

# Financial statements Velocity Composites Limited

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For the year ended 31 October 2016



Registered No. 06389233

## Company information

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<b>Company registration number :</b>	06389233
<b>Registered office :</b>	AMS Technology Park Billington Road Burnley Lancashire BB11 5UB
<b>Directors :</b>	Christopher Banks Jonathan Karl Bridges Gerard Antony Johnson Darren James Ingram Mark Richard Mills (appointed 10 February 2016) Peter Graham Turner (appointed 10 February 2016) Alan Mark Kershaw (appointed 31 October 2016)
<b>Secretary :</b>	Alan Mark Kershaw (appointed 31 October 2016)
<b>Bankers :</b>	National Westminster Bank Ewood House Walker Office Park Walker Road Blackburn BB1 2QE  Royal Bank of Scotland 1 Hardman Boulevard Manchester M3 3AQ
<b>Solicitors :</b>	DWF LLP 1 Scott Place 2 Hardman Street Manchester M3 3AA
<b>Independent Auditor :</b>	Grant Thornton UK LLP Chartered Accountants & Statutory Auditor 4 Hardman Square Spinningfields Manchester M3 3EB

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## Chairman's Statement

### For the year ended 31 October 2016

I am delighted to report on the financial position of Velocity Composites Limited for the year ended 31 October 2016. The outturn for the year ending 31<sup>st</sup> October 2016 was in line with expectations, given the Company's intentions to pursue customers engaged on aircraft programmes in the ascendancy in terms of build rates, whilst continuing to reduce the Company's reliance on platforms reaching the end of their build programmes.

Revenue in the year increased to £14.6m (2015: £14.5m) and gross profit was £3.5m (2015: £3.5m) which was a strong result given the reduction in volumes from some older programmes, whilst other new programmes have not yet reached maximum rates. Similarly, the Brexit vote sent currency markets into volatile territory and whilst the Company had identified this risk it could not change some of its arrangements as quickly as it would have liked, and for this reason, increased costs were suffered which has affected profitability. As a result of the above, the Company has incurred a loss before tax for the year of £355k (2015: profit £1,254k).

The Board has continued to drive the Company's growth whilst recognising that it takes time to identify suitable customers, produce the business case for customers to demonstrate the cost savings Velocity can offer, secure contractual agreements and become approved for new aircraft platforms. During the year, the Company increased its investment and expenditure in terms of client acquisition costs, building improvements and approvals which has naturally affected profitability in the short term, and is encouraged that this strategy is bearing fruit. One of the highlights was the appointment of Alan Kershaw as Chief Financial Officer. Alan qualified with PricewaterhouseCoopers and has enjoyed a career which has included roles with JP Morgan and other public and private companies.

In the second half of the financial year, Velocity secured a new contract with GE Aviation for the A350-900 aircraft. As is our stated strategy, Velocity will invest where it can align itself with specific customer demand and for that reason, we committed to opening new premises in Fareham immediately after this contract was signed. This facility (which is expected to be fully operational in March 2017) will service both this new important customer and provide a platform from which to win new customers in the area, whilst proving the Company's ability to replicate the Velocity production model in multiple locations.

This approach of identifying, securing and building upon a specific customer requirement is replicable in other territories, and it is the Company's intention to secure growth capital to facilitate its expansion into other countries where such customers can be identified.

Going forward, the customers Velocity seeks to work with, on platforms where rates are increasing, tend to contract for multiple years, as the customers appreciate the investment Velocity will make in terms of premises, staff and infrastructure to serve them. In turn, this type of relationship with our customers has the advantage of providing Velocity with visibility of future earnings and provides a stronger platform for these customer relations.

Lastly, I would like to thank each member of the team at Velocity for every individual's contribution towards the Company's continuing success. A great many talented people work hard every day to help our customers ensure that they, in turn, meet and exceed their customers' requirements in terms of cost and their ability to meet challenging build rates.

Mark Mills  
Chairman  
20 February 2017



# Chief Executive Officer's Report

For the year ended 31 October 2016

## Overview

The year under review was one of positive change and growth for the Company, despite the challenges faced as a result of this steep growth trajectory and the impact of the Brexit vote in June 2016. The financial results of the Company reflect the investment undertaken in the past year in preparation of positioning the Company for meeting the predicted significant increase in aerospace composites to meet the global demand for new aircraft.

As a result, total revenue has increased from £14.5m to £14.6m (0.6%), and despite the exchange rate impact in the year and the overall loss arising, the Company results have begun to maintain a more positive course. Importantly, the composition of our revenues is more inclined towards customers who are manufacturing aircraft platforms on an ascending demand rate basis. The balance sheet remains appropriate to the size of the Company at its current stage of development, given the Company's exclusive focus on serving the aerospace sector.

## Customer demand

This year saw significant interest from both existing and new customers in our total kit solution. We were involved in over forty different potential initiatives with our customers and potential customers across a wide range of civilian and military aircraft, largely dominated by the Airbus suite of aircraft, following receipt of our Airbus approval in the previous financial year. Whilst not all were pursued by the Company, it continued to demonstrate the interest in our products and services.

This interest also resulted in agreement being reached with GE Aviation to supply its programmes, and allowed the Company to move ahead with its new facility in Hampshire. This new facility provides us with the opportunity to replicate the Velocity model at a second site and allows us to support other customers in the South of England and beyond.

## The Future

The increasing programme rates will see production challenges across the aerospace manufacturing supply chain, and Velocity is well placed to manage this challenge on behalf of our customers.

Whilst looking forward, it is also important that we remain focused on occupying the niche within the aerospace manufacturing supply chain, and continuing to deliver our high quality kitted solutions to our customers – “any material, any supplier, engineered, delivered on time to the lineside in the form of use”.



**Jonathan Bridges**  
Chief Executive Officer  
20 February 2017

## Company Review

### The Company

Velocity has continued to grow since its inception to position itself at a strategically important and almost unique interface between the chemical manufacturers of composite raw materials and the aerospace structural component makers, providing essential logistics and supply chain efficiencies to its customer base.

Velocity offers a compelling business proposition to its customers in an immature area of the supply chain that is often found to be inefficiently managed in-house. This market has traditionally been served through a diverse production process often in non-core factory functions, resulting in poor efficiency, material waste and long delivery times. Velocity offers kits delivered in the form of use giving attractive material and efficiency cost savings to its customers, who are typically Tier 1 manufacturers, looking to outsource this area of the supply chain to Velocity.

The aerospace market operates on very long time frames, whereby products are often specified for up to 20 years. Generally, customers provide Velocity a good view of expected future production patterns. The business model should offer good cash flow characteristics, based on decent aerospace margins, attractive working capital terms and relatively low equipment and capital requirements.

The group has a strong management team including original founders – all of whom are specialist composites aerospace engineers. The management team has recently been bolstered by the addition of Mark Mills, an experienced and well-respected chairman, by Peter Turner, an experienced aerospace manufacturing businessman who has been a consultant to the company since inception and Alan Kershaw, a financial professional with larger company experience.

### Composite Materials in Aerospace: the backdrop

The use of composites has rapidly increased over recent years and is set to increase further. The use of composites in the aerospace sector is being driven by the need to reduce cost per passenger mile (reducing weight, increasing range) as well as the requirement to reduce emissions. Composites now form nearly half of the airframe of the Boeing 787, compared with 12% in the Boeing 777. The recently introduced A350 also contains just over 50% composite content by weight.

Composites have important demand drivers such as:

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

## **Company Review**

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

The entire aerospace composites industry is facing a challenge to scale up its production as components transition from being niche and batch built parts towards volume manufacture. The composites supply chain and logistics will need investment to enable this growth. Indeed, several UK SMEs have lost out on places on major programmes due to capacity limitations and an inability to scale quickly enough.

Velocity is in an almost unique position in this supply chain to deliver its solution enabling the supply chain to scale up and meet this demand.

## Board of Directors

### Mark Mills – Non-Executive Chairman

Mark has over 25 years of City and commercial experience and was Founder and Chief Executive of Cardpoint Plc, which he floated on AIM and grew it both organically and through acquisition to become one of the largest cash machine deployers in the world. Mark has been Non-Executive Chairman of six private companies in recent years, enabling three of them to achieve successful sales to other companies or attract significant investment. Mark is currently Chairman of Mini Cam Enterprises Limited which undertook an MBO in 2015 by Lloyds Development Capital.

### Peter Turner – Senior Non-Executive Director

Peter has developed and grown businesses in the aerospace industry for over 35 years in the areas of hard and soft tooling, and component manufacture. His group of companies, led by Brookhouse Holdings plc, prior to sale in 2004 had turnover of over £36 million, employed over 500 personnel and had BAE Systems and Airbus Industries as two of its key customers.

### Jonathan Bridges – Chief Executive Officer

Jon has 19 years experience within the advanced composites industry and is an experienced composite engineer.

Previously, Jon was an Aerospace and Lean Solutions Specialist at Cytec Process Materials where he was responsible for direct sales support of UK and European based clients.

Prior to this, Jon was a manufacturing engineer for Safran Nacelles where he was responsible for the manufacturing function for a growing, highly loaded aerospace unit supplying multiple assembly lines.

### Gerard Johnson – Executive Officer

Gerard is a Composite Manufacturing Engineer, having worked at Aerospace sites in the UK, Europe and USA on a consultancy basis prior to setting up Velocity in 2007. Gerard's career started at Brookhouse Patterns & Composites Ltd, initially serving his time as an apprentice but quickly progressing through Production supervisor roles to working in the Engineering Department.

### Christopher Banks – Executive Officer

Chris is a Composite Manufacturing Engineer with over 20 years experience in aerospace composites. Prior to setting up Velocity in 2007, Chris's career included roles at Safran Aero Composites and other sites on a consultancy basis across the UK, Europe and USA.

### Darren Ingram – Chief Operating Officer

Darren has extensive experience of the aerospace sector, working for several of the world's leading aerospace companies.

Prior to joining Velocity Composites, Darren worked for Safran Aircelle as the purchasing director, a Burnley-based Aerospace company, heading up its supply chain functions.

Darren also has strong experience of working in both America and China. He held several roles within GE Aviation, taking operational responsibility for sites in both the UK and China.

Prior to this Darren worked for Smiths Aerospace (2001) as operations manager with responsibility for site based operations and developing a site in China.

### Alan Kershaw – Chief Financial Officer

Alan, a Chartered Accountant, is an accomplished financial executive with over 25 years' experience of shaping and leading the finance functions of companies, both privately and publicly held.

Alan has previously served as Finance Director for Ultrasis plc, an international provider of health care to retail and corporate clients and as Finance and Operations Director at WH Ireland Group Plc, a financial services provider to retail and corporate clients. Whilst with WH Ireland, Alan was shortlisted for the North West Finance Director of the Year in 2012. Alan was also instrumental in successfully establishing JP Morgan Invest (UK), a subsidiary within JP Morgan Chase, serving as its Vice President – Head of Technology and Operations.

# Strategic Report

For the year ended 31 October 2016

The following pages should be read in conjunction with the Chairman and Chief Executive Officer's Reports which form a part of this Strategic Report.

## Overview

The Company supports the aerospace manufacturing supply chain by providing composite material and related kitted products. Whilst the Company's income is predominantly derived from activities conducted in the UK, a number of our customers are situated worldwide.

## Strategy

The Company's strategic focus remains on delivering our kitted products to our customers to meet their increasing demand levels and growing our business through exploring opportunities with our existing customers and new prospective customers.

## Financial key performance indicators

The Company monitors its financial performance using a number of appropriate indicators. These are:

	2016 £m	2015 £m	Comments
Revenue	14.61	14.53	Revenue delivered a stable result whilst moving from dependency on historic aircraft platforms to those more recently introduced.
Gross profit	3.48	3.48	Alongside the revenue performance, gross profit has remained stable, reflecting a consistent, quality operational delivery throughout the years.
Net (loss) / profit	(0.27)	1.02	Exchange rate costs and investment for future growth has impacted on the bottom line, but is clearly understood and has been mitigated for future trading where possible.
Total assets	6.13	4.54	Increasing trading and exchange rate reductions have resulted in increases to current assets.
Total liabilities	5.52	3.62	Trade liabilities have increased as a result of increasing trading levels and exchange rate reductions.

## Future outlook

The Board is pleased with the recent progress made in moving the Company towards our strategic goals. We will look to continue to achieve and expand the business, and by doing so enable us to be well positioned to meet the needs of our customers in the aerospace manufacturing supply chain in the short, medium and long term.

## Financial risk management

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

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

### Liquidity risk

The Company seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs, by the use of invoice discounting, loans and other bank facilities, and to invest cash assets safely and profitably.

## Strategic Report

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### *Credit risk*

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

### *Interest rate risk*

The Company seeks to manage its interest rate risk through minimising its exposure wherever possible and by regularly reviewing the interest rates available within the financial marketplace.


### *Exchange rate risk*

The Company seeks to manage the exposure to exchange rate fluctuation it experiences with purchasing raw materials and selling finished kits in Sterling, US Dollars and Euros by regularly reviewing the future projected exchange rates. The Directors during the year have extended the Company's approach to natural currency hedging across its business activities, and are considering further changes to mitigate any remaining exposure by utilising derivative financial instruments such as forward currency contracts.

### **Principal risks and uncertainties**

The principal activity risks and uncertainties of the business are considered to be the loss of key contracts. Demand has remained firm in the short term despite the impact of BREXIT, and the Company's view remains that the demand levels within aerospace manufacturing will continue to increase due to the aircraft production backlogs which currently are estimated to be between five and ten years, and the increasing use of composites within aerospace manufacturing. Despite this, the business has been able to continue to grow its customer base. Last year's maintenance of revenue and increasing gross profitability was due in the main to the Company starting to deliver Carbon Fibre and Film Adhesive material component kits for the Aerospace industry, which is seen as an area of significant future growth for the business.

The Board is also conscious of the risk of exclusively operating in the aerospace sector, foregoing many offers from automotive manufacturers for example, and is comfortable that the risk is mitigated by the forward order books of the aircraft manufacturers and strength of the growing aerospace market. Similarly, going forward, there will be exposure to foreign currencies and the Company will seek to mitigate the effect of exchange rate fluctuations where it can.



Alan Kershaw  
Chief Financial Officer  
20 February 2017

## Directors' Report

For the year ended 31 October 2016

The directors present their report and the audited financial statements for the year ended 31 October 2016.

### Principal activities

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

### Review of business and future developments

The Board has continued the development and growth of the business, as referenced in the Strategic Report on pages 8 to 9, 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 Strategic Report on pages 8 to 9.

### Basis of preparation of the financial statements

The financial statements have been prepared for the first time in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union. In accordance with IFRS, the financial statements reflect the results of the Company for the year ended 31 October 2016. Further details are provided in notes 1 and 2 to the financial statements.

### Directors

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

	At 31 October 2016	At 31 October 2015
Christopher Banks	33	33
Jonathan Karl Bridges	33	33
Gerard Antony Johnson	33	33
Darren James Ingram	-	-
Alan Mark Kershaw (appointed 31 October 2016)	-	-
Mark Richard Mills (appointed 10 February 2016)	-	-
Peter Graham Turner (appointed 10 February 2016)	-	-

### Going concern

Having made reasonable enquiries, the Directors are of the opinion that the Company has sufficient resources to continue in operational existence for the foreseeable future and hence these financial statements have been prepared on a going concern basis. This includes undertaking forecasting projections for the next 3-5 years to project the future growth of the Company, and flexing these assumptions through sensitivity analyses. We have also discussed with our bankers and other financial advisers the resultant trading performance and they have indicated a strong desire to continue to support the funding of these growth activities.

### Corporate governance

The Directors are committed to continuing to develop the corporate governance framework of the Company in order to meet the high standards that it expects, as these are critical to business integrity and to maintaining trust with its customers, suppliers, employees and other important stakeholders.

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

## Directors' Report

### Board responsibilities

The Board is responsible for the overall strategy and direction of the Company and for approving significant capital and development plans, management performance and significant financial matters. It monitors exposure to key business risks, reviews the strategic direction of the Company, considers employee issues and key appointments.

### Statement of directors' responsibilities

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

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

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

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

### 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 company'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 company's auditor is aware of that information.

### Auditor

Under section 487(2) of the Companies Act 2006, Grant Thornton UK LLP will be deemed to have been reappointed as auditor 28 days after these financial statements were sent to members or 28 days after the latest date prescribed for filing the accounts with the registrar, whichever is earlier.

This report was approved by the board on 20 February 2017 and signed on its behalf by:

Alan Kershaw  
Company Secretary



## Directors' Remuneration Report

This report to shareholders for the year ended 31 October 2016 sets out the Company's remuneration policies.

### Remuneration structure for 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 Company.

#### Remuneration Policy

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

#### Basic Salary

Salaries are reviewed annually and are benchmarked against businesses acting within the aerospace manufacturing sector. The review process is undertaken having regard to the development of the Company and the contribution that individuals will continue to make as well as the need to retain and motivate individuals.

#### Non-Executive Directors

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

The annual fee levels as at 31 October 2016 were:

- Chairman: £90,000 (2015: £NIL)
- Non-Executive Director: £8,138 (2015: £NIL)

There is no right to any further benefits in kind.

Directors' emoluments for the year ended 31 October 2016 are summarised below:

	Year ended 31 October 2016	Year ended 31 October 2015
	£	£
<i>Executive</i>		
Jonathan Bridges	103,033	102,826
Christopher Banks	103,183	103,017
Gerard Johnson	104,238	104,033
Darren Ingram	111,372	-
Alan Kershaw	60,015	-
<i>Non-Executive</i>		
Mark Mills	90,000	-
Peter Turner	8,138	-
<b>Total</b>	<b>579,979</b>	<b>309,876</b>

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

## **Independent auditor's report to the members of Velocity Composites Limited**

We have audited the financial statements of Velocity Composites Limited for the year ended 31 October 2016 which comprise the statement of comprehensive income, the statement of financial position, the statement of changes in equity, the statement of cash flows and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

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

## **Respective responsibilities of directors and auditor**

As explained more fully in the Directors' Responsibilities Statement set out on page 11, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the financial statements**

A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeukprivate](http://www.frc.org.uk/auditscopeukprivate).

## **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the state of the company's affairs as at 31 October 2016 and of its loss for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

## **Opinion on other matter prescribed by the Companies Act 2006**

In our opinion the information given in the Strategic Report and Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

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

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where 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 financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

*Grant Thornton UK LLP*

Carl Williams  
Senior Statutory Auditor  
for and on behalf of Grant Thornton UK LLP  
Statutory Auditor, Chartered Accountants  
Manchester

*22/2/17*

## Statement of total comprehensive income

	Note	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
Revenue	4	14,614	14,528
Cost of sales		(11,135)	(11,045)
<b>Gross profit</b>		<b>3,479</b>	<b>3,483</b>
Administrative expenses		(3,770)	(2,215)
Other operating income		22	24
<b>Operating (loss)/profit</b>	<b>5</b>	<b>(269)</b>	<b>1,292</b>
Finance expense	7	(86)	(38)
<b>(Loss)/profit before tax from continuing operations</b>		<b>(355)</b>	<b>1,254</b>
Income tax income/(expense)	8	81	(238)
<b>(Loss)/profit for the period and total comprehensive (loss) / income</b>		<b>(274)</b>	<b>1,016</b>
<b>(Losses)/Earnings per share - Basic (£) from continuing operations</b>	<b>9</b>	<b>(£2,768)</b>	<b>£10,263</b>
<b>(Losses)/Earnings per share - Diluted (£) from continuing operations</b>	<b>9</b>	<b>(£2,768)</b>	<b>£10,263</b>

The notes on pages 19 to 37 form part of these financial statements

## Statement of financial position

	Note	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
<b>Non-current assets</b>				
Property, plant and equipment	10	773	935	892
<b>Total non-current assets</b>		<b>773</b>	<b>935</b>	<b>892</b>
<b>Current assets</b>				
Inventories	11	2,345	1,405	1,120
Trade and other receivables	12	2,942	2,034	1,160
Corporation tax		29	-	-
Cash and cash equivalents	13	39	161	1,389
<b>Total current assets</b>		<b>5,355</b>	<b>3,600</b>	<b>3,669</b>
<b>Total assets</b>		<b>6,128</b>	<b>4,535</b>	<b>4,561</b>
<b>Current liabilities</b>				
Trade and other payables	14	5,187	2,853	3,667
Grant income deferred	15	43	65	59
Corporation tax		-	240	134
Net obligations under finance leases	16	92	114	92
<b>Total current liabilities</b>		<b>5,322</b>	<b>3,272</b>	<b>3,952</b>
<b>Non-current liabilities</b>				
Deferred tax liabilities	17	97	149	151
Net obligations under finance leases	16	106	198	228
<b>Total non-current liabilities</b>		<b>203</b>	<b>347</b>	<b>379</b>
<b>Total liabilities</b>		<b>5,525</b>	<b>3,619</b>	<b>4,331</b>
<b>Net assets</b>		<b>603</b>	<b>916</b>	<b>230</b>
<b>Equity attributable to equity holders of the company</b>				
Share capital	18	-	-	-
Retained earnings		603	916	230
<b>Total equity</b>		<b>603</b>	<b>916</b>	<b>230</b>

The notes on Pages 19 to 37 form part of these financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 20 February 2017 and were signed on its behalf by

Alan Kershaw  
 Company Secretary



Co No: 06389233

## Statement of changes in equity

	Share capital £'000	Retained earnings £'000	Total equity £'000
As at 31 October 2014	-	230	230
Profit for the year	-	1,016	1,016
Total comprehensive income for the year	-	1,016	1,016
Dividend payment	-	(330)	(330)
Total transactions with owners	-	(330)	(330)
As at 31 October 2015	-	916	916
Profit for the year	-	(274)	(274)
Total comprehensive loss for the year	-	(274)	(274)
Dividend payment	-	(39)	(39)
Total transactions with owners	-	(39)	(39)
As at 31 October 2016	-	603	603

The notes on Pages 19 to 37 form part of these financial statements

## Statement of cash flows

	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
<b>Operating activities</b>		
Profit for the year	(274)	1,016
Taxation	(81)	238
Loss on disposal of assets	1	9
Interest charge	86	38
Depreciation of property, plant and equipment	281	198
Exchange (gain)/loss on cash and cash equivalents	-	-
Grant income amortization	(22)	(16)
	(9)	1,483
(Increase)/Decrease in trade and other receivables	(908)	(874)
(Increase)/Decrease in inventories	(940)	(285)
Increase/(Decrease) in trade and other payables	2,334	(814)
<b>Cash generated from operations</b>	477	(490)
Income taxes paid	(240)	(134)
<b>Net cash flows from operating activities</b>	237	(624)
<b>Investing activities</b>		
Purchase of property, plant and equipment	(120)	(250)
<b>Net cash used in investing activities</b>	(120)	(250)
<b>Financing activities</b>		
Interest paid	(86)	(38)
Grants received	-	22
Repayment of finance lease capital	(114)	(8)
Dividends paid	(39)	(330)
<b>Net cash used in financing activities</b>	(239)	(354)
<b>Net decrease in cash and cash equivalents</b>	(122)	(1,228)
Cash and cash equivalents at 01 November	161	1,389
<b>Cash and cash equivalents at 31 October</b>	39	161

## Notes to the Financial Statements

### 1. General information

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

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

### 2. Accounting policies

#### *Basis of preparation*

During the year, the Company has adopted for the first time International Financial Reporting Standards as adopted by the European Union.

The financial statements have therefore been prepared in compliance with the measurement and recognition criteria of IFRS as adopted by the European Union and in accordance with IFRS 1 "First-time Adoption of International Financial Reporting Standards". The date of transition to IFRS was 1 November 2013. The disclosure required by IFRS 1 concerning the transition from United Kingdom Generally Accepted Accounting Practice to International Financial Reporting Standards is included in note 21. No transitional exemptions have been adopted.

These financial statements have been prepared on a going concern basis and using the historical cost convention, as modified by the revaluation of certain items, as stated in the accounting policies. These policies have been consistently applied to all periods presented, unless otherwise stated.

The financial statements are presented in sterling and have been rounded to the nearest thousand (£'000).

#### *Going concern*

Having made reasonable enquiries, the Directors are of the opinion that the Company has sufficient resources to continue in operational existence for the foreseeable future and hence these financial statements have been prepared on a going concern basis. This assessment has been supported by the preparation and consideration of detailed forecasts for the two years to 31 October 2018 together with projections on that basis to 31 October 2020 to project the future growth of the Company, and flexing these forecasts through sensitivity analyses.

The forecasts include consideration of the cash position of the Company and the appropriate utilisation of the various facilities available for funding this growth. In addition, the Company now has commercial agreements in place which allow it to transact with its customers in the currency of the material purchase, thereby allowing currency risk to pass through the Company, which the Board believes will assist in reducing the cash outflows in the forthcoming period. We have also discussed with our bankers and other financial advisers the resultant trading performance and they have indicated a strong desire to continue to support the funding of these growth activities.

#### *Changes in accounting policies*

*New standards, interpretations and amendments effective in the period ended 31 October 2016:*

- IFRIC Interpretation 21 Levies – provides guidance on when to recognise a liability for a levy imposed by government.
- Amendments to IAS 36: Recoverable Amount Disclosures for Non-Financial Assets – amends the disclosure requirements in IAS 36 Impairment of Assets with regard to the measurement of the recoverable amount of impaired assets.
- Annual improvements to IFRSs 2010 - 2012 cycle – the annual improvement cycle contains amendments which are usually clarifications. However, there are two changes which are more significant; the amendments to IFRS 8 'Operating Segments – Aggregation of operating segments' requires an entity to disclose the judgements made in applying the criteria to aggregate operating segments and the amendments to IAS 24 'Related Party Disclosures – Key management personnel' require the reporting entity to clarify whether a management entity providing key management personnel services to the reporting entity is a related party to the reporting entity.

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 2. Accounting policies (continued)

##### *Revenue Recognition*

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

##### *Inventory*

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

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

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

##### *Expenditure*

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

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

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

##### *Property, plant and equipment*

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

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

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

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 2. Accounting policies (continued)

##### *Foreign currency translation*

Transactions entered into by the company in a currency other than Sterling, the currency of the primary economic environment in which it operates (the “functional currency”) are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the Statement of Financial Position date. Exchange differences arising on the retranslation of unsettled monetary assets and liabilities are recognised immediately in profit or loss.

##### *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. 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 Company. The Company does not use derivative financial instruments such as forward currency contracts, interest rate swaps or similar instruments. The Company does not issue or use financial instruments of a speculative nature.

##### *Financial assets*

The Company classifies its financial assets into the categories, discussed below and based upon the purpose for which the asset was acquired. The Company has not classified any of its financial assets as held to maturity.

##### *Loans and receivables*

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise principally through the provision of services to customers (e.g. trade receivables), but also incorporate other types of contractual monetary asset. They are initially recognised at fair value plus transactions costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortised cost using the effective interest method, less provision for impairment.

The Company’s loans and receivables comprise trade and other receivables included within the statement of financial position.

Cash and cash equivalents include cash held at bank, bank overdrafts and marketable securities of very short-term maturity (typically three months or less) which are not expected to deteriorate significantly in value until maturity. Bank overdrafts are shown within loans and borrowings in current liabilities in the statement of financial position.

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

##### *Financial liabilities*

The Company classifies its financial liabilities as other financial liabilities which comprise trade payables and other short-term monetary liabilities, which are initially recognised at fair value and subsequently carried at amortised cost using the effective interest method. The Company does not currently have any borrowings.

# Notes to the Financial Statements

Notes to the financial information (continued)

## 2. Accounting policies (continued)

### *Sharc Capital*

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

### *Leased Assets*

#### Finance Lease

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

#### Operating Lease

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

### **Current taxation**

The tax currently payable is based on the taxable profit of the period. Taxable profit differs from profit as reported in the Statement of Comprehensive income because it excludes items of income and expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Company's liability for current tax is calculated using rates that have been enacted or substantively enacted by the statement of financial position date.

### **Deferred taxation**

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

- the initial recognition of goodwill;
- the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit.

Recognition of deferred tax assets is restricted to those instances where it is probable that taxable profit will be available against which the difference can be utilised.

The amount of the asset or liability is determined using tax rates that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the deferred tax liabilities or assets are settled or recovered. Deferred tax balances are not discounted.

Deferred tax assets and liabilities are offset when the Company has a legally enforceable right to offset current tax assets and liabilities and the deferred tax assets and liabilities relate to taxes levied by the same tax authority on either:

- the same taxable company; or
- different company entities which intend either to settle current tax assets and liabilities on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets and liabilities are expected to be settled or recovered.

### **Operating Segments**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker has been identified as the Board of Directors. The Company supplies a single type of product into a single industry and so has a single segment. Additional information is given regarding the revenue receivable based on geographical location of the customer.

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

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 2. Accounting policies (continued)

##### *Critical accounting estimates and judgements*

The Company 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.

##### *Judgements and accounting estimates and assumptions*

###### Useful lives of depreciable assets

Management reviews the useful lives of depreciable assets at each reporting date. At the reporting date management assesses that the useful lives represent the expected utility of the assets to the Company. Actual results, however, may vary due to unforeseen events.

#### 3. Financial instruments & Risk Management

The Board has overall responsibility for the determination of the Company'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 Company's competitiveness and flexibility. The Company reports in Sterling. All funding requirements and financial risks are managed based on policies and procedures adopted by the Board of Directors. The Company does not use derivative financial instruments such as forward currency contracts, interest rate swaps or similar instruments. The Company does not currently issue or use financial instruments of a speculative nature but as described in the strategic report, management are exploring potential utilisation of such instruments in the future. The Company 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 Company.

##### *Financial instruments*

Financial instruments by category	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000	Year ended 31 October 2014 £'000
<b>Current assets</b>			
Trade and other receivables – loans and receivables	2,728	1,728	950
Trade and other receivables – non financial assets	214	306	210
	<u>2,942</u>	<u>2,034</u>	<u>1,160</u>
Cash and cash equivalents – loans and receivables	39	161	1,389
Total loans and receivables	<u>2,767</u>	<u>1,889</u>	<u>2,339</u>
<b>Current liabilities</b>			
Trade and other payables – at amortised cost	4,815	2,692	3,410
Trade and other payables – non financial liabilities	372	161	257
	<u>5,187</u>	<u>2,853</u>	<u>3,667</u>

# Notes to the Financial Statements

Notes to the financial information (continued)

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

### *Risk Management*

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

#### a) Market risk

##### *Foreign exchange risk*

The Company is exposed to transaction foreign exchange risk as it operates within the UK, USA and Europe. Transactions are denominated in Sterling, US Dollars and Euros. The Company now has commercial agreements in place which allow it to transact with its customers in the currency of the material purchase, thereby allowing currency risk to pass through the Company.

The carrying value of the Company's foreign currency denominated assets and liabilities comprise the inventories in note 11, trade receivables in note 12, cash in note 13 and trade payables in note 14.

The majority of the company's financial assets are held in Sterling but movements in the exchange rate of the US Dollar or Euro against Sterling have an impact on both the result for the year and equity. The Company considers this residual risk at the year end to be insignificant.

##### *Interest rate risk*

The Company carries no significant borrowings apart from leases. Therefore with the exception of the invoice discounting facility which attracts an interest rate of 2.25%, the directors consider that there is no significant interest rate risk.

#### b) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. In order to minimise this risk the Company 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 Company results in trade receivables which the management consider to be of low risk, other receivables are likewise considered to be low risk. However, one of the customers comprises in excess of 10% of the revenue earned by the Company (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.

## Notes to the Financial Statements

### Notes to the financial information (continued)

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

##### c) Liquidity risk

The Company 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 Company also has access to banking facilities including overdraft and invoice finance which it utilises in order to manage its liquidity risk.

2014	Within 1 year £'000	One to two years £'000	Two to five years £'000	Over five years £'000
Finance lease liability	116	106	187	-
Trade payables	2,694	-	-	-
Accruals	285	-	-	-
Director's loans	200	-	-	-
Other payables	231	-	-	-
Invoice discounting facility	-	-	-	-
2015	Within 1 year £'000	One to two years £'000	Two to five years £'000	Over five years £'000
Finance lease liability	133	118	131	-
Trade payables	1,851	-	-	-
Accruals	327	-	-	-
Director's loans	-	-	-	-
Other payables	385	-	-	-
Invoice discounting facility	129	-	-	-
2016	Within 1 year £'000	One to two years £'000	Two to five years £'000	Over five years £'000
Finance lease liability	118	92	39	-
Trade payables	2,264	-	-	-
Accruals	256	-	-	-
Director's loans	-	-	-	-
Other payables	31	-	-	-
Invoice discounting facility	2,168	-	-	-

The finance lease liability is shown gross, inclusive of interest payments.

##### d) Capital risk management

For the purpose of the Company's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the Company. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to provide returns for shareholders and benefits for other members. The Company will also seek to minimise the cost of capital and attempt to optimise the capital structure.

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 4. Segmental analysis

The Company supplies a single type of product into a single industry and so has a single segment. Additional information is given regarding the revenue receivable based on geographical location of the customer.

An analysis of revenue by geographical market is given below:

	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
<b>Revenue</b>		
United Kingdom	14,517	14,393
Europe	97	135
	14,614	14,528

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

The majority of revenue arises from the sale of goods. Where engineering services form a part of revenue it is only in support of the development or sale of the goods.

#### 5. (Loss)/profit from operations

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

	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
Staff costs	2,512	2,014
Foreign exchange losses/(gains)	635	(333)
Depreciation:		
Owned assets	152	130
Assets held under finance leases	129	68
Loss on disposal of assets	1	9
Grant income amortization	(22)	(16)
Operating lease payments	143	55
Auditor's remuneration:		
Fees for audit of the company	29	19
Other taxation services	3	10
Other services	-	-
	-	-

## Notes to the Financial Statements

Notes to the financial information (continued)

6. Staff costs

	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
Wages, salaries and bonuses	2,253	1,836
Social security costs	259	178
Pension costs	-	-
	<u>2,512</u>	<u>2,014</u>

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

	Year ended 31 October 2016 Head count	Year ended 31 October 2015 Head count
Manufacturing	61.5	46.5
Administration	28.0	24.0
	<u>89.5</u>	<u>70.5</u>

Directors costs

	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
Directors' remuneration included in staff costs:		
Wages, salaries and bonuses	482	310
	<u>482</u>	<u>310</u>

In addition to the remuneration for the executive directors above, the non-executive directors have submitted invoices for their fees as follows:

	98	-
Remuneration of the highest paid director(s):		
Wages, salaries and bonuses or fees	111	104
	<u>111</u>	<u>104</u>

## Notes to the Financial Statements

Notes to the financial information (continued)

### 7. Finance income and expenses

	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
<b>Finance expense</b>		
Finance charge from Finance leases	32	28
Other interest	54	10
	<u>86</u>	<u>38</u>

### 8. Income tax

	Year ended 31 October 2016 £'000	Year ended 31 October 2015 £'000
<b>Current tax (income)/expense</b>		
Current tax on profits for the period	-	240
Adjustment for under provision in prior periods	(29)	-
	<u>(29)</u>	<u>240</u>
<b>Deferred tax expense</b>		
Origination and reversal of temporary differences	(29)	(2)
Adjustments in respect of prior periods	(1)	-
Rates adjustment	(22)	-
	<u>(52)</u>	<u>(2)</u>
<b>Total tax (income)/expense</b>	<u>(81)</u>	<u>238</u>

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

Tax rate	20.00%	20.41%
(Loss)/profit for the year before tax	<u>(355)</u>	<u>1,254</u>
Expected tax charge based on corporation tax rate	(71)	256
Expenses not deductible for tax purposes	10	2
Capital allowances in excess of depreciation	(2)	-
Rate adjustment	(17)	-
Prior year adjustment	(1)	(20)
<b>Total tax (income)/expense</b>	<u>(81)</u>	<u>238</u>

## Notes to the Financial Statements

### Notes to the financial information (continued)

9. (Losses)/earnings per share

	Year ended 31 October 2016 £	Year ended 31 October 2015 £
(Loss)/profit for the year	(274,000)	1,016,000
Earnings/(loss) per share (£) (basic and diluted)	(£2,768)	£10,263
	Shares	Shares
Weighted average number of shares in issue	99	99

## Notes to the Financial Statements

Notes to the financial information (continued)

### 10. Property, plant and equipment

	Leasehold Improvements £'000	Plant & machinery £'000	Motor vehicles £'000	Fixtures & Fittings £'000	Total £'000
<b>Cost</b>					
At 1 November 2013	-	503	69	72	644
Additions	-	469	53	35	557
Disposals	-	(12)	(9)	-	(21)
At 31 October 2014	-	960	113	107	1,180
Additions	-	157	43	50	250
Disposals	-	-	(20)	-	(20)
At 31 October 2015	-	1,117	136	157	1,410
Additions	57	47	-	16	120
Disposal	-	(1)	-	-	(1)
At 31 October 2016	57	1,163	136	173	1,529
<b>Depreciation</b>					
At 1 November 2013	-	127	19	18	164
Charge for year	-	100	16	14	130
Disposals	-	-	(6)	-	(6)
At 31 October 2014	-	227	29	32	288
Charge for year	-	155	27	16	198
Disposals	-	-	(11)	-	(11)
At 31 October 2015	-	382	45	48	475
Charge for period	-	198	41	41	281
At 31 October 2016	-	580	86	89	756
<b>Net book value</b>					
At 1 November 2013	-	376	50	54	480
At 31 October 2014	-	733	84	75	892
At 31 October 2015	-	735	91	109	935
At 31 October 2016	57	583	50	84	773

Net book value of assets under finance lease agreements: £'000's

At 31 October 2014	411
At 31 October 2015	390
At 31 October 2016	330

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 11. Inventories

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
Raw materials & consumables	2,158	1,302	964
Finished goods	187	103	156
	2,345	1,405	1,120

Inventory pledged as security or written down is NIL (2014; 2015 : NIL)

#### 12. Trade and other receivables

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
Trade receivables	2,606	1,706	942
Prepayments and accrued income	214	306	210
Other receivables	122	22	8
	2,942	2,034	1,160

Trade receivables overdue by:

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
Not more than 3 months	578	188	449
More than 3 months but not more than 6 months	4	28	5
More than 6 months but not more than 1 year	-	-	-
	582	216	454

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

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

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
Euro	3	5	-
US Dollar	52	-	-
	55	5	-

## Notes to the Financial Statements

Notes to the financial information (continued)

### 13. Cash and cash equivalents

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
Cash at bank	39	161	1,389
	39	161	1,389

### 14. Trade and other payables

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
<b>Current</b>			
Trade payables	2,327	1,851	2,694
Accruals	288	327	285
Directors loans	-	-	200
Other tax and social security	372	161	257
Other payables	31	385	231
Invoice discounting facility	2,169	129	-
	5,187	2,853	3,667

Book values approximate to fair values.

### 15. Grant income deferred

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
Opening balance	65	59	34
Grant income received	-	22	43
Grant income amortisation	(22)	(16)	(18)
Closing balance	43	65	59

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 16. Leases

##### *Operating leases*

The Company leases motor vehicles and property, comprising both offices and assembly space, under operating leases. The total value of minimum lease payments due until the next lease break is payable as follows:

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
<b>Motor vehicles</b>			
Not later than one year	27	16	7
Later than one year and not later than two years	17	12	4
Later than two year and not later than five years	9	14	-
Later than five years			-
	53	42	11
<b>Land and buildings</b>			
Not later than one year	109	127	106
Later than one year and not later than two years	-	84	102
Later than two year and not later than five years	-	-	68
Later than five years	-	-	-
	109	211	276

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 16. Leases (continued)

##### *Finance leases*

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

	Minimum lease payments	Interest	Present value
<b>31 October 2014</b>			
Not later than one year	116	24	92
Later than one year and not later than two years	106	24	82
Later than two year and not later than five years	187	41	146
Later than five years	-	-	-
	<hr/>		
	409	89	320
	<hr/>		
<b>31 October 2015</b>			
Not later than one year	143	29	114
Later than one year and not later than two years	118	26	92
Later than two year and not later than five years	131	25	106
Later than five years	-	-	-
	<hr/>		
	392	80	312
	<hr/>		
<b>31 October 2016</b>			
Not later than one year	118	26	92
Later than one year and not later than two years	92	18	74
Later than two year and not later than five years	39	7	32
Later than five years	-	-	-
	<hr/>		
	249	51	198
	<hr/>		

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 17. Deferred Tax

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

	31 October 2016 £'000	31 October 2015 £'000	31 October 2014 £'000
<b>Deferred tax liability</b>			
Opening balance	149	151	68
Recognised in profit and loss	(52)	(2)	83
<b>Closing balance</b>	<b>97</b>	<b>149</b>	<b>151</b>

The deferred tax liability has arisen due to the temporary differences on accelerated capital allowances.

#### 18. Share capital

	31 October 2016 £	31 October 2015 £	31 October 2014 £
<b>Authorised share capital</b>			
1,000 ordinary share of £1 each	1,000	1,000	1,000
<b>Share capital issued and fully paid</b>			
Ordinary shares of £1 each	99	99	99

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

## Notes to the Financial Statements

Notes to the financial information (continued)

### 19. Related party transactions

Compensation of key management personnel:

	31 October 2016 £'000	31 October 2015 £'000
Short term employment benefits	637	350
	<u>637</u>	<u>350</u>

The following dividends were paid to the shareholding directors:

	31 October 2016 £'000	31 October 2015 £'000
J K Bridges	13	110
G A Johnson	13	110
C Banks	13	110
Dividend payments	<u>39</u>	<u>330</u>

There were no other shareholders of the Company.

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

	31 October 2016 £'000	31 October 2015 £'000
Dividends to shareholding directors	(39)	(330)
Banjo Limited	-	1
	<u>(39)</u>	<u>(329)</u>

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

	31 October 2016 £'000	31 October 2015 £'000
Dividends to shareholding directors	(16)	(379)
Banjo Limited	-	(6)
	<u>(16)</u>	<u>(385)</u>

Banjo Limited is related to the Company as a result of common ownership by Messrs Banks, Bridges and Johnson.

## Notes to the Financial Statements

### Notes to the financial information (continued)

#### 20. Control

The Company is controlled by the three shareholding board directors.

#### 21. Transition to IFRS

From 1 November 2013 the Company has adopted International Financial Reporting Standards (IFRS) in the preparation of its financial statements.

There are no IFRS transitional adjustments which impact the financial statements. Changes resulting from the transition are restricted to the new presentational and disclosure requirements of IFRS.

#### Cashflow

As a result of the transition to IFRS the following changes have resulted in the cashflow statement.

The definition of cash under UK GAAP is narrower than under IAS 17 'Cash flow statements'. Under IFRS highly liquid investments, readily convertible to a known amount of cash and with an insignificant risk of a change in value are regarded as cash equivalents.

Under UK GAAP payments to acquire property, plant and equipment were classified as part of 'Capital expenditure and financial investment' whilst under IFRS such payments have been reclassified as part of 'Investing activities'.

There are no other material differences between the cashflow statement presented under IFRS and that presented under UK GAAP other than the presentational convention.

#### 22. Events after the reporting date

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

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

#### 23. Capital commitments

At 31 October 2016 the Company had £186,099 (2015: NIL) of capital commitments relating to the establishment of the new Fareham premises.