investor Relations programme. The Group 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 Group's website (www.velocity-composites.com).

The Board offers to meet with those institutional and major private investors that wish to do so at least twice a year following the announcement of results. 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 Interim (non-Board) Chief Financial Officer. The presentation given at these meetings is also made available on the Company's website.

Engagement with other key shareholders is also welcomed, with the Directors and other executives meeting 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 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

Dedicated staff in the businesses are responsible for customer relationships. In addition, the technical support and development teams will regularly engage with customers as a fundamental part of delivering

Statement of Corporate Governance

ongoing services. Through these well-established channels, Velocity seeks to ensure that the needs of its customers are fully understood so that the Group is 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

Velocity is an equal opportunity employer regardless of race, religion, gender, age, disability, sexual orientation, gender reassignment, marriage and civil partnership and pregnancy and maternity. Employees are kept up to date with the performance of the business through periodic briefings whilst all members of staff are encouraged to participate in the annual engagement survey and the feedback acted upon.

Industry Bodies

Velocity is a member of industry bodies such as Northwest Aerospace Alliance ('NWAA') and the National Aerospace and Defence Contractors ('NADCAP') which are influential in how the Group is perceived by clients.

Community

The Group actively participates in the community and in apprenticeships and other schemes to provide opportunities for young people, such as T-Levels for BTEC Engineering students and Work Experience. We are firm believers in supporting the local economies in which we operate and therefore always look to employ local people, having been awarded membership to the Lancashire Skills and Employment Hub as a business dedicated to supporting local skills and development. Velocity also operates within the Enterprise Advisor Network, supporting the development of the future generation of employees to ensure we are an employer of choice for the future.

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

The Board recognises that it has overall responsibility for ensuring the Group has in place a system of internal control that allows it to manage risk accordingly. The system does not prevent the Group from considering opportunities for growth but takes a balanced approach, safeguarding the assets of the business and providing reasonable assurance regarding compliance with laws and regulations. The system of internal control is therefore designed to manage rather than eliminate the risk and is prevalent across all areas of the business.

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. Some of the key internal controls in place include the following:

- An ongoing assessment to identify, evaluate and manage business risks;
- A Management structure with clearly defined responsibilities and authority limits;
- A comprehensive process of reporting financial results to the Board;
- An Audit Committee that reviews the effectiveness of the Group's risk management process and recommends any new significant risks are referred to the Board for consideration;
- Full appraisals and appropriate levels of authorisation of new contracts entered into, whether these be sales contracts, contracts related to research and development, operating or capital expenditure;
- Dual signatories on all bank accounts to safeguard the assets of the business.

Statement of Corporate Governance

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

At the date of this report the Board comprises the Chairman, Chief Executive Officer, Interim (non-Board) Chief Financial Officer and two Non-Executive Directors.

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, HR and People, Chief Commercial & Supply Chain Officer report, Chief Programmes Officer report, Chief Financial Officer report and the management accounts. This enables the Board to discharge its duties with all Directors receiving appropriate and timely information and with briefing papers circulated 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:

Audit Committee

The Audit Committee currently has three members, Andrew Beaden (Chair), David Bailey and Annette Rothwell. The Interim (non Board) Chief Financial Officer and external auditor 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, Annette Rothwell (Chair), Andrew Beaden and David Bailey. 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, Andrew Beaden (Chair), Annette Rothwell and David Bailey. The Nomination Committee meets as required and is responsible for proposing candidates for appointment to the Board, as well as advising on the structure and composition of the Board and succession planning.

Executive Committee

The Executive Committee handles the implementation of the Group strategy on behalf of the Board. The Committee comprises of four members, one of which is an 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.

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Statement of Corporate Governance

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	Nominations Committee
Number Meetings in Year	11	4	2	2
Andrew Beaden	11	4	2	2
Adam Holden*	7	N/a	N/a	N/a
Jonathan Bridges	11	N/a	N/a	N/a
Chris Williams**	2	N/a	N/a	N/a
Annette Rothwell	11	4	2	1
David Bailey	11	4	2	1

Committee	Andrew Beaden	Jonathan Bridges	Chris Williams	Adam Holden	Annette Rothwell	David Bailey
Audit	Chair	N/a	N/a	N/a	Member	Member
Remuneration	Member	N/a	N/a	N/a	Chair	Member
Nomination	Chair	N/a	N/a	N/a	Member	Member

*appointed as a Director 7 December 2022 resigned as a Director 23 August 2023

**resigned as Director 7 December 2022

N/a - indicates that a director was not a member of a particular committee

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 24 to 25 of this report.

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

Whilst the restrictions imposed by the Covid-19 pandemic have been lifted and the focus of the Board returns to delivering growth for Velocity, the Board also recognises that some of the key challenges and practices entered into during the pandemic (for example, cash flow forecasting) remain the same. With this in mind, the new and existing Board members have been set objectives that are relevant to the Group's current position and performance against these objectives will be monitored as the year progresses.

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 on a timely basis, 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 worth much more than the sum of its parts and we are committed to learning from one another.

Statement of Corporate Governance

- 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 also 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 Group are set out on the website (www.velocity-composites.com).

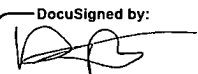
10. Communicate how the Company is governed and is performing by maintaining a dialogue with shareholders and other relevant stakeholders

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. 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 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 'Reports and Presentations' section. They also meet regularly with the Group's Nomad/broker and discuss any shareholder feedback, following which, 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 are communicated to shareholders via RNS and on the Group's website.

DocuSigned by:

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Andrew Beaden
Chairman
22 January 2024

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Board of Directors

Andrew Beaden – Chairman

Andrew was appointed Non-Executive Chairman of Velocity in July 2019. From 2011 to 2017, Andrew Beaden served as Group Finance Director and a member of the Board of Luxfer Holding plc, a developer and producer of highly engineered advanced materials, having joined its predecessor British Aluminium in 1997. Luxfer (LXFR) is listed on the New York Stock Exchange. Andrew is a co-founder and Chairman of IN4.0 Group Limited, a digital training Company, encouraging business growth and skills development through the use of Industry 4.0 technologies.

Andrew is a Fellow 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).

Andrew is the current Chair of the Audit Committee.

Jonathan Bridges – Chief Executive Officer

Jonathan co-founded Velocity Composites in October 2007. Jonathan has over 31 years' experience within the advanced composites industry and is an experienced composite engineer. Previously, Jonathan 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 Jonathan 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. Jonathan was re-appointed to the Board as an Executive Director in July 2019.

Jonathan has a BSc in Materials Science from Coventry University and is a Director of the North West Aerospace Alliance.

Annette Rothwell – Independent Non-executive Director

Annette joined Velocity in March 2022 as a Non-Executive Director and is Chair of the Remuneration Committee. Annette has extensive experience in industries undergoing transformational change. Annette is a proven executive leader in General Management, Procurement and Supply Chain, Operational Excellence (CI) and Project Management working with senior stakeholders including regional and national government.

Since 2006, Annette has served in executive roles supporting CEOs within a number of global companies including FTSE100 listed Aerospace & Defence companies. Annette has experience in and around supply chains and has been responsible for procurement and supply chain activity, operational improvement across multiple companies and multiple cultures. Since 2011, Annette has served as a director on the board of the Midlands Aerospace Alliance, the regional body for the Aerospace, Defence and Security industry.

David Bailey - Independent Non-executive Director

Joining as a Non-executive Director in June 2022, David is an experienced executive with extensive management and technical expertise developed across the aerospace and power generation industries. He has contributed to the strategic direction of the UK's aerospace industry and cross-sector composites sector as a Board member of the Aerospace Growth Partnership and Composites Leadership Forum. He is a renowned aerospace supply chain specialist and has worked with the senior management teams of over 100 aerospace and defence suppliers.

Since February 2020, David has been the CEO of Composites UK, the trade association for the UK composites industry with over 360 member companies. David formed Aerospace Consulting Limited in February 2020 to specialise in developing and delivering high-level consultancy projects in the aerospace industry. Prior to establishing Aerospace Consulting, David was Chief Executive of the North West Aerospace Alliance (NWAA), the regional trade association for the aerospace and defence

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Board of Directors

industry in the North West of England between 2005 and 2020. The NWAA is one of the largest aerospace clusters in the world, representing over 240 aerospace member companies (including organisations such as Airbus, BAE Systems, Brookhouse Aerospace, MBDA Missile Systems, Rolls-Royce, Safran, Senior Aerospace and Teledyne CML Composites).

David has a PhD in Gas Turbine Aerodynamics and an Aeronautical Engineering degree both from Loughborough University. David was made a Fellow of the Royal Aeronautical Society for services to the North West's Aerospace Industry in 2017.

Andrew Hebb – Interim Chief Financial Officer (Company Secretary)

Andrew has been a professional interim CFO for several AIM quoted and private companies across a range of sectors since 2009. Prior to that, as CFO, Andrew helped build Hedra Plc into a major public sector consulting business and managed the sale process in 2008. He has held CFO and operational roles in other major UK companies. Andrew is a qualified Fellow Chartered Management Accountant.

Adam Holden – Group Finance Director (resigned 23 August 2023)

Adam joined as Group Finance Director and Company Secretary in December 2022.

In his previous role, Adam was Group Financial Controller at Bright Blue Foods ("BBF"), a multi-site manufacturer of ambient cakes and other baked goods. Adam has also worked as Financial Controller at Northern Rail although began his career at KPMG where he qualified as a Chartered Accountant.

Executives and Senior Management

Executive team

Matthew Archer – Chief Commercial and Compliance Officer

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.

In October 2020 Matthew's role expanded to that of Commercial and Supply Chain Director giving Matthew accountability for the Company's Contractual, Supply Chain and Quality Assurance matters.

James Eastbury – Chief Customer Officer

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 all of Velocity's revenue with existing and new customers within all territories and future markets.

James has over 12 years' experience in the aerospace sector, previously with Solvay Composite Materials, the advanced materials and speciality chemicals company, where he held a number of roles. Most notable as Key Account Manager for Airbus.

Kevin Hickey – Chief Operations Officer

Kevin re-joined the Company in July 2023. He was previously the Site Leader for the VC Fareham Facility from January 2017 to December 2020.

Kevin has over 40 years' experience in the Aerospace sector, a degree in Business Management and held senior management position within Operations, Engineering, Quality and Sourcing. He is currently responsible for the harmonising of all our facilities worldwide ensuring VC maximise their effectiveness in the supply chain.

Executives and Senior Management

Senior Management Team

Sheldon Atherton – Head of Technology and Quality Systems

Sheldon has been a member of the Velocity team since 2008 and has played a significant role in establishing the production processes, IT systems and the Quality Management System.

Sheldon is homegrown through the Velocity leadership development programme, developing his skills, knowledge and experience through Production, Systems Integration, Quality and Supply Chain.

Lee Berry – Manufacturing Manager (Burnley)

Lee Joined in December 2023 as Manufacturing Manager and brings with him over 18 years of management experience within the composites industry delivering strong leadership, process improvement, high quality, and operational excellence.

Previous positions have provided the opportunity to hone skills in project management; staff development; training; health & safety; Quality management systems; reducing costs; adhering to procedures; customer service; problem-solving; relationship management.

Paul Britton – Manufacturing Manager (Fareham)

Paul joined the Company in September 2023. Paul has over 38 years' experience in the Aerospace industry. Previously he has been involved in the manufacturing process for the following projects Boeing 737, Dash 8, A350 Wing Panels & Hawk Canopy/Windscreen.

Paul, oversees the Safety, Quality, Cost, Delivery & People management system in Fareham, striving to meet Metric/KPI targets set.

Amy Heap – HR Specialist

Amy joined Velocity in October 2022, bringing with her over 6 years' experience from varied roles in HR. Amy has previously worked in many industries including the Educational, Health and Social Care and Manufacturing sectors, responsible for leading and directing all aspects of the Human Resource function.

Amy has a CIPD Level 5 Diploma in HR Management and is a member of the CIPD association.

Katie Kininmonth – Finance Manager

Katie joined Velocity in August 2020, Katie has 19 years' experience in Finance beginning her career at a top 10 international firm and going on to work in a number of large retail and manufacturing businesses, Katie has previous PLC experience.

Katie is responsible for the management of the finance team, preparation of the financial information working alongside the Chief Financial Officer to complete the Statutory and regulatory reporting for the business and a key contact for internal and external stakeholders.

Daniel McNamara - Planning & Supply Chain Manager

Daniel joined Velocity in 2018 and has nearly a decade of experience operating within high-level composite supply chains. Daniel began his career completing a planning and supply apprenticeship at Gurit, a distinguished manufacturer and global supplier of advanced composite materials.

Leading the global Planning and Supply Chain Team, Daniel is responsible for managing sustained customer interface and demand, and the business's global supply base, with responsibilities including both indirect and direct procurement activities across all three Velocity sites, ensuring operational enablement and adherence to agreed contractual requirements.

Executives and Senior Management

Max Page – Engineering Manager

Max joined Velocity in 2021 as a Customer Project Engineer at the Fareham facility. Previously experienced in aircraft fuel systems, Velocity was his first exposure to composites.

Max leads the customer projects half of Velocity's engineering function. Responsible for engineering process needed to transfer work into Velocity such as data handling and FAI. Max is excited to be part of such a crucial time for Velocity's growth and is keen to put the engineering department at the leading edge of this growth.

Shoaib Tahir – Commercial Finance Manager

Shoaib joined Velocity in April 2023, bringing with him years of experience in finance across engineering & manufacturing industries, with a key focus on commercial development & implementation. Shoaib previously worked as the Group Financial Controller at National Floorcoverings, where he was responsible for developing and executing key business strategies for both the short & long term while improving margin performance across the group. He is responsible for the financial planning & analysis to drive operational efficiencies and navigate the business through the growth while achieving forecasted budgets, in addition to meeting stakeholder expectations.

Shoaib is a Member of the Association of Chartered Certified Accountants (ACCA)

Andy Caunce – Head of Operations

Andy joined Velocity in October 2022 as Head of Operations and brings with him many years of experience in both Manufacturing and Utilities sectors. A strong leader with a background in Quality Management and Operational delivery which he developed whilst working for BAE SYSTEMS and United Utilities.

Andy has teams covering multiple sites and will drive efficiencies and improvements across all the Safety, Quality, Cost, Delivery and People measures within the operations teams.

US Subsidiary

Byeong Kim – US Subsidiary Site Lead

Byeong joined Velocity in September 2022 as the first US subsidiary employee originally as an Engineer.

Byeong has been awarded the US Site Lead position through strong mentorship and dedication. He is currently working alongside the Chief Operations Officer to establish a strong team and build out the facility.

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Directors' Report

The directors present their report and the audited financial statements for the year ended 31 October 2023.

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 9 to 12 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 principal risks review on pages 13 to 18.

Capital structure

Details of the Company's share capital, together with details of the movements, are set out in note 23 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 £833,000 (2022: £136,000) in-line with the Group's accounting policy.

Dividends

There were no dividends proposed or paid in the year (2022: £Nil).

Political donations

No political donations were made during the year (2022: £Nil).

Basis of preparation of the financial statements

The consolidated financial statements of Velocity Composites plc have been prepared in accordance with UK-adopted international accounting standards and International Financial Reporting Interpretations Committee (IFRIC). Further details are provided in note 2 to the financial statements.

Directors

The Directors who held office during the year and up to the date of this report, along with their direct interest in the shares of the Company at 31 October 2023 were as follows:

	At 31 October 2023	% Shareholding
Jonathan Karl Bridges	5,515,929	10.33%
Andrew Beaden	568,475 ⁴	1.06%
Chris Williams (resigned 7 December 2022)	-	-
Annette Rothwell	-	-
David Bailey	-	-
Adam Holden (resigned 23 August 2023)	-	-

The table above does not include shares held under options, via the Company's employee share option arrangements, which include share options under a salary sacrifice plan, were Director's and senior management swap part of their base salaries for an equity interest in the Company. Total shares held under these plans for Directors was 259,309 shares as at 31 October 2023.

⁴ Includes 50,000 shares in the name of Mrs S Beaden

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Directors' Report

Going concern

The Group has prepared base and sensitised financial projections for the next two years. The forecasts include revenue projections based on current demand, the newly signed Work Package Agreement with GKN in the US, plus a weighting of opportunities in the pipeline. The cost base included in the projections is reflective of the significant cost reductions that have already taken place in the Group, but also realistic about the investment required to implement the growth.

Alongside the robust forecasting and governance process, the Group has demonstrated strong cash flow management through the Covid-19 pandemic, successfully reducing inventory levels and navigating through right-sizing efforts to deliver significant reductions to administrative overheads.

Having due regard for these recent deliverables and latest projections, with available cash at 31 October 2023 of £3.2m, an invoice discount facility where the Group can borrow up to £3m dependent on debtor levels, access to an invoice discounting facility with one of our major customers, and continued support from our banks and shareholders, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern. A more extensive disclosure of going concern can be found in the financial review on pages 9 to 12.

Indemnification of Directors

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

Substantial shareholdings

At 31 October 2023, 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
Amati Global Investors	5,650,294	10.58%
Gerard Antony Johnson	4,802,693	8.99%
Christopher Banks	4,702,693	8.81%
Seneca Partners	4,519,236	8.46%
Stonehage Fleming	4,338,956	8.13%
Rathbones	2,945,675	5.52%
Hargreaves Lansdown stockbrokers	2,619,382	4.91%
AJ Bell	1,726,476	3.23%
Charles Stanley	1,712,925	3.21%

Corporate governance

The Statement of Corporate Governance on pages 19 to 23 sets out the Group's approach to good corporate governance.

Directors' Report

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 Group and parent Company financial statements for each financial year. Under that law the directors have prepared the financial statements in accordance with International Financial Reporting Standards ("IFRS") as adopted by the UK (UK-adopted international accounting standards) and applicable law. 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 Group and parent Company and of their profit or loss for that year. In preparing each of the group and parent company financial statements, the directors are required to:

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

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

The Directors are responsible for ensuring the Annual Report and the Financial Statements are made available on a website. Financial statements are published on the Company's website in accordance with legislation in the United Kingdom governing the preparation and dissemination of financial statements, which may vary from legislation in other jurisdictions. The maintenance and integrity of the Company's website is the responsibility of the Directors. The Directors' responsibility also extends to the ongoing integrity of the financial statements contained therein.

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

Cooper Parry Group Limited, 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 22 January 2024 and signed on its behalf by:

DocuSigned by:



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Andrew Hebb

Company Secretary

22 January 2024

Directors' Remuneration Report

This report covers the financial year ended 31 October 2023.

The Director's remuneration report sets out the key points of the remuneration process for the Group, as well as any rationale for any decisions made by the remuneration committee during the year. This is intended to help investors understand the remuneration policy in the light of the strategy for the Group. The report is voluntarily disclosed.

Responsibilities

The Remuneration Committee has three members, Annette Rothwell (Chair), Andrew Beaden and David Bailey. The Committee is responsible for setting the remuneration packages for 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 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. Incentivisation through equity ownership is encouraged to further align Directors to shareholders and the success of the Company.

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. Basic salary can be paid in cash and equity instruments equal at the start of a year to the cash equivalent.

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 with shareholders, with those of the individuals tasked with delivering the Group's strategic aims. These include financial targets around profitability, and strategic targets around profitable growth and business development. Share options are also used where Directors and Senior Management have agreed to take part of their basic salary in equity. For several years most qualifying staff have taken 20% of their basic salary in equity alternatives. In January and March 2022, options were granted to certain Non-Executive Directors and members of the Senior Management team. A total of 0.5m options were issued. In March 2023 a further 0.8m options were granted.

Non-executive Directors

The salary of the Chairman is determined by the Board and the fees 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. Similar to senior management and Executive Directors, 20% of the Non-Executive Directors pay has been in the form of equity instruments since 2020.

Velocity Composites plc
Financial statements for the year ended 31 October 2023

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Directors' Remuneration Report

Directors' emoluments

Directors' emoluments for the year ended 31 October 2023 (or period of service) are summarised below:

	Cash paid salary ⁵ £'000	Pension £'000	Benefit in kind £'000	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
<i>Executive</i>					
Jonathan Bridges	178	12	12	202	133
Chris Williams (resigned 7 December 2023)	63	2	-	65	105
Adam Holden (resigned 23 August 2023)	90	5	6	101	-
<i>Non-Executive</i>					
Andrew Beaden	99	2	-	101	66
Robert Soen (resigned 31 October 2022)	-	-	-	-	28
Annette Rothwell	28	-	-	28	18
David Bailey	29	-	-	29	15
Total	487	21	18	526	365

Share options

The following table sets out the share option movements for each of the current Directors during the two years ended 31 October 2023. None of the options below have any further performance conditions attached and vest subject to continued employment. The options issued in FY 2023 and issued in FY 2022, relate to the Company's salary sacrifice plan, where senior staff can swap up to 20% of their base salary for a similar valued equity interest in the Company.

	Chris Williams No.	Andrew Beaden No.	Adam Holden No.	Annette Rothwell No.	David Bailey No.
At 31 October 2021	272,268	108,475	-	-	-
Issued	103,529	76,235	-	20,940	-
Exercised	-	(108,475)	-	-	-
Lapsed	-	-	-	-	-
At 31 October 2022	375,797	76,235	-	20,940	-
Issued	-	86,400	107,733	37,867	37,867
Exercised	(250,797)	-	-	-	-
Lapsed	(125,000)	-	(107,733)	-	-
At 31 October 2023	-	162,635	-	58,807	37,867
Comprising shares that have:					
Vested	-	76,235	-	20,940	-
Not vested	-	86,400	-	37,867	37,867
At 31 October 2023	-	162,635	-	58,807	37,867

⁵ All of the cash paid salaries above represent 80% of each individuals' basic salary for the year. Apart from Jonathan Bridges, the additional 20% was serviced through equity awards, via share options valued at the start of each year or on appointment and to be of equivalent value to the 20% cash amounts sacrificed. Jonathan Bridges' 20% has been deferred until 2024 and when the Company expects a positive EBITDA.

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

Opinion

We have audited the financial statements of Velocity Composites plc (the 'parent Company') and its subsidiaries (the 'Group') for the year ended 31 October 2023 which comprise the Consolidated Statement of Total Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and the related notes to the financial statements, including a summary of significant accounting policies.

The financial reporting framework that has been applied in the preparation of the group and parent financial statements is applicable law and UK adopted international accounting standards.

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 2023 and of the group's loss for the year then ended;
- have been properly prepared in accordance with UK adopted international accounting standards;
- have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

Our approach to the audit

We adopted a risk-based audit approach. We gained a detailed understanding of the Group's business, the environment it operates in and the risks it faces.

The key elements of our audit approach were as follows:

In order to assess the risks identified, the engagement team performed an evaluation of identified components and to determine the planned audit responses based on a measure of materiality, calculated by considering the significance of components as a percentage of the group's total revenue and loss before taxation and group's total assets.

From this, we determined the significance of each component to the group as a whole and devised our planned audit response. In order to address the audit risks described in the Key audit matters section which were identified during our planning process, we performed a full-scope audit of the financial statements of the parent company, Velocity Composites plc and Velocity Composites Aerospace Inc. The operations that were subject to full-scope audit procedures made up 100% of consolidated revenues and 100% of consolidated loss before tax.

Analytical procedures were undertaken on the remaining component, using group materiality, which was not deemed to be material.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current year and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which 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.

Risk of fraud in revenue recognition

Matter

Under International Standard on Auditing (UK) 240 there is a presumed risk that revenue is misstated due to fraud. The Group recognises revenue to the extent that it is probable that economic benefits will flow to the Group and the revenue can be reliably measured. There is relatively little judgement involved in determining the timing and value of the amount to be recognised. We therefore assess the significant risk to be specifically with respect to manual journals posted to revenue.

Response

Our procedures in response to the risk included:

- We assessed accounting policies for consistency and appropriateness with the applicable financial reporting framework and in particular that revenue was recognised when performance obligations were fulfilled. In addition, we reviewed for the consistency of application of the accounting policies;
- We obtained an understanding of the processes through which the business initiates, records, processes and reports revenue transactions;
- We performed walkthroughs of the processes as set out by management, to ensure controls appropriate to the size and nature of operations were designed and implemented correctly throughout the transaction cycle;
- We obtained a complete listing of journals posted to revenue nominal codes and reviewed the listing for any unexpected entries. These were then tested to supporting evidence;
- We performed cut-off procedures to test transactions around the year end and verified a sample of revenue to originating documentation to provide evidence that transactions were recorded in the correct year;
- We performed transactional revenue testing to confirm the completeness of revenue and to confirm revenue has been recognised in accordance with the accounting policies and performance obligations have been met;
- We reviewed a listing of post year end credit notes to verify that revenue has been recorded in the correct accounting year.

Our procedures did not identify any material misstatements in the revenue recognised during the year.

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

Our application of materiality

We apply the concept of materiality in planning and performing our audit, in determining the nature, timing and extent of our audit procedures, in evaluating the effect of any identified misstatements, and in forming our audit opinion.

The materiality for the group financial statements as a whole was set at £246,000. This has been determined with reference to the benchmark of the group's revenue which we consider to be an appropriate measure for a group of companies such as these. Materiality represents 1.5% of group revenue. Performance materiality has been set at 75% of group materiality.

The materiality for the parent company financial statements as a whole was set at £222,000. This has been determined with reference to the benchmark of the parent company's revenue which we consider to be an appropriate measure for a parent company such as this. Materiality has been capped to 90% of group materiality.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the directors' assessment of the entity's ability to continue to adopt the going concern basis of accounting included:

- Reviewing management's cash flow forecasts for a period of at least 12 months from the date of approval of these financial statements;
- Challenging management on key assumptions included in their forecast scenarios;
- Considering the potential impact of various scenarios on the forecasts;
- Reviewing results post year end to the date of approval of these financial statements and assessing them against original budgets;
- Reviewing management's forecasting accuracy through reviewing the prior year budgets compared to actuals; and
- Reviewing management's disclosures in the financial statements.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information included in the annual report. 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. 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

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

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.

Opinions on other matters prescribed by the Companies Act 2006

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.

Matters on which we are required to report by exception

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

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, 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

As explained more fully in the directors' responsibilities statement set out on page 31, 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

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

these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

Our assessment focused on key laws and regulations the company has to comply with and areas of the financial statements we assessed as being more susceptible to misstatement. These key laws and regulations included but were not limited to compliance with the Companies Act 2006, UK adopted international accounting standards and relevant tax legislation.

We are not responsible for preventing irregularities and cannot be expected to detect non-compliance with all laws and regulations. Our approach to detecting irregularities included, but was not limited to, the following:

- Obtaining an understanding of the legal and regulatory framework applicable to the entity and how the entity is complying with that framework;
- Obtaining an understanding of the entity's policies and procedures and how the entity has complied with these, through discussions;
- Obtaining an understanding of the entity's risk assessment process, including the risk of fraud;
- Designing our audit procedures to respond to our risk assessment; and
- Performing audit testing over the risk of management override of controls, including testing of journal entries and other adjustments for appropriateness, evaluating the business rationale of significant transactions outside the normal course of business and reviewing accounting estimates for bias specifically in relation to inventory provisions.

Whilst considering how our audit work addressed the detection of irregularities, we also consider the likelihood of detection based on our approach. Irregularities arising from fraud are inherently more difficult to detect than those arising from error.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of non-compliance. The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

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.

Velocity Composites plc
Financial statements for the year ended 31 October 2023

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

Use of our report

This report is made solely to the parent 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 parent 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 parent company and the parent company's members as a body, for our audit work, for this report, or for the opinions we have formed.

DocuSigned by:

Cooper Parry Group Limited

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Melanie Hopwell (Senior Statutory Auditor)

For and on behalf of Cooper Parry Group Limited
Statutory Auditor

Sky View
Argosy Road
East Midlands Airport
Caste Donington
Derby
DE74 2SA
Date: 22 January 2024

Velocity Composites plc
Financial statements for the year ended 31 October 2023

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Consolidated Statement of Total Comprehensive Income

		Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
	Note		
Revenue	4	16,411	11,959
Cost of sales		(13,325)	(9,213)
Gross profit		3,086	2,746
Administrative expenses		(5,783)	(4,063)
Exceptional administrative expenses	8	(120)	-
Operating loss	5	(2,817)	(1,317)
Operating loss analysed as:			
Adjusted EBITDA loss	31	(1,606)	(452)
Depreciation of property, plant and equipment		(297)	(210)
Amortisation		(116)	(53)
Depreciation of right-of-use assets under IFRS 16		(472)	(432)
Share-based payments		(206)	(170)
Exceptional administrative expenses	8	(120)	-
Finance income and expense	9	(326)	(187)
Loss before tax from continuing operations		(3,143)	(1,504)
Corporation tax recoverable	10	-	167
Loss for the year and total comprehensive loss		(3,143)	(1,337)
Loss per share - basic (£) from continuing operations	11	(£0.08)	(£0.04)
Loss per share - diluted (£) from continuing operations	11	(£0.08)	(£0.04)

The notes on pages 45 to 74 form part of these financial statements.

There is no other comprehensive income in the current or prior year.

Velocity Composites plc
Financial statements for the year ended 31 October 2023


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Consolidated and Company Statement of Financial Position

		Group	Group	Company	Company
		31 October	31 October	31 October	31 October
		2023	2022	2023	2022
Note		£'000	£'000	£'000	£'000
Non-current assets					
Intangible assets	12	890	173	232	173
Property, plant and equipment	13	2,095	1,099	734	1,099
Right-of-use assets	20	2,129	2,269	1,521	1,812
Total non-current assets		5,114	3,541	2,487	3,084
Current assets					
Inventories	15	2,743	1,407	1,493	1,407
Trade and other receivables	16	3,667	2,521	5,913	2,569
Cash and cash equivalents	17	3,178	2,344	3,131	2,337
Total current assets		9,588	6,272	10,537	6,313
Total assets		14,702	9,813	13,024	9,397
Current liabilities					
Loans	19	503	503	503	503
Trade and other payables	18	4,587	2,207	1,921	2,207
Obligations under lease liabilities	20	487	405	344	313
Total current liabilities		5,577	3,115	2,768	3,023
Non-current liabilities					
Loans	19	970	1,506	970	1,506
Obligations under lease liabilities	20	1,587	1,792	1,196	1,442
Total non-current liabilities		2,557	3,298	2,166	2,948
Total liabilities		8,134	6,413	4,934	5,971
Net assets		6,568	3,400	8,090	3,426
Equity attributable to equity holders of the company					
Share capital	23	133	91	133	91
Share premium account	24	4,870	9,727	4,870	9,727
Share-based payments reserve	25	478	684	478	684
Retained earnings		1,087	(7,102)	2,609	(7,076)
Total equity		6,568	3,400	8,090	3,426

The notes on pages 45 to 74 form part of these financial statements. The Company has taken advantage of the exemption allowed under section 408 of the Companies Act 2006 and not presented its own statement of profit and loss in these financial statements. The loss for the year was £1,647,000. The financial statements were approved and authorised for issue by the Board of Directors on 22 January 2024 and were signed on its behalf by:

Jonathan Bridges
 Director
 Co No: 06389233

DocuSigned by:

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Velocity Composites plc
Financial statements for the year ended 31 October 2023

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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 2021	91	9,727	(5,790)	539	4,567
Loss for the year	-	-	(1,337)	-	(1,337)
	91	9,727	(7,127)	539	3,230
Transactions with shareholders:					
Share-based payments (note 25)	-	-	-	170	170
Transfer of share option reserve on vesting of options and issue of equity	-	-	25	(25)	-
As at 31 October 2022	91	9,727	(7,102)	684	3,400
	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2022	91	9,727	(7,102)	684	3,400
Loss for the year	-	-	(3,143)	-	(3,143)
	91	9,727	(10,245)	684	257
Transactions with shareholders:					
Share-based payments (note 25)	-	-	-	206	206
Transfer of share option reserve on vesting of options and issue of equity	-	-	412	(412)	-
Issue of new shares net of transaction costs	42	6,063	-	-	6,105
Reduction of Share Premium Account		(10,920)	10,920		-
As at 31 October 2023	133	4,870	1,087	478	6,568

The notes on pages 45 to 74 form part of these financial statements.

Velocity Composites plc
Financial statements for the year ended 31 October 2023

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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 2021	91	9,727	(5,763)	539	4,594
Loss for the year	-	-	(1,338)	-	(1,338)
	91	9,727	(7,101)	539	3,256
Transactions with shareholders:					
Share-based payments (note 25)	-	-	-	170	170
Transfer of share option reserve on vesting of options and issue of equity	-	-	25	(25)	-
As at 31 October 2022	91	9,727	(7,076)	684	3,426
	Share capital £'000	Share premium account £'000	Retained earnings £'000	Share-based payments reserve £'000	Total equity £'000
As at 31 October 2022	91	9,727	(7,076)	684	3,426
Loss for the year	-	-	(1,647)	-	(1,647)
	91	9,727	(8,723)	684	1,779
Transactions with shareholders:					
Share-based payments (note 25)	-	-	-	206	206
Transfer of share option reserve on vesting of options and issue of equity	-	-	412	(412)	-
Issue of new shares net of transaction costs	42	6,063	-	-	6,105
Reduction of Share Premium Account		(10,920)	10,920		-
As at 31 October 2023	133	4,870	2,609	478	8,090

The notes on pages 45 to 74 form part of these financial statements.

Velocity Composites plc
Financial statements for the year ended 31 October 2023

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Consolidated and Company Statement of Cash Flows

	Group Year ended 31 October 2023 £'000	Group Year ended 31 October 2022 £'000	Company Year ended 31 October 2023 £'000	Company Year ended 31 October 2022 £'000
Operating activities				
Loss for the year	(3,143)	(1,337)	(1,647)	(1,338)
Taxation	-	(167)	-	(167)
Profit on sale of assets	(4)	(38)	(4)	(38)
Finance costs	326	187	299	187
Amortisation of intangible assets	116	53	53	53
Depreciation of property, plant and equipment	297	210	210	210
Depreciation of right-of-use assets	472	432	391	432
Share-based payments	206	170	206	170
Operating cash flows before movements in working capital	(1,730)	(490)	(492)	(491)
Increase in trade and other receivables	(1,146)	(359)	(3,344)	(374)
Increase in inventories	(1,336)	(530)	(86)	(530)
Increase/(Decrease) in trade and other payables	2,380	1,149	(286)	1,149
Cash (outflow)/inflow from operations	(1,832)	(230)	(4,208)	(246)
Tax received	-	510	-	510
Net cash (outflow)/inflow from operating activities	(1,832)	280	(4,208)	264
Investing activities				
Purchase of property, plant and equipment net of intercompany transfers	(1,293)	(262)	155	(262)
Purchase of development expenditure	(833)	(136)	(112)	(136)
Proceeds from the sale of property, plant and equipment	4	42	4	42
Net cash used in investing activities	(2,122)	(356)	47	(356)
Financing activities				
Proceeds from issue of ordinary shares	6,590	-	6,590	-
Share issue transaction costs	(485)	-	(485)	-
Finance costs paid	(326)	(187)	(294)	(187)
Loan repayment	(536)	(503)	(536)	(503)
Repayment of lease liabilities capital	(455)	(366)	(320)	(351)
Net cash generate in financing activities	4,788	(1,056)	4,955	(1,041)
Net Increase/(Decrease) in cash and cash equivalents	834	(1,132)	794	(1,133)
Cash and cash equivalents at 01 November	2,344	3,476	2,337	3,470
Cash and cash equivalents at 31 October	3,178	2,344	3,131	2,337

The notes on pages 45 to 74 form part of these financial statements.

Notes to the Financial Statements

1. General information

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

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

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

2. Accounting policies

Basis of preparation

The consolidated financial statements of Velocity Composites plc have been prepared in accordance with UK-adopted international accounting standards and International Financial Reporting Interpretations Committee (IFRIC) interpretations.

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 years presented, unless otherwise stated. The financial statements are presented in sterling and have been rounded to the nearest thousand (£'000). References to "FY23" refer to the year ended 31 October 2023, whilst references to "FY22" are in respect of the year ended 31 October 2022.

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 and are made up to 31 October 2023. Subsidiaries are consolidated from the date of acquisition, using the purchase method.

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

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

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

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

There are no new accounting standards or interpretations that are not yet fully effective that could be expected to have a material impact on the Group.

Notes to the Financial Statements

2. Accounting policies (continued)

Going concern

Management continues to undertake a significant level of cash flow forecasting and detailed financial projections for the following 24 month rolling period to 31 October 2025 have been prepared. A number of sensitivities have been performed to understand the cash flow impact of various scenarios and even in the most severe down-side scenario modelled, the business had sufficient liquidity to continue trading as a going concern.

The aerospace sector lends itself to long-term planning due to the nature and length of customer programmes, typically a minimum of three years, but often five years or more. This has enabled the business to fully model the period to 31 October 2025 and undertake more strategic, longer-term planning for growth and full recovery emerging from the pandemic.

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

In preparing the latest two-year forecasts, Management has included revenue projections based on current contracted demand, the newly signed Work Package Agreement with GKN in the US. The cost base included in the projections is reflective of the significant cost reductions that have already taken place in the Group, but also realistic about the investment required to implement the growth.

It is the investment in growth and technological advancements throughout FY23, and which is anticipated to continue in FY24, that has resulted in the forecasts indicating that the Group's Invoice Discounting Facility, secured against Trade Debtors, will be utilised during certain months within the going concern period. Whilst this facility is designed to be short-term and can be withdrawn with 3 months' notice, the latest discussions have reflected the bank's support for Velocity's growth strategy and as such we expect this facility will remain available for the foreseeable future. Utilisation of the facility is forecast to be temporary during periods of FY24. However, should alternative financing be required, the Group would preserve cash by delaying certain investment activities until longer-term funding could be implemented, such as asset-based financing against new capital expenditure or equity funding.

Alongside the robust forecasting and governance process, the Group has demonstrated strong cash flow management through the Covid-19 pandemic, successfully reducing inventory levels and navigating through right-sizing efforts to deliver significant reductions to administrative overheads.

Having due regard for these recent deliverables and latest projections, with available cash at 31 October 2023 of £3.2m, an invoice discount facility where the Group can borrow up to £3m dependent on debtor levels, access to an invoice discounting facility with one of our major customers, and continued support from our banks and shareholders, it is the opinion of the Board that the Group has adequate resources to continue to trade as a going concern.

Notes to the Financial Statements

2. Accounting policies (continued)

Revenue recognition

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

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

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

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

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

Inventory

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

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

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

Expenditure

Expenditure is recognised in respect of goods and services received when supplied in accordance with contractual terms. Goods or services supplied in a foreign currency are recognised at the exchange rate ruling at the time of accounting for this expenditure.

Provisions

A 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.

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.

Short-term employee benefits

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the year the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Notes to the Financial Statements

2. Accounting policies (continued)

Research and development expenditure

Research expenditure - expenditure on research activities is recognised as an expense in the year 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
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Property, plant and equipment

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

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

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

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 is Velocity Composites plc's functional and presentation currency.

Notes to the Financial Statements

2. Accounting policies (continued)

Foreign currency translation (continued)

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 statement of financial position presented are translated at the closing rate at the date of the statement of financial position;
- 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 year. When the carrying value of an asset exceeds its recoverable amount, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit (i.e. the smallest grouping of assets in which the asset belongs for which there are separately identifiable cash flows).

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

Financial instruments

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

Bank borrowings

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

The Group has current borrowings of CBIL loans and can utilise its invoice discounting facility in support of its working capital requirements.

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.

Trade and other 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.

Notes to the Financial Statements

2. Accounting policies (continued)

Financial assets (continued)

Cash and cash equivalents

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 of financial assets

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

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

Trade and other payables

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

Share capital

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

Share premium

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

Share-based payment

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

Leased assets

Leases

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

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

Measurement and recognition

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

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

Notes to the Financial Statements

2. Accounting policies (continued)

Leased assets (continued)

Measurement and recognition (continued)

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

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

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

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

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

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

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

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

Government grants

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

Current taxation

The tax currently payable is based on the taxable profit of the year. 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 years 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.

Notes to the Financial Statements

2. Accounting policies (continued)

R&D tax credit

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

Deferred taxation

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

- the initial recognition of goodwill;

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised. The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either the same taxable Company; or different Company entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

Operating segments

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

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

Critical accounting estimates and judgements

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

Provisions for inventory

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

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

Sensitivity analysis

A 5% increase in the levels of the current stock provision would lead to and finance impact of an increase in stock provision of £10k.

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Notes to the Financial Statements

3. Financial instruments and risk management

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

<i>Financial instruments</i>	Group	Group	Company	Company
	31 October	31 October	31 October	31 October
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Current assets				
Trade and other receivables	3,282	2,238	2,532	2,238
Trade and other receivables – prepayments	385	283	291	281
Amounts due from subsidiary undertakings	-	-	3,090	50
	3,667	2,521	5,913	2,569
Cash and cash equivalents – loans and receivables	3,178	2,344	3,131	2,337
Total loans and receivables	6,845	4,865	9,044	4,906
Current liabilities				
Trade and other payables	4,053	1,750	1,587	1,750
Trade and other payables – accruals	534	457	334	457
	4,587	2,207	1,921	2,207
Loans	503	503	503	503
Obligations under lease liabilities	487	405	344	313
Total current liabilities	5,577	3,115	2,768	3,023

For non-current liabilities please see notes 18 and 19.

Risk management

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

a) Market risk

Foreign exchange risk

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

The Group is also exposed to translation foreign exchange risk on consolidation of US operations, which are translated into Sterling from US dollars. This can impact the consolidated income statement and also create a movement in reserves from movements in the US balance sheet items.

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Notes to the Financial Statements

3. Financial instruments and risk management (continued)

a) Market risk (continued)

The carrying value of the Group's foreign currency denominated assets and liabilities comprise the trade receivables in note 16, cash in note 17 and trade payables in note 18.

Foreign exchange risk (continued)

The Group's financial assets are held in both Sterling and US dollars, the assets are converted to the presentation currency Sterling assets held in US dollars are in relation to the US subsidiary, movements in the exchange rate of the US Dollar or Euro 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 or Euro are held in those currencies for normal trading activity in order to recover funds from customers or to pay funds to suppliers.

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

As at 31 October 2023	US Dollar £'000	Euro £'000	Total £'000
Trade debtors	2,685	75	2,760
Cash and cash equivalents	204	118	322
Trade payables	(3,328)	(31)	(3,359)
Balance sheet exposure	(439)	162	(277)

As at 31 October 2022	US Dollar £'000	Euro £'000	Total £'000
Trade debtors	1,729	163	1,892
Cash and cash equivalents	1,352	249	1,601
Trade payables	(750)	(32)	(782)
Balance sheet exposure	2,331	380	2,711

Sensitivity analysis

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

	31 October 2023 £'000	31 October 2022 £'000
US dollar	28	117
Euro	(8)	19

This analysis assumes that all other variables, in particular other exchange rates and interest rates remain constant. A 5% weakening of the above currencies against pound sterling in any year would have had the equal but opposite effect to the amounts shown above. Included in the US dollar value is £78k relating to the US Subsidiary (2022: £Nil).

Interest rate risk

The Group carries borrowings from leases and CBILS loans. Lease borrowings are at a fixed rate of interest whilst the interest on the CBILS loans is a combination of fixed rate and Bank of England base rate plus 3.96%. The Directors do not consider there to be a significant interest rate risk on the element of loans linked to movements in the Bank of England base rate. The Group also has access to an invoicing discounting facility that carries a fixed monthly charge plus interest at a fixed rate of 5.25%.

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Notes to the Financial Statements

3. Financial instruments and risk management (continued)

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 and Euros 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.

As at 31 October 2023

	Within 1 year £'000	One to two years £'000	Two to five years £'000	Over five years £'000
Loan	503	503	467	-
Obligations under lease liabilities	487	508	1,079	-
Trade payables	3,786	-	-	-
Accruals	534	-	-	-
Other payables	15	-	-	-
Invoice discounting facility	68	-	-	-

As at 31 October 2022

	Within 1 year £'000	One to two years £'000	Two to five years £'000	Over five years £'000
Loan	503	503	1,003	-
Obligations under lease liabilities	405	419	1,373	-
Trade payables	1,134	-	-	-
Accruals	457	-	-	-
Other payables	174	-	-	-
Invoice discounting facility	175	-	-	-

d) 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.

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Notes to the Financial Statements

4. Segmental analysis

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

	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Revenue		
United Kingdom	14,350	11,906
Europe	41	10
US	1,967	-
Rest of the World	53	43
	16,411	11,959

During the year four customers accounted for 91.9% (2022: 92.7%) of the Group's total revenue for the year ended 31 October 2023. This was split as follows; Customer A – 34.5% (2022: 43.10%), Customer B – 34.9% (2022: 33.4%), Customer C – 10.49% (2022: 11.44%) and the fourth customer a customer of Velocity Composite Aerospace Inc 11.99%, previously Customer D – 3.58% (2022: 4.70%).

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 2023 and year ended 31 October 2022 as the site operates as an Engineering Support Office for the Group. The US subsidiary started to trade in April 2023, revenue of £1,967k has been generated since the US subsidiary was incorporated.

5. Operating loss

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

	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Staff costs (see note 6)	3,700	3,090
Cost of inventories	11,687	8,079
Foreign exchange (gain)/loss	57	(259)
Amortisation of development costs	116	53
Depreciation:		
Owned assets	297	210
Property, plant and equipment under right-of-use assets	472	432
Profit on disposal of assets	(5)	(38)
Auditor's remuneration:		
Audit of the accounts of the Group	75	59
Other audit related services (relating to interim review)	12	14

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6. Staff costs

	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Wages, salaries and bonuses	3,049	2,575
Social security costs	348	261
Defined contribution pension costs	97	84
Share-based payments	206	170
	<u>3,700</u>	<u>3,090</u>

The average monthly number of employees including directors, during the year was as follows:

	Year ended 31 October 2023 Head count	Year ended 31 October 2022 Head count
Manufacturing	55	40
Administration	47	39
	<u>102</u>	<u>79</u>

7. Directors' costs

	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Directors' remuneration included in staff costs:		
Wages, salaries and bonuses	505	343
Defined contribution pension costs	21	22
	<u>526</u>	<u>365</u>
Remuneration of the highest paid director(s):		
Wages, salaries and bonuses or fees	190	121
Defined contribution pension costs	12	12
	<u>202</u>	<u>133</u>

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8. Exceptional administrative expenses

	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Fees associated with newly issued shares	120	-
	<u>120</u>	<u>-</u>

Exceptional expenses incurred during the year are in relation to the costs associated with the cash fundraise through the placing and subscription of the New Ordinary Shares. Total costs incurred were £120,000 and £485,000 charged to the share premium as being directly related to newly issued shares.

No exceptional costs were recognised in the previous year.

9. Finance income and expenses

	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Finance expense		
Finance charge from lease liabilities	120	81
Other interest and invoice discounting charges	206	106
	<u>326</u>	<u>187</u>

10. Income tax

Company	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Current tax income		
UK corporation tax on income for the year	-	-
UK corporation tax adjustment in respect of prior years – R&D	-	(167)
Total tax income	<u>-</u>	<u>(167)</u>

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10. Income tax (continued)

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 the loss for the year are as follows:

Tax rate	22.00%	19.00%
Loss for the year before tax	(3,143)	(1,504)
Expected tax credit based on corporation tax rate	(691)	(286)
Expenses not deductible for tax purposes	(17)	112
Adjustment in respect of prior year – R&D	-	(167)
Different tax rates in other countries	232	-
Adjustment in respect of prior year – tax losses	-	(51)
Tax losses not recognised	476	225
Total tax income	-	(167)

On 3 March 2021, the Chancellor of the Exchequer announced that the corporation tax rate would increase to 25% from 1 April 2023. It was substantively enacted on 24 May 2021.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled, or the asset is realised, based on tax law and the corporation tax rates that have been enacted, or substantively enacted, at the Statement of Financial Position date. As such, the deferred tax rate applicable at 31 October 2023 is 25% and deferred tax had been re-measured at this date.

11. Loss per share

	Year ended 31 October 2023 £	Year ended 31 October 2022 £
Loss for the year	(3,143,000)	(1,337,000)
	Shares	Shares
Weighted average number of shares in issue	38,410,094	36,371,065
Weighted average number of share options	1,348,066	2,110,897
Weighted average number of shares (diluted)	39,758,160	38,481,962
Loss per share (£) (basic)	(£0.08)	(£0.04)
Loss per share (£) (diluted)	(£0.08)	(£0.04)

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

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12. Intangible assets

Group	Development costs £'000	Total £'000
Cost		
At 31 October 2021	638	638
Additions	136	136
Disposals	(199)	(199)
At 31 October 2022	575	575
Additions	833	833
At 31 October 2023	1,408	1,408
Amortisation		
At 31 October 2021	548	548
Charge for the year	53	53
Disposals	(199)	(199)
At 31 October 2022	402	402
Charge for the year	116	116
At 31 October 2023	518	518
Net book value		
At 31 October 2021	90	90
At 31 October 2022	173	173
At 31 October 2023	890	890
Company		
Cost		
At 31 October 2021	638	638
Additions	136	136
Disposals	(199)	(199)
At 31 October 2022	575	575
Additions	112	112
At 31 October 2023	687	687
Amortisation		
At 31 October 2021	548	548
Charge for the year	53	53
Disposals	(199)	(199)
At 31 October 2022	402	402
Charge for the year	53	53
At 31 October 2023	455	455
Net book value		
At 31 October 2021	90	90
At 31 October 2022	173	173
At 31 October 2023	232	232

Impairment

The Group reviews the Development costs at each reporting year for indicators of impairment. An indication of impairment can be generated from the loss of a customer, or contracted sales. No impairment was judged to be required for either year.

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13. Property, plant and equipment

Group	Leasehold improve- ments £'000	Plant & machinery £'000	Motor vehicles £'000	Fixtures & fittings £'000	Total £'000
Cost					
At 31 October 2021	491	1,891	23	417	2,822
Additions	137	87	-	38	262
Disposals	-	(123)	-	-	(123)
At 31 October 2022	628	1,855	23	455	2,961
Additions	367	528	-	398	1,293
At 31 October 2023	995	2,383	23	853	4,254
Depreciation					
At 31 October 2021	99	1,385	23	264	1,771
Charge for the year	50	116	-	44	210
Disposals	-	(119)	-	-	(119)
At 31 October 2022	149	1,382	23	308	1,862
Charge for the year	73	150	-	74	297
At 31 October 2023	222	1,532	23	382	2,159
Net book value					
At 31 October 2021	392	506	-	153	1,051
At 31 October 2022	479	473	-	147	1,099
At 31 October 2023	773	851	-	471	2,095

Company	Leasehold improve- ments £'000	Plant & machinery £'000	Motor vehicles £'000	Fixtures & fittings £'000	Total £'000
Cost					
At 31 October 2021	491	1,891	23	417	2,822
Additions	137	87	-	38	262
Disposals	-	(123)	-	-	(123)
At 31 October 2022	628	1,855	23	455	2,961
Transferred to subsidiary	(132)	(57)	-	(37)	(226)
Additions	14	57	-	-	71
Disposals	-	-	-	-	-
At 31 October 2023	510	1,855	23	418	2,806
Depreciation					
At 31 October 2021	99	1,385	23	264	1,771
Charge for the year	50	116	-	44	210
Disposals	-	(119)	-	-	(119)
At 31 October 2022	149	1,382	23	308	1,862
Charge for the year	50	118	-	42	210
Disposals	-	-	-	-	-
At 31 October 2023	199	1,500	23	350	2,072
Net book value					
At 31 October 2021	392	506	-	153	1,051
At 31 October 2022	479	473	-	147	1,099
At 31 October 2023	311	355	-	68	734

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14. Investment in subsidiaries

	Group	Group	Company	Company
	31 October	31 October	31 October	31 October
	2023	2022	2023	2022
	£'000	£'000	£'000	£'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%	Provider of engineering composite services for the aerospace sector non trading
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

15. Inventories

	Group	Group	Company	Company
	31 October	31 October	31 October	31 October
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Raw materials & consumables	1,830	1,114	1,023	1,114
Finished goods	913	293	470	293
	2,743	1,407	1,493	1,407

Inventories totalling £2,743,000 (2022: £1,407,000) 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 increase of inventories provision during the previous year amounted to £53,000 Velocity Composites PLC and £113,000 for Velocity Composites Aerospace Inc, in 2022 the release was £56,000 for Velocity Composites PLC.

The inventory at 31 October 2023 is after a stock provision of £374,000 (2022: £208,000). The provision reflects the aged stock profile consistent with FY22, 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 2023 amounted to £11,687,000 (2022: £8,079,000), and these were included in cost of sales.

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16. Trade and other receivables

	Group	Group	Company	Company
	31 October	31 October	31 October	31 October
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Trade receivables	3,187	2,227	2,489	2,227
Prepayments	385	283	291	281
Other receivables	95	11	43	11
Amounts due from subsidiary undertakings	-	-	3,090	50
	3,667	2,521	5,913	2,569

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 an average of 71 days (2022: 68 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. No Trade receivables (Group and Company) were overdue over three months at the year end (2022: £Nil).

The overall expected credit loss is trivial (2022: trivial). There is no movement in allowance of impairment of trade receivables during each year.

Trade receivables (Group and Company) held in currencies other than sterling are as follows:

	31 October	31 October
	2023	2022
	£'000	£'000
Euro	75	165
US Dollar	2,685	1,742
	2,760	1,907

17. Cash and cash equivalents

	Group	Group	Company	Company
	31 October	31 October	31 October	31 October
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Cash at bank	3,178	2,344	3,131	2,337
	3,178	2,344	3,131	2,337

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18. Trade and other payables

	Group	Group	Company	Company
	31 October	31 October	31 October	31 October
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Trade payables	3,786	1,134	1,322	1,134
Accruals and deferred income	534	457	334	457
Other taxes and social security	184	267	183	267
Other payables	15	174	14	174
Invoice discounting facility	68	175	68	175
	4,587	2,207	1,921	2,207

Book values approximate to fair values.

19. Bank loans

	Group	Group	Company	Company
	31 October	31 October	31 October	31 October
	2023	2022	2023	2022
	£'000	£'000	£'000	£'000
Not later than one year	503	503	503	503
One to two years	503	503	503	503
Two to five years	467	1,003	467	1,003
	1,473	2,009	1,473	2,009

In FY20 the Company took out a Coronavirus Business Interruption Loan for £2.0m and on 19 January 2021 the term of this loan was extended to 6 years. Repayment by instalment commenced in August 2021, with the final instalment due in August 2026. The loan was interest free for the initial 12 months, followed by an interest rate of 3.96% above the Bank of England base rate which was 5.25% as at 31 October 2023. Therefore the rate payable at 22 January 2024 is 9.21%.

During FY21, the Company took out a further Coronavirus Business Interruption Loan for £0.45m secured against owned non-current assets. This is being repaid over 5 years with the first payment made in July 2021 and the final instalment due in June 2026. The loan was interest free for the initial 12 months, followed by an interest rate of 7.75% per annum.

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20. Leases

Right-of-use-assets

Group	Land & buildings £'000	Plant & machinery £'000	Motor vehicles £'000	Total £'000
Cost				
Balance at 31 October 2021	1,641	561	110	2,312
Additions	1,013	-	-	1,013
Disposals	(221)	-	-	(221)
Balance at 31 October 2022	2,433	561	110	3,104
Additions	232	-	100	332
Disposals	-	-	(5)	(5)
Balance at 31 October 2023	2,665	561	205	3,431
Depreciation				
Balance at 31 October 2021	399	190	35	624
Depreciation charge for the year	300	104	28	432
Disposals	(221)	-	-	(221)
Balance at 31 October 2022	478	294	63	835
Depreciation charge for the year	363	81	28	472
Disposals	-	-	(5)	(5)
Balance at 31 October 2023	841	375	86	1,302
NBV				
At 31 October 2021	1,242	371	75	1,688
At 31 October 2022	1,955	267	47	2,269
At 31 October 2023	1,824	186	119	2,129

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 statement of financial position as at 31 October 2023.

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20. Leases (continued)

Right-of-use-assets (continued)

Company	Land & buildings £'000	Plant & machinery £'000	Motor vehicles £'000	Total £'000
Cost				
Balance at 31 October 2021	1,641	561	110	2,312
Additions	556	-	-	556
Disposals	(221)	-	-	(221)
Balance at 31 October 2022	1,976	561	110	2,647
Additions	-	-	100	100
Disposals	-	-	(5)	(5)
Balance at 31 October 2023	1,976	561	205	2,742
Depreciation				
Balance at 31 October 2021	399	190	35	624
Depreciation charge for the year	300	104	28	432
Disposals	(221)	-	-	(221)
Balance at 31 October 2022	478	294	63	835
Depreciation charge for the year	282	81	28	391
Disposals	-	-	(5)	(5)
Balance at 31 October 2023	760	375	86	1,221
NBV				
At 31 October 2021	1,242	371	75	1,688
At 31 October 2022	1,498	267	47	1,812
At 31 October 2023	1,216	186	119	1,521

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 statement of financial position as at 31 October 2023.

Right-of-use lease liabilities

	Group £'000	Company £'000
At 31 October 2022	2,197	1,755
Repayment	(506)	(372)
Additions to right-of-use assets in exchange for increased lease liabilities	332	105
Interest and other movements	51	52
At 31 October 2023	2,074	1,540

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20. Leases (continued)

Right-of-use lease liabilities (continued)

Analysis by length of liability

Group	Land & buildings £'000	Plant & equipment £,000	Motor vehicles £'000	Total £'000
Current	420	42	25	487
Non-current	1,375	113	99	1,587
	1,795	155	124	2,074
Number of right-to-use assets leased	6	5	2	
Range of remaining term	1-10 years	1-10 years	1-4 years	
Company	Land & buildings £'000	Plant & equipment £,000	Motor vehicles £'000	Total £'000
Current	277	42	25	344
Non-current	984	113	99	1,196
	1,261	155	124	1,540
Number of right-to-use assets leased	5	5	2	
Range of remaining term	1-10 years	1-10 years	1-4 years	

Reconciliation of minimum lease payments to present value

Group	Minimum lease payments £'000	Interest £'000	Present value £'000
31 October 2023			
Not later than one year	585	98	487
Later than one year and not later than two years	589	81	508
Later than two years and not later than five years	1,209	130	1,079
	2,383	309	2,074
31 October 2022			
Not later than one year	505	100	405
Later than one year and not later than two years	505	86	419
Later than two years and not later than five years	1,545	172	1,373
	2,555	358	2,197

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20. Leases (continued)

Right-of-use lease liabilities (continued)

Reconciliation of minimum lease payments to present value (continued)

Company	Minimum lease payments £'000	Interest £'000	Present value £'000
31 October 2023			
Not later than one year	424	80	344
Later than one year and not later than two years	430	64	366
Later than two years and not later than five years	927	97	830
	<u>1,781</u>	<u>241</u>	<u>1,540</u>
31 October 2022			
Not later than one year	400	87	313
Later than one year and not later than two years	400	72	328
Later than two years and not later than five years	1,248	134	1,114
	<u>2,048</u>	<u>293</u>	<u>1,755</u>

Low value leases

The Group leases comprise both office and assembly space, under low value leases. The total value of the minimum lease payments due is payable is £Nil (2022: £Nil).

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

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21. Deferred tax

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

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

Company	31 October 2023 £'000	31 October 2022 £'000
Unrecognised deferred tax in respect of losses brought forward	(1,401)	(840)
Corporation tax loss adjustments in respect of prior year	-	(51)
Corporation tax losses arising during the year	(229)	(174)
Adjustment for movement in corporation tax rate	-	(336)
Unrecognised deferred tax in respect of losses carried forward	(1,630)	(1,401)

The Group has unused tax losses which were incurred by the holding company. A deferred tax asset of £1,774,000 (2022: £1,401,000) 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.

22. Reconciliation of liabilities arising from financing activities

Group	Lease liabilities < one year £'000	Other short-term borrowings £'000	Lease liabilities > one year £'000	Other long-term borrowings £'000	Total £'000
At 31 October 2021	309	514	1,240	1,998	4,061
Cash flows					
Repayment	(457)	(503)	-	-	(960)
Non-cash					
Other differences	-	-	92	-	92
Increase to lease liabilities	-	-	1,013	-	1,013
Transfer from long-term to short term borrowings	553	492	(553)	(492)	-
At 31 October 2022	405	503	1,792	1,506	4,206
Cash flows					
Repayment	(506)	(536)	-	-	(1,042)
Non-cash					
Other differences	-	-	332	-	332
Increase to lease liabilities	-	-	51	-	51
Transfer from long-term to short term borrowings	588	536	(588)	(536)	-
As at 31 October 2023	487	503	1,587	970	3,547

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22. Reconciliation of liabilities arising from financing activities (continued)

Company	Lease liabilities < one year £'000	Other short-term borrowings £'000	Lease liabilities > one year £'000	Other long-term borrowings £'000	Total £'000
At 31 October 2021	309	514	1,240	1,998	4,061
Cash flows					
Repayment	(442)	(503)	-	-	(945)
Non-cash					
Other differences	-	-	92	-	92
Increase to lease liabilities	-	-	556	-	556
Transfer from long-term to short term borrowings	446	492	(446)	(492)	-
At 31 October 2022	313	503	1,442	1,506	3,764
Cash flows					
Repayment	(372)	(536)	-	-	(908)
Non-cash					
Other differences	-	-	52	-	52
Increase to lease liabilities	-	-	105	-	105
Transfer from long-term to short term borrowings	403	536	(403)	(536)	-
As at 31 October 2023	344	503	1,196	970	3,013

23. Share capital

	31 October 2023 £	31 October 2022 £
Share capital issued and fully paid		
53,393,368 (2022: 36,458,997) Ordinary shares of £0.0025 each	133,483	91,147

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

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

Movements in share capital	Nominal value £	Number of shares
Ordinary shares of £0.0025 each		
At the beginning of the year	91,147	36,458,997
Exercising of share options	1,154	461,788
Allotted, issued and fully paid in the year	41,182	16,472,583
Closing share capital at 31 October 2023	133,483	53,393,368

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23. Share capital (continued)

On 17 March 2023, the Company issued 305,856 new ordinary shares of £0.0025 each to satisfy the exercise of options granted under the Group's 2022 Share Option Scheme.

On 27 March 2023, the company issued a further 155,932 new ordinary shares of £0.0025 each to satisfy the exercise of options granted under the Group's 2022 Share Option Scheme.

During the year ended 31 October 2023, 16,472,583 new ordinary shares were issued. The shares issued had a nominal value of £0.0025 each and were issued at £0.40 each.

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 year, is set out in note 25.

24. Share premium

	31 October 2023 £'000	31 October 2022 £'000
At the beginning of the year	9,727	9,727
Shares issued net of transaction costs	6,063	-
Reduction of Share Premium Account	(10,920)	-
At the end of the year	4,870	9,727

25. Share-based payments

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 have vested as a result of continued employment. The options may be exercised at any point up to the tenth anniversary of the grant date.

The 225,000 share options dated 29 October 2019 have no attached performance conditions and vest subject only to continued employment. They vest after 3 years, or earlier if a vesting event occurs as defined in the rules of the Scheme. They were awarded in relation to joining senior management, providing an equity incentive around the performance of the business. 125,000 of these share options had lapsed due to people leaving the business.

Share options dated 29 October 2019 in the year have lapsed, the options have attached performance conditions linked to adjusted EBITDA. They vest after two years, or earlier if a vesting event occurs in the rules of the Scheme. The options may be exercised at any point up to the tenth anniversary grant date. There were 1,480,000 originally issued and as of the year ended 31 October 2022, 1,480,000 of these share options had lapsed due to people leaving the business.

The 155,932 remaining shares options dated 30 October 2020 have no attached performance conditions and have been issued in exchange for qualifying staff agreeing to accept 20% of their basic salary in equity alternatives.

The 28,805 shares options dated 1 April 2021 have no attached performance conditions and have been issued in exchange for qualifying staff agreeing to accept 20% of their basic salary in equity alternatives.

The 250,000 shares options dated 1 April 2021 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. They were awarded in relation to joining senior management, providing an equity incentive around the performance of the business.

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Notes to the Financial Statements

25. Share-based payments (continued)

The 479,999 shares options dated 26 January 2022 have no attached performance conditions and have been issued in exchange for qualifying staff agreeing to accept 20% of their basic salary in equity alternatives.

The 20,940 shares options dated 29 March 2022 have no attached performance conditions and have been issued in exchange for qualifying staff agreeing to accept 20% of their basic salary in equity alternatives.

During the year ended 31 October 2023, further share options were granted as follows:

807,200 shares options dated 28 March 2023. These options have no attached performance conditions and have been issued in exchange for qualifying staff agreeing to accept 20% of their basic salary in equity alternatives.

Vesting events are defined within the rules of the Scheme as a reorganisation, takeover, sale, listing (except on AIM), asset sale or death of the Option holder.

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

The following options were outstanding as at 31 October 2023:

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	95,676	-	95,676
17 October 2017	0.6926	17 Oct 2019	17 Oct 2027	25,000	-	25,000
29 October 2019	0.2065	29 Oct 2022	29 Oct 2031	100,000	-	100,000
29 October 2019	0.2065	29 Oct 2021	29 Oct 2031	-	-	-
30 October 2020	0.2065	01 Nov 2021	01 Nov 2026	155,932	-	155,932
01 April 2021	0.0025	01 Apr 2021	01 Apr 2026	28,805	-	28,805
01 April 2021	0.1300	01 Apr 2021	01 Apr 2026	-	125,000	125,000
01 April 2021	0.1580	01 Apr 2021	01 Apr 2026	-	-	-
26 January 2022	0.0025	26 Jan 2023	01 Nov 2027	321,411	-	321,411
29 March 2022	0.0025	29 Mar 2023	01 Nov 2027	20,940	-	20,940
28 March 2023	0.0025	28 Mar 2023	01 Nov 2023	75,000	549,467	624,467
				<u>822,764</u>	<u>674,467</u>	<u>1,497,231</u>

The Group recognised a cost of £206,000 (2022: £170,000) relating to share-based payment transactions which are all equity settled, an equivalent amount being transferred to share-based payment reserve. This reflects the fair value of the options, which has been derived through use of the Black-Scholes model.

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. The table below sets out the movement to the share-based payment reserves in the year.

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Notes to the Financial Statements

25. Share-based payment (continued)

Movement in share options

Scheme and grant date	As at 1 Nov 2022 £'000	Issued £'000	Expired £'000	Exercised £'000	Vested £'000	As at 31 Oct 2023 £'000
1 January 2017	264	-	-	-	(264)	-
13 March 2017	55	-	-	-	-	55
17 October 2017	22	-	(10)	-	(2)	10
29 October 2019	107	-	(27)	-	(64)	16
30 October 2020	72	-	-	-	(48)	24
01 April 2021	7	-	(7)	-	-	-
01 April 2021	14	-	-	-	-	14
01 April 2021	14	-	(6)	-	-	8
26 January 2022	94	-	(14)	-	(33)	47
26 January 2022	31	-	(7)	-	-	24
29 March 2022	4	-	-	-	-	4
28 March 2023	-	276	-	-	-	276
	684	276	(70)	-	(412)	478

26. 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:

The Group has previously engaged IN4.0 Access Limited, which provides consulting services. One of the directors of IN4.0 Talent Recruitment Limited is a director of Velocity Composites plc. The Group paid £Nil (2022: £37,270) to IN4.0 Talent Recruitment Limited during the year and had £Nil outstanding at the year end (2022: £Nil). The services related to a specialist software engineer and were at arm's length market rates for such expertise, with the fees being passed directly on to the consultant, less an administration fee.

During the year the Group engaged Northwest Aerospace Alliance, which provides membership and subscription services for the Aerospace Industry. One of the directors of Northwest Aerospace Alliance Limited is a director of Velocity Composites plc. The Group paid £2,009 (2022: £5,775) to Northwest Aerospace Alliance during the year and had £Nil outstanding at the year end (2022: £1,000).

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

	31 October 2023 £'000	31 October 2022 £'000
Related parties	-	(1)

27. 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.

Velocity Composites plc
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Notes to the Financial Statements

28. Capital commitments

At 31 October 2023 the Group had £Nil (2022: £582,000) of capital commitments relating to the purchase of leasehold improvements, plant and machinery and fixture and fittings.

29. Pension commitments

The Group makes contributions to defined contribution stakeholder pension schemes. The contributions for the year of £97,191 (2022: £84,488) were charged to the Consolidated Income statement. Contributions outstanding as at 31 October 2023 were £13,595 (2022: £14,107).

30. Contingent liabilities

As at 31 October 2023 the Group had in place bank guarantees of £Nil (2022: £Nil) in respect of supplier trade accounts.

As at 31 October 2023, National Westminster Bank plc hold a debenture that provides a fixed and floating charge on the assets of the Company.

31. 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 and adjusted for share-based payments. Share-based payments are added back to make the share-based payment charge clear to stakeholders.

	Year ended 31 October 2023 £'000	Year ended 31 October 2022 £'000
Reconciliation from operating loss		
Operating loss	(2,817)	(1,317)
Add back:		
Share-based payments	206	170
Depreciation of property, plant and equipment	297	210
Amortisation	116	53
Depreciation of right-of-use assets under IFRS 16	472	432
Exceptional Administration expenses	120	-
Adjusted EBITDA	(1,606)	(452)

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Financial statements for the year ended 31 October 2023

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Advisers

Company registration number:	06389233
Company Secretary and Registered office:	Andrew Hebb (appointed 23 August 2023) AMS Technology Park Billington Road Burnley Lancashire BB11 5UB
Nominated adviser and broker:	Cavendish Capital Markets Limited One Bartholomew Close London EC1A 7BL
Bankers:	National Westminster Bank plc 1 Hardman Boulevard Manchester M3 3AQ Royal Bank of Scotland plc 1 Hardman Boulevard Manchester M3 3AQ HSBC Bank USA 452 5 th Avenue New York NY 10018
Legal Advisers:	Fieldfisher LLP 17 th Floor No 1 Spinningfields 1 Hardman Street Manchester M3 3EB
Independent Auditor:	Cooper Parry Group Limited Sky View Argosy Road East Midlands Airport Castle Donington Derby DE74 2SA
Registrars:	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA
Financial PR:	SEC Newgate UK Limited 14 Greville Street London EC1N 8SB

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Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting (**Meeting**) of Velocity Composites plc (**Company**) will be held at the offices of AMS Technology Park, Billington Rd, Burnley BB11 5UB on 12 March 2024 at 10 am to consider, and if thought fit, pass the following resolutions. Resolutions 1 to 8 (inclusive) will be proposed as ordinary resolutions and resolutions 9, 10, and 11 will be proposed as special resolutions.

Ordinary Business

Ordinary Resolutions

1. To receive and adopt the Annual Report and Accounts of the Company for the period ended 31 October 2023 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 2023.
3. To re-appoint as a non-executive director David Warren Bailey who retires from office in accordance with the Company's Articles of Association and offers himself for re-appointment.
4. To re-appoint as a non-executive director Annette Rothwell who retires from office in accordance with the Company's Articles of Association and offers herself for re-appointment.
5. 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.
6. 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.
7. To re-appoint Cooper Parry Group Limited as independent auditors of the Company, from the conclusion of this Annual General Meeting until the conclusion of the next general meeting of the Company at which accounts are laid and to authorise the directors to determine the auditors' remuneration.

Special Business

Ordinary Resolutions

8. 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:
 - 8.1 up to a maximum nominal amount (within the meaning of Section 551(3) and (6) of the Act) of £44,494.4733 (such amount to be reduced by the nominal amount allotted or granted under paragraph 8.2 below in excess of such amount); and
 - 8.2 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 £88,988.9467 (such amount to be reduced by any allotments or grants made under paragraph 8.1 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

Notice of Annual General Meeting

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 5 March 2025), 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 Resolutions

9. To resolve that, subject to the passing of resolution 8 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:

- 9.1 to the allotment of equity securities for cash in connection with or pursuant to an offer of, or invitation to acquire, equity securities (but in the case of the authorisation granted under resolution 8.2 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

- 9.2 to the allotment of equity securities or sale of treasury shares (otherwise than under paragraph 9.1 above) up to an aggregate nominal amount of £13,348.342,

such authority to expire at the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 5 March 2025), 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).

10. That, subject to the passing of resolution number 9 above, the directors be and they are hereby empowered, pursuant to section 570 of the Act, to allot equity securities (as defined in section 560 of the Act) for cash pursuant to the authority conferred by resolution number 9 or by way of a sale of treasury shares as if section 561 of the Act did not apply to any such allotment, provided that this power shall be limited to:

- 10.1 the allotment of equity securities up to an aggregate nominal amount of £ 13,348.342; and
 used for the purposes of financing (or refinancing, if such refinancing occurs within six months of the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of

Velocity Composites plc
Financial statements for the year ended 31 October 2023

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Notice of Annual General Meeting

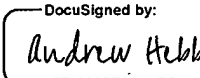
Principles on Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice,

and shall expire upon the expiry of the general authority conferred by resolution 9 above, except that the Company may before such expiry make offers or agreements which would or might require equity securities to be allotted and/or shares held by the Company in treasury to be sold or transferred after such expiry and the directors may allot equity securities and/or sell or transfer shares held by the Company in treasury in pursuance of such offers or agreements as if the power conferred by this resolution 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 5,339,336;
 - 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 12 March 2025, or if earlier, at the conclusion of the next Annual General Meeting of the Company.

By order of the Board

Andrew Hebb
 Company Secretary
 22 January 2024

DocuSigned by:

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

Registered in England and Wales No. 06389233

Notes to Notice of Annual General Meeting

Notes to the AGM

1. Only those shareholders registered in the Company's register of members at: 6.30pm on 8 March 2024; 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.
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. To appoint more than one proxy, please return a separate form in relation to each proxy to the Company's registrar, Equiniti Limited, Aspect House, Spencer Road, Lancing, West Sussex, BN99 6DA, clearly indicating next to the name of each proxy the number and class of shares in respect of which he is appointed. Failure to specify the number of shares to which each proxy appointment relates or specifying a number in excess of those held by the shareholder will result in the proxy appointment being invalid. If you submit more than one valid proxy appointment in respect of the same shares, the appointment received last before the latest time for the receipt of proxies will take precedence.
3. 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. You are advised to read the terms and conditions of use carefully.
4. 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).
5. 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.
6. In order for a proxy appointment made by means of CREST to be valid, the appropriate CREST message (a CREST Proxy Instruction) must be properly authenticated in accordance with Euroclear UK & Ireland Limited's specifications and must contain the information required for such instructions, as described in the CREST Manual. The message must be transmitted so as to be received by Equiniti Limited (ID: RA19) not later than 48 hours before the time fixed for the 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.
7. 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 8 March 2024. In the case of a member that is a company, the revocation notice must

Notes to Notice of Annual General Meeting

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 8 March 2024. If you attempt to revoke your proxy appointment but the revocation is received after the time specified, then your proxy appointment will remain valid.

8. If you are an institutional investor, you may be able to appoint a proxy electronically via the Proxymity platform, a process which has been agreed by the Company and approved by the Registrar. For further information regarding Proxymity, please go to www.proxymity.io. Your proxy must be lodged by 10.00 am on 8 March 2024 in order to be considered valid. Before you can appoint a proxy via this process you will need to have agreed to Proxymity's associated terms and conditions. It is important that you read these carefully as you will be bound by them, and they will govern the electronic appointment of your proxy.
9. As at 6.30pm on 22 January 2024 (the latest practicable date prior to the printing of this notice) (i) the Company's issued share capital consisted of 53,393,368 ordinary shares, carrying one vote each, and (ii) the total voting rights in the Company were 53,393,368. The Company's website will include information on the number of shares and voting rights.
10. Please note that as shareholders may 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 8 March 2024 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 8 March 2024 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.

Notes to Notice of Annual General Meeting

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

Resolution 1 **Report and accounts**

The directors will present the audited financial statements of the Company for the period ended 31 October 2023 together with the directors' report and the auditor's report on those financial statements.

Resolution 2 **Remuneration report**

The directors will present the remuneration report for the period ended 31 October 2023 for approval. This vote is not mandatory but is considered best practice.

Resolutions 3 to 6 inclusive **Re-election of directors**

Under the Articles of Association of the Company, all directors appointed by the Board after the first annual general meeting shall retire at the annual general meeting following appointment and shall then be eligible for re-election and at least one third of the total number of directors shall retire at the annual general meeting and shall then be eligible for re-election. Brief biographical details of each of the directors can be found in the Annual Report and Accounts and on the Company's website www.velocity-composites.com.

Resolution 7 **Re-appointment of auditors and fixing of auditors' remuneration**

At every Annual General Meeting at which accounts are laid before shareholders, the Company is required to appoint an auditor to hold office from the end of the meeting until the next such meeting. This Resolution 7 proposes that Cooper Parry Group Limited be re-appointed as the Company's auditors to hold office until the next Annual General Meeting and that the directors be authorised to set their remuneration.

Resolution 8 **General authority to allot new shares**

Resolution 8, if passed, will grant authority for the directors to issue new shares within the best practice limits set by The Investment Association. The authority set out in paragraph 8.1 would permit allotments of new shares up to approximately one-third of the current issued share capital. The authority set out in paragraph 8.2 would permit allotments of new shares up to approximately two-thirds of the current issued share capital but would apply only in the case of an allotment of shares made pursuant to a rights issue (pre-emptive offer). The power granted by this resolution will expire on the conclusion of next year's Annual General Meeting or, if earlier, on 12 March 2024.

Resolution 9 **General disapplication of pre-emption rights**

Resolution 9, which is proposed as a special resolution, will, if passed, give the directors power, pursuant to the authority to allot granted by resolution 8, to allot equity securities (as defined by section 560 of the Act) or sell treasury shares for cash without first offering them to existing shareholders in proportion to their existing holdings: (a) in relation to pre-emptive offers and offers to holders of other equity securities if required by the rights of those securities or as the directors otherwise consider necessary, up to a maximum nominal amount of £44,494.4733 which represents approximately one-third of the current issued share capital (excluding treasury shares) as at 22 January 2024 (being the latest practicable date prior to the publication of this notice) and, in relation to rights issues only, up to a maximum additional amount of £88,988.9467 which represents approximately two thirds of the current issued share capital (excluding treasury shares) as at 22 January 2024 (being the latest practicable

Notes to Notice of Annual General Meeting

date prior to the publication of this notice); and (b) in any other case, up to a maximum nominal amount of £13,348.342 which represents approximately 10 per cent of the Company's issued ordinary share capital (excluding treasury shares) as at 22 January 2024 (being the latest practicable date prior to the publication of this notice).

The power granted by this resolution will expire on the conclusion of the next Annual General Meeting of the Company (or, if earlier, on 12 March 2025). The directors have no present intention to exercise the authority conferred by this resolution.

Resolution 10

Disapplication of statutory pre-emption rights to finance an acquisition or other capital investment

In addition to the powers granted by Resolution 9, Resolution 10 will empower the directors to allot ordinary shares in the capital of the Company for cash on a non-pre-emptive basis:

- up to a maximum nominal value of £13,348.342, representing approximately 10 per cent of the issued ordinary share capital of the Company as at 22 January 2024 (the latest practicable date before publication of this document); and
- used only for the purposes of financing (or refinancing, if such financing occurs within six months of the original transaction) a transaction which the directors determine to be an acquisition or other capital investment of a kind contemplated by the Statement of Principles of Disapplying Pre-Emption Rights most recently published by the Pre-Emption Group prior to the date of this notice.

The rights of pre-emption disapplication sought pursuant to Resolutions 9 and 10 represent, in aggregate, approximately 20% of the issued ordinary share capital of the Company as at 22 January 2024.

Resolution 11 – authority to make market purchases of own shares

Resolution 11, which is proposed as a special resolution will give the Company authority to purchase its own shares in the market up to a limit of approximately 10% of its issued ordinary share capital (excluding treasury shares) as at 22 January 2024, being the latest practicable date prior to the publication of this notice. The maximum and minimum prices are stated in the resolution. Whilst they do not currently have any intention to utilise this authority the directors believe that it is advantageous for the Company to have this flexibility to make market purchases of its own shares. The directors will exercise this authority only if they are satisfied that a purchase would result in an increase in expected earnings per share and would be in the interests of shareholders generally. In the event that shares are purchased, they would either be cancelled (and the number of shares in issue would be reduced accordingly) or, in accordance with the Companies Act 2006, be retained as treasury shares. The Company may consider holding repurchased shares pursuant to the authority conferred by this resolution as treasury shares. This gives the Company the ability to transfer treasury shares quickly and cost effectively and would provide the Company with additional flexibility in the management of its capital base.