

# Placing and Admission to AIM



**THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt about the contents of this document or as to the action you should take, you should consult an independent professional adviser authorised under FSMA who specialises in advising on the acquisition of shares and other securities.**

This document constitutes an AIM admission document relating to Velocity Composites plc and has been drawn up in accordance with the AIM Rules for Companies. This document does not contain an offer of transferable securities to the public in the United Kingdom within the meaning of section 102B of FSMA and is not required to be issued as a prospectus pursuant to section 85 of FSMA. Accordingly, this document has not been drawn up in accordance with the Prospectus Rules and has not been approved by, or filed with, the FCA or any other authority which would be a competent authority for the purposes of the Prospectus Directive.

**AIM is a market designed primarily for emerging or smaller companies to which a higher investment risk tends to be attached than to larger or more established companies. AIM securities are not admitted to the Official List. A prospective investor should be aware of the risks of investing in such companies and should make the decision to invest only after careful consideration and, if appropriate, consultation with an independent financial adviser. Each AIM company is required pursuant to the AIM Rules for Companies to have a nominated adviser. The nominated adviser is required to make a declaration to the London Stock Exchange on admission in the form set out in Schedule Two to the AIM Rules for Nominated Advisers. The London Stock Exchange has not itself examined or approved the contents of this document.**

Application has been made for the Enlarged Share Capital to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM at 8.00 a.m. on 18 May 2017. The Ordinary Shares are not dealt on any other recognised investment exchange and no application has been, or is intended to be, made for the Ordinary Shares to be admitted to trading on any other such exchange. It is emphasised that no application is being made for the admission of the Ordinary Shares to the Official List.

The Directors, whose names appear on page 5 of this document, and the Company accept responsibility, both individually and collectively, for the information contained in this document and for compliance with the AIM Rules for Companies. To the best of the knowledge and belief of the Directors and the Company (having taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

**Prospective investors should read the whole text of this document and should be aware that an investment in the Company involves a high degree of risk. In particular, the attention of prospective investors is drawn to Part II of this document which sets out certain risk factors relating to any investment in Ordinary Shares. All statements regarding the Company's business, financial position and prospects should be viewed in light of these risk factors.**

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# Velocity Composites plc

*(incorporated and registered in England and Wales with registered no. 06389233)*

**Placing and Subscription of 12,270,739 Ordinary Shares of 0.25 pence each  
Vendor Placing of 4,705,885 Ordinary Shares of 0.25 pence each  
at 85 pence per Ordinary Share**

**and**

**Admission to trading on AIM**

***Nominated Adviser & Broker***



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The Placing and Vendor Placing is conditional, amongst other things, on Admission taking place on or before 18 May 2017 (or such later date as the Company and finnCap Ltd may agree, but in any event not later than 2 June 2017). The New Ordinary Shares will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends or other distributions declared, made or paid after Admission.

This document does not constitute an offer of, or the solicitation of an offer to buy or subscribe for, Ordinary Shares to any person to whom, or in any jurisdiction in which, such offer or solicitation is unlawful and is not for distribution in or into the United States, the Republic of South Africa, Australia, Canada or Japan. The Ordinary Shares have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "Securities Act") or qualified for sale under the laws of any state of the United States or under any applicable securities laws of the Republic of South Africa, Australia, Canada or Japan. Subject to certain exceptions, the Ordinary Shares may not be offered for sale or subscription, or sold or subscribed, directly or indirectly, within the United States, the Republic of South Africa, Australia, Canada or Japan or to, or for the account or benefit of, any US persons (as such term is defined in Regulation S under the Securities Act) or any national, resident or citizen of the Republic of South Africa, Australia, Canada or Japan.

**finnCap Ltd, which is authorised and regulated in the United Kingdom by the FCA, is acting as nominated adviser and broker to the Company in connection with the Placing, the Vendor Placing and Admission. Its responsibilities as the Company's nominated adviser under the AIM Rules are owed solely to the London Stock Exchange and are not owed to the Company or to any Director or to any other person in respect of his decision to acquire shares in the Company in reliance on any part of this document. finnCap Ltd is acting exclusively for the Company and for no one else in connection with the Placing, the Vendor Placing and Admission. finnCap Ltd will not regard any other person (whether or not a recipient of this document) as its customer in relation to the Placing and Admission and will not be responsible to any other person for providing the protections afforded to customers of finnCap Ltd or for providing advice in relation to the Placing, Admission or any transaction or arrangement referred to in this document.**

The distribution of this document, the Placing and Vendor Placing in certain jurisdictions may be restricted by law. No action has been taken or will be taken by the Company, the Directors or finnCap Ltd to permit a public offer of Ordinary Shares or to permit the possession or distribution of this document in any jurisdiction where action for that purpose may be required. This document may not be distributed in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this document comes are required by the Company, the Directors and finnCap Ltd to inform themselves about and to observe any such restrictions. Failure to comply with any such restrictions may constitute a violation of the securities laws of the relevant jurisdiction.

Prospective investors should rely only on the information contained in this document. No person has been authorised to give any information or make any representations other than as contained in this document and, if given or made, such information or representations must not be relied upon as having been authorised by the Company, the Directors or finnCap Ltd. Without prejudice to the Company's obligations under the AIM Rules, neither the delivery of this document nor any subscription made under this document shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Company since the date of this document or that the information contained in this document is correct as of any time subsequent to the date of this document. finnCap Ltd has not authorised the contents of this document and, without limiting the statutory rights of any person to whom this document is issued, no representation or warranty, express or implied, is made by finnCap Ltd as to the contents of this document and no responsibility or liability whatsoever is accepted by finnCap Ltd for the accuracy of any information or opinions contained in this document or for the omission of any material information from this document, for which the Company and the Directors are solely responsible.

The contents of this document are not to be construed as legal, business or tax advice. Prospective investors should consult their own professional advisers for legal, financial or tax advice in relation to an investment or proposed investment in Ordinary Shares.

Copies of this document will be available free of charge to the public during normal business hours on any day (except Saturdays, Sundays and public holidays) from the date of this document until the date which is one month after the date of Admission at the offices of the Company and from the Company's website ([www.velocity-composites.com](http://www.velocity-composites.com)).

### **Forward-looking statements**

This document contains statements that are, or may be deemed to be, "forward-looking statements". In some cases, these forward-looking statements can be identified by the use of forward-looking terminology, including the terms "anticipates", "believes", "could", "envisages", "estimates", "expects", "intends", "may", "plans", "projects", "should", "will" or, in each case, their negative or other variations or comparable terminology. These forward-looking statements relate to matters that are not historical facts. They appear in a number of places throughout this document and include statements regarding the intentions, beliefs and current expectations of the Company or the Directors concerning, amongst other things, the results of operations, financial condition, liquidity, prospects, growth and strategies of the Company and the industry in which the Company operates.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. Forward-looking statements are not guarantees of future performance. The actual results, performance or achievements of the Company or developments in the industry in which the Company operates may differ materially from the future results, performance or achievements or industry developments expressed or implied by the forward-looking statements contained in this document.

Prospective investors are strongly recommended to read the risk factors set out in Part II of this document for a more complete discussion of the factors that could affect the Company's future performance and the industry in which the Company operates. In light of these risks, uncertainties and assumptions, the events described in the forward-looking statements in this document may not occur.

The forward-looking statements contained in this document speak only as at the date of this document. The Company undertakes no obligation to update or revise publicly the forward-looking statements contained in this document to reflect any change in expectations or to reflect events or circumstances occurring or arising after the date of this document, except as required in order to comply with its legal and regulatory obligations (including under the AIM Rules).

### **Industry and Market Data**

Unless the source, is otherwise stated, the market, economic and industry data in this document constitute the Directors' estimates, using underlying data from independent third parties whenever possible.

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## PLACING STATISTICS

Placing Price per Placing Share	85 pence
Number of Existing Ordinary Shares	23,524,800
Number of VCT/EIS Placing Shares	5,882,352
Number of General Placing Shares	5,882,353
Number of Subscription Shares	506,034
Number of Vendor Placing Shares	4,705,885
Number of Ordinary Shares in issue following Admission	35,795,539
Percentage of the Enlarged Share Capital represented by the Vendor Placing Shares	13.15 per cent.
Percentage of the Enlarged Share Capital represented by the Placing Shares	32.87 per cent.
Gross proceeds of the Placing receivable by the Company	£10.0 million
Gross proceeds of the Subscription receivable by the Company	£0.4 million
Estimated net proceeds of the Fundraising receivable by the Company	£9.2 million
Gross proceeds of the Vendor Placing receivable by the Selling Shareholders	£4.0 million
Market capitalisation of the Company on Admission at the Placing Price	£30,426,208.15
ISIN Number	GB00BF339H01
SEDOL Number	BF339H0
TIDM	VEL.L
Website	<a href="http://www.velocity-composites.com">www.velocity-composites.com</a>

## EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Publication of this document	12 May 2017
Issue of VCT/EIS Placing Shares	17 May 2017
Admission to AIM, issue of General Placing Shares and commencement of dealings in the Existing Ordinary Shares and the Placing Shares on AIM	8.00 a.m. on 18 May 2017
CREST accounts credited (where applicable)	18 May 2017
Despatch of definitive share certificates (where applicable)	by 2 June 2017

*Notes:*

References to time are to British Summer Time (BST) unless otherwise stated. Each of these dates is subject to change at the absolute discretion of the Company and finnCap.

## DIRECTORS, SECRETARY AND ADVISERS

<b>Directors</b>	Mark Richard Mills ( <i>Non-Executive Chairman</i> ) Jonathan Karl Bridges ( <i>Co-Founder and Chief Executive Officer</i> ) Alan Mark Kershaw ( <i>Chief Financial Officer</i> ) Peter Graham Turner ( <i>Non-Executive Director</i> )
<b>Co-Founders and Senior Management</b>	Christopher Banks ( <i>Co-Founder and Head of Special Projects</i> ) Gerard Antony Johnson ( <i>Co-Founder and Chief Strategy Officer</i> ) Darren James Ingram ( <i>Chief Operating Officer</i> ) Matthew Archer ( <i>Chief Commercial Officer</i> )
<b>Company Secretary</b>	Alan Mark Kershaw
<b>Registered Office</b>	AMS Technology Park Billington Road Burnley, BB11 5UB
<b>Nominated Adviser and Broker</b>	finnCap Ltd 60 New Broad Street London, EC2M 1JJ
<b>Legal Adviser to the Company</b>	DWF LLP 1 Scott Place 2 Hardman Street Manchester, M3 3AA
<b>Legal Adviser to the Nominated Adviser and Broker</b>	Brabners LLP 55 King Street Manchester, M2 4LQ
<b>Reporting Accountant and Auditor</b>	Grant Thornton UK LLP 4 Hardman Square Spinningfields Manchester, M3 3EB
<b>Registrars and CREST Settlement Agent</b>	Equiniti Limited Aspect House Spencer Road Lancing, BN99 6DA
<b>Financial PR</b>	Camarco 107 Cheapside London, EC2V 6DN
<b>Website</b>	<a href="http://www.velocity-composites.com">www.velocity-composites.com</a>

## DEFINITIONS

The following definitions apply throughout this document, unless the context otherwise requires:

<b>“Admission”</b>	admission of the Ordinary Shares to trading on AIM becoming effective in accordance with the AIM Rules
<b>“AIM”</b>	the market of that name operated by the London Stock Exchange
<b>“AIM Rules for Companies” or “AIM Rules”</b>	the rules for companies whose securities are admitted to trading on AIM, as published by the London Stock Exchange from time to time
<b>“AIM Rules for Nominated Advisers”</b>	the rules setting out the eligibility requirements, ongoing obligations and certain disciplinary matters in relation to nominated advisers, as published by the London Stock Exchange from time to time
<b>“Articles of Association” or “Articles”</b>	the articles of association of the Company adopted on 27 April 2017, a summary of certain provisions of which is set out in paragraph 9 of Part V of this document
<b>“certificated” or “in certificated form”</b>	in relation to an Ordinary Share, recorded on the Company’s register as being held in certificated form (that is not in CREST)
<b>“Companies Act” or “the Act”</b>	the Companies Act 2006, as amended
<b>“Company” or “Velocity”</b>	Velocity Composites plc, a company incorporated in England and Wales with registered number 06389233
<b>“Concert Party”</b>	Jonathan Bridges, Christopher Banks, Gerard Johnson, Mark Mills, Matthew Turner, Nigel Turner together with their respective families and other connected persons
<b>“Corporate Governance Code”</b>	the UK Corporate Governance Code issued by the Financial Reporting Council, as in force from time to time
<b>“CREST”</b>	the system for the paperless settlement of trades in securities and the holding of uncertificated securities operated by Euroclear in accordance with the CREST Regulations
<b>“CREST Regulations” or “Regulations”</b>	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755), as amended from time to time
<b>“Directors” or “Board”</b>	the directors of the Company as at the date of this document, whose names are set out on page 5 of this document
<b>“Disclosure Guidance and Transparency Rules”</b>	the disclosure, guidance and transparency rules made by the FCA under Part 6 of FSMA
<b>“EBITDA”</b>	earnings before interest, tax, depreciation and amortisation

<b>“EIS”</b>	Enterprise Investment Scheme under provision of Part 5 of the Income Tax Act 2007
<b>“Enlarged Share Capital”</b>	the entire issued ordinary share capital of the Company immediately following Admission comprising the Existing Ordinary Shares and the New Ordinary Shares
<b>“Euroclear”</b>	Euroclear UK & Ireland Limited, the operator of CREST
<b>“Existing Ordinary Shares”</b>	the 23,524,800 Ordinary Shares that are in issue at the date of this document (which include the Vendor Placing Shares)
<b>“FCA”</b>	the UK Financial Conduct Authority
<b>“Founders”</b>	Jonathan Karl Bridges, Christopher Banks and Gerard Antony Johnson
<b>“FSMA”</b>	the Financial Services and Markets Act 2000, as amended
<b>“Fundraising”</b>	the proceeds from both the Placing, the Vendor Placing and the Subscription
<b>“General Placing”</b>	the conditional placing by finnCap on behalf of the Company at the Placing Price of the General Placing Shares pursuant to the Placing Agreement
<b>“General Placing Shares”</b>	5,882,353 new Ordinary Shares to be issued by the Company pursuant to the General Placing
<b>“Group”</b>	the Company and its subsidiaries from time to time (as defined in the Companies Act)
<b>“HMRC”</b>	Her Majesty’s Revenue & Customs
<b>“IFRS”</b>	International Financial Reporting Standards as adopted by the European Union
<b>“Lock-in Agreements”</b>	the agreements by which certain of the directors and each of the Founders have agreed, with finnCap and the Company, to give certain undertakings with respect to their holdings of Ordinary Shares on Admission; details of which can be found in paragraph 10 of Part V of this document
<b>“Locked-In Parties”</b>	Mark Richard Mills, Jonathan Karl Bridges, Christopher Banks, Gerard Antony Johnson, Alan Mark Kershaw, Matthew Turner and Nigel Turner
<b>“London Stock Exchange”</b>	London Stock Exchange plc
<b>“Memorandum”</b>	the memorandum of association of the Company
<b>“New Ordinary Shares”</b>	the 12,270,739 new Ordinary Shares including the VCT/EIS Placing Shares, the General Placing Shares and the Subscription Shares
<b>“Nominated Adviser” or “finnCap”</b>	finnCap Ltd, nominated adviser and broker to the Company

<b>“Official List”</b>	the Official List of the UK Listing Authority
<b>“Ordinary Shares”</b>	ordinary shares with a nominal value of 0.25 pence each in the capital of the Company
<b>“Placee”</b>	an investor to whom Placing Shares are issued or Vendor Placing Shares are transferred pursuant to the Placing
<b>“Placing”</b>	the VCT/EIS Placing and the General Placing
<b>“Placing Agreement”</b>	the conditional agreement dated 12 May 2017 made between the Company, the Directors and finnCap relating to the Placing and the Vendor Placing, details of which can be found in paragraph 10 of Part V of this document
<b>“Placing Price”</b>	85 pence per Placing Share or Vendor Placing Share
<b>“Placing Shares”</b>	the 11,764,705 New Ordinary Shares to be issued to Placees pursuant to the Placing
<b>“Prospectus Directive”</b>	EU Prospectus Directive 2003/71/EC including any relevant measure in each member state of the European Economic Area that has implemented Directive 2003/71/EC
<b>“Prospectus Rules”</b>	the prospectus rules made by the FCA under Part 6 of FSMA
<b>“Relationship Agreement”</b>	the relationship agreement dated 12 May 2017, between the Company, finnCap and the Founders, details of which can be found in paragraph 10 of Part V of this document
<b>“Senior Managers”</b>	Christopher Banks, Gerard Johnson, Darren Ingram and Matthew Archer
<b>“Shareholders”</b>	the holders of Ordinary Shares
<b>“Share Option Scheme”</b>	The Velocity Composites Limited Enterprise Management Incentive and Unapproved Scheme adopted by the Board on 9 March 2017, details of which can be found in paragraph 8 of Part V of this document
<b>“Subscription”</b>	the subscription for New Ordinary Shares by certain individuals dated 12 May 2017 but conditional on Admission, further details of which are set out in paragraph 3.10 of Part V of this document
<b>“Subscription Shares”</b>	the 506,034 New Ordinary Shares to be issued pursuant to the Subscription
<b>“Takeover Code”</b>	the City Code on Takeovers and Mergers
<b>“Takeover Panel”</b>	the Panel on Takeovers and Mergers
<b>“United Kingdom” or “UK”</b>	the United Kingdom of Great Britain and Northern Ireland

<b>“UK Listing Authority”</b>	the FCA acting in its capacity as the competent authority for the purposes of Part 6 of FSMA
<b>“uncertificated” or “in uncertificated form”</b>	in relation to an Ordinary Share, recorded on the Company’s register as being held in uncertificated form in CREST and title to which may be transferred by means of CREST
<b>“VAT”</b>	value added tax
<b>“VCT”</b>	a company approved as a Venture Capital Trust under the provisions of part 6 of the Income Tax Act 2007
<b>“VCT/EIS Placing”</b>	the conditional placing by finnCap on behalf of the Company at the Placing Price of the VCT/EIS Placing Shares pursuant to the Placing Agreement
<b>“VCT/EIS Placing Shares”</b>	5,882,352 new Ordinary Shares to be issued by the Company pursuant to the VCT/EIS Placing
<b>“Vendor Placing”</b>	the conditional placing of the Vendor Placing Shares by finnCap as agent for the Selling Shareholders pursuant to the Placing Agreement
<b>“Vendor Placing Shares”</b>	the 4,705,885 Existing Ordinary Shares to be conditionally placed pursuant to the Vendor Placing
<b>“\$” or “dollars”</b>	US dollars, the lawful currency of the United States
<b>“£” or “sterling”</b>	UK pounds sterling, the lawful currency of the United Kingdom
<b>“€” or “euros”</b>	Euros, the single European currency of certain member states of the European Union

## GLOSSARY OF TECHNICAL TERMS

<b>°C</b>	degrees celsius
<b>2D</b>	two dimensional
<b>3D</b>	three dimensional
<b>Airbus</b>	Airbus Group SE
<b>Airtech</b>	Airtech Advanced Materials Group
<b>autoclave</b>	vessel that can be pressurised with air or nitrogen with the ability to control temperature, time, pressure and vacuum used to cure the composite layup onto a forming tool
<b>BAE Systems</b>	BAE Systems Plc
<b>Boeing</b>	The Boeing Company
<b>Bombardier</b>	Bombardier Inc.
<b>CAGR</b>	compound annual growth rate
<b>carbon fibre</b>	filaments of high strength carbon based fibre used to reinforce resin matrices either by weaving into fabrics or as aligned single direction layers in the creation of advanced composites
<b>cleanroom</b>	defined manufacturing area with controlled temperature, humidity, airborne particle and material contamination used to handle all uncured composite materials
<b>composite</b>	material made from two or more constituent materials with significantly different physical or chemical properties that, when combined, produce a material with characteristics different from the individual components e.g. carbon fibres and epoxy resin
<b>Embraer</b>	Embraer S.A.
<b>flatbed cutting machines</b>	machine which cuts shapes from flat areas of material using a controlled cutting head using defined, nested programmes
<b>ft</b>	feet
<b>FY16</b>	financial year ended 31 October 2016
<b>GE</b>	The General Electric Company Limited
<b>GKN</b>	GKN Plc
<b>Hexcel Composites</b>	Hexcel Corporation
<b>Kaman</b>	Kaman Corporation
<b>Leonardo</b>	Leonardo S.p.A (formerly Leonardo-Finmeccanica)
<b>Lockheed Martin</b>	Lockheed Martin Corporation

<b>matrix</b>	the component of a composite used to bond together the reinforcing fibres
<b>Meggitt</b>	Meggitt PLC
<b>membrane</b>	a flexible material used to provide an air tight layer around a composite lay-up to facilitate air removal and hence provide a consolidation force around the composite layers
<b>nacelles</b>	a streamlined casing on the outside of an aircraft or motor vehicle, especially one housing an aircraft engine
<b>OEM</b>	original equipment manufacturer
<b>Omega Systemes</b>	OMEGA Systèmes
<b>polymer resin</b>	the un-cured state of a matrix
<b>pre-impregnated</b>	materials which have had un-cured polymer resin embedded during the manufacturing process
<b>Primes</b>	the OEM aircraft manufacturers
<b>reinforcement</b>	the fibres/fabric with a composite material used to strengthen the polymer matrix
<b>Safran Nacelles (formerly known as Aircelle)</b>	part of Safran S.A.
<b>Solvay Cytec</b>	part of Cytec Solvay Group
<b>Solvay Cytec Engineered Materials</b>	part of Cytec Solvay Group
<b>Solvay Cytec Process Materials</b>	part of Cytec Solvay Group
<b>Terma</b>	Terma A/S
<b>Tygavac Advanced Materials</b>	part of Airtech Advanced Materials Group
<b>uni-directional glass</b>	glass fibres arranged in a single, aligned direction in order to provide all the reinforcing strength in a single direction within a matrix.

## PART I

### INFORMATION ON THE COMPANY

#### 1. INTRODUCTION

Velocity manufactures advanced carbon fibre and ancillary material kits for use in the production of aircraft. The Company uses its process knowledge, business processes and proprietary software to reduce the amount of material required by its customers and also reduce the associated material waste when making aircraft parts. In turn, this reduces the aircraft manufacturer's costs, with the kits delivered on time and in the required form to allow its customers to more readily meet the significant increases in build rates.

Velocity was established in 2007 to manufacture composite kits, predominantly from carbon fibre pre-impregnated fabrics, glass fibre pre-impregnated fabrics and film adhesives for structural parts of aircraft and also to offer consumable vacuum bag material kits used in the production process to manufacture composite aircraft parts.

Given the unprecedented growth during the last five years in the number of aircraft being built and the increasing amount of composites being used in the construction of each new aircraft, there has been a compound increase in the use of composites in aerospace during that time. Velocity's business model is predicated on reducing the cost of manufacturing aircraft parts by reducing the amount of composite material required whilst simultaneously reducing the time taken to make the parts. This is achieved by providing the manufacturer with the range of appropriate materials in a pre-prepared, easy to use kit on a 'just-in-time' basis that also removes non value-added activities from customers' sites. This service model is being used by customers who are faced with increasing build rates and production costs. Typically, Velocity relieves its clients of the pressure they face to meet aircraft build rates by ensuring that the appropriate products are delivered when required, at a lower cost, whilst using less material. The Directors believe that reducing the amount of composite used in the manufacture process and the time taken during the process is important as they believe that there is significant pressure on the aerospace supply chain as production volumes increase across multiple aircraft platforms.

Historically, aircraft manufacturers have had to prepare and process materials for part manufacture in-house and this has generally been performed in high overhead/labour rate facilities. Savings made by the customer when using Velocity's services include:

- material spend reduction of approximately 10-53 per cent.;
- reduction in indirect support staff costs;
- reduction in cost of non-quality products;
- reduction in stock going 'out of life'; and
- reduction in capital equipment spend.

In addition to these savings, customers also gain the following:

- material increase in productivity;
- increase in productive cleanroom floor space;
- full material traceability and regulatory compliance; and
- better payment terms resulting in improved cashflow.

The Directors also believe that composite manufacturers are refining their own business model to focus on high value manufacturing and are looking for viable alternatives to outsource the front end of the supply chain and pre-production activities to credible and capable manufacturers and service providers in order to free up manufacturing capacity and production floor space.

Given the long timescale for the manufacture of aircraft together with the high level of approvals required to be in the supply chain, Velocity has visibility of its customer demand for between 6 to 24 months on the basis of contracts that last up to five years on aircraft build programmes which can last up to 20 years.

## **2. HISTORY AND BACKGROUND**

Velocity was established in October 2007 by Jonathan Bridges, Gerard Johnson and Christopher Banks, three career composite engineers, to manufacture kits of raw materials to be used in the manufacture of composite aircraft parts. The Founders recognised that there was a market opportunity to make the supply chain more efficient and less expensive by operating between the raw material suppliers and the aircraft part manufacturers and converting the materials into a usable form.

Initially Velocity operated from the premises of its first customer, Safran Nacelles (formerly known as Aircelle), in order to prove the concept and demonstrate that, by using Velocity's processes, material cost savings were achievable. This feasibility study was conducted between February 2008 and September 2008 and showed that the use of consumable kitting resulted in a significant reduction in material usage. In addition, labour productivity at Safran increased to such an extent that, in spite of an increase in A330 demand from 6 to 8.5 thrust reversers (two per aircraft) per month, Safran was able to postpone the planned recruitment of additional staff.

In November 2008, the Company commenced occupation of a 11,000 square ft facility located in Blackburn on a three year lease and acquired its first cutting, welding and sewing machines enabling it to diversify its product range from simple manual-cut shapes towards more complex shapes and engineered products. The premises in Blackburn obtained AS9100 approval in October 2009 (further information on the Company's approvals can be found in paragraph 5 of this Part I). Also in 2008, the Company was awarded a one year contract worth £300,000 from Safran following the completion of its feasibility study.

In July 2012, Velocity occupied new, purpose built premises in Burnley and continues to operate from this 26,000 square ft facility. At that time, the premises included floor space of 18,000 square ft, including 15,000 square ft of cleanroom space, which the Blackburn facility did not have. During 2013 and 2014 the Company invested in increasing floor space at the Burnley site so that it now operates from 32,500 square ft of floor space in total, including 20,000 square ft of cleanroom space.

### **Velocity's Facilities**

The Company ensures that its facilities are located in adequately close proximity to customers' manufacturing facilities which tend to cluster together in certain geographical locations. This enables the Company to deliver kits in small batches enabling customers to use 'just-in-time' manufacturing processes and reduce their stock holdings. This process also allows the shelf life of kits to be extended, as they require storage at controlled temperatures in order to prevent material degradation.

#### *Burnley, Lancashire*

The Burnley facilities were selected as a result of the close proximity to major aerospace manufacturers, such as Safran Nacelles, BAE Systems and Kaman Composites in the North West of England. The Burnley facility is both AS9100 and AS9120 approved and provides a cleanroom with cutting, welding and sewing equipment; a separate technical centre enabling the Company to design, engineer and test new products without utilising production capacity; and modular freezers for the storage of materials at the required temperatures.

On site, Velocity has all production, raw material management, product engineering and client support functions. Due to the nature of the products supplied, Velocity's manufacturing is performed within a fully climate controlled cleanroom in order to provide a temperature, humidity and particle controlled environment compliant with the requirements of both Velocity's clients' and international specifications. The Burnley facility houses the Company's head office administration and is considered to be the operational headquarters.



Image: Velocity's cleanroom in its Burnley facility

*Fareham, Hampshire*

Velocity acquired an additional site in September 2016 in Fareham to service additional customers within the Southern portion of England and also to offer its services to mainland northern Europe, given the frequent ferry links from Portsmouth and Southampton to various French terminals. Whilst the Fareham facility is a full manufacturing plant, it does not require head office administration and is therefore deemed to be a satellite site rather than a main hub. Production at Fareham commenced in March 2017 after the site was granted both AS9100 and Airbus approvals in January and February 2017, respectively.

As the Fareham site was designed to be close to its customers, the Directors believe that there is an adequate supply of labour, management and resources within the local area suited to Velocity's requirements.

**3. PRODUCT AND TECHNOLOGY**

The aerospace manufacturing industry currently consists of global raw material suppliers, Tier 1 and Tier 2 component manufacturers and Prime manufacturers ("Primes"). Tier 2 component manufacturers typically process and assemble aerospace parts which are then supplied to the Tier 1 manufacturers, who in turn supply the Primes who design and assemble full aircraft.

Tier 1 manufacturers are Velocity's main clients. Through these relationships Velocity works on major programmes with Primes including companies such as Airbus, BAE Systems, Boeing, Embraer and Lockheed Martin. Further information on Tier 1 manufacturers and Primes can be found in paragraph 4 of this Part I.

Velocity is positioned between the global raw material suppliers and the Tier 1 and Tier 2 manufacturers. Velocity aggregates the supply from multiple material suppliers into a single ready to use kit for customers. The Company's proprietary process not only reduces operational waste and reduces the material required to manufacture the component kits; it also relieves its clients of the pressure they face to meet increasing aircraft build rates by ensuring that the appropriate products are delivered where required, when required, in an easy to use kit and at a lower cost.

Historically, aircraft manufacturers have had to process raw materials into the final products themselves and this is generally performed in high overhead/labour rate facilities. Savings made by the customer when using Velocity's services include:

- material spend reduction of approximately 10-53 per cent.;
- reduction in indirect support staff costs;
- reduction in cost of non-quality products;
- reduction in stock going 'out of life'; and
- reduction in capital equipment spend.

In addition to these savings, customers also gain the following:

- material increase in productivity;
- increase in productive cleanroom floor space;
- full material traceability and regulatory compliance; and
- better payment terms resulting in improved cashflow.

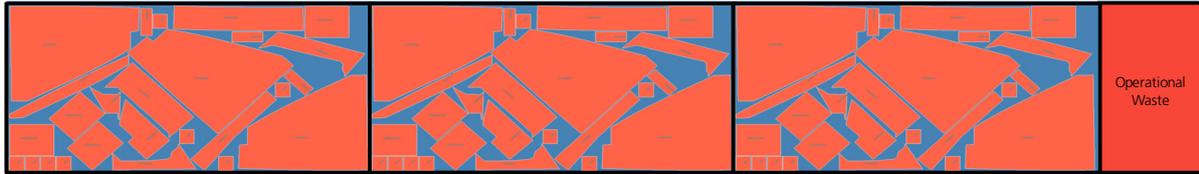
As Velocity has access to information concerning the demand for and ordering of materials at the part level, it can interpret customer demand and consistently relay this information to the material suppliers. This allows for smoother material deliveries into Velocity and just-in-time kit deliveries to customers resulting in minimal stock handling and the related risk that carries. Customers only have to liaise with Velocity regarding their demand for specific parts, leaving Velocity to manage the supply chain aspects of sourcing the multiple materials from multiple raw material suppliers. Having handled the sourcing of the required raw materials, Velocity then prepares and manufactures-to-order single, ready and easy to use kits with a single batch number (allowing for an accurate audit trail) delivered right to the point of use on a just-in-time basis. This then allows customers to focus on their core business of manufacturing parts to satisfy increasing build rates whilst achieving greater efficiency and cost savings.

Velocity has two primary offerings:

### **Structural Kits**

These kits are manufactured from film adhesives, high performance materials and rolls of woven and uni-directional glass and carbon fibre fabrics, which are pre-impregnated with the uncured resin, and as such need to be stored and handled in controlled conditions. To supply these kits, Velocity offers a full shape generation, shape management and advanced nesting service, which Velocity accomplishes using software to determine the best pattern of shapes to utilise as much of the roll and minimise offcuts. Velocity also manages the life of material ensuring that the oldest material is used first and delivered within its useable life, which is typically up to 18 months. The kit cutting part of Velocity's service utilises the latest cutting and ply identification equipment to ensure material traceability is maintained to the point of use by its customers. In summary any material which ends up as part of the flying structure is labelled as a structural kit.

#### Previous State – Individual Nests



#### Velocity Process – Dynamic Nests

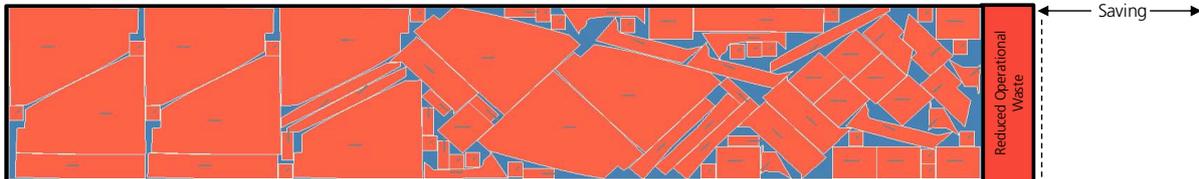


Image: Velocity's nesting efficiencies using its proprietary software

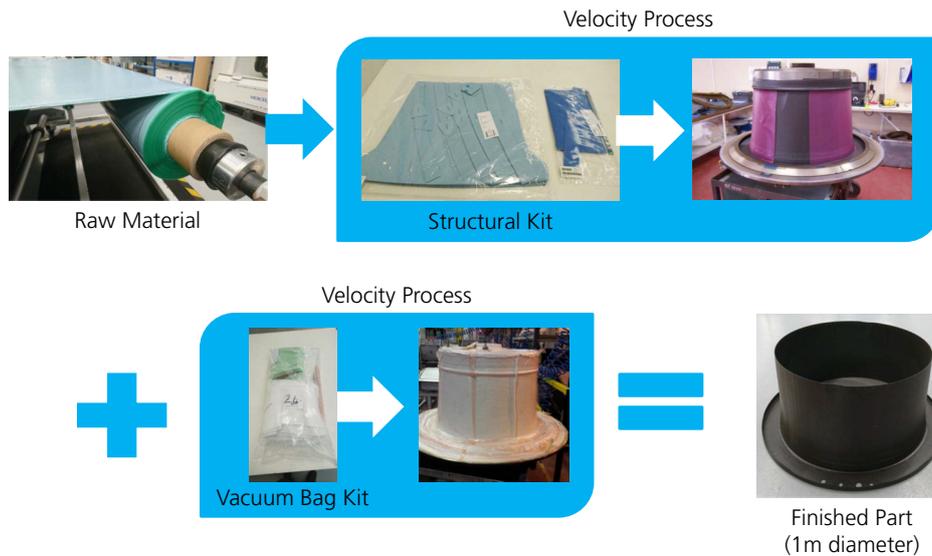
Velocity's facilities in Burnley and Fareham have the capability of manufacturing all types of aerospace kits under composite cleanroom conditions, which is required because the materials need to be protected from unstable temperatures, humidity levels and air particle contamination. These processes range from individual cut pieces of exotic material to full multi-material kits, the production of both is specifically tailored using Velocity's proprietary software to reduce waste and optimise material efficiency.

Velocity's supply chain solution is fully de-coupled from any clients' day-to-day production areas and as such, Velocity focuses on material efficiency whilst allowing clients to free up valuable space and labour in their own cleanroom areas which are regarded as high overhead/labour rate facilities. Experience has shown that Velocity's clients which previously operated a traditional on-site structural material cutting capability found themselves having to schedule it to match their production requirements rather than to achieve the best material utilisation.

### Consumable (Engineered Vacuum Bag Material) Kits

As a source of non-value activity/waste in the composite cleanroom, Velocity has created a service of developing and manufacturing a kitted supply of consumable materials, traditionally supplied in rolls and boxes, from any combination of suppliers. These consumable kits are used during the process of applying the structural material to the tool to create a vacuum bag assembly around the part so trapped air and volatiles can be evacuated from the composite material during the cure cycle. Once the part has been cured at elevated temperature in an autoclave, the vacuum bag materials are removed and disposed of and as such are not part of the finished, flying component.

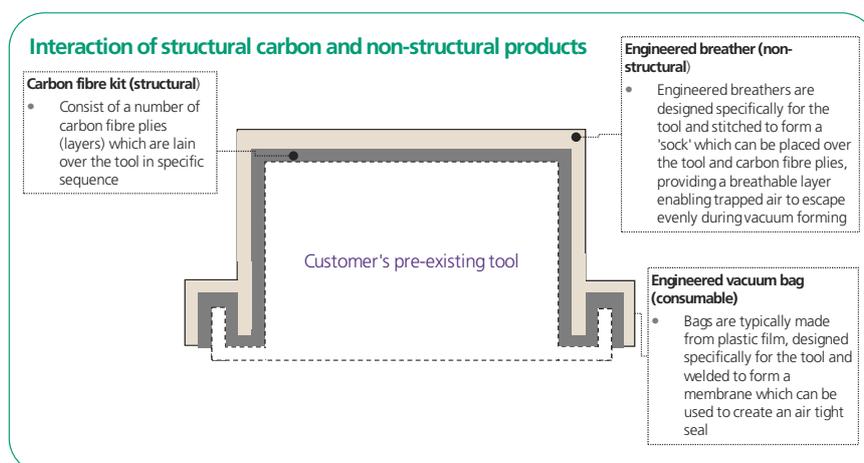
These materials have traditionally been applied in real time by the customer from rolls of material and as such significant time, skill and repeatability is required to create a functional vacuum bag assembly. The use of Velocity's engineered vacuum bag kits significantly reduces the time and skill needed to apply the vacuum bag assembly and are engineered as to require minimal tailoring and application time by Velocity's customers creating a leaner manufacturing process.



Velocity's service includes a full tool and process audit to capture the build process and agree with client's manufacturing teams, the approved techniques and bill of materials. Velocity subsequently manages the full new product development process to gain kit approval and sign-off prior to setting up a full line-side minimum/maximum stock management service and any subsequent change-management activities.

Consumable kits manufactured by Velocity include:

- *Breathers*: engineered breathable 2D and 3D assemblies designed specifically for the customers' tools which allow trapped air and volatiles to escape evenly over the carbon fibre layup and create an even vacuum during the autoclave curing process;
- *Vacuum bags*: engineered bags which are designed to form a membrane over (i) the tool (ii) overlain carbon fibre plies and (iii) the breather to create a vacuum around the plies during the autoclave curing process; and
- Other consumables include peel plies and release films. Once utilised, the Directors believe that a significant reduction in process times and material waste is achieved whilst making the whole process more repeatable. Full traceability is also accomplished as the kit batch number allows each item within a kit to be traced back to its parent roll and supplier.



As Velocity's engineered kits simplify the critical parts of any build process, the supply of these kits allows for complex, specialist parts to be prepared in the same cleanroom as parts which are simpler

to manufacture. The Directors believe that an additional benefit of Velocity's engineered kits is that they allow the streaming of lower specification materials to parts/stages which require less performance, permitting ranges of parts to be built in the same cleanroom without the risk of material mixing or over/under specification.

As with structural kits, Velocity is able to stream materials from any supplier or distributor for incorporation into consumable kits and as such can offer the most cost effective solution to its customers subject to end user requirements.

#### **4. CUSTOMERS AND SUPPLIERS**

Velocity targets clients which incur high manufacture costs where the client would benefit from the release of the space occupied in its cleanroom and a reduced operating cost by employing a 'buy' rather than 'build' model. Velocity's offering not only releases this space but also provides material, time and cost savings.

Velocity applies certain criteria relating to this targeting based on: its current approvals; achievable approvals where new approvals are required; the number of orders for aircraft on the aircraft platforms being built by the client; the amount of future potential for that client; alongside the amount of composites on the aircraft platform. All factors are considered with a view to ensuring that its business operates to maximise customers' savings which symbiotically drives Velocity's income. Velocity's Directors have developed a customer opportunity matrix detailing the aircraft that its customers currently manufacture for potential customers and the aircraft they manufacture parts for; the number of composite parts used on those aircraft, the total amount of composite used on the aircraft; Velocity's current approvals and approvals which could be gained by Velocity under certain circumstances; the proximity of Velocity to the customer or potential customer or materials' manufacturing site and Velocity's ability to open a site if required in the area; and the build rates of the aircraft, ensuring they are increasing according to publicly available data such as Airbus, BAE Systems, Lockheed Martin and Boeing's accounts and annual market reports.

Velocity develops this data through customer visits, supplier liaison and industry networking, and then defines the most suitable targets and works towards developing a business case to use Velocity's services. The Directors believe that by predicating the customer proposition on savings in material used, time and inventory for the aerospace industry exclusively, its business model is sustainable and will be increasingly profitable as the Company continues to add new customers.

#### **Client Relationships**

A key element of Velocity's business is its relationships with clients, which fall into two categories:

##### *Prime Manufacturers*

Relationships with Primes are of vital importance to Velocity as one Prime approval then allows Tier 1 Manufacturers to select Velocity without requiring further approval. Examples of Prime manufacturers include Airbus, BAE Systems and Leonardo. Further information on approvals can be found in paragraph 5 of this Part I.

##### *Tier 1 Manufacturers*

Velocity's main clients are Tier 1 manufacturers which order from Velocity and assemble parts on behalf of Primes. Examples of Tier 1 manufacturers and customers of Velocity's include Safran Nacelles, GE, GKN and Terma.

Contractual commitments exist between the Tier 1 manufacturers listed above and the Company, typically with a length of between three years and the life of the programme.

Under normal circumstances, once the client has outsourced the manufacture of composite kits to Velocity, reassigned the staff and reallocated the cleanroom space, the Directors believe that it is

unlikely that the client will bring the service in-house again when Velocity can deliver the finished product providing cost savings to the client, with a fully managed supply chain and a reduced and improved cash flow cycle.

Senior management and certain Directors are heavily involved in the management of the Company's customer relationships. In FY16, the Company employed two dedicated project managers tasked with liaising with customers to determine accurate product demand, having previously sub-contracted this, in order to closely manage customer demand in-house.

### **Supplier Relationships**

The Company procures materials directly from suppliers on behalf of its customers and costs the price into the kits it supplies. The customers maintain control over the selection of both the material supplier and the product used. Generally the cost of materials is controlled by Primes/Tier 1 manufacturers throughout the product lifecycle and, to prevent the Company being directly affected by changes to the costs of the materials, it uses flowdown agreements for the period covered by the build programme of the aircraft.

Set out below are the key material suppliers used by the Company and the materials they provide:

- Hexcel Composites – carbon fibre, glass and adhesives for structural kits
- Solvay – Cytec Process Materials – films, peel plies, breathers etc. for consumable kits
- Solvay – Cytec Engineered Materials – carbon fibre, glass and adhesives for structural kits
- Tygavac Advanced Materials – films, peel plies, breathers etc. for consumable kits

Velocity has a 6 month material demand profile for each customer and therefore the Directors believe that short term shocks/liabilities, arising from changing customer demand patterns, can be managed, especially as the life of materials is typically up to 18 months.

## **5. APPROVALS**

### **Regulatory Approvals**

The Company has a number of internationally recognised, site specific, approvals which recognise quality standards. Whilst these approvals are not a legal requirement, the majority of aerospace manufacturers will only transact with companies which hold these approvals.

#### **AS9100**

The Company's Burnley production facility obtained AS9100 in October 2009. AS9100 is a globally recognised aerospace standard covering quality management and safety standards. The Company's new premises in Fareham were also approved in January 2017.

#### **AS9120**

The Burnley facility also obtained AS9120 approval in August 2015 as part of the Company's Airbus approval detailed later in this paragraph. The AS9120 approval covers material distribution, recognising the procedures in place for the safe storage of temperature critical materials. The Company's new premises in Fareham were also approved in January 2017.

These aerospace approvals took the Company approximately 9 months to obtain collectively.

### **NADCAP (National Aerospace and Defense Contractors Accreditation Program)**

The Company has been liaising with the NADCAP Composites Task Group for around 18 months in order to create a specific accreditation and audit process for a kit supply company. The outcome of

this is that a kitting service provider accreditation is being drafted and Velocity will be involved in the development of this approval which is expected within the next 6 to 12 months.

### **Manufacturer Approvals**

The Company has a number of approvals from Primes and Tier 1 manufacturers (typically the ultimate programme manufacturer) which recognise the Company as an approved supplier. Approvals are typically sponsored by a customer with a view to the Company undertaking a specific project to ultimately be provided to Primes. For example GKN (a Tier 1 manufacturer) sponsored the Company in obtaining approval from Airbus (a Prime).

#### ***Airbus***

The Company gained Airbus approval in August 2015 after an 18 month process. The approval covers structural and consumable kits as well as the AS9120 Burnley facility approval described above. Airbus approval for the new Fareham site was completed in February 2017. The Airbus approval functions as an umbrella approval allowing Velocity to supply numerous customers who are working on Airbus programmes.

#### ***Safran Nacelles (formerly Aircelle)***

The Company received approval from Aircelle for consumable and structural kitting in 2008 and 2013 respectively. Aircelle holds the design authority for the manufacture of nacelles and thrust reverser engine parts for multiple engines across different aircraft platforms. Approval took the Company approximately 6 months.

#### ***Lockheed Martin***

The Company is approved to supply consumable kitting for the F35 range of military aircraft through a manufacturing licence agreement with BAE Systems. Approval took the Company approximately 6 months.

#### ***BAE Systems***

The Company has been approved for the supply of consumable kits for the military Typhoon programme since February 2010. Approval took the Company approximately 6 months. In February 2017, BAE Systems extended the approval for Velocity to cover suppliers to BAE Systems in the wider supply chain.

In addition to the above, the Company also has the following approvals: Bombardier, Meggitt, Leonardo, GE, GKN & Kaman.

## **6. THE AEROSPACE MARKET**

The aerospace market is a global industry with annual revenues estimated to be approximately US\$700 billion. The market comprises two primary sectors, commercial and defence. The sector has demonstrated strong growth over the last ten years achieving record production and profit levels, with a predicted CAGR of approximately 9.1 per cent. between 2016 and 2024.

### ***Commercial Sector***

The global commercial airline industry anticipates achieving a profit of approximately \$29.8 billion in 2017 and is dominated by the two largest manufacturers of commercial aircraft, Boeing and Airbus, although there are several other manufacturers who operate in the sector.

The demand for aircraft and global air traffic has proven to be resilient throughout the last two decades. This reflects an increase in overall passenger demand for air travel, which is now in excess of 6 trillion passenger kilometres per annum, which is more than double the level of travel 20 years ago.

The market for aircraft and air travel is expected to continue to increase over the next twenty years and it is expected that there will be 33,070 aircraft by 2035. This increase in aircraft is expected to be led by growth in Asia Pacific, Middle East and Latin America with the fleet of aircraft more than doubling in each of these regions. In addition, aircraft manufacturers anticipate an increase in aviation 'mega cities' as a result of the increase in aircraft passengers across the world.

Commercial aircraft manufacturing backlog is at an all-time high of approximately 13,500 aircraft units, representing more than nine and a half years of current annual production rates and aircraft manufacturers are under pressure to meet this demand and are also facing delay penalties. Boeing recently updated its production guidance advising that it expects to deliver between 760 and 765 commercial aircraft in 2017 (748 delivered in 2016). As of January 2017, Airbus stated that it expects to deliver more than 700 aircraft this year. Airbus has an order backlog of 6,874 aircraft which continues to support delivery growth for several years ahead.

To the extent that these orders are to be delivered in the stipulated timeframes, Boeing and Airbus are subject to charges from their end customers for late delivery. In order to be able to deliver the aircraft on time, all global manufacturers rely on a global supply chain to deliver products in time for this increasing demand for aircraft.

### ***Defence Sector***

The global military aircraft market is estimated to have valued \$61.2 billion in 2015. The market consists of six categories of aircraft: multi-role, transport, attack, reconnaissance and surveillance, bombers and training. The value of the global military aircraft market is expected to increase at a CAGR of 3.64 per cent. during the forecast period, to reach \$87.5 billion by 2025. The global aerospace and defence sector revenue growth is forecast to grow by approximately 2 per cent. in 2017. It is expected that there will be further growth during 2017, as defence spending in the US, especially, has returned to growth after multi-year declines in defence budgets and further growth may be driven by the US's new increased focus on strengthening the US military.

## **7. COMPOSITES**

### ***What is a Composite?***

A composite is a combination of a matrix and a reinforcement which, when combined, gives properties superior to the properties of the individual components. Composites are often a mix of a fibre (such as glass fibre, carbon fibre or ceramic fibre) mixed with a matrix of reactive additives (curing agents and hardeners) such as polymer resins.

Composites are used within aircraft manufacturing due to their strength, corrosion resistance, weight and resistance to fatigue when compared to metals.

The raw material for composite part manufacture consists of the fabric/fibres pre-impregnated with the un-cured resin and supplied on a roll. In order to preserve the working life of the resin, the rolls are normally stored frozen at -18°C in a sealed bag for moisture protection. When ready for use, the rolls are transferred to an environmentally monitored area to return to room temperature before the bag is opened. The roll can then be cut into the required shapes before all shapes and materials for a required part can be collated, sealed and packaged ready for customer despatch. At all times during this process the environmental temperature and state of the material is recorded so that the kits can be delivered with accurate life remaining data.

When the kits arrive at the customers' manufacturing plants they are delivered into a clean room and only opened under controlled conditions. The end user will apply each layer of each material in a specific order and orientation to a tool so that an uncured laminate is built up in layers. When complete a multi-layer vacuum bag is applied to the tool so that the whole laminate can be encapsulated between the tool and the vacuum bag, where air is then removed from it. This then creates a vacuum around the part to remove any trapped air and force the laminate onto the tool,

consolidating the layers against the tool surface. The entire tool/laminate assembly is then moved into an autoclave where additional pressure and temperature is used to cure the resin, creating a solid structure. This will then move on to be trimmed, tested and possibly painted.

The most significant increase in industrial demand for composites is currently the aerospace sector predominantly due to the reduction in weight of the aircraft and therefore cost. Other niche applications already exist in small volumes, such as specialist racing bikes, while the automotive sector uses composites to a limited extent.

### **Composite Materials in Aerospace**

Aerospace is currently an important end market for composites, using between 65-70 per cent. of composite material production. The aerospace sector has adopted the use of composites largely due to the enhanced properties shown. Composite use in the aerospace sector is being driven by the need to reduce cost per passenger mile (costs reduced in part by reducing the weight of the aircraft therefore increasing range) as well as the regulatory requirement to reduce emissions. The aerospace composite materials market is predicted to grow at a CAGR of approximately 9.1 per cent. between 2016 and 2024.

Currently, composites are used within the following areas of aircraft: engine blades, nacelles, propellers/rotors, single aisle wings, wide body wings, brackets and interiors. Composites are not most effective for all parts of aircraft, for example, aluminium handles compression loads better than composites but is sensitive to tension loads.

Velocity currently focuses on the manufacture of external parts of aircraft however the opportunity exists for the Company to offer its services to clients for the internal parts of aircraft.

Composites are increasingly used within the manufacture of aircraft and aircraft have seen a shift in the content of the materials used. For example, a Boeing 777 (introduced 1995) uses approx. 12 per cent. composites by weight, whereas the Boeing 787 (introduced 2007) uses approx. 50 per cent. composites by weight. A similar shift has occurred between Airbus' key models over the last 20 years. This shift in material use is as a result of composites' enhanced properties and the need for aircraft to be stronger, lighter and more efficient.

## **8. GROWTH STRATEGY**

The Company has successfully grown since inception through a combination of deepening existing client relationships, as well as winning new customer orders. The Company has identified key areas that it believes can be future profitability drivers:

- Improved internal material efficiencies
- Increased capacity utilisation
- Aggregation of material supply for multiple customers as scale increases
- Economies of scale for back office and management costs
- Diversified aircraft programmes with ascending production rates

In paragraph 4 of this Part I above, the Company's approach to customer targeting is explained and the Board intends to accelerate the rate of customer wins following Admission. In addition to the on-going growth, the Board believes that the Company's growth can be accelerated as described below.

### **New Additional Sites**

Velocity's manufacturing business model is replicable and the Company has identified a number of key potential aerospace manufacturing main hubs and satellite hubs in Europe. Velocity follows a process to replicate its hubs as follows: initially Velocity identifies a potential customer/cluster; it then will visit

the location to understand and define the customer's need for Velocity's services. If the opportunity presents a compelling investment case and significant cost savings for the customer then Velocity will write and present a business case and, if accepted, will continue to agree terms and contract. If required, Velocity will replicate its manufacturing facilities to within close proximity of the customer if there is sufficient demand within the area. Directors anticipate the cost of new satellite hubs to be approximately £1.25–£1.5 million. An example of this in use is the opening of Velocity's Fareham site where a key customer, with increased capacity requirements, accepted the savings proposed by Velocity and entered into a new 5 year contract in 2016.

Velocity's business model is predicated on serving clients in close proximity to Velocity's facilities, given the nature of the product which must be stored at a controlled temperature and is transported in refrigerated vehicles under strict controls with a finite life once it has been through Velocity's manufacturing process.

The replicable nature of Velocity's satellite sites provides the Company with significant potential for expansion, both domestically and abroad, relatively quickly. Tactically, the Company is seeking additional approvals to do so and facilitate growth in new territories.

### **Approvals and Growing Aircraft Programmes**

There is considerable data outlining the backlog in orders of the Primes, including but not limited to Boeing and Airbus, and currently, a new aircraft, when ordered, is delivered over 9 years later. The Company already has Airbus approval and is working on obtaining Boeing approvals, which will substantially increase its addressable market. The Company has shifted its focus over the previous 2 years to engage with manufacturers who are actively involved in aircraft programmes with increasing production profiles for example the A350 and F35. Further information on which can be found below.

### **Increasing Amount of Composites used in Manufacture of Aircraft**

As described in paragraph 7, composite materials exhibit enhanced properties when compared to their metal counterparts. These enhanced properties include: better weight saving, increased strength/stiffness, corrosion resistance and fatigue resistance. In addition, there is a commercial desire to make aircraft lighter and use less fuel. In turn this results in the aircraft having greater range and being less expensive to operate, which then drives passenger numbers and permits direct flights to an increased number of destinations.

Composites are increasingly used within the manufacture of aircraft and aircraft have seen a shift in the split of the materials used in its structure. This trend has affected the large, twin aisle aircraft to date but will also apply to smaller, single aisle aircraft as platforms are replaced.

The Directors believe that there is significant pressure on the aerospace supply chain, including the raw material providers, as production volumes increase and also composite use increases across multiple aircraft platforms. The Directors believe that Velocity is well positioned to take advantage of this pressure and increasing market opportunity. This has been enhanced through referrals by composite suppliers to Velocity in order to create efficiencies in the supply chain.

### **Market Trend**

In addition to the increased use of composites described above, the Directors believe that the aerospace industry is entering a period where the focus for the Primes (and hence the Tier 1's) is around aircraft productivity. With the introduction of new platforms such as A380, B787 and A350, the Primes have now completed a sustained period of design innovation and technology introduction, and hence their focus on productivity. Along with the significant order books and backlogs for new aircraft, it is clear that Primes are looking to increase their production rates and to reduce the cost of manufacture in order for them to realise returns after this period of investment. It is in this environment where the Directors believe that Velocity's services will be in high demand as manufacturers look to introduce a leaner supply chain, and consolidate the supply base to bring focus,

reduce waste and outsource non-core business to increase capacity. This is particularly attractive to customers of Velocity as increased productivity can be achieved whilst at the same time reducing the cost of manufacture.

## **R&D**

In order for Velocity to provide its total service with any material from any supplier delivered lineside in the form of use, Velocity must develop for each customer, at each specific customer site, a unique approach to its service offering. This requires appropriate research and development to deliver these new products utilising new processes for each customer location. To further grow and to innovate Velocity's total service offering to preserve its market position, Velocity intends to open a global research and development centre in North West England where all new product development, process development and new product innovation can be performed under the rigorous environmental controls needed for aerospace composite manufacture.

## **Customer Trends**

The service offering of Velocity is such that products and services need to be supplied to customers throughout the year in line with forward visibility forecasts and fixed order periods. The only seasonal reduction in consumption from customers in Europe is the traditional holiday periods at Christmas and summer holidays mainly in August.

## **9. COMPETITION**

### **Barriers to Entry**

The Directors believe that the following represent significant deterrents to new entrants to the market:

- the requisite approvals from Primes/Tier 1 manufacturers which can only ordinarily be gained when a manufacturing process can be seen and approved and also sponsored by Tier 1 manufacturers;
- the requisite material, process and manufacturing know-how to be able to offer compelling and cost effective solutions to customers;
- the requirement for intelligent and progressive software which will provide cost savings in the amount of composites required to manufacture a part over and above the amount the client currently consumes;
- the requirement for initial capital to acquire a range of flatbed cutting machines;
- the need to handle all raw material streams, which limits existing material suppliers to their own products; and
- the need to meet the financial standing requirements of the raw material suppliers.

As such, the Directors believe that they have the 'first-mover' advantage with regards to these barriers to entry.

### **Competition**

The Directors consider the greatest competitive threat to the Company to be the potential for customers to continue to produce or return to producing simplistic kits in-house. However, the Directors believe that the following factors mean the trend towards outsourcing of kitting services will continue:

- *Cleanroom capacity* – Kitting in-house requires the setting aside of cleanroom capacity for cutting and collation which reduces capacity for the manufacture of parts. Given the current demands on Primes and Tier 1 manufacturers to produce a greater number of parts to help

reduce aircraft order backlog at major aircraft manufacturers such as Airbus and Boeing, the Directors consider the likelihood of this to be remote.

- *Expertise* – Storage, cutting and kitting of materials are seen as non-core activities by aerospace manufacturing businesses. The Directors believe that these businesses typically outsource this work in order to free up skilled labour resource for use elsewhere in the production process when a viable alternative exists.

The Directors have identified a limited number of companies who currently provide kitting solutions to the aerospace industry. These include Omega Systemes, based in France, which provides build-to-print kitting and generates sales of approximately €7 million, and Argosy International which has a small scale build-to-print facility in the Far East. In addition Solvay Cytec (formerly Aerovac) operates one consumable kitting site in Europe. However, the Directors believe that Solvay Cytec's capabilities are limited with its offering being restricted to just its own materials. As such, Solvay Cytec is not deemed to be a threat to the Company's market position by the Directors. Airtech, a US based material distributor, also offers kitting of its own range of consumable materials from sites in the US, UK and Luxembourg.

## **10. REASONS FOR ADMISSION AND USE OF PROCEEDS**

The Directors believe that Admission will represent an important step in the Company's development and will enhance its growth potential by the injection of additional growth capital and by the increased profile attaching to its new status as a publicly quoted company. The Company believes that the main reasons for becoming a public quoted company are as follows:

- there is an opportunity to establish a market leading position in multiple regions;
- it will assist in receiving additional approvals;
- provides future access to capital;
- working capital management;
- customers and suppliers expect the governance associated with becoming a PLC; and
- the credibility of becoming a PLC, especially with Primes and Tier 1 manufacturers.

The Company believes that it is at an inflection point and the Fundraising proceeds are required to accelerate growth in line with market expectations and proposes using the funds in the following ways:

- EIS/VCT investment into new product development and/or new geographical markets (£5.0m);
- new customer acquisition teams in new territories (£0.5m);
- additional Project Managers to deliver on additional demand in existing customers (£0.5m);
- new industry approvals (£0.25m);
- working capital and balance sheet management (£3.0m); and
- new product development for new customers.

Velocity intends to use some of the proceeds of the Fundraising to develop a leading Research and Development centre in North West England where new products can be developed for UK, European and worldwide customers. Velocity intends to develop the centre with adequate provision to graduate towards a full production facility for neighbouring customers.

In addition, there are multiple programmes which will come into production simultaneously, potentially causing requirements for working capital to fund up-front engineering costs, up-front

material purchases and first article trials. These contracts will be in production by the end of 2017 and are with large aircraft programmes.

## 11. SELECTED FINANCIAL INFORMATION

Historical financial information on Velocity for the three financial years ended 31 October 2014, 31 October 2015 and 31 October 2016 can be found in Section B of Part III of this document.

The following summary financial information on Velocity has been derived from the financial information set out in Section B of Part III of this document. The following summary financial information should be read in conjunction with the full text of this document and with the financial information presented in Part III. Investors should not rely solely on this summarised financial information.

	<i>Year ended 31 October 2014 £m</i>	<i>Year ended 31 October 2015 £m</i>	<i>Year ended 31 October 2016 £m</i>
Sales	15.3	14.5	14.6
Gross Profit	3.1	3.5	3.5
Adjusted EBITDA*	1.0	1.1	0.6
Like-for-like EBITDA**	1.0	1.1	1.1
EBITDA	1.1	1.5	(0.0)
Adjusted PBT	0.8	0.9	0.3

\* Adjusted EBITDA adjusts for currency effects

\*\* Like-for-like EBITDA adjusts for on-going investments costs which the Company is incurring in preparation for being a public company

## 12. CURRENT TRADING & FUTURE PROSPECTS

The Company achieved revenue of £14.6 million for 2016, a slight increase on that of 2015, and adjusted profit before tax of £0.3 million (adjusted for currency effects). Historically, the Company's revenue has predominantly been from the A330 ceo aircraft, a programme that is now on a descending production rate. In 2015, the Company strategically began a transition to work on aircraft programmes which are in increasing production. In the year to 31 October 2015, Velocity received approval to work for all Airbus suppliers on all Airbus platforms which has expanded its potential market significantly.

In the year to 31 October 2016, the Company suffered an exceptional foreign exchange cost which was due to a currency mismatch in a customer contract. The Company has subsequently taken steps to minimise the risk of this happening again in the future including: amendments to existing contracts so that revenues and costs are denominated in the same currency; and amended contract terms which allow foreign exchange movements to be passed on to the customer. In addition to the foreign exchange losses the Company incurred a number of additional one-off expenses in the year to 31 October 2016 associated with preparing the Company for the next stage of its development and growth. In particular, two experienced non-executive directors were appointed to the Board and a number of other key senior management hires were made. Alongside this, costs to 31 October 2016 of approximately £0.2 million were committed in relation to the commencement of the establishment and launch of the new site in Fareham.

The Board has a high level of confidence in the out-turn for the year ending 31 October 2017. This has been reinforced by trading that has been in line with management's expectations, exceeding the performance in the previous four months and in the comparable first four months of the previous financial year. In addition approximately 85 per cent. of forecast revenue for the year ending 31 October 2017 is already contracted with existing customers and the Company should benefit from the ramp-up associated with the strategic decision to focus on growth programmes (for example the F35 and A350; see further information on the A350 below). In the three years to 31 October 2016,

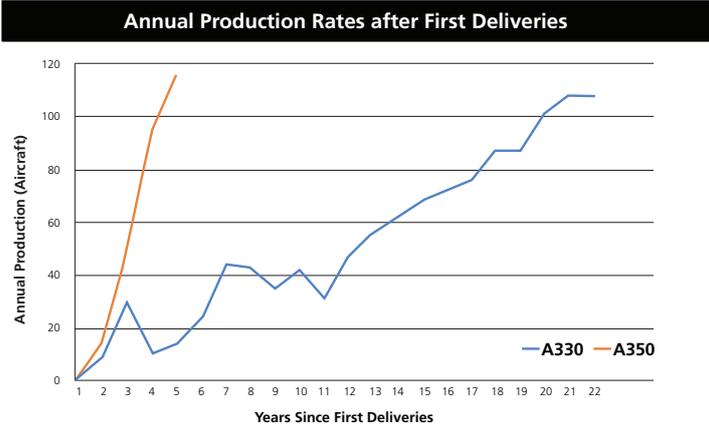
the Company has diversified its customer mix and the Directors believe that this trend is to continue following the receipt of approval to work for all Airbus suppliers across all Airbus platforms. The Company's results have a typical second half weighting, as production is usually depressed in December and January. The Directors believe that the combination of this, together with the impacts of both the on-going strategic move to focus on growth programmes and the recent opening and accreditation of the new site in Fareham means that, despite both revenue and profit being in line with management expectations for the current financial year to date, results for the twelve months to 31 October 2017 are likely to be heavily weighted towards the second half with substantially all profits being generated in that period.

The Company's new facilities in Fareham allow Velocity to access new business and increases operating leverage as spare capacity is used up. In addition, the Company is working on obtaining further approvals which will substantially increase its addressable market.

**Example Programmes**

*Airbus A350*

The Airbus A350 entered service in January 2015 and, following Airbus approval received in August 2015, Velocity began production of structural kits for wings in February 2016. The A350 represents a growth programme for the Company. By the end of December 2016 Airbus had received 818 aircraft orders and had delivered 64. Current production rates of the A350 are rate 5 (5 aircraft/month) which is anticipated to increase to rate 10 by 2018. By comparison, the A330 ceo, took 18 years to reach rate 10. Velocity currently provides structural kits which relate to one variant of the A350, it is expected that another variant will enter service in 2017.



*F35*

The Company has the required approvals from Lockheed Martin to manufacture kit for the military aircraft, F35. Similarly to the A350, as described above, the Company expects a ramp up in the production of this aircraft and anticipates that it will hit full rate production (10 aircraft per month) by 2019.

**13. BOARD OF DIRECTORS**

**Mark Mills, age 46 – Non-Executive Chairman**

Mark joined Velocity in January 2015 and became Chairman in February 2016. Mark has been non-executive Chairman of Mini-Cam Enterprises Limited since 2013, a Lloyds Development Capital backed company that manufactures drainage and sewerage inspection systems in the UK and exports to over 30 countries worldwide. From 1999 to 2007, Mark was (the founder and) chief executive officer of Cardpoint plc, an AIM quoted deployer of cash machines. Prior to founding Cardpoint, Mark successfully started, developed, acquired and subsequently sold a number of businesses with multiple site operations.

### **Jonathan Bridges, age 42 – Chief Executive Officer**

Jon co-founded Velocity in October 2007. Jon has over 25 years' experience within the advanced composites industry and is an experienced composite engineer. Previously, Jon was an Aerospace and Lean Solutions Specialist at Cytec Process Materials where he was responsible for direct sales support of UK and European based clients. From 2003 to 2005 Jon was a manufacturing engineer for Safran Nacelles where he was responsible for the manufacturing function for a growing, highly loaded aerospace unit supplying multiple assembly lines. Jon was appointed Chief Executive Officer in June 2016.

### **Alan Kershaw, age 50 – Chief Financial Officer**

Alan joined Velocity as Chief Financial Officer in March 2016 having previously held senior roles in other AIM quoted companies. Alan was finance director of Ultrasis plc from June 2014 to October 2015 and Finance & Operations director of WH Ireland Group plc from 2010 to 2014. Alan is a qualified chartered accountant in England and Wales (ICAEW) who qualified with PricewaterhouseCoopers.

### **Peter Turner, age 68 – Non-Executive Director and Senior Independent Director**

Peter has over 38 years' experience in the aircraft industry and began his career at Brookhouse Patterns Ltd, an aircraft tool making company that he co-founded. Soon after, the company formed an additional composites company which supplied components to the aircraft industry. The Brookhouse group of companies with over 500 employees was sold between 2004 and 2006. Peter joined the Board of Velocity in 2016 as Non-Executive Director.

## **14. FOUNDERS AND SENIOR MANAGEMENT**

The Directors are supported by the following senior management:

### **Gerard Johnson, age 49 – Chief Strategy Officer**

Gerry is a co-founder of Velocity and has been a member of senior management since 2007. Today, he focuses on the strategic growth of the Company. Gerry has over 30 years' experience in the composites and aerospace industries. Prior to Velocity, Gerry was a Manufacturing Engineer at Safran Nacelles, Terma and Boeing.

### **Christopher Banks, age 46 – Head of Special Projects**

Chris is a co-founder of Velocity and has been a member of senior management since 2007. Chris has over 25 years' experience within the composites manufacturing industry. Before Velocity, Chris held the position of Lead Composite Manufacturing Engineer at Hurel Hispano for 8 years until 2010. Prior to this, Chris has held numerous positions as a composite manufacturing engineer in companies situated in various countries including, Terma Industries Denmark, GKN Westland Aerospace and Boeing.

### **Darren Ingram, age 44 – Chief Operating Officer**

Darren has over 26 years' experience in supply chains and operations, whilst working for a number of complex engineering companies within both the aerospace and automotive sectors. Darren was appointed Chief Operating Officer of Velocity in 2015 and runs the day to day engineering operations within the Company. Prior to Velocity, Darren has held the positions of UK supply chain director and Plant Manager for Kaman Ltd, Safran Nacelles and GE Aviation.

### **Matthew Archer, age 38 – Chief Commercial 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.

## **15. EMPLOYEES**

Total employee numbers (including Non-Executive Directors) have grown from 66 in October 2013 to 97 currently, reflecting the growth within the business and anticipated ramp up. Average head count at the date of this document is as follows:

Directors:	4
Management:	10
Quality & Business Improvement:	4
Engineering:	7
Finance & Admin:	5
Shop Floor:	67

## **16. CORPORATE GOVERNANCE**

### **Corporate governance**

The Directors recognise the value and importance of high standards of corporate governance. Accordingly, whilst the Corporate Governance Code does not apply to AIM companies, the Directors intend to observe the requirements of the Corporate Governance Code to the extent they consider appropriate in the light of the Company's size, stage of development and resources. The Board also proposes, so far as practicable, to follow the recommendations set out in the Corporate Governance Code for Small and Mid-Sized Companies published by the Quoted Companies Alliance.

### **Board**

The Board will be responsible for the overall management of the Company including the formulation and approval of the Company's long term objectives and strategy, the approval of budgets, the oversight of Company operations, the maintenance of sound internal control and risk management systems and the implementation of Company strategy, policies and plans. Whilst the Board may delegate specific responsibilities, there will be a formal schedule of matters specifically reserved for decision by the Board; such reserved matters will include, amongst other things, approval of significant capital expenditure, material business contracts and major corporate transactions. The Board will formally meet ten times each year to review performance.

The Board currently comprises 4 Directors, of whom 2 are executive and 2 are non-executive. The Board considers all of the non-executives to be independent for the purposes of the Corporate Governance Code.

The Board has established an audit committee, remuneration committee and nomination committee with formally delegated duties and responsibilities, as described below.

### **Audit committee**

The audit committee will be responsible for monitoring the integrity of the Company's financial statements, reviewing significant financial reporting issues, reviewing the effectiveness of the Company's internal control and risk management systems, monitoring the requirement for an internal audit function and overseeing the relationship with the external auditors (including advising on their appointment, agreeing the scope of the audit and reviewing the audit findings) and reviewing

arrangements for the Company's employees to raise concerns about possible wrongdoing in financial reporting.

The audit committee will initially comprise Mark Mills and Peter Turner and will be chaired by Peter Turner. The audit committee will meet at least three times a year at appropriate times in the reporting and audit cycle and otherwise as required. The audit committee will also meet regularly with the Company's external auditors.

#### **Remuneration committee**

The remuneration committee will be responsible for determining and agreeing with the Board the framework for the remuneration of the executive Directors and other designated senior executives and, within the terms of the agreed framework, determining the total individual remuneration packages of such persons including, where appropriate, bonuses, incentive payments and share options or other share awards. The remuneration of non-executive Directors will be a matter for the chairman and the executive members of the Board. No Director will be involved in any decision as to his or her own remuneration.

The remuneration committee will initially comprise Mark Mills and Peter Turner and will be chaired by Peter Turner. The remuneration committee will meet at least twice a year and otherwise as required.

#### **Nomination committee**

The nomination committee will be responsible for reviewing the structure, size and composition of the Board and identifying and nominating, for the approval of Board, candidates to fill vacancies on the Board as and when they arise.

The nomination committee will initially comprise Mark Mills and Peter Turner and will be chaired by Mark Mills. The nomination committee will meet at least twice a year and otherwise as required.

### **17. SHARE DEALING CODE**

The Company has adopted a share dealing code for Directors and applicable employees of the Company for the purpose of ensuring compliance by such persons with the provisions of the AIM Rules relating to dealings in the Company's securities (including, in particular, Rule 21 of the AIM Rules) and the Market Abuse Regulation. The Directors consider that this share dealing code is appropriate for a company whose shares are admitted to trading on AIM.

The Company will take proper steps to ensure compliance by the Directors and applicable employees with the terms of the share dealing code and the relevant provisions of the Market Abuse Regulation and the AIM Rules (including Rule 21).

### **18. DIVIDEND POLICY**

The Directors currently propose to re-invest earnings of the Company to finance the development and expansion of the business and, accordingly, it is not envisaged that the Company will pay a dividend in the first twelve months following Admission.

The Board will, however, assess the desirability of the payment of dividends on an ongoing basis and will consider doing so when the development and profitability of the Company allows and the Board considers it commercially prudent to do so. The declaration and payment of dividends and the quantum of such dividends will, in any event, be dependent upon the Company's financial condition, cash requirements and future prospects, the level of profits available for distribution and other factors regarded by the Board as relevant at the time.

## 19. TAXATION

The attention of investors is drawn to the information regarding taxation set out in paragraph 13 of Part V of this document. This information is intended only as a general guide to the current tax position under UK taxation law for certain types of investor. **Investors who are in any doubt as to their tax position or who are subject to tax in jurisdictions other than the UK are strongly advised to consult their professional advisers.**

## 20. DETAILS OF THE PLACING, THE VENDOR PLACING AND THE SUBSCRIPTION

finnCap has entered into the Placing Agreement with the Company, the Directors and the Selling Shareholders. Under the Placing Agreement, finnCap has conditionally agreed, as agent of the Company, to use its reasonable endeavours to procure subscribers for the VCT/EIS Placing Shares and the General Placing Shares and purchasers for the Vendor Placing Shares at the Placing Price. The Placing Shares and Vendor Placing Shares are being placed with institutional and other investors. The Placing and Vendor Placing are not being underwritten.

The Placing, Vendor Placing and the Subscription are conditional, amongst other things, on Admission taking place on or before 18 May 2017 (or such later date as the Company and finnCap may agree, but in any event not later than 2 June 2017) and on the Placing Agreement becoming unconditional and not being terminated prior to Admission.

**In addition, subscribers for Placing Shares should be aware of the possibility that the VCT/EIS Placing Shares might be issued but that the General Placing Shares are not issued. In these circumstances, Admission will not take place.**

The Placing Shares will be issued credited as fully paid and will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends or other distributions declared, made or paid after Admission. The New Ordinary Shares will represent approximately 34.28 per cent. of the Enlarged Share Capital.

After deduction of fees, commissions and expenses payable by the Company, the net proceeds of the Placing receivable by the Company will be approximately £9.2 million. A commentary on the proposed use of the net proceeds of the Placing and the issue of Convertible Loan Notes is given in the paragraph headed "Reasons for Admission and use of proceeds" in this Part I.

The Selling Shareholders have indicated a desire to realise a proportion of their investment in the Company. Under the Vendor Placing, the Selling Shareholders have agreed to sell 4,705,885 Vendor Placing Shares at the Placing Price and these shall be placed with investors by finnCap. The Vendor Placing Shares will represent approximately 13.15 per cent. of the Enlarged Share Capital at Admission. The Company will not receive any proceeds of the sale of the Vendor Placing Shares. After deductions of commissions payable by the Selling Shareholders, the net proceeds of the Vendor Placing receivable by the Selling Shareholders will be approximately £3.8 million.

The Subscription Shares will be issued credited as fully paid and will, on Admission, rank *pari passu* in all respects with the Existing Ordinary Shares including the right to receive all dividends or other distributions declared, made or paid after Admission.

Further details of the Placing Agreement are set out in paragraph 10 of Part V of this document.

## 21. LOCK-IN AND ORDERLY MARKET ARRANGEMENTS

Each of the Locked-In Parties, who will together be beneficially interested in a total of 18,848,327 Ordinary Shares on Admission (representing 52.66 per cent. of the Enlarged Share Capital), have undertaken to the Company and finnCap that, except in limited circumstances, they will not dispose of any Ordinary Shares during the period of 12 months from Admission and that, during the period of 12 months from the first anniversary of the date of Admission, they will not dispose of any Ordinary Shares unless such disposal is made on an orderly market basis through the Company's broker from time to time.

Accordingly, on Admission, a total of 18,848,327 Ordinary Shares will be subject to the lock-in and orderly market arrangements described above representing 52.66 per cent. of the Enlarged Share Capital.

Further details of the lock-in and orderly market undertakings are set out in paragraph 10 of Part V of this document.

## **22. RELATIONSHIP AGREEMENT**

On Admission (and following completion of the Vendor Placing), Jon Bridges, Gerry Johnson and Chris Banks will be interested in 5,515,929 Ordinary Shares, 4,927,693 Ordinary Shares and 4,927,693 Ordinary Shares, respectively representing 42.95 per cent. in aggregate of the Enlarged Share Capital.

The Directors are satisfied that the Company is capable of carrying on its business independently of the Founders and that all transactions and relationships between the Founders and the Company are and will continue to be at arm's length and on commercial terms.

To ensure that Shareholders are adequately protected in this regard, the Company and finnCap have entered into the Relationship Agreement with the Founders. Pursuant to the Relationship Agreement, the Founders have both given certain undertakings to the Company and finnCap to the effect that the Board can, amongst other things, operate on an independent basis. Further information on the Relationship Agreement can be found at paragraph 10 of Part V of this document.

## **23. ADMISSION, SETTLEMENT AND DEALINGS**

Application has been made to the London Stock Exchange for the Existing Ordinary Shares and the New Ordinary Shares to be admitted to trading on AIM. It is expected that Admission will become effective and that dealings in the Ordinary Shares will commence on AIM on 18 May 2017.

The Ordinary Shares will be in registered form and will be eligible for settlement through CREST.

## **24. CREST**

CREST is a paperless settlement procedure enabling securities to be evidenced otherwise than by a certificate and transferred otherwise than by a written instrument. The Articles of Association contain provisions concerning the holding and transfer of Ordinary Shares in uncertificated form in accordance with the CREST Regulations. The Company has applied for the Ordinary Shares to be admitted to CREST with effect from Admission and Euroclear has agreed to such admission. Accordingly, settlement of transactions in the Ordinary Shares following Admission may take place within the CREST system if the relevant Shareholder so wishes. CREST is a voluntary system and Shareholders who wish to receive and retain share certificates will be able to do so.

In the case of Placees who have requested to receive New Ordinary Shares in uncertificated form, it is expected that CREST accounts will be credited with effect from 18 May 2017. In the case of Placees who have requested to receive New Ordinary Shares in certificated form, it is expected that share certificates will be despatched by post within 14 days of the date of Admission.

No temporary documents of title will be issued. All documents sent by or to a Placee who elects to hold Ordinary Shares in certificated form, or at his or her direction, will be sent through the post at the Placee's risk. Pending the despatch of definitive share certificates, transfers will be certified against the register of members of the Company.

## **25. THE TAKEOVER CODE**

The Company is a public company incorporated in England and Wales and its Ordinary Shares will be admitted to trading on AIM. Accordingly, the Takeover Code applies to the Company.

The Takeover Code governs, *inter alia*, transactions which may result in a change of control of a company to which the Takeover Code applies. Under Rule 9.1 of the Takeover Code any person who acquires, whether by a series of transactions over a period of time or not, an interest (as defined in the Takeover Code) in shares which, taken together with shares in which he is already interested or in which persons acting in concert with him are interested, carry 30 per cent. or more of the voting rights of a company which is subject to the Takeover Code, that person will, except with the consent of the Panel, be required to make a general offer to all the remaining shareholders to acquire their shares. Similarly, Rule 9 of the Takeover Code also provides that when any person, together with persons acting in concert with him, is interested in shares which in aggregate carry not less than 30 per cent. of the voting rights of a company but does not hold shares carrying more than 50 per cent. of such voting rights and such person, or any person acting in concert with him, acquires an interest in any other shares which increases the percentage of shares carrying voting rights in which he is interested, then, except with the consent of the Panel, such person shall extend offers, on the basis set out in Rules 9.3, 9.4 and 9.5 of the Takeover Code, to the holders of any class of equity capital whether voting or non-voting and also to the holders of any other class of transferable securities carrying voting rights.

An offer under Rule 9 must be in cash and must be at the highest price paid by the person required to make the offer, or any person acting in concert with him, for any interest in shares of the company in question during the 12 months prior to the announcement of the offer.

Where any person who, together with persons acting in concert with him, holds shares carrying more than 50 per cent. of the voting rights of a company, and such person or any person acting in concert with him, acquires any further shares carrying voting rights, the concert party as a whole will not generally be required to make a general offer to the other shareholders to acquire the balance of their shares, though Rule 9 of the Takeover Code would remain applicable to individual members of a concert party who would not be able to increase their percentage interests in the voting rights of such company through or between Rule 9 thresholds without Panel consent.

The Takeover Code defines persons "acting in concert" as comprising persons who, pursuant to an agreement or understanding (whether formal or informal), co-operate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. "Control" means an interest, or interests, in shares carrying in aggregate 30 per cent. or more of the voting rights of a company, irrespective of whether such interest or interests give *de facto* control. A person and each of its affiliated persons will be deemed to be acting in concert with each other. There is a non-exhaustive list of persons who will be presumed to be acting in concert with other persons in the same category unless the contrary is established.

Based on the information available, a concert party exists consisting of the individuals set out in paragraph 4.4 of Part V of this document. Immediately following Admission, the Concert Party will be interested in, in aggregate, 18,818,915 issued Ordinary Shares representing approximately 52.57 per cent. of the Enlarged Issued Share Capital.

Since, on Admission, the Concert Party will together hold Ordinary Shares carrying more than 50 per cent. of the voting rights of the Company, it will be free to increase its aggregate holding of shares carrying voting rights in the Company without any obligation to make a general offer for the Company under Rule 9.

Further information on the Concert Party shareholdings are set out in paragraph 4.4 of Part V of this document.

## **26. EIS AND VCT STATUS**

### **VCT**

The Company has obtained advance assurance from HMRC that the New Ordinary Shares in the Company should represent a “qualifying holding” for the purposes of investment by VCTs. The continuing status of such New Ordinary Shares as a qualifying holding for VCT purposes will be conditional, *inter alia*, on the New Ordinary Shares being held as a “qualifying holding” for VCT purposes throughout the period of ownership. Neither the Company nor the Directors nor the Company’s advisers give any warranty, representation or undertaking that any VCT investment in the Company will remain a qualifying holding.

### **EIS**

The Company has obtained advance assurance from HMRC to confirm that they would be able to authorise the Company to issue certificates under section 204 of the Income Tax Act 2007 in respect of New Ordinary Shares issued to individuals, following receipt from the Company of a properly completed compliance statement (EIS 1 form) within the prescribed time limit stipulated in section 205(4) of the Income Tax Act 2007. The continuing status of such New Ordinary Shares as qualifying for EIS purposes will be conditional on the qualifying conditions being satisfied throughout the relevant period of ownership. Neither the Company nor the Directors nor the Company’s advisers give any warranty, representation or undertaking that any investment in the Company by way of such shares will remain a qualifying investment for EIS purposes. EIS eligibility is also dependent on a Shareholder’s own position and not just that of the Company. Accordingly, prospective investors should take their own advice in this regard.

## **27. FURTHER INFORMATION**

The attention of prospective investors is drawn to the financial and other information set out in Parts II to V inclusive of this document, which provide additional information on the Company. In particular, prospective investors are advised to consider carefully the risk factors relating to any investment in Ordinary Shares set out in Part II of this document.

## PART II

### RISK FACTORS

*Any investment in the Ordinary Shares would be subject to a number of risks. Prior to investing in the Ordinary Shares, prospective investors should consider carefully the factors and risks associated with any investment in the Ordinary Shares, the Company's business and the industry in which it operates, together with all other information contained in this document including, in particular, the risk factors described below. Additional risks and uncertainties that are not currently known to the Company, or that it currently deems immaterial, may also have an adverse effect on the Company's business, financial condition and operating results. If this occurs the price of the Ordinary Shares may decline and investors could lose all or part of their investment. Investors should consider carefully whether an investment in the Ordinary Shares is suitable for them in light of the information in this document and their personal circumstances.*

*The following is not an exhaustive list or explanation of all risks that prospective investors may face when making an investment in the Ordinary Shares and should be used as guidance only. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materialising, of the potential significance of the risks or of the scope of any potential harm to the Company's business, prospects, results of operation and financial position.*

#### **RISKS RELATING TO THE PLACING**

The issue of the Placing Shares will be conducted in two separate tranches over two Business Days to enable some investors to benefit from certain tax reliefs available to VCT and EIS investors. Should the Company not raise a minimum of approximately £4.9 million from EIS and VCT investors, EIS and VCT investors will not be able to benefit from the tax reliefs available to EIS and VCT investors. Further details of the VCT and EIS regimes are set out in paragraph 13 of Part V of this document.

It is intended that the Company will issue the VCT/EIS Placing Shares on 17 May 2017, being one Business Day prior to Admission. The issue of the VCT/EIS Placing Shares will not be conditional on Admission. The issue of the General Placing Shares will be conditional upon Admission.

Investors should be aware of the possibility that the VCT/EIS Placing Shares may be issued and that none of the remaining Placing Shares are issued. Investors should also be aware that Admission may not take place. Consequently, even if the VCT/EIS Placing Shares are issued, there is no guarantee that the placing of the remaining Placing Shares will become unconditional.

If all of the Placing Shares are not issued and Admission does not take place, the Company will not be able to implement the strategy and growth plans in the timeframes outlined in this Document.

#### **RISKS RELATING TO THE COMPANY AND THE INDUSTRY IN WHICH THE COMPANY OPERATES**

##### ***The Company is reliant on key executives and personnel***

Given the relatively small size of the Company, its business, development and prospects are dependent upon the continued services and performance of its Directors and other key personnel. The experience and commercial relationships of the Company's personnel help provide the Company with a competitive advantage. In order to be able to develop, support and maintain its business, the Company must also recruit and retain suitably qualified personnel. There is no assurance that it will always be able to do so on a timely basis. The Directors believe that the loss of services of any existing key executives, for any reason, or failure to attract and retain necessary additional personnel, could adversely impact on the business, development, financial condition, results of operations and prospects of the Company.

### ***Failing to successfully implement its growth strategies***

As set out in Part I of this document, the Board intends to carry out certain growth and expansion strategies through developing its existing business into other international markets, including Europe. Although the potential of these new markets appear to be significant, there is the risk that the Company will be unable to achieve sales or profitability. The Company's growth and future success will be dependent to some extent on the successful completion of such growth and expansion strategies currently or proposed to be undertaken by the Company and the sufficiency of demand for the Company's products. The execution of the Company's growth and expansion strategies may also place strain on its managerial, operational and financial reserves and the failure to implement such a strategy may adversely affect the Company's reputation, business, prospects, results of operation and financial condition.

### ***Dependence on certain key customers***

More than 50 per cent. of the Company's revenue for the year ended 31 October 2016 was derived from one key customer, Safran Nacelles Ltd (formerly Aircelle UK Ltd). The relationship of the Company with its key customers could be materially adversely affected by a number of factors, including a decision by a key customer to diversify or change how, or from whom, they source the products or services currently provided by the Company, an inability to agree on mutually acceptable pricing terms or a significant dispute with or between the Company. If the Company's commercial relationship with any of its key customers terminates for any reason, or if one of its key customers significantly reduces its business with the Company and the Company is unable to enter into similar relationships with other customers on a timely basis, or at all, the Company's business, its results of operations and/or its financial condition could be materially adversely affected.

### ***The Company's performance is dependent on maintaining competitive customer service levels***

Failure to provide and maintain competitive customer service levels could result in customers moving to other providers, or repatriating the work internally, and this could have an adverse effect on the financial position of the Company.

### ***Key suppliers***

The Company has built up a reliable supplier base for its externally sourced materials. At present, a significant proportion of these materials are supplied by certain key suppliers. As a large proportion of these materials are single source, there remains a risk of material impact in the short term if one of its key suppliers were to fail in delivering raw material to the Company.

The Company enjoys close working relationships with software providers, including but not limited to nesting, cutting and 2D/3D design, as licensee of intellectual property rights. Whilst the current software licensed to the Company would not be affected by the breakdown of any relationship with any such providers, these relationships are valuable to the Company and its customers and such breakdown may slow product development which in turn may have a material adverse effect on the business of the Company, its financial condition and its future prospects.

The Company also enjoys close working relationships with plant and machinery providers including but not limited to knife cutting, laser cutting and film welding. Were these relationships to deteriorate or break-down this could have a material adverse effect on the business of the Company.

### ***The Company relies on the retention of key business relationships***

Whilst the Company has contractually bound trading arrangements with all of its key customers, it is currently negotiating more formalised arrangements with a number of them. As a result, the Company is theoretically exposed to the risk that some of these customers could change the basis on

which they trade with the Company in a way which could have a material adverse effect on the Company's business, financial condition and future prospects.

***Reputation is important in winning contracts with both new and existing customers***

The Company's reputation, in terms of the products and the services it provides and the way in which it conducts its business, is central to the Company winning contracts with both new and existing customers. Failure to meet the expectations of these customers and other business partners may have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition. The Company's future revenue growth and the contracts it wins depend on its ability to provide customers with high quality products and a high quality of service. If the Company is unable to provide customers with high quality products and a high quality of service, it could face customer dissatisfaction, leading to decreased demand for its products and services, a loss of revenue and damage to the Company's reputation.

***Disaster recovery***

The Company depends on the performance, reliability and availability of its plant, buildings, equipment and information technology systems. Any damage to, or failure of, its equipment and/or systems could result in disruption to the Company's operations. The Company's disaster recovery plans may not adequately address every potential event and its insurance policies may not cover any loss in full or in part (including losses resulting from business interruptions) or damage that it suffers fully or at all, which could have a material adverse effect on the Company's business, financial condition and results of operation.

***Business interruption***

In the event that there is any disruption or interruption to the Company's operations, this may adversely affect the Company's ability to meet deadlines imposed by customers. In these circumstances, the Company may become liable to financial penalties which could have an adverse effect on the Company's financial performance. The Company has business interruption insurance in place.

***Product Liability***

Some of the Company's existing and proposed products are designed for use in industries and territories which are highly regulated. Whilst the Company rigorously follows customer specification and quality requirements, there is a risk that the Company may lose contracts or could be subject to fines or penalties for any non-compliance with the relevant regulations. Furthermore, there is a risk of litigation and reputational damage, as well as product liability and indemnity risks.

***No certainty that the Company's insurance cover is adequate to protect against every eventuality***

There can be no certainty that the Company's insurance cover is adequate to protect against every eventuality. The Company cannot be certain that it may not become a part to any insurance claim made either directly against the Company, supplier or a customer. The occurrence of an event for which the Company did not have adequate insurance cover could have a materially adverse effect on the business, financial condition and results of operations of the Company.

***Increasing research and development spend may impact profitability and cashflow***

In order to remain competitive, the Company must continually update and develop its products, services, software and hardware. The process of updating its products could result in increased costs and the Company's investment may therefore affect the Company's profitability.

### ***Risk of competing materials and processes to current state carbon and glass fibre based composites***

There is a risk that technological advances in existing processes, materials or in potential substitute materials may occur, which may impede the commercial progress of the Company. As a consequence, there could be a reduction in the demand for those products. This could have a significant adverse effect on the Company's business and financial performance.

### ***Failure to develop joint ventures and acquired businesses***

The Company may acquire, or form joint ventures with, other companies or businesses in the future. If the Company fails to successfully develop these companies, businesses or joint ventures, it could impact on the Company's ability to establish itself in new markets and/or expand its product offering. The integration of newly acquired businesses may be particularly difficult due to different business cultures in the various markets in which the Company operates or may operate in the future. Failure to successfully develop joint ventures or acquired businesses could have a material adverse effect on the Company's prospects, business, operating results and financial condition.

### ***Internal controls***

Future growth and prospects for the Company will depend on its management's ability to manage the business of the Company and to continue to expand and improve operational, financial and management information and quality control systems on a timely basis, whilst at the same time maintaining effective cost controls. Any failure to expand and improve operational, financial and management information and quality control systems in line with the Company's growth could have a material adverse effect on the Company's business, financial condition and results of operations.

### ***Contract and production delays***

The Company is dependent on customer end production schedules which may be subject to change. In addition, there is also a risk that customers may take longer in the ramp up of new aircraft. However, the levels of demand published by the Primes indicate a significant backlog in the production of new aircraft which is anticipated to take a number of years to clear. Any delays in contract negotiation and customer demand could have a material adverse effect on the Company's business, financial condition and results of operations.

### ***Potential requirement for further investment***

The Company may require additional capital in the future for expansion, its activities and/or business development, whether from equity or debt sources. There can be no guarantee that the necessary funds will be available on a timely basis, on favourable terms, or at all, or that such funds if raised, would be sufficient. If additional funds are raised by issuing equity securities, material dilution to the then existing shareholdings may result. The level and timing of future expenditure will depend on a number of factors, many of which are outside of the Company's control. If the Company is not able to obtain additional capital on acceptable terms, or at all, it may be forced to curtail or abandon such expansion, activities and/or business development which could adversely impact upon the Company, its business, development, financial condition, operating results or prospects.

### ***Intellectual property***

Any intellectual property, whether or not registered owned and/or used by the Company in the course of its business or in respect of which the Company believes it has rights, may be prejudiced and/or open to challenge by third parties (including where such third parties have or claim to have pre-existing rights in such intellectual property). In any such case, the Company may be prevented from using such intellectual property or it may require the Company to become involved in litigation to protect its intellectual property rights, each of which may have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition. Conversely,

while the Directors believe the Company has taken precautions, they cannot guarantee that any action or inaction by the Company will not inadvertently infringe the intellectual property rights of others. Any infringement by the Company of the intellectual property rights of others could have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition.

### ***Stock***

In order to deliver its products and services the Company is required to hold an amount of stock determined by the customers' demand, which has a limited life and needs to be stored under controlled conditions. This includes but is not limited to frozen storage, controlled ambient conditions, ISO class 8 clean room or dry warehouse. If the Company's orders on the material suppliers varies from the demand of the customers the Company could be left with too little or too much stock which could have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition. Disruptions to the storage media of the stock, including but not limited to freezer performance, environmental control performance, air conditioning plant, power supply and warehouse integrity may cause stock issues which could have a material adverse effect on the Company's reputation, business, prospects, results of operation and financial condition.

### ***Laws and regulations***

The Company is subject to the laws of the countries and states in which it trades, including but not limited to The United Kingdom, Switzerland, Denmark, Canada, USA, France, Belgium, The European Union and others. Existing and future legislation and regulation could cause additional expense, capital expenditure and restrictions and delays in the activities of the Company, the extent of which cannot be predicted. No assurance can be given that new laws, rules and regulations will not be enacted or existing laws, rules and regulations will not be applied in a manner which could limit or curtail certain of the Company's activities or services. In addition, the Company may have to defend itself against legal proceedings which could have an adverse effect on trading performance and, in turn, future profits. There is an additional risk that the legal and/or regulatory regimes of the countries prove to be costly, with the time and money spent in penetrating new markets causing disruption and harm to the Company's existing business. The Company also exports its products overseas and therefore its exports may be subject to existing and future overseas legislation and regulation and similar risks therefore also applying in relation to such overseas existing and future legislation and regulation. The Directors believe that the cost of any changes or introduction of new laws and regulations, for any reason, or failure to meet existing laws and regulations, could adversely impact on the business, development, financial condition, results of operations and prospects of the Company.

### ***Health and safety***

There are inherent risks to health and safety arising from the nature of the business conducted by the Company, which accordingly requires the adoption and maintenance of a rigorous health and safety programme. Given health and safety regulatory requirements and the number of sites on which the Company operates, the Company's health and safety performance is critical to the success of the business. Any failure in health and safety performance may result in penalties for non-compliance with relevant regulatory requirements and a failure which results in a major or significant health and safety incident, such as injury to, or fatality of, members of the workforce may be costly in terms of potential liabilities arising as a result. Furthermore, such a failure could generate adverse publicity and have a negative impact on the Company's reputation. These failures may have a material adverse impact on the Company's business, operating results, financial condition or prospects.

### ***Approvals***

The Company is subject to maintaining certain quality and customer approvals with the customers with which it trades, including but not limited to Airbus, AS9100, AS9120, Safran, GKN, GE Aviation

and others. Existing and future changes to these approvals could cause additional expense, capital expenditure and restrictions and delays in the activities of the Company, the extent of which cannot be predicted. No assurance can be given that new quality and customer approvals will not be enacted or existing quality or customer approvals will not be applied in a manner which could limit or curtail certain of the Company's activities or services. The Directors believe that the cost of any changes or introduction of new quality and customer approvals, for any reason, or failure to meet existing approvals, could adversely impact on the business, development, financial condition, results of operations and prospects of the Company.

***The Company may become obligated to remunerate employees and former employees on the basis of recent interpretations of the Working Time Regulations relating to holiday pay.***

The Company is aware of recent decisions of the Court of Justice of the European Union and domestic courts, dealing with the issue of calculating holiday pay for workers. The decisions provide that a worker's holiday pay should include any element of remuneration "intrinsically linked" to tasks required under their contract. This is still an area of uncertainty, with further cases progressing through the Courts. However, the general direction of cases is that holiday pay should represent what a worker would have received had they been at work rather than on holiday. So if, for instance, a worker regularly receives commissions, regular bonuses, or carries out overtime work or receives unsocial hours premiums, those additional payments should be factored into the holiday pay. This is to ensure that workers are not dis-incentivised from taking leave. This currently relates to the four weeks' leave that workers are entitled to under the Working Time Directive.

The Directors believe the Company may become liable to provide additional remuneration to current and potentially former employees. The Company's labour costs going forward could also increase as a result of the recent decisions. Claims can be brought for unlawful deductions of wages, breach of contract (following termination) and for breaches of the Working Time Regulations. There is now a two year back stop on unlawful deduction from wages claims. There is also a point under appeal which may further limit liability. If the Company is required to pay retroactive remuneration it is possible that the Company's cash position might be adversely affected, which could have a material adverse effect on the results of operations and financial condition of the Company.

***The determination by the United Kingdom to exit its relationship with the European Union***

On 23 June 2016, the United Kingdom held a referendum on the United Kingdom's continued membership of the European Union. This resulted in a vote for the United Kingdom to exit the European Union. There are significant uncertainties in relation to the terms and time frame within which such an exit would be effected, and there are significant uncertainties as to what the impact will be on the fiscal, monetary and regulatory landscape in the UK, including *inter alia*, the UK's tax system, the conduct of cross-border business and export and import tariffs. There is also uncertainty in relation to how, when and to what extent these developments will impact on the economy in the United Kingdom and the future growth of its various industries, including the aerospace sectors' production and supply chain industries, and on levels of investor activity and confidence, on market performance and on exchange rates. There is also a risk that the vote by the United Kingdom to leave could result in other member states re-considering their respective membership of the European Union. Although it is not possible to predict fully the effects of the exit of the United Kingdom from the European Union, any of these risks, taken singularly or in the aggregate, could have a material adverse effect on the Company's business, financial condition and results of operations.

***Currency and foreign exchange***

A portion of the Company's business is carried out in currencies other than Sterling. To the extent that there are fluctuations in exchange rates, this could have a material impact on the Company's financial position or results of operation, as shown in the Company's accounts going forward. The Company may engage in foreign currency hedging transactions to mitigate potential foreign currency exposure. The Directors cannot predict the effect of exchange rate fluctuations upon future operating results

and there can be no assurance that exchange rate fluctuations will not have a material adverse effect on the business, operating results or financial condition of the Company.

### ***The future performance of the Company cannot be guaranteed***

There is no certainty and no representation or warranty given by any person that the Company will be able to achieve any returns referred to in this document. The financial operations of the Company may be adversely affected by general economic conditions (for example, in relation to interest rates, inflation rates, exchange rates, rates of tax, industry conditions, regulatory protection, competition, social, political and diplomatic events and other factors), by conditions within the global financial markets generally or by the particular financial condition of other parties doing business with the Company.

### ***End market cyclicality***

The civil aerospace market is prone to periodic cyclical up and down swings. Demand for new aircraft is driven by demand from aircraft operators, whose profitability is affected by factors such as the oil price, changes in consumer and business travel and changes in interest rates. Despite this cyclicality, there is a high level of order backlogs within the industry (of approximately 9 and half years). In addition, the lower oil price environment has meant airlines have had less pressure to purchase new, more efficient aircraft.

## **GENERAL RISKS**

### ***Investment Risks***

An investment in the Ordinary Shares is only suitable for financially sophisticated investors who are capable of evaluating the merits and risks of such an investment, or other investors who have been professionally advised with regard to the investment, and who have sufficient resources to be able to bear any losses that may arise therefrom (which may be the whole amount invested). Such an investment should be seen as complementary to existing investments in a wide spread of other financial assets and should not form a major part of an investment portfolio. Investors should not consider investing in the Ordinary Shares unless they already have a diversified investment portfolio.

Prospective investors should be aware that the value of an investment in the Company may go down as well as up and investors may therefore not recover or may lose all of their original investment.

In addition, the price at which investors may dispose of their Ordinary Shares may be influenced by a number of factors, some of which may pertain to the Company, and others of which are extraneous. These factors could include the performance of the Company's business, large purchases or sales of Ordinary Shares, liquidity (or absence of liquidity) in the Ordinary Shares, currency fluctuations, legislative or regulatory or taxation changes, general economic and political conditions and interest and inflation rate variations. The value of the Ordinary Shares may therefore fluctuate and not reflect their underlying asset value.

### ***Economic conditions and current economic weakness***

Any economic downturn either globally or locally in any area in which the Company operates may have an adverse effect on the demand for the Company's services. A more prolonged economic downturn may lead to an overall decline in the volume of the Group's sales, restricting the Company's ability to generate a profit.

In addition, although signs of economic recovery have been perceptible in certain countries, the sustainability of a global economic upturn is not yet assured. If economic conditions remain uncertain this might have an adverse impact on the Company's operations and business results.

### ***Force Majeure***

The Company's operations now or in the future may be adversely affected by risks outside the control of the Company including labour unrest, civil disorder, hostilities, war, subversive activities or sabotage, fires, floods, explosions or other catastrophes, epidemics or quarantine restrictions.

### ***Taxation***

Any change in the Company's tax status or in taxation legislation or its interpretation, could affect the Company's ability to provide returns to Shareholders and/or alter the post-tax returns to Shareholders. Statements in this document concerning the taxation of the Company and its investors are based upon current tax law and practice which is subject to change.

## **RISKS RELATING TO THE ORDINARY SHARES**

### ***The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, some of which may be out of the Company's control***

Publicly traded securities from time to time experience significant price and volume fluctuations that may be unrelated to the operating performance of the companies that have issued them. In addition, the market price of the Ordinary Shares may prove to be highly volatile. The market price of the Ordinary Shares may fluctuate significantly in response to a number of factors, some of which are beyond the Company's control, including: variations in operating results in the Company's reporting periods; changes in financial estimates by securities analysts; poor stock market conditions affecting companies engaged in the same sector; additions or departures of key personnel; any shortfall in turnover or net profit or any increase in losses from levels expected by securities analysts; and future issues or sales of Ordinary Shares. Any or all of these events could result in a material decline in the price of the Ordinary Shares.

### ***Suitability of the Ordinary Shares as an investment***

The Ordinary Shares may not be a suitable investment for all the recipients of this document. Before making a final decision, Shareholders and other prospective investors are advised to consult an appropriate independent financial adviser authorised under the FSMA if such Shareholder or other prospective investor is resident in the UK or, if not, from another appropriately authorised independent financial adviser who specialises in advising on acquisitions of shares and other securities.

The value of the Ordinary Shares, and the income received from them, can go down as well as up and Shareholders may receive less than their original investment. In the event of a winding-up of the Company, the Ordinary Shares will rank behind any liabilities of the Company and therefore any return for Shareholders will depend on the Company's assets being sufficient to meet the prior entitlements of creditors.

There is no guarantee that the Company will maintain its quotation on AIM.

The Company cannot assure investors that the Company will always retain a quotation on AIM. Additionally, if in the future the Company decides to obtain a listing or quotation on another exchange in addition to AIM, the level of liquidity of the Ordinary Shares trading on AIM, could decline.

### ***Influence of the principal Shareholders***

Following Admission (and completion of the Vendor Placing), 42.95 per cent. of the Enlarged Share Capital will be held by the Founders. Although they have entered into the Relationship Agreement, the Founders may, therefore, be able to exercise significant influence over the Group's corporate actions and activities and the outcome in general of matters pertaining to the Group including the approval of significant change of control transactions. This control may in the future have the effect of making certain transactions more difficult without the support of the Founders and may have the

effect of delaying or preventing an acquisition or other change in control of the Group. In addition, the market value of the Ordinary Shares could be adversely affected if potential new investors are disinclined to invest in the Company because they perceive disadvantages to a large shareholding being concentrated in the hands of a single shareholder.

### ***Substantial sales of Ordinary Shares, Lock-in Arrangements***

There can be no assurance that each of the Locked-In Parties will not elect to sell their Ordinary Shares following the expiry of the Lock-in Agreements, details of which are set out in paragraph 10 of Part V of this document, or otherwise. The market price of Ordinary Shares could decline as a result of any such sales of Ordinary Shares or as a result of the perception that these sales may occur. In addition, if these or any other sales were to occur, the Group may in the future have difficulty in offering Ordinary Shares at a time or at a price it deems appropriate.

### ***Share price volatility and liquidity***

The share price of quoted companies can be highly volatile and shareholdings can be illiquid. The price at which the Ordinary Shares are quoted and the price which investors may realise their ordinary shares will be influenced by a large number of factors, some specific to the Company and its operations and others which may affect quoted companies generally. These factors could include the performance of the Company, large purchases or sales of the Ordinary Shares, legislative changes and general economic, political, regulatory or social conditions.

### ***Legislation and tax status***

This document has been prepared on the basis of current legislation, regulation, rules and practices and the Director's interpretation thereof. Such interpretation may not be correct and it is always possible that legislation, rules and practice may change. Any change in legislation and in particular tax status or tax residence of the Company or in tax legislation or practise may have an adverse effect on the returns available on an investment in the Company.

### ***EIS and VCT status***

The VCT/EIS Placing Shares will be issued to investors seeking to benefit from the tax advantages available pursuant to the VCT and/or EIS legislation. The Company has obtained advance assurance from HMRC that the VCT/EIS Placing Shares will constitute a qualifying holding for VCTs and will satisfy the requirements for tax relief under EIS under Part 5 (EIS) and Part 6 (VCT) of Chapter 4 of the Income Tax Act 2007, and that the Ordinary Shares will be eligible shares for the purposes of section 173 and section 285(3A) of the Income Tax Act 2007.

The advance assurance only relates to the qualifying status of the Company and its Ordinary Shares and will not guarantee that any particular investment will be a qualifying holding for a VCT investor or that any particular investor will qualify for EIS relief in respect of an acquisition of Ordinary Shares. The continuing availability of EIS relief and the status of the relevant VCT/EIS Placing Shares as a qualifying holding for VCT purposes will be conditional, amongst other things, on the Company continuing to satisfy the requirements for a qualifying company throughout the period of three years from the date of the investor making its investment (under EIS) and, for VCT purposes, throughout the period the Ordinary Shares are held as a "qualifying holding". Neither the Company nor its Directors nor the Company's advisers is giving any warranties or undertakings that any relief under the EIS or that VCT qualifying status will be available in respect of the Placing, or that in due course such relief or status will not be withdrawn.

Any person who is in any doubt as to their taxation position should consult their professional tax adviser in order that they may fully understand how the rules apply in their individual circumstances.

***The Company's ability to pay dividends in the future is not certain***

The Company cannot guarantee that it will have sufficient cash resources to pay dividends in the future.

***Further issuances of Ordinary Shares may be dilutive***

The Company may decide to offer additional shares in the future for capital raising or other purposes. Shareholders who do not take up or who are not eligible to take such an offer will find their proportionate ownership and voting interests in the Company to be reduced. An additional offering could also have a material adverse effect on the market price of the Ordinary Shares as a whole.

## PART III

### FINANCIAL INFORMATION ON THE COMPANY

#### Section A: Accountants' Report to the Company

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The Directors  
Velocity Composites plc  
AMS Technology Park  
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BURNLEY  
BB11 5UB

12 May 2017

Dear Sirs

#### **Velocity Composites plc (the Company) – Accountants' Report on Historical Financial Information**

We report on the Company's historical financial information set out in Section B of Part III, for the three years ended 31 October 2016 (the **Historical Financial Information**), which has been prepared for inclusion in the Company's AIM admission document dated 12 May 2017 on the basis of the accounting policies set out in Note 1 to the Historical Financial Information.

This report is required by Paragraph (a) of Schedule Two of the AIM Rules for Companies and is given for the purpose of complying with that paragraph and for no other purpose.

#### **Responsibilities**

The directors of Velocity Composites plc are responsible for preparing the Historical Financial Information in accordance with International Financial Reporting Standards as adopted by the European Union. It is our responsibility to form an opinion on the Historical Financial Information and to report our opinion to you.

Save for any responsibility arising under Paragraph (a) of Schedule Two of the AIM Rules for Companies to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Paragraph (a) of Schedule Two of the AIM Rules for Companies, consenting to its inclusion in the Admission Document.

#### **Basis of opinion**

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included an assessment of evidence relevant to the amounts and disclosures in the Historical Financial Information. It also included an assessment of the significant estimates and judgements made by those responsible for the preparation of the Historical Financial Information and whether the accounting policies are appropriate to the entity's circumstances, consistently applied and adequately disclosed.

#### **Chartered Accountants**

Grant Thornton UK LLP is a limited liability partnership registered in England and Wales: No.OC307742. Registered office: Grant Thornton House, Melton Street, Euston Square, London NW1 2EP. A list of members is available from our registered office. Grant Thornton UK LLP is authorised and regulated by the Financial Conduct Authority.

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We planned and performed our work so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Historical Financial Information is free from material misstatement, whether caused by fraud or other irregularity or error.

**Basis for qualified opinion on the statement of total comprehensive income, statement of cash flows, and statement of changes in equity for the year ended 31 October 2014**

Under the Companies Act 2006, the Company was exempt from audit for the year ended 31 October 2014. As a consequence, the financial statements of the Company for the year ended 31 October 2014 were unaudited. We were unable to obtain sufficient, appropriate evidence with respect to the opening balance at 1 November 2013 of inventories of £298,897. Since inventories enters into the determination of the financial performance, we were unable to determine whether adjustments might have been necessary in respect of the profit for the year reported in the statement of total comprehensive income, the statement of cash flows and the statement of changes in equity.

**Qualified opinion on the statement of total comprehensive income, statement of cash flows, and statement of changes in equity for the year ended 31 October 2014**

In our opinion, except for the possible effects of the matter described above in the "Basis for qualified opinion on the statement of total comprehensive income, statement of cash flows, and statement of changes in equity for the year ended 31 October 2014" paragraph, the statement of total comprehensive income, statement of cash flows and the statement of changes in equity give a true and fair view of the Company's profit, cash flows and changes in equity for the year ended 31 October 2014, and have been properly prepared in accordance with International Financial Reporting Standards adopted by the European Union.

**Unqualified opinion on the statement of total comprehensive income, statement of cash flows, and statement of changes in equity for the years ended 31 October 2015 and 2016**

In our opinion the statement of total comprehensive income, the statement of cash flows and the statement of changes in equity give a true and fair view of the Company's profit, cash flows and changes in equity for the year ended 31 October 2015 and the Company's loss, cash flows and changes in equity for the year ended 31 October 2016, and have been properly prepared in accordance with International Financial Reporting Standards adopted by the European Union.

**Unqualified opinion on the statement of financial position as at 31 October 2014, 2015 and 2016**

In our opinion, the statement of financial position gives a true and fair view of the state of the Company's affairs as at each of 31 October 2014, 31 October 2015 and 31 October 2016 and has been properly in accordance with International Financial Reporting Standards adopted by the European Union.

**Declaration**

For the purposes of Paragraph (a) of Schedule Two of the AIM Rules for Companies we are responsible for this report as part of the Admission Document and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Admission Document in compliance with Schedule Two of the AIM Rules for Companies.

Yours faithfully

**GRANT THORNTON UK LLP**

## Section B: Historical Financial Information on the Company

### Statement of total comprehensive income

		<i>Year ended</i> <i>31 October</i> <i>2014</i> <i>£'000</i>	<i>Year ended</i> <i>31 October</i> <i>2015</i> <i>£'000</i>	<i>Year ended</i> <i>31 October</i> <i>2016</i> <i>£'000</i>
<b>Revenue</b>	4	15,274	14,528	14,614
Cost of sales		(12,142)	(11,045)	(11,135)
<b>Gross profit</b>		<u>3,132</u>	<u>3,483</u>	<u>3,479</u>
Administrative expenses		(2,154)	(2,215)	(3,770)
Other operating income		21	24	22
<b>Operating profit/(loss)</b>	5	<u>999</u>	<u>1,292</u>	<u>(269)</u>
Finance expense	7	(67)	(38)	(86)
<b>Profit/(loss) before tax</b>		<u>932</u>	<u>1,254</u>	<u>(355)</u>
Income tax expense	8	(217)	(238)	81
<b>Profit/(loss) for the period and total comprehensive income</b>		<u><u>715</u></u>	<u><u>1,016</u></u>	<u><u>(274)</u></u>
<b>Earnings/(losses) per share – Basic and diluted (£)</b>	9	<u><u>£7,222</u></u>	<u><u>£10,263</u></u>	<u><u>(£2,768)</u></u>

## Statement of financial position

		31 October 2014	31 October 2015	31 October 2016
	Note	£'000	£'000	£'000
<b>Non-current assets</b>				
Property, plant and equipment	11	892	935	773
<b>Total non-current assets</b>		<u>892</u>	<u>935</u>	<u>773</u>
<b>Current assets</b>				
Inventories	12	1,120	1,405	2,345
Trade and other receivables	13	1,160	2,034	2,942
Corporation tax		—	—	29
Cash and cash equivalents	14	1,389	161	39
<b>Total current assets</b>		<u>3,669</u>	<u>3,600</u>	<u>5,355</u>
<b>Total assets</b>		<u>4,561</u>	<u>4,535</u>	<u>6,128</u>
<b>Current liabilities</b>				
Trade and other payables	15	3,667	2,853	5,187
Grant income deferred	16	59	65	43
Corporation tax		134	240	—
Net obligations under finance leases	17	92	114	92
<b>Total current liabilities</b>		<u>3,952</u>	<u>3,272</u>	<u>5,322</u>
<b>Non-current liabilities</b>				
Deferred tax liabilities	18	151	149	97
Net obligations under finance leases	17	228	198	106
<b>Total non-current liabilities</b>		<u>379</u>	<u>347</u>	<u>203</u>
<b>Total liabilities</b>		<u>4,331</u>	<u>3,619</u>	<u>5,525</u>
<b>Net assets</b>		<u>230</u>	<u>916</u>	<u>603</u>
<b>Equity attributable to equity holders of the company</b>				
Share capital	19	—	—	—
Retained earnings		230	916	603
<b>Total equity</b>		<u>230</u>	<u>916</u>	<u>603</u>

## Statement of changes in equity

	<i>Share capital £'000</i>	<i>Retained earnings £'000</i>	<i>Total £'000</i>
<b>At 1 November 2013</b>	—	65	65
Profit for the period	—	715	715
Total comprehensive income for the year	—	715	715
Dividend payment	—	(550)	(550)
Total transactions with owners	—	(550)	(550)
<b>As at 31 October 2014</b>	—	230	230
Profit for the period	—	1,016	1,016
Total comprehensive income for the year	—	1,016	1,016
Dividend payment	—	(330)	(330)
Total transactions with owners	—	(330)	(330)
<b>As at 31 October 2015</b>	—	916	916
Loss for the period	—	(274)	(274)
Total comprehensive loss for the year	—	(274)	(274)
Dividend payment	—	(39)	(39)
Total transactions with owners	—	(39)	(39)
<b>As at 31 October 2016</b>	—	603	603

## Statement of cashflows

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
<b>Operating activities</b>			
Profit/(loss) for the year	715	1,016	(274)
Taxation	217	238	(81)
Loss on disposal of assets	15	9	1
Interest charge (net per income statement)	67	38	86
Depreciation of property, plant and equipment	130	198	281
Exchange (gain)/loss on cash and cash equivalents	—	—	—
Grant income amortisation	(18)	(16)	(22)
	<u>1,126</u>	<u>1,483</u>	<u>(9)</u>
(Increase)/Decrease in trade and other receivables	(357)	(874)	(908)
(Increase)/Decrease in inventories	(821)	(285)	(940)
Increase/(Decrease) in trade and other payables	2,279	(814)	2,334
	<u>2,227</u>	<u>(490)</u>	<u>477</u>
<b>Cash generated from operations</b>	2,227	(490)	477
Income taxes paid	—	(134)	(240)
	<u>2,227</u>	<u>(624)</u>	<u>237</u>
<b>Net cash flows from operating activities</b>	2,227	(624)	237
<b>Investing activities</b>			
Purchase of property, plant and equipment	(557)	(250)	(120)
	<u>(557)</u>	<u>(250)</u>	<u>(120)</u>
<b>Net cash used in investing activities</b>	(557)	(250)	(120)
<b>Financing activities</b>			
Interest paid	(67)	(38)	(86)
Grants received	43	22	—
Draw down/(repayment) of finance lease capital	99	(8)	(114)
Dividends paid	(550)	(330)	(39)
	<u>(475)</u>	<u>(354)</u>	<u>(239)</u>
<b>Net cash used in financing activities</b>	(475)	(354)	(239)
Net increase/(decrease) in cash and cash equivalents	1,195	(1,228)	(122)
Cash and cash equivalents at opening	194	1,389	161
	<u>1,389</u>	<u>161</u>	<u>39</u>
<b>Cash and cash equivalents at closing</b>	<u>1,389</u>	<u>161</u>	<u>39</u>

## **Notes to the financial information**

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.

### **1. Accounting policies**

#### ***Accounting convention***

The historical financial information has 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 growth of the Company in line with its current financial standing remains under close monitoring, to ensure that its financial position remains appropriate to support these plans. This includes management of the cash position of the Company and the appropriate utilisation of the various facilities available for funding this growth, including the net proceeds of the Placing. 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.

The historical financial information is presented in sterling and has been rounded to the nearest thousand (£'000).

The historical financial information has been prepared in accordance with International Financial Reporting Standards ("IFRS") and IFRIC Interpretations issued by the International Accounting Standards Board as adopted by the European Union except as described below.

#### ***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 historical financial information has been prepared in accordance with the requirements of AIM's Rules for Companies for the purposes of this AIM admission document and represents historical financial information for the Company for each of the three years ended 31 October 2014, 31 October 2015 and 31 October 2016.

This basis of preparation describes how the historical financial information has 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 22.

The historical financial information does not constitute statutory accounts as defined in Section 434 of the Companies Act 2006. The Company's statutory financial statements for the years ended 31 October 2016, 31 October 2015 and 31 October 2014 have been delivered to the Registrar of Companies. The auditor's report on those financial statements was unqualified and did not contain statements under Section 498(2) or Section 498(3) of the Companies Act 2006.

The Directors are responsible for the preparation of this historical financial information.

### **Composition of the historical financial information**

The historical financial information is drawn up in Sterling, the functional currency of the Company and in accordance with IFRS accounting presentation, other than as noted under Basis of Preparation above. The level of rounding for the financial information is the nearest thousand pounds (£ '000). The financial information comprises:

- Statement of total comprehensive income
- Statement of financial position
- Statement of changes in equity
- Statement of cash flows
- Notes to the financial information

### **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.

### **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:

	2014	2015 and 2016
Plant and machinery	15% reducing balance	15% straight line
Motor vehicles	25% reducing balance	25% straight line
Fixtures and fittings	15% reducing balance	15% straight line

**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 less than 3 months) 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.

### **Share 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.

## **2. 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***

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

#### ***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 12, trade receivables in note 13, cash in note 14 and trade payables in note 15.

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.

#### **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.

	<i>Within 1 year £'000</i>	<i>One to two years £'000</i>	<i>Two to five years £'000</i>	<i>Over five years £'000</i>
<b>2014</b>				
Finance lease liability	116	106	187	—
Trade payables	2,694	—	—	—
Accruals	285	—	—	—
Director's loans	200	—	—	—
Other payables	231	—	—	—
Invoice discounting facility	—	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>
	<i>Within 1 year £'000</i>	<i>One to two years £'000</i>	<i>Two to five years £'000</i>	<i>Over five years £'000</i>
<b>2015</b>				
Finance lease liability	133	118	131	—
Trade payables	1,851	—	—	—
Accruals	327	—	—	—
Director's loans	—	—	—	—
Other payables	385	—	—	—
Invoice discounting facility	129	—	—	—
	<hr/>	<hr/>	<hr/>	<hr/>

	<i>Within 1 year £'000</i>	<i>One to two years £'000</i>	<i>Two to five years £'000</i>	<i>Over five years £'000</i>
<b>2016</b>				
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.

#### **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 turnover by geographical market is given below:

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
<b>Revenue</b>			
United Kingdom	15,274	14,393	14,517
Europe	—	135	97
	<u>15,274</u>	<u>14,528</u>	<u>14,614</u>

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. Profit/(loss) from operations

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

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
Staff costs	2,403	2,014	2,512
Foreign exchange (gains)/losses	(130)	(333)	635
Depreciation:			
Owned assets	63	130	152
Assets held under finance leases	68	68	129
Loss on disposal of assets	(7)	9	1
Grant income amortisation	(18)	(16)	(22)
Operating lease payments	12	55	143
Auditor's remuneration:			
Fees for audit of the company	—	19	29
Other taxation services	6	10	3
Other services	—	—	—
	<u>2,403</u>	<u>2,014</u>	<u>2,512</u>

## 6. Staff costs

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
Wages, salaries and bonuses	1,851	1,836	2,253
Social security costs	177	178	259
Pension costs	375	—	—
	<u>2,403</u>	<u>2,014</u>	<u>2,512</u>

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

	<i>Year ended 31 October 2014 Head count</i>	<i>Year ended 31 October 2015 Head count</i>	<i>Year ended 31 October 2016 Head count</i>
Manufacturing	52.5	46.5	61.5
Administration	25.5	24.0	28.0
	<u>78.0</u>	<u>70.5</u>	<u>89.5</u>

Directors costs

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
Directors' remuneration included in staff costs:			
Wages, salaries and bonuses	326	310	482
	<u>326</u>	<u>310</u>	<u>482</u>

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

Remuneration of the highest paid director:	—	—	98
Wages, salaries and bonuses	109	104	111
	<u>109</u>	<u>104</u>	<u>111</u>

**7. Finance income and expenses**

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
<b>Finance expense</b>			
Finance charge from finance leases	21	28	32
Other interest	46	10	54
	<u>67</u>	<u>38</u>	<u>86</u>

**8. Income tax**

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
<b>Current tax expense</b>			
Current tax on profits for the period	134	240	—
Adjustment for under provision in prior periods	—	—	(29)
	<u>134</u>	<u>240</u>	<u>(29)</u>
<b>Deferred tax expense</b>			
Origination and reversal of temporary differences	83	(2)	(29)
Adjustments in respect of prior periods	—	—	(1)
Rate adjustment	—	—	(22)
	<u>83</u>	<u>(2)</u>	<u>(52)</u>
<b>Total tax expense/(income)</b>	<u>217</u>	<u>238</u>	<u>(81)</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 are as follows:

	<i>Year ended 31 October 2014 £'000</i>	<i>Year ended 31 October 2015 £'000</i>	<i>Year ended 31 October 2016 £'000</i>
Tax rate	22.17%	20.41%	20.00%
Profit/(loss) for the year before tax	932	1,254	(355)
Expected tax charge based on corporation tax rate	207	256	(71)
Expenses not deductible for tax purposes	—	2	10
Capital allowances in excess of depreciation	11	—	(2)
Rate adjustment	—	—	(17)
Marginal relief	(1)	—	—
Prior year adjustment	—	(20)	(1)
<b>Total tax expense</b>	<b>217</b>	<b>238</b>	<b>(81)</b>

## 9. Earnings/(loss) per share

	<i>Year ended 31 October 2014 £</i>	<i>Year ended 31 October 2015 £</i>	<i>Year ended 31 October 2016 £</i>
Profit/(loss) for the year	715,000	1,016,000	(274,000)
Earnings/(loss) per share – basic and diluted	7,222	10,263	(2,768)
	<i>Shares</i>	<i>Shares</i>	<i>Shares</i>
Weighted average number of shares in issue	99	99	99

## 10. Dividends

	<i>Year ended 31 October 2014 £</i>	<i>Year ended 31 October 2015 £</i>	<i>Year ended 31 October 2016 £</i>
Dividends paid on equity capital	549,600	330,000	39,000
Dividend per ordinary share	5,551.52	3,333.33	393.94

## 11. Property, plant and equipment

	<i>Leasehold Improvements £'000</i>	<i>Plant &amp; machinery £'000</i>	<i>Motor vehicles £'000</i>	<i>Fixtures &amp; Fittings £'000</i>	<i>Total £'000</i>
<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 year	—	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

Amounts owed on assets under finance lease agreements:

At 1 November 2013	<i>£'000</i>
At 31 October 2014	274
At 31 October 2015	411
At 31 October 2016	390
	<u>330</u>

## 12. Inventories

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

Inventory pledged as security or written down is nil in all periods presented.

## 13. Trade and other receivables

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

Trade receivables overdue by:

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

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

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

	<i>31 October 2014 £'000</i>	<i>31 October 2015 £'000</i>	<i>31 October 2016 £'000</i>
Euro	—	5	3
US Dollar	—	—	52
	<u>—</u>	<u>5</u>	<u>55</u>

## 14. Cash and cash equivalents

	<i>31 October 2014 £'000</i>	<i>31 October 2015 £'000</i>	<i>31 October 2016 £'000</i>
Cash at bank	1,389	161	39
	<u>1,389</u>	<u>161</u>	<u>39</u>

## 15. Trade and other payables

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

Book values approximate to fair values.

## 16. Grant income deferred

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

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

### Finance leases

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

	<i>Minimum lease payments</i>	<i>Interest</i>	<i>Present value</i>
<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	—	—	—
	<u>409</u>	<u>89</u>	<u>320</u>
<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	—	—	—
	<u>392</u>	<u>80</u>	<u>312</u>
<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	—	—	—
	<u>249</u>	<u>51</u>	<u>198</u>

### 18. 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:

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

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

## 19. Share capital

	<i>31 October 2014 £'000</i>	<i>31 October 2015 £'000</i>	<i>31 October 2016 £'000</i>
<b>Authorised share capital</b>			
1,000 Ordinary shares 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.

## 20. Related party transactions

Compensation of key management personnel:

	<i>31 October 2014 £'000</i>	<i>31 October 2015 £'000</i>	<i>31 October 2016 £'000</i>
Short term employment benefits	360	350	637
Post employment benefits	255	—	—
	<u>615</u>	<u>350</u>	<u>637</u>

The following dividends were paid to the shareholding directors:

	<i>31 October 2014 £'000</i>	<i>31 October 2015 £'000</i>	<i>31 October 2016 £'000</i>
J K Bridges	184	110	13
G A Johnson	183	110	13
C Banks	183	110	13
Dividend payments	<u>550</u>	<u>330</u>	<u>39</u>

There were no other shareholders of the Company.

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

	<i>31 October 2014 £'000</i>	<i>31 October 2015 £'000</i>	<i>31 October 2016 £'000</i>
Directors dividends	(550)	(330)	(39)
Banjo Limited	(12)	1	—
	<u>(562)</u>	<u>(329)</u>	<u>(39)</u>

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

	<i>31 October 2014 £'000</i>	<i>31 October 2015 £'000</i>	<i>31 October 2016 £'000</i>
Directors dividends	(300)	(379)	(16)
Banjo Limited	7	(6)	—
	<u>(293)</u>	<u>(385)</u>	<u>(16)</u>

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

## **21. Control**

The Company is controlled by the three shareholding board directors.

## **22. Transition to IFRS**

From 1 November 2013 the Company adopted International Financial Reporting Standards in the preparation of its historical financial information.

There are no IFRS transitional adjustments which impact the historical financial information. 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.

## **23. 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 adult 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 shares.

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

## **24. Capital commitments**

At 31 October 2016 the Company had £186,099 (2015 & 2014: NIL) of capital commitments relating to the establishment of the new Fareham premises.

## PART IV

### PRO FORMA STATEMENT OF NET ASSETS

Set out below is an unaudited pro forma net assets statement for the Company based on the statement of financial position for the Company as at 31 October 2016 together with other adjustments described in the notes below. It has been prepared on the basis set out in the notes to illustrate the impact of Admission, the Placing and intermediate share issue, as if they had occurred at 31 October 2016.

The unaudited pro forma net assets statement has been prepared for illustrative purposes only. Because of its nature, it addresses a hypothetical situation and does not therefore represent the Company's actual financial position or results. It is based on the audited net assets of the Company as at 31 October 2016 as shown in section B of Part III of this document. This unaudited pro forma statement of net assets does not constitute statutory accounts within the meaning of section 434 of the Companies Act, and no adjustment has been made to take account of trading, expenditure or other movements subsequent to 31 October 2016, being the date of the last published balance sheet for the Company as disclosed in Part III of this document.

Shareholders should read the whole of this document and not rely solely on the summarised financial information contained in this Part IV.

	<i>As at 31 October 2016 £000s Note 1</i>	<i>Net proceeds from the Fundraising £000s Note 2</i>	<i>Intermediate share issue £000s Note 3</i>	<b><i>Pro forma net assets of the Company £000s Note 4</i></b>
<b>Non-current assets</b>				
Property, plant and equipment	773	—	—	<b>773</b>
	773	—	—	<b>773</b>
<b>Current assets</b>				
Inventories	2,345	—	—	<b>2,345</b>
Trade and other receivables	2,942	—	—	<b>2,942</b>
Income tax receivable	29	—	—	<b>29</b>
Cash and cash equivalents	39	9,200	71	<b>9,310</b>
	<u>5,355</u>	<u>9,200</u>	<u>71</u>	<b><u>14,626</u></b>
<b>Total assets</b>	<u><u>6,128</u></u>	<u><u>9,200</u></u>	<u><u>71</u></u>	<b><u><u>15,399</u></u></b>
<b>Current liabilities</b>				
Trade and other payables	(5,187)	—	—	<b>(5,187)</b>
Other current financial liabilities	(135)	—	—	<b>(135)</b>
	<u>(5,322)</u>	<u>—</u>	<u>—</u>	<b><u>(5,322)</u></b>
<b>Non-current liabilities</b>				
Other non-current financial liabilities	(106)	—	—	<b>(106)</b>
Deferred tax liabilities	(97)	—	—	<b>(97)</b>
	<u>(203)</u>	<u>—</u>	<u>—</u>	<b><u>(203)</u></b>
<b>Total liabilities</b>	<u><u>(5,525)</u></u>	<u><u>—</u></u>	<u><u>—</u></u>	<b><u><u>(5,525)</u></u></b>
<b>Net assets</b>	<u><u>603</u></u>	<u><u>9,200</u></u>	<u><u>71</u></u>	<b><u><u>9,874</u></u></b>

**Notes**

1. The net assets of the Company as at 31 October 2016 have been extracted without adjustment from the historical financial information contained in section B of Part III of this document.
2. The adjustment represents the receipt by the Company of net proceeds from the Fundraising of £9.2m comprising total gross proceeds from the Fundraising of £10.4m of New Ordinary Shares less the fees and expenses of the Fundraising expected to be approximately £1.2m (net of recoverable VAT).
3. The intermediate share issue on 14 February 2017, as reported at Note 22 in Section B of Part III of this document, was needed to enable the Company to comply with the requirements of the Act covering re-registration as a public limited company prior to offering new shares under the Placing.
4. This column comprises the sum of the preceding columns and represents the pro forma net assets of the Company as at 31 October 2016 assuming Admission, the Placing and intermediate share issue had occurred on that date.

## PART V

### ADDITIONAL INFORMATION

#### 1. The Company

- 1.1 The Company is domiciled in England and Wales and was incorporated on 3 October 2007 as a private limited liability company. The liability of the members of the Company is limited. Effective on 27 April 2017, the Company re-registered as a public limited company.
- 1.2 The Company is, and its securities are, governed by the Act.
- 1.3 The Company's registered office is at AMS Technology Park, Billington Road, Burnley, Lancashire BB11 5UB and this is also its principal place of business. The telephone number of the registered office is +44(0)1282 577 577.
- 1.4 The principal activities of the Company are to carry on business as a general commercial company.
- 1.5 The Company has no administrative, management and supervisory bodies other than its Board, the remuneration committee, the audit committee and the nomination committee, such committees having no members other than Directors.

#### 2. Subsidiaries

The Company has no subsidiaries.

#### 3. Share Capital

- 3.1 The issued share capital of the Company at the date of this document and on Admission will be:

	<i>Issued and Fully Paid Number of Ordinary Shares</i>	
	<i>£</i>	<i>Shares</i>
Existing	58,817.00	23,524,800
At Admission	89,488.85	35,795,539

- 3.2 The Company has no issued Ordinary Shares that are not fully paid up.
- 3.3 As at the date of this document, there are 23,524,800 Ordinary Shares in issue fully paid.
- 3.4 On 9 January 2017, the Company passed resolutions to:
- 3.4.1 authorise the directors generally and unconditionally in accordance with section 551 of the Act to exercise all and any powers of the Company to allot shares in the Company up to an aggregate nominal amount of £13 (exclusive of the shares in issue at the date this resolution is passed) provided that the authority shall, unless renewed, varied or revoked by the Company, expire on the date which is five years from the date the resolution is passed save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted and the directors may allot shares in pursuance of that offer or agreement notwithstanding that the authority conferred by this resolution has expired.
- 3.4.2 generally empower the directors in accordance with section 569 of the Act, to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred by the resolution at sub-paragraph 3.4.1, as if section 561 of the Act did not apply to any such allotment.

- 3.5 On 14 February 2017, the Company passed resolutions to:
- 3.5.1 authorise the directors generally and unconditionally in accordance with section 551 of the Act to exercise all and any powers of the Company to allot shares in the Company up to an aggregate nominal amount of £4 (exclusive of the shares in issue at the date this resolution is passed) provided that the authority shall, unless renewed, varied or revoked by the Company, expire on the date which is five years from the date the resolution is passed save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted and the directors may allot shares in pursuance of that offer or agreement notwithstanding that the authority conferred by this resolution has expired.
  - 3.5.2 generally empower the directors in accordance with section 569 of the Act, to allot equity securities (as defined in section 560 of the Act) pursuant to the authority conferred by the resolution at sub-paragraph 3.5.1, as if section 561 of the Act did not apply to any such allotment.
- 3.6 On 2 March 2017, the Company passed a resolution to reduce the share premium account of the Company by £58,696 from £71,428.56 to £12,732.56.
- 3.7 On 6 March 2017, the Company passed a resolution to:
- 3.7.1 empower the directors to capitalise certain of the Company's distributable reserves, pursuant to article 110 of the Company's articles of association, up to an aggregate nominal amount of £58,696 and to apply such sum in paying up in full 58,696 ordinary shares of £1.00 each and to allot and issue such new shares to the existing holders of the ordinary shares of £1.00 each in the capital of the Company;
  - 3.7.2 in accordance with section 551 of the Act, generally and unconditionally authorise the directors of the Company to allot shares in the Company up to an aggregate nominal amount of £58,812; and
  - 3.7.3 sub-divide its entire issued share capital such that 58,812 issued ordinary shares of £1.00 be sub-divided into 23,524,800 Ordinary Shares of £0.0025 each in the capital of the Company.
- 3.8 On 13 March 2017, the Company passed resolutions to:
- 3.8.1 authorise the directors generally and unconditionally in accordance with section 551 of the Companies Act to exercise all and any powers of the Company to allot shares in the Company up to an aggregate nominal amount of £1,655.03 (inclusive of the shares in issue at the date this resolution is passed) provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the date which is five years from the date this resolution is passed save that the Company may, before such expiry, make an offer or agreement which would or might require shares to be allotted and the directors may allot shares in pursuance of that offer or agreement notwithstanding that the authority conferred by this resolution has expired; and
  - 3.8.2 generally empower the directors in accordance with section 570 of the Companies Act, to allot equity securities pursuant to the authority conferred by the resolution at paragraph 3.8.1 above, as if section 561(1) of the Act did not apply to any such allotment, provided that this power is limited to the allotment of equity securities up to an aggregate nominal amount of £1,655.03 (inclusive of the equity securities in issue at the date this resolution is passed); and expires on the date which is five years from the date the resolution was passed (unless renewed, varied or revoked by the Company prior to or on that date) save that the Company may, before such expiry make an offer or agreement which would or might require equity securities to be allotted after such expiry

and the directors may allot equity securities in pursuance of any such offer or agreement notwithstanding that the power conferred by this resolution has expired.

3.9. On 11 May 2017, the Company passed resolutions to:

3.9.1 authorise the Directors, in accordance with section 551 of the Companies Act, to issue securities:

- (a) with an aggregate nominal value of up to £30,680 to be issued pursuant to the Placing and Subscription;
- (b) up to an aggregate nominal amount of £29,827 (such amount to be reduced by the nominal amount of any securities allotted pursuant the authority described in paragraph 3.9.1(c) below) in connection with an offer by way of a rights issue:
  - (i) to holders of ordinary shares in proportion (as nearly as may be practicable) to their respective holdings; and
  - (ii) to holders of other equity securities as required by the rights of those securities or as the Directors otherwise consider necessary,
- (c) in any other case, up to an aggregate nominal amount of £59,664 (such amount to be reduced by the nominal amount of any securities allotted pursuant to the authority described in paragraph 3.9.1(b) above in excess of £29,827),

but subject to such exclusions or other arrangements as the Directors may deem necessary or expedient in relation to treasury shares, fractional entitlements, record dates, legal or practical problems in or under the laws of any territory or the requirements of any regulatory body or stock exchange and provided that this authority shall, unless renewed, varied or revoked by the Company, expire on the earlier of the date falling 15 months after the passing of this resolution and the conclusion of the first annual general meeting of the Company held after the date of passing of the resolution, save that the Company may, before such expiry, make offers or agreements which would or might require Relevant Securities to be allotted and the Directors may allot securities in pursuance of such offer or agreement notwithstanding that the authority conferred by this resolution has expired; and

3.9.2 empower Directors to allot equity securities for cash pursuant to and conditional upon the authorities described in paragraph 3.9.1 above, provided that this power shall be limited to:

- (a) the allotment of shares with an aggregate nominal value of up to £30,680 to be issued pursuant to the Placing and Subscription;
- (b) the allotment of equity securities in connection with a rights issue as described in paragraph 3.9.1(b) above; and
- (c) the allotment of equity securities (other than under paragraphs 3.9.2(a) and 3.9.2(b) above) up to an aggregate nominal amount of £8,949, being equal to 10 per cent of the Enlarged Share Capital,

provided that the authorities conferred by such resolution shall expire on the earlier of the date falling 15 months after the passing of this resolution and the conclusion of the first annual general meeting of the Company held after the date of passing of the resolution, save that the Company may before such expiry make an offer or agreement which would or might require shares to be allotted after such expiry and the Directors may allot shares in pursuance of such offer or agreement as if the authority had not expired.

- 3.10 On 12 May 2017, the Company received applications from certain subscribers applying to subscribe for, in aggregate, 506,034 New Ordinary Shares. The New Ordinary Shares shall be allotted to the subscribers on 18 May 2017, conditional on Admission.
- 3.11 The Ordinary Shares all rank *pari passu* with one another, having an equal right to participate in any dividend, distribution or return of capital and having equal voting rights.
- 3.12 The Placing Shares will be issued pursuant to the authorities set out in paragraph 3.9 of this Part V.
- 3.13 The Ordinary Shares may be held in certificated form or under the CREST system, which is a paperless settlement procedure enabling securities to be evidenced and transferred otherwise than by a written instrument in accordance with the Uncertificated Securities Regulations 2001. The Company's registrars, Equiniti Registrars, are responsible for keeping the Company's register of members.
- 3.14 Save as disclosed in this document and as at the date of this document:
- 3.14.1 no share or loan capital of the Company has been issued or is proposed to be issued;
  - 3.14.2 there are no outstanding convertible securities, exchangeable securities or securities with warrants issued by the Company;
  - 3.14.3 there are no Ordinary Shares in the Company not representing capital;
  - 3.14.4 there are no Ordinary Shares in the Company held by the Company itself or by its subsidiaries;
  - 3.14.5 there are no acquisition rights and/or obligations over authorised but unissued share capital of the Company or undertakings to increase the share capital of the Company;
  - 3.14.6 no person has any preferential subscription rights for any share capital of the Company;
  - 3.14.7 no commissions, discounts, brokerages or other special items have been granted by the Company since its incorporation in connection with the issue or sale of any Ordinary Shares or loan capital of the Company; and
  - 3.14.8 no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option and no commissions, discounts, brokerages or other special terms have been granted by the Company since its incorporation in connection with the issue or sale of any share or loan capital of the Company.
- 3.15 The Ordinary Shares have no redemption or conversion provisions.
- 3.16 No person has made a public takeover bid for the Company's issued share capital since the Company's incorporation on 3 October 2007.

#### 4. Significant Shareholders

- 4.1 As at the date of this document, save for the persons set out below, the Directors are not aware of any beneficial holding of Ordinary Shares representing 3 per cent. or more of the Company's issued Ordinary Share capital nor, so far as the Directors are aware, are there any persons who, directly or indirectly, jointly or severally, exercise control over the Company:

Shareholder	As at the date of this document		Immediately following Admission	
	No of Ordinary Shares	Percentage shareholding (%)	No of Ordinary Shares	Percentage shareholding (%)
Hargreave Hale	—	—	2,567,876	7.17
Octopus Investment Management	—	—	1,762,940	4.93
Killik & Co	—	—	1,182,353	3.30
Amati Global Investors	—	—	1,175,294	3.28

- 4.2 There are no arrangements of which the Directors are aware which may result in a change of control of the Company.
- 4.3 The Ordinary Shares held by the Shareholders set out in paragraph 4.1 above rank *pari passu* with all other Ordinary Shares and, in particular, have no different voting rights than other Shareholders. Following the Placing no major Shareholders will have different voting rights to other Shareholders.

#### 4.4 Concert Party Holdings

The Company understands that, pursuant to the relevant definition contained within the Takeover Code, the following Shareholders are deemed to be acting in concert for the purposes of the Takeover Code:

Name	At the date of this document		Immediately following Admission	
	No. of Ordinary Shares	Percentage shareholding (%)	No. of Ordinary Shares	Percentage shareholding (%)
Jonathan Bridges	6,692,400	28.45	5,515,929	15.41
Christopher Banks	6,692,400	28.45	4,927,693	13.77
Gerard Johnson	6,692,400	28.45	4,927,693	13.77
Mark Mills	1,825,200	7.76	1,825,200	5.10
Matthew Turner	811,200	3.45	811,200	2.27
Nigel Turner	811,200	3.45	811,200	2.27

Immediately following Admission, the Concert Party will be interested in, in aggregate, 18,818,915 issued, Ordinary Shares representing approximately 52.57 per cent., of the Enlarged Ordinary Share Capital.

## 5. Directors' and Senior Managers' Interests

- 5.1 The beneficial interests of the Directors and Senior Managers and connected persons (within the meaning of sections 252 and 253 of the Act) in the Ordinary Share capital of the Company immediately following Admission are expected to be as follows:

Name	At the date of this document		Immediately following Admission	
	No. of Ordinary Shares	Percentage shareholding (%)	No. of Ordinary Shares	Percentage shareholding (%)
Mark Mills	1,825,200	7.76	1,825,200	5.10
Jonathan Bridges	6,692,400	28.45	5,515,929	15.41
Alan Kershaw	—	—	29,412	0.08
Peter Turner	—	—	—	—
Christopher Banks	6,692,400	28.45	4,927,693	13.77
Gerard Johnson	6,692,400	28.45	4,927,693	13.77
Darren Ingram	—	—	10,588	0.03
Matthew Archer	—	—	—	—

- 5.2 As at the date of this document, Alan Kershaw holds 120,640 and Darren Ingram holds 241,280 options over Ordinary Shares pursuant to the Share Option Scheme, further details of which are set out in paragraph 8 of this Part V. Save as set out in this paragraph, no Director or Senior Manager is entitled to any options over Ordinary Shares.
- 5.3 None of the Directors, Senior Managers nor any member of their families has a related financial product (as defined in the AIM Rules) referenced to the Ordinary Shares.
- 5.4 The voting rights of the Shareholders set out in paragraphs 4 and 5 above do not differ from the voting rights held by other Shareholders.

## 6. Directors' and Senior Managers' service agreements and letters of appointment

- 6.1 Set out below are details of the terms and conditions governing the engagement by the Company of the Directors and Senior Managers:
- 6.1.1 By a new letter of appointment between the Company and Mark Mills dated 12 May 2017, effective from and conditional on Admission, Mr Mills has agreed to act as non-executive Chairman of the Company for an annual fee of £120,000, inclusive of all committee roles Mr Mills' engagement by the Company is terminable on not less than 6 months' notice given by either party to the other at any time after an initial fixed period of 12 months. The terms of engagement also contain provisions for early termination, *inter alia*, in the event of a breach of duties. The Chairman does not participate in any of the Company's incentive arrangements or receive any pension provision.
- 6.1.2 Jon Bridges commenced employment with the Company on 30 October 2007 and was appointed Chief Executive Officer of the Company on 12 May 2017. He entered into a new service agreement on 12 May 2017, effective from and conditional on Admission. Mr Bridges' basic salary is £112,200 per year (subject to annual review) with effect from 12 May 2017. Mr Bridges is entitled to benefits commensurate to his position including consideration for a discretionary performance related annual bonus scheme, under which the maximum bonus payable will be 50 per cent. of his base salary, private medical cover, life assurance and the provision of a car of a size and type appropriate for the proper performance of his duties. Pension is provided either by way of contribution into the Company's defined contribution pension scheme or by cash supplement. Mr Bridges' pension entitlement is an employer contribution of 10 per cent. of his base salary. The service agreement provides for a holiday entitlement of 35 working days per annum (plus public holidays) and is terminable by either party giving 12 months' notice.

- 6.1.3 Alan Kershaw commenced employment with the Company on 2 March 2016 and was appointed Chief Financial Officer of the Company on the same date. He entered into a new service agreement on 12 May 2017, effective from and conditional on Admission. Mr Kershaw's basic salary is £100,000 per year (subject to annual review) with effect from 12 May 2017. Mr Kershaw is entitled to benefits commensurate to his position including consideration for a discretionary performance related annual bonus scheme, private medical cover, life assurance and either the provision of a car of a size and type appropriate for the proper performance of his duties or a car allowance of £6,000 per annum. Pension is provided either by way of contribution into the Company's defined contribution pension scheme or by cash supplement. Mr Kershaw's pension entitlement is an employer contribution of 5 per cent. of his base salary. The service agreement provides for a holiday entitlement of 28 working days per annum (plus public holidays) and is terminable by either party giving 6 months' notice.
- 6.1.4 By a new letter of appointment between the Company and Peter Turner dated 12 May 2017, effective from and conditional on Admission, Mr Turner has agreed to act as non-executive director of the Company for an annual fee of £58,000, inclusive of all committee roles. Mr Turner's engagement by the Company is terminable on not less than 6 months' notice given by either party to the other at any time after an initial fixed period of 12 months. The terms of engagement also contain provisions for early termination, *inter alia*, in the event of a breach of duties. Mr Turner does not participate in any of the Company's incentive arrangements or receive any pension provision.
- 6.1.5 Gerard Johnson commenced employment with the Company on 3 October 2007 and was appointed Chief Strategy Officer of the Company on the same date. He entered into a new service agreement on 12 May 2017, effective from and conditional on Admission. Mr Johnson's basic salary is £102,816 per year (subject to annual review) with effect from 12 May 2017. Mr Johnson is entitled to benefits commensurate to his position including consideration for a discretionary performance related annual bonus scheme, under which the maximum bonus payable will be 50 per cent. of his base salary, private medical cover, life assurance and the provision of a car of a size and type appropriate for the proper performance of his duties. Pension is provided either by way of contribution into the Company's defined contribution pension scheme or by cash supplement. Mr Johnson's pension entitlement is an employer contribution of 10 per cent. of his base salary. The service agreement provides for a holiday entitlement of 35 working days per annum (plus public holidays) and is terminable by either party giving 12 months' notice.
- 6.1.6 Christopher Banks commenced employment with the Company on 3 October 2007 and was appointed Chief Product Officer of the Company on the same date. He entered into a new service agreement on 12 May 2017 and was appointed Head of Special Projects, effective from and conditional on Admission working two days each week for the Company. Mr Banks' basic salary is £40,000 per year (subject to annual review) with effect from 12 May 2017. Mr Banks is entitled to benefits commensurate to his position including consideration for a discretionary performance related annual bonus scheme, private medical cover and life assurance. Pension is provided either by way of contribution into the Company's defined contribution pension scheme or by cash supplement. Mr Banks' pension entitlement is an employer contribution of 10 per cent. of his base salary. The service agreement provides for a holiday entitlement of 14 working days per annum (plus public holidays) and is terminable by either party giving 12 months' notice.
- 6.1.7 Darren Ingram commenced employment with the Company on 3 October 2007 and was appointed Chief Operating Officer of the Company on the same date. He entered into a new service agreement on 12 May 2017 and was appointed Chief Operating Officer, effective from and conditional on Admission. Mr Ingram's basic salary is £98,838 per year (subject to annual review) with effect from 12 May 2017. Mr Ingram is entitled to

benefits commensurate to his position including consideration for a discretionary performance related annual bonus scheme, private medical cover, life assurance and either the provision of a car of a size and type appropriate for the proper performance of his duties or a car allowance of £7,000 per annum. Pension is provided either by way of contribution into the Company's defined contribution pension scheme or by cash supplement. Mr Ingram's pension entitlement is an employer contribution of 5 per cent. of his base salary. The service agreement provides for a holiday entitlement of 28 working days per annum (plus public holidays) and is terminable by either party giving 6 months' notice.

- 6.1.8 Matthew Archer commenced employment with the Company on 8 February 2017 and was appointed Chief Commercial Officer of the Company on the same date. He entered into a new service agreement on 12 May 2017, effective from and conditional on Admission. Mr Archer's basic salary is £65,000 per year (subject to annual review) with effect from 12 May 2017. Mr Archer is entitled to benefits commensurate to his position including consideration for a discretionary performance related annual bonus scheme, private medical cover, life assurance and either the provision of a car of a size and type appropriate for the proper performance of his duties or a car allowance of £6,000 per annum. Pension is provided either by way of contribution into the Company's defined contribution pension scheme or by cash supplement. Mr Archer's pension entitlement is an employer contribution of 5 per cent. of his base salary. The service agreement provides for a holiday entitlement of 28 working days per annum (plus public holidays) and is terminable by either party giving 6 months' notice.
- 6.2 The aggregate remuneration paid or payable by the Company (including benefits in kind) to the Directors during the year ended 31 October 2016 was £261,186. The aggregate estimated remuneration paid or payable to the Directors by the Company for the current financial year ending 31 October 2017 under the arrangements in force is expected to amount to £395,000.
- 6.3 Save as disclosed in this Part V, there are no service contracts, existing or proposed, between any Director and the Company and no service contract has been entered into or amended by the Company in the six months prior to the date of this document, nor are there any service contracts providing for benefits upon termination of employment.
- 6.4 There are no outstanding loans or guarantees provided by the Company for the benefit of any of the Directors.
- 6.5 As at 11 May 2017, being the latest practicable date before the date of this document, the Company had 97 employees.

## **7. Additional Information on the Board**

- 7.1 The Directors hold or have held the following directorships in companies (other than the Company) incorporated in the United Kingdom and overseas (as the case may be) within the five years prior to the date of this document:

<i>Name</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Mark Mills	Activation Advisory Limited Archline Property LLP Airport Properties Limited Airport Property Holdings LLP Bungalow To Rent LLP Energy In The UK Limited Healthcare Communications (UK) Limited (not a statutory director)	Cash Limited Genwat Power Limited Genwat Services Limited NJM Property LLP

<i>Name</i>	<i>Current Directorships</i>	<i>Past Directorships</i>
Mark Mills (continued)	Family Walks Property LLP Genwat Limited Insurance and Legal Services Limited Mini-cam Enterprises Limited Pleasant Court Limited Pleasant Street Parade LLP	
Jonathan Bridges	None	Banjo Limited
Alan Kershaw	West Lancashire Crisis and Information Centre	365 Health Solutions Limited A.R.E. Business & Professional Limited Fitel Nominees Limited Getfitwellness Limited Health Assessments (UK) Limited (Liquidation) Mindtech Limited Newco HD01 Limited Readycount Limited Screenetics Limited Screenetics UK Limited (in administration) S.R.S. Business & Professional Limited Stockholm Investments Limited Ultramind Group plc Ultrasis plc (in administration) Ultrasis (North America) Limited Ultrasis UK Limited (in administration) WHI Leasing Limited WH Ireland Limited W.H. Ireland (Financial Services) Limited W.H. Ireland Group plc WH Ireland Nominees Limited W.H. Ireland (Stockbrokers) Limited W.H. Ireland Trustee Limited
Peter Turner	Theofano Interiors Limited Woodfold Hall Freehold Limited Woodfold Hall (Mellor) Management Company Limited	Bazehill Manor Freehold Limited Bazehill Manor Rottingdean (RTM) Company Limited

- 7.2 On 1 July 2014, Alan Kershaw was appointed director of Health Assessments UK Limited. Health Assessments UK Limited went into creditors' voluntary liquidation on 22 June 2015. The directors' statement of affairs as at the date of liquidation showed an estimated deficiency as regards creditors of £465. No dividends have been paid to creditors under the liquidation so far but the liquidators have reported that the administrators of Screenetics UK Limited have advised that there will be sufficient funds to make a return to unsecured creditors within the next three months. Screenetics show on the statement of affairs as at 22 June 2015 as the beneficiary of a loan from Health Assessments UK Limited in the sum of £197,248.00. The amount of the dividend is not known.
- 7.3 On 1 July 2014, Alan Kershaw was appointed director of Screenetics UK Limited. Screenetics UK Limited went into administration on 2 June 2015. The directors' statement of affairs as at

the date of administration showed an estimated deficiency as regards creditors of £1,630,951. Under the administration, the preferential creditors have been paid in full in the period between 9 April 2016 and 8 October 2016, with a dividend of £47,577 paid to them. In their last Progress Report to 8 October 2016, the Administrators advised of their intention to make a first and final distribution of funds to unsecured creditors in the near future.

- 7.4 On 2 June 2014, Alan Kershaw was appointed director of Ultrasis Plc. Ultrasis Plc went into administration on 9 October 2015. The directors' statement of affairs as at the date of administration showed an estimated deficiency as regards creditors of £4,917,105. A dividend is anticipated to be paid to the secured creditor, but not to preferential or unsecured creditors.
- 7.5 On 2 June 2014, Alan Kershaw was appointed director of Ultrasis UK Limited. Ultrasis UK Limited went into administration on 16 October 2015. The directors' statement of affairs as at the date of administration showed an estimated deficiency as regards creditors of £5,620,764.80. The administrator's last Progress Report to 15 October 2016 confirmed that no dividend had been paid under the administration at that point. It is anticipated the secured creditor will receive a dividend of £115,000, although the exact quantum is yet to be determined. It is expected that preferential creditors will be paid in full, with a dividend of £2,700 paid to them shortly. Further, it is anticipated that the unsecured creditors will receive a distribution via the prescribed part which will be in the region of £15,000.
- 7.6 Mark Mills was a Director of Telecom Publications Limited when the company was placed into members' voluntary liquidation in October 1994. The statement of affairs sworn by the directors at the time the company was placed into creditors' voluntary liquidation shows an estimated total deficiency of £8,119.52.
- 7.7 Mark Mills was a Director of Prestige Communication Corporation Limited when it was placed into members' voluntary liquidation in December 1992. Thereafter, this became a creditors voluntary liquidation. The shortfall involved was less than £27,000.
- 7.8 None of the Directors are, nor have been within the five years prior to the publication of this document, partners in any partnerships.
- 7.9 Save as disclosed in this document, no Director has:
- 7.9.1 any unspent convictions in relation to indictable offences;
  - 7.9.2 had a bankruptcy order made against him or entered into an individual voluntary arrangement;
  - 7.9.3 been a director of a company which has been placed in receivership, compulsory liquidation, creditors' voluntary liquidation, administration or company voluntary arrangement or which entered into any composition or arrangement with its creditors generally or any class of its creditors whilst he was a director of that company or within the 12 months after he ceases to be a director of that company;
  - 7.9.4 been a partner in any partnership placed into compulsory liquidation, administration or partnership voluntary arrangement where such director was a partner at the time of or within the 12 months preceding such event;
  - 7.9.5 been subject to the receivership of any asset of such director or of a partnership of which the director was a partner at the time of or within 12 months preceding such event; or
  - 7.9.6 received public criticisms by statutory or regulatory authorities (including designated professional bodies) and no director has been disqualified from acting as a director of a company or from acting in the management or conduct of the affairs of any company.

7.10 Save as disclosed in his document, no Director has been interested in any transaction with the Company which was unusual in its nature or conditions or significant to the business of the Company during the current financial year which remains outstanding or unperformed.

## 8. Share Plans

The Company adopted the Enterprise Management Incentive and Unapproved Scheme (the "**Share Option Scheme**") on 13 March 2017. The purpose of the Share Option Scheme is to assist in the recruitment or retention of employees and directors by enabling the Company to grant Enterprise Management Incentive ("**EMI**") share options and unapproved share options (the "**Options**") to such persons (the "**Option Holders**") pursuant to the rules of the Share Option Scheme (the "**Rules**"). The Options could be granted as UK tax advantaged EMI share options if the recipient met the relevant criteria for those options, otherwise the options would subsist as non-tax advantaged unapproved share options.

As at 13 March 2017, a total of 603,200 Ordinary Shares were subject to outstanding Options granted under the Share Option Scheme.

### *Grant of Options*

Options shall only be granted within the period of forty-two days after the adoption date of the Share Option Scheme or the end of a closed period, save where the Board determines to grant Options at a different time. The Options may not be granted at any time when the grant would be prohibited by, or in breach of, the Market Abuse Regulation or any other law, regulation with the force of law or the AIM Rules.

### *Exercise of Options*

The Options may be exercised on the earlier of a company re-organisation (other than any person that is owned substantially by the persons who were equity shareholders of the Company immediately prior to the person obtaining control); takeover; asset sale; sale; listing (excluding listing on AIM); death of the Option Holder; or the lapse of time referred to in the option agreement (the "**Exercise Event**").

Options may not be exercised at a time when that grant would be prohibited by, or in breach of, the Market Abuse Regulation or any other law, regulation with the force of law or the AIM Rules or any code or guidelines of the Company or if the issue and allotment of shares consequent upon the exercise of the Option would be contrary to any enactment or regulation for the time being in force in the United Kingdom.

### *Exercise Price*

The price per Ordinary Share payable on the exercise of an Option (the "**Exercise Price**") is determined by the Board when the Options are granted. The Exercise Price on any occasion may be equal to or less than the market value of an Ordinary Share at the time of grant. For Options in relation to the subscription of Ordinary Shares the exercise price must be at least the nominal value of the Ordinary Shares.

### *Individual Limits on Participation*

The aggregate market value of Ordinary Shares over which EMI Options may be granted to any employee will not exceed £250,000, or such other limit as may be imposed by the legislation governing EMI Options from time to time.

### *Limits on the issue of new Ordinary Shares*

The number of Ordinary Shares which are issued or issuable under the Share Option Scheme, when added to the number of Ordinary Shares issued or issuable pursuant to the any other employee share

scheme (as defined in section 1166 of Companies Act 2006) in the shorter period of either 10 years ending on that day and since the Ordinary Shares were admitted to trading on AIM shall not exceed 10% of the issued Ordinary Share capital of the Company on that day.

#### *Performance Conditions*

The Board may, but is not obliged to, specify one or more appropriate performance condition for an Option at the time it is granted, which determines whether and to what extent the Option may be exercised. Any performance condition may be varied or waived at the Board's discretion provided that it is a fairer measure of performance and not more difficult to satisfy than the original performance condition.

#### *Cessation of Employment*

Where an Option Holder ceases to be a group employee then the Option shall lapse immediately unless the Board exercises its discretion to allow the Options to be exercised or retained. If the Board does not exercise its discretion within 30 days after the cessation of employment the Options shall lapse. If the Board does exercise its discretion to allow the Options to be exercised and they are not exercised within a specified time period they shall lapse.

#### *Corporate Events*

Where control of the Company is acquired by a person (other than any person that is owned substantially by the persons who were equity shareholders of the Company immediately prior to the person obtaining control), the Options will generally be exercisable for a period of 90 days after the change of control. Where the change of control is under section 979 – 982 of the Companies Act 2006, the Options may be exercised at any time when the person remains entitled or bound to acquire the Ordinary Shares. The Board may also allow the exercise of options in circumstances where it considers a change of control is likely to occur. If Options are not exercised during the relevant period they will lapse.

In the event of a listing of the Ordinary Shares (not on AIM) the Option may be exercised within one or more periods after the listing as the Board shall determine provided that:

- No period is less than seven days;
- If no period is notified by the Board the period shall start 60 days after the listing and end on the 90th day after the listing; and
- The Board shall permit the Option to be exercised within six months beginning with the date of the listing.

If Options are not exercised during the relevant period they will lapse.

The Company has the right not to issue and allot shares as a consequence of a listing unless the Option Holder has agreed not to sell or dispose of the Ordinary Shares in such period as specified by the Board, if any.

#### *Exchange of Options*

Subject to the satisfaction of certain conditions, each Option Holder may, by agreement with the acquiring company within a specified period, exchange an old option for a new replacement option. Any new option granted is treated as if it was acquired at the same time as the old option that it replaces.

#### *Payment of Tax and NICs*

The Option Holder is responsible for the payment of all relevant income tax and employee and employer's NICs relating to its Option. The Company may withhold an amount equal to such liabilities from any amounts due to the employee (to the extent such withholding is lawful) and/or withhold and

sell sufficient Ordinary Shares subject to the Option, in satisfaction of these liabilities. The Option Holder will enter in to a joint election with the Company or its employer to transfer any employer's NICs liability to the Option Holder.

#### *Lapse of Options*

The Options shall lapse if:

- they are not exercised by the tenth anniversary of the date of grant;
- the Options are to be transferred, assigned, mortgaged or otherwise disposed of by the Option Holder;
- the Option Holder is adjudged bankrupt or if the Option Holder makes or proposes a voluntary arrangement under the Insolvency Act 1986 in relation to his debts; or
- subject to the provisions noted above, the Option Holder's employment with the Company ceases.

#### *Amendment*

The Board may amend the Rules from time to time. No amendment may apply to Options granted before the amendment was made without the prior approval in writing of the Option Holder if as a result the Option would cease to be a qualifying EMI Option.

### **9. Articles of Association**

The Articles of Association, which were adopted on 27 April 2017, contain provisions which are summarised below.

#### 9.1 *Objects*

Pursuant to section 31 of the Companies Act, the objects for which the Company is established are unrestricted and the Company has full power and authority to carry out any object not prohibited by law.

#### 9.2 *Voting rights*

- (a) At general meetings of the Company, on a show of hands, every member present in person has one vote, each authorised person appointed by a corporate member has one vote and every proxy present has one vote, unless he has been appointed by more than one member and has been instructed by one or more of those members to vote for the resolution and by one or more others to vote against it, in which case he has one vote for and one vote against the resolution.
- (b) In the case of a poll at a general meeting of the Company every member has one vote for every share held by him and his voting rights may be exercised by one or more proxies.
- (c) These voting rights are subject to any special rights or restrictions as to entitlement to vote on a particular resolution or at particular meetings imposed by or pursuant to the Articles or attached to any shares. These include, for example, that a person becoming entitled to a share by reason of a transmission event (such as death or bankruptcy) shall not be entitled to vote with respect to those shares before being registered as holder of such shares.

#### 9.3 *Allotment of shares*

Subject to the Companies Act and any resolution of the members, the board may offer, allot (with or without conferring a right of renunciation), grant options over or otherwise deal with

or dispose of any new shares to such persons, at such times and generally on such terms as the board may decide.

#### 9.4 *Share rights*

The share capital of the Company consists of a single class of ordinary shares of £0.0025 each. The Ordinary Shares carry full voting rights and rights to dividend and to participate in any return of capital by the Company. They do not confer any rights of redemption.

#### 9.5 *Variation of class rights*

- (a) Whenever the share capital of the Company is divided into different classes of shares, all or any of the rights attached to any class may be varied or abrogated in such manner (if any) as may be provided by those rights or (in the absence of any such provision) either with the consent in writing of the holders of not less than three-quarters in nominal value of the issued shares of that class or with the authority of a special resolution passed at a separate general meeting of the holders of the shares of that class.
- (b) The provisions of the Articles relating to general meetings of the Company apply to every separate general meeting of the holders of any class of shares except that:
  - (i) the necessary quorum (other than at an adjourned meeting) is two persons holding or representing by proxy at least one-third in nominal value of the issued shares of that class;
  - (ii) if any such separate general meeting is adjourned, the quorum at the adjourned meeting shall be those holders who are present in person or by proxy;
  - (iii) every holder of shares of the class shall, on a poll, have one vote in respect of every share of the class held by him; and
  - (iv) any holder of shares of the class in question who is present in person or by proxy and entitled to vote may demand a poll.

#### 9.6 *Power to attach rights and issue redeemable shares*

Subject to the Companies Act and to any rights attached to any existing share or class of shares, shares may be issued with, or have attached to them, such rights as the Company may by ordinary resolution determine, including shares which are redeemable at the option of the Company or the holder.

#### 9.7 *Alteration of capital and pre-emption rights*

The Articles do not impose any conditions governing changes in the capital of the Company which are more stringent than is required by law, or prescribe any rights of pre-emption in relation to offers for subscription of shares in addition to or in substitution for those in the Companies Act.

#### 9.8 *Share certificates*

Every member who opts to hold shares in certificated form shall be entitled, without payment, to receive once certificate for each class of shares held by him. If a member transfers part of the shares represented by a certificate, or elects to hold part in uncertificated form, he shall be entitled, without payment, to receive a new certificate in respect of the balance.

#### 9.9 *Uncertificated shares*

The board may permit shares of any class to be held in uncertificated form, pursuant to and subject to the CREST Regulations.

#### 9.10 *Calls and liens*

- (a) The Company shall have a first and paramount lien on every share which is not fully paid, for all amounts paid (whether or not due) in respect of that share. The Company may sell any share subject to a lien in such manner as the board may decide if an amount in respect of which the lien exists is due and not paid within 14 days of demand.
- (b) The board may make calls on members in respect of any amount unpaid on their shares.

#### 9.11 *Transfers of shares*

- (a) Shares may be held in uncertificated form and uncertificated shares may be transferred in accordance with the rules, procedures and practices of the relevant system and the CREST Regulations. The directors may refuse to register a transfer of any such share where permitted by the CREST Regulations.
- (b) Transfers of shares in certificated form may be effected by an instrument of transfer in any usual form or in any other form approved by the directors. The instrument of transfer shall be signed by or on behalf of the transferor and, unless the share is fully paid, by or on behalf of the transferee.
- (c) The directors may refuse to register the transfer of a share held in certificated form unless the instrument of transfer is:
  - (i) in respect of a share which is fully paid up;
  - (ii) in respect of a share over which the Company has no lien;
  - (iii) in respect of only one class of shares;
  - (iv) in favour of a single transferee or not more than four joint transferees;
  - (v) duly stamped (if required); and
  - (vi) accompanied by the certificate(s) for the shares to which it relates and such other evidence as the directors may reasonably require to prove the title of the transferor to make the transfer.
- (d) A transferor shall remain the holder of the share concerned (whether a certificated share or an uncertificated share) until the name of the transferee is entered in the register of members as the holder of that share.

#### 9.12 *Disclosure of interests in shares*

- (a) If a member or any person appearing to be interested in shares in the Company has been duly served with a notice under section 793 of the Companies Act and is in default in supplying to the Company the information required in respect of the shares to which the notice relates ("**default shares**") within 14 days after the service of such notice, (the "**direction notice**") the restrictions set out below shall apply.
- (b) The default shares shall not confer on the member concerned any entitlement to attend or vote, either personally or by proxy, at a general meeting or class meeting of the Company.
- (c) Where default shares represent at least 0.25 per cent. of the class of shares concerned, the holder of the default shares shall not be entitled in respect of the default shares:
  - (i) to receive any dividend or other distribution; and/or

- (ii) to transfer or agree to transfer the default shares unless the transfer is an exempt transfer.

For this purpose, an “**exempt transfer**” is a transfer by the acceptance of a takeover offer or a transfer on sale of the whole beneficial interest to a bona fide unconnected third party (including through a sale through a recognised investment exchange as defined in the FSMA).

- (d) The terms of a direction notice shall cease to have effect seven days following due compliance, to the satisfaction of the directors, with the notice under section 793 of the Companies Act or, if waived in whole or part by the directors, or if the transfer of any default shares is by way of an approved transfer, but only in respect of the default shares which are transferred.

#### 9.13 *Dividends*

- (a) The Ordinary Shares confer no fixed dividend entitlement. The Company may, by ordinary resolution, declare dividends but no such dividend shall exceed the amount recommended by the directors. The directors may from time to time pay such interim dividends as appear justified by the financial position of the Company.
- (b) The directors may deduct from any dividend or other moneys payable to any person or in respect of a share all such sums as may be due from him to the Company in relation to the shares of the Company.
- (c) All unclaimed dividends may be invested or otherwise made use of by the directors for the benefit of the Company until claimed. Any dividend which has remained unclaimed for a period of twelve years after having been declared or become due for payment shall be forfeited and shall revert to the Company.

#### 9.14 *General meetings*

- (a) Annual general meetings of the Company shall be convened in accordance with the Companies Act. The directors may convene other general meetings whenever they think fit, and are required to do so if requisitioned by members in accordance with the Companies Act. If at any time there are not within the United Kingdom sufficient directors to call a general meeting, any director or any two members may convene a general meeting.
- (b) An annual general meeting shall be called by at least 21 clear days’ notice. All other general meetings shall be called by at least 14 days’ notice. Subject to the Companies Act, a general meeting may be called on shorter notice, if it is so agreed:
  - (i) in the case of an annual general meeting, by all members entitled to attend and vote at that meeting; and
  - (ii) in the case of any other meeting, by a majority of the members having a right to attend and vote at the meeting, being a majority holding together not less than 95 per cent. in nominal value of the shares conferring such right.
- (c) Notice of a general meeting may be given in hard copy form, in electronic form or by means of a website.
- (d) Except as otherwise provided in the Articles, two persons entitled to vote upon the business to be transacted (each being a member or a proxy of a member or a duly authorised representative of a corporation) shall be a quorum at any general meeting of the Company.

- (e) At a general meeting, a resolution put to the vote shall be decided on a show of hands unless a poll is duly demanded before or immediately after the declaration of the result of the show of hands or on the withdrawal of any other demand for a poll.
- (f) The Company shall determine the time, being no more than 48 hours before the time fixed for the meeting, by which a person must be entered on the register of members in order to be entitled to attend or vote at a general meeting.

#### 9.15 *Proxies*

- (a) The appointment of a proxy shall be made in writing and shall be in any usual common form, or such other form as may be approved by the board.
- (b) A proxy need not be a member, and a member may appoint more than one proxy to attend on the same occasion, provided that each such proxy is appointed to exercise the rights attached to a different share or shares held by that member.

#### 9.16 *Suspension of rights*

Unless the board otherwise decides, a member shall not be entitled to attend or vote, either in person or by proxy, at any general meeting of the Company or to exercise any other right as a member in respect of any share held by him unless and until all calls and other sums presently payable by him in respect of that share have been paid.

#### 9.17 *Directors and their remuneration*

- (a) Unless otherwise determined by the Company by ordinary resolution, the number of directors shall not be fewer than two and shall not be subject to any maximum.
- (b) A director is not required to hold any shares in the Company. A director who is not a member of the Company shall nevertheless be entitled to receive notice of and to attend and speak at all general meetings and class meetings of the Company.
- (c) Remuneration paid to the directors (other than executive directors) for their services as officers of the Company shall be such aggregate amount as the directors shall decide, provided that such fees do not exceed the sum of £450,000 per annum or such higher sum as the Company may by ordinary resolution determine. Any such remuneration shall be distinct from any salary, remuneration or other amounts which may be paid to a director pursuant to any other provision of the Articles.
- (d) Any director who performs services which, in the opinion of the directors, go beyond the ordinary duties of a director and not in his capacity as a holder of employment or executive officer may be paid such reasonable special remuneration as the directors or the remuneration committee may determine.
- (e) The Company may also pay or repay to any director all travelling, hotel and other expenses reasonably and properly incurred in attending and returning from meetings of the directors or any committee of the directors or general meetings of the Company or separate meetings of the holders of any class of shares or debentures in the Company.
- (f) The directors may establish and/or contribute to any pension, retirement or superannuation scheme or fund and may pay or agree to pay pension, retirement, superannuation benefits, annuities and other emoluments to (or to any person in respect of) any person who is or was at the time a director or officer or employee of the Company or any associated company, for his benefit or for the benefit of any member of his family. The directors may also establish and/or contribute to any death and/or disability scheme for the benefit of any person who is or was at the time a director or officer or employee of the Company or any associated company or for the benefit of any member of his family.

#### 9.18 *Retirement and removal of directors*

- (a) The Company may by ordinary resolution appoint any person who is willing to act as a director, either to fill a vacancy or as an additional director, but so that the total number of directors does not exceed any maximum fixed by or in accordance with the Articles.
- (b) The board may appoint any person who is willing to act as a director, either to fill a vacancy or as an additional director, but so that the total number of directors does not exceed any maximum fixed by or in accordance with the Articles.
- (c) Any director appointed by the board shall retire at the next annual general meeting after his appointment and shall be eligible for re-election but shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting.
- (d) A non-executive director who has held office for nine years or more since his first appointment by general meeting shall retire at each annual general meeting of the Company and shall be eligible for re-election but shall not be taken into account in determining the number of directors who are to retire by rotation at such meeting.
- (e) The arrangements for retirement of directors by rotation are as follows:
  - (i) at any annual general meeting, any director who has not been appointed or re-appointed at either of the two previous annual general meetings of the Company shall retire;
  - (ii) if the number of directors required to retire in accordance with the above paragraph is less than one third of the total number of directors (rounded down to the nearest whole number), one or more additional directors shall be required to retire (being the longest to have held office since their appointment or last re-appointment) such that once third of the directors (rounded down to the nearest whole number) retire at each annual general meeting.
- (f) A director who retires at an annual general meeting may (if willing to act) be re-appointed.
- (g) The Company may, by ordinary resolution of which special notice has been given in accordance with the Companies Act, remove any director from office before his period of office has expired (without prejudice to any claim for damages which he may have for breach of any contract between him and the Company).
- (h) A director shall cease to be a director on the happening of any of the following events:
  - (i) he is disqualified from acting as a director or becomes prohibited by law from acting as a director, or shall cease to be a director by virtue of any provision of the Companies Act or the Articles;
  - (ii) he gives notice of his wish to resign;
  - (iii) he becomes bankrupt or he makes any arrangement or composition with his creditors generally or applies to the court for an interim order under section 253 of the Insolvency Act 1986 in connection with a voluntary arrangement under that act;
  - (iv) by reason of his mental health, an order is made by a court which wholly or partly prevents him from personally exercising any power or right which he would otherwise have;

- (v) a registered medical professional gives a written opinion to the Company stating that he is physically or mentally incapable of acting as a director and will remain so for more than three months;
- (vi) he or his alternate (if any) are absent from meetings of the directors for the greater of six consecutive months without the consent of the directors and the directors resolve that his office should be vacated;
- (vii) he is requested to resign as a director by notice in writing signed by all of his co-directors (without prejudice to any claim for damages which he may have for breach of any contract between him and the Company);
- (viii) he is convicted of an indictable offence or his conduct is subject to an investigation by an inspector appointed by the Secretary of State or by the Serious Fraud Office and the other directors resolve that it is undesirable in the interests of the Company for him to remain a director; or
- (ix) notice is given to terminate his employment or engagement with the Company where he is in breach of contract.

#### 9.19 *Proceedings of directors*

- (a) The quorum necessary for the transaction of the business of the directors may be fixed from time to time by the directors and unless so fixed at any other number shall be two.
- (b) Questions arising at any meeting of the directors shall be determined by a majority of votes. In the case of an equality of votes the chairman of the meeting shall have a second or casting vote.
- (c) A resolution in writing signed by such number of the directors as are for the time being entitled to vote on that resolution shall be as effective as a resolution duly passed at a meeting of the directors.

#### 9.20 *Alternate directors*

- (a) Any director (other than an alternate director) has the power to appoint as his alternate, to exercise his powers and carry out his responsibilities during his absence (whether for a limited or an unlimited term), either another director or any other person approved for that purpose by a resolution of the directors. The appointment of an alternate director automatically determines: if his appointor terminates the appointment; or on the happening of any event which, if he were a director, would cause him to vacate the office of director; or if his appointor ceases for any reason to be a director otherwise than by retiring and being re-appointed at the same general meeting.
- (b) An alternate director is entitled to receive notice of meetings of the directors and committees of which his appointor is a member and to attend and, in place of his appointor, to vote and be counted for the purpose of a quorum at any such meeting at which his appointor is not personally present and generally to perform all functions as a director of his appointor in his absence.

#### 9.21 *General powers of the board*

Subject to the Companies Act and the Articles and any directions given by special resolution of the Company, the business of the Company shall be managed by the board, which may exercise all of the powers of the Company.

### 9.22 *Borrowing powers*

The directors may exercise all the powers of the Company to borrow or raise money and mortgage or charge all or any part of its undertaking, property and assets (present and future), and uncalled capital, and subject to the Companies Act, to create and issue debentures, other loan stock and other securities, whether outright or as collateral security for any debt, liability or obligation of the Company or of any third party. Notwithstanding this, the Directors are required to restrict the borrowings of the Company and its subsidiary undertakings to a borrowing limited to the greater of £20 million and two times the aggregate of the Company's paid up share capital and reserves (adjusted as may be necessary in respect of any variation in the paid up share capital or reserves of the Company since the date of its latest audited balance sheet) in respect of all other borrowings.

### 9.23 *Interests and conflicts of directors*

- (a) The directors are empowered pursuant to section 175 of the Companies Act to authorise any matter which would or might otherwise constitute a breach of the duty of a director to avoid a situation in which he has an interest that conflicts, or possibly may conflict, with the interests of the Company. Any such authorisation shall be subject to such conditions or limitations as the directors may determine, whether at the time such authorisation is given or subsequently, and may be terminated by the directors at any time. Neither the director in question nor any other interested director shall be counted in the quorum at the meeting at which the matter is considered or vote on any resolution concerning any such authorisation. Under section 175(3) of the Companies Act, no such authorisation is required in relation to a conflict of interest arising in relation to a transaction or arrangement with the Company.
- (b) A director, notwithstanding his office, may be or become a director or other officer of, or hold any place of profit in, or act in a professional capacity for, or otherwise be interested in, any company in which the Company may be interested.
- (c) Where a director has an interest that conflicts, or possibly may conflict, with the interests of the Company or his duties to the Company and the matter constituting such conflict has been authorised by the directors or by the Company or is otherwise permitted by the Articles, subject to the terms on which any authorisation has been given:
  - (i) the director in question need not disclose to or use for the benefit of the Company any information relating to the relevant matter which he obtains or has obtained otherwise than as a director or employee of the Company and in respect of which he owes a duty of confidentiality to a person other than the Company;
  - (ii) the director in question shall not, unless otherwise agreed, be liable to account to the Company for any profit, remuneration or other benefit realised by him as a consequence and no contract, transaction or arrangement relating to the relevant matter shall be liable to be avoided on the grounds of his conflict of interests or duties;
  - (iii) the director in question need not attend meetings of the board relating to the relevant matter.
- (d) Save as provided in the Articles, a director shall not vote (or, if he does, his vote shall not be counted) on any resolution at a meeting of the directors (and he shall not count in the quorum in respect of such resolution) in respect of any contract, arrangement, or transaction in which he has an interest which, together with any interest of a person connected with him (within the meaning of sections 252 and 253 of the Companies Act) is to his knowledge a material interest. This prohibition does not apply in respect of any of the following matters:

- (i) any contract, arrangement, transaction or proposal in which he is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
- (ii) the giving of any guarantee, security or indemnity in respect of:
  - (A) money lent or obligations incurred by him or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings; or
  - (B) a debt or obligation of the Company or any of its subsidiary undertakings for which he himself has assumed responsibility in whole or in part (either alone or jointly with others) under a guarantee or indemnity or by the giving of security;
- (iii) any issue or offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings in respect of which he is or may be entitled to participate in his capacity as a holder of any such securities or as an underwriter or sub-underwriter;
- (iv) any contract, arrangement, transaction or proposal concerning any other company in which he, and any persons connected with him (within the meaning of sections 252 and 253 of the Companies Act), do not to his knowledge hold an interest in shares (within the meaning of sections 820 to 825 of the Companies Act) representing one per cent. or more of any class of the equity share capital of that company or of the voting rights available to members of that company;
- (v) any arrangement for the benefit of employees of the Company or any of its subsidiary undertakings which does not accord to him any privilege or benefit not generally accorded to the employees to whom the arrangement relates; and/or
- (vi) the purchase or maintenance of insurance for the benefit of directors or for the benefit of persons including directors.

#### 9.24 *Winding up*

If the Company is wound up, the liquidator may, with the authority of a special resolution of the Company (and subject to any authority required under the Companies Act):

- (a) divide the assets of the Company between the members (in whole or in part), and determine how that division should be carried out as between the members of different classes of members; or
- (b) vest the whole or any part of the assets in trustees upon trust for the benefit of the members, as he shall think fit.

#### 9.25 *Indemnity and insurance*

- (a) Subject to the Companies Act, but without prejudice to any indemnity to which he may otherwise be entitled, every director or other officer (excluding an auditor) of the Company shall be indemnified out of the assets of the Company against any liabilities incurred by him for negligence, default, breach of duty or breach of trust in relation to the affairs of the Company including where the Company is trustee of an occupational pension fund (provided that no indemnity shall be provided to the extent that it would be void under the Companies Act).
- (b) Subject to the Companies Act, the directors may purchase and maintain insurance at the expense of the Company for the benefit of any person who is or was at any time:

- (i) a director or other officer or employee of the Company (other than auditor) or any body which is or was the holding company or subsidiary undertaking of the Company, or in which the Company or such holding company or subsidiary undertaking has or had any interest (whether direct or indirect) or with which the Company (or any such holding company or subsidiary undertaking) is or was in any way associated or allied; or
  - (ii) a trustee of any pension fund in which employees of the Company or any other body referred to in the above paragraph is or has been interested; including, without limitation, insurance against any liability incurred by such person in respect of any act or omission in the actual or purported exercise of his powers or otherwise in relation to his duties, powers or offices in relation to the relevant body or fund.
- 9.26 The provisions of section 561 of the Companies Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employee's share scheme as defined in section 1166 of the Companies Act) will apply to the extent not disapplied by a special resolution of the Company.
- 9.27 There is nothing contained in the Articles which would have an effect of delaying, deferring or preventing a change in control of the Company.
- 9.28 There is nothing contained in the Articles which governs the ownership threshold above which member ownership must be disclosed.
- 9.29 Save as set out above, there are no provisions in the Articles or otherwise which give any person enhanced rights in the Company's profits.
- 9.30 There are no conversion rights attached to any of the shares in the Company pursuant to the Articles or otherwise.
- 9.31 *Mandatory Bids and compulsory acquisition rules relating to the Ordinary Shares*  
 Other than as provided by the Takeover Code and Chapter 28 of the Act, there are no rules or provisions relating to mandatory bids and/or squeeze-out and sell-out rules that apply to the Ordinary Shares or the Company.
- (a) **Mandatory bids**  
 The Takeover Code applies to the Company. Under Rule 9 of the Takeover Code, if an acquisition of interests in shares were to increase the aggregate holding of the acquirer and its concert parties to interests in shares carrying 30 per cent. or more of the voting rights in the Company, the acquirer and, depending on the circumstances, its concert parties would be required (except with the consent of the Takeover Panel) to make a cash offer for the outstanding shares in the Company at a price not less than the highest price paid for interests in shares by the acquirer or its concert parties during the previous 12 months. This requirement would also be triggered by any acquisition of interests in shares by a person holding (together with its concert parties) shares carrying between 30 per cent. and 50 per cent. of the voting rights in the Company if the effect of such acquisition were to increase that person's percentage of the total voting rights in the Company.
- "Interests in shares" is defined broadly in the Takeover Code. A person who has long economic exposure, whether absolute or conditional, to changes in the price of shares will be treated as interested in those shares. A person who only has a short position in shares will not be treated as interested in those shares.

“Voting rights” for these purposes means all the voting rights attributable to the share capital of a company which are currently exercisable at a general meeting.

Persons acting in concert (and concert parties) comprise persons who, pursuant to an agreement or understanding (whether formal or informal), cooperate to obtain or consolidate control of a company or to frustrate the successful outcome of an offer for a company. Certain categories of people are deemed under the Takeover Code to be acting in concert with each other unless the contrary is established.

Further information on the Concert Party can be found in paragraph 25 of Part I of this document.

(b) Squeeze-out rules

Under the Act, if a “takeover offer” (as defined in section 974 of the Act) is made by an offeror to acquire all of the shares in the Company not already owned by it and the offeror were to acquire, or unconditionally contract to acquire, not less than 90 per cent. in value of the shares to which such offer relates, the offeror could then compulsorily acquire the remaining shares. The offeror would do so by sending a notice to the outstanding members informing them that it will compulsorily acquire their shares and, six weeks later, it would deliver a transfer of the outstanding shares in its favour to the Company which would execute the transfers on behalf of the relevant members, and pay the consideration for the outstanding shares to the Company which would hold the consideration on trust for the relevant members. The consideration offered to the members whose shares are compulsorily acquired under this procedure must, in general, be the same as the consideration that was available under the original offer unless a member can show that the offer value is unfair.

(c) Sell-out rules

The Act also gives minority members a right to be bought out in certain circumstances by an offeror who has made a takeover offer. If a takeover offer related to all the shares in the Company and, at any time before the end of the period within which the offer could be accepted, the offeror held or had agreed to acquire not less than 90 per cent. in value of the shares and not less than 90 per cent. of the voting rights carried by the shares in the Company, any holder of shares to which the offer related who had not accepted the offer could by a written communication to the offeror require it to acquire those shares. The offeror would be required to give any member notice of his or her right to be bought out within one month of that right arising. The offeror may impose a time limit on the rights of minority members to be bought out, but that period cannot end less than three months after the end of the acceptance period or, if later, three months from the date on which notice is served on members notifying them of their sell-out rights. If a member exercises his or her rights, the offeror is entitled and bound to acquire those shares on the terms of the offer or on such other terms as may be agreed.

## 10. Material Contracts

The following contracts, not being contracts entered into in the ordinary course of business, have been entered into by the Company and/or any of its subsidiaries in the two years immediately preceding the date of this document and are, or may be, material:

- 10.1 The nominated adviser and broker agreement between finnCap and the Company dated 12 May 2017 in respect of finnCap acting as nominated adviser and broker for the purposes of AIM for an initial minimum period of 12 months (terminable on three months’ written notice thereafter by either party). The Company has agreed to pay to finnCap an initial annual retainer of £60,000 (plus VAT) for acting as nominated adviser and broker, such fee to increase by £5,000 plus VAT on each of the first two anniversaries following Admission.

10.2 A placing agreement dated 12 May 2017 between the Company, the Directors, the Selling Shareholders and finnCap whereby finnCap was appointed as the agent of the Company for the purpose of managing the Placing and the Vendor Placing and has agreed to use reasonable endeavours to procure places to subscribe for the Placing Shares and purchasers of the Vendor Placing Shares at the Placing Price. Pursuant to the Placing Agreement, the Company, its Directors and the Selling Shareholders have given certain warranties and indemnities to finnCap regarding, *inter alia*, the accuracy of the information in this document. The Placing Agreement is conditional, *inter alia*, on Admission taking place no later than 8.00 a.m. on 18 May 2017, or such later date as the Company and finnCap may agree being no later than 2 June 2017 and the Company and the Directors complying with certain obligations under the Placing Agreement. Under the Placing Agreement, the Company has agreed to pay to finnCap a corporate finance fee of £225,000 (plus VAT), a commission of 4 per cent. on the aggregate value of the Placing Shares at the Placing Price and a discretionary commission of £100,000 (plus any VAT payable thereon) payable within 30 days of Admission, together with all costs and expenses and VAT thereon, where appropriate. The Selling Shareholders have agreed to pay finnCap a commission of 4 per cent. on the aggregate value of the Vendor Placing Shares at the Placing Price together with VAT thereon (if applicable). finnCap is entitled in certain limited circumstances to terminate the Placing Agreement prior to Admission.

The following table contains details of the Selling Shareholders and the Vendor Placing Shares to be sold by them pursuant to the Vendor Placing:

<i>Name</i>	<i>Business address</i>	<i>Number of Vendor Placing Shares</i>	<i>Position, office or other material relationship that with the Company within the past three years</i>
Jonathan Bridges	AMS Technology Park, Billington Road, Burnley, Lancashire BB11 5UB	1,176,471	Director and Founder
Christopher Banks	AMS Technology Park, Billington Road, Burnley, Lancashire BB11 5UB	1,764,707	Founder, Senior Manager and former director
Gerard Johnson	AMS Technology Park, Billington Road, Burnley, Lancashire BB11 5UB	1,764,707	Founder, Senior Manager and former director

Each of the Selling Shareholders has entered into lock-in agreements with the Company. Further details of the lock-in agreements can be found in paragraph 10.3 below.

10.3 Pursuant to lock-in agreements dated 12 May 2017 entered into with the Company and finnCap, each of the Locked-In Parties has agreed that they will not sell or dispose of their interests in or rights over any of their Ordinary Shares for a period of 12 months from Admission and, for a further 12 months thereafter, they will only sell or dispose of their interests in or rights over their Ordinary Shares subject to orderly market restrictions. The lock-in and orderly market restrictions are subject to customary exceptions.

10.4 A deed of termination dated 12 May 2017 between Gerard Johnson, Jonathan Bridges, Christopher Banks, Mark Mills, Matthew Turner and Nigel Turner ("**Parties**") ("**Deed**") provided that the shareholders agreement relating to the Company dated 16 April 2009 ("**Agreement**") between the Parties is to be terminated as at Admission. Following termination, the Deed provides that the Agreement ceases to have any effect. The Parties gave an undertaking that the terms of the Agreement, the circumstances giving rise to its termination

and the terms of the Deed were to be kept confidential save for where required to allow the parties, its employees, officers, representatives or advisors to exercise their rights and perform its obligations in connection with the Agreement.

- 10.5 A relationship agreement dated 12 May 2017 between the Company, each of the Founders and finnCap to regulate aspects of the continuing relationship between the Group and the Founders. Each Founder undertakes to use his voting rights (and procure that his associates use their voting rights) to ensure that the Group is capable at all times of carrying on its business independently of the Founders and that future transactions between the Group and the Founders are on an arm's length basis and on normal commercial terms. The Founders also each undertake not to take any action that would prevent the Group from complying with any applicable laws including AIM Rule 13 (related party transactions). The Relationship Agreement will terminate with immediate effect in certain circumstances including but not limited to a) if the Ordinary Shares cease to be admitted to trading on AIM and b) if the interest of each of the Founders in voting rights falls below 15 per cent. and in aggregate the interest of the Founders in voting rights falls below 25 per cent.
- 10.6 The Company proposes to grant a warrant to finnCap to subscribe for Ordinary Shares representing approximately 0.5 per cent. of the Enlarged Share Capital at a price per Ordinary Share equal to the Placing Price. The warrant is proposed to be capable of exercise during the period starting on the first anniversary of Admission and ending on the 4th anniversary of Admission.

## **11. Working Capital**

The Directors are of the opinion, having made due and careful enquiry and taking into account the net proceeds of the Fundraising receivable by the Company, that the working capital available to the Company is sufficient for its present requirements, that is for the period of at least the next 12 months from the date of Admission.

## **12. Litigation**

The Company is not involved nor has been involved in any legal or arbitration proceedings in the previous 12 months which have or may have had in the recent past, a significant effect on the Company's financial position or profitability nor, so far as the Directors are aware are any such proceedings pending or threatened against the Company.

## **13. United Kingdom Taxation**

### *13.1 Introduction*

The following paragraphs are intended as a general guide, based on current UK tax legislation and HMRC practice as at the date of this document, in relation to the UK tax position of Shareholders who are resident in the UK for tax purposes and who beneficially hold their shares as investments (otherwise than under an individual savings account ("ISA")) and who are the absolute beneficial owners of both the Ordinary Shares and any dividends paid on them. Such law and practice (including, without limitation, rates of tax) is in principle subject to change at any time.

The following paragraphs do not constitute tax advice. Shareholders should be aware that future legislative, administrative and judicial changes could affect the taxation consequences described below. In particular, Shareholders who receive shares in connection with an employment contract or as an office holder, in either case whether with the Company or otherwise, should seek specific advice on their tax position. The tax position of certain categories of Shareholders who are subject to special rules, such as persons who acquire (or are deemed to acquire) their Ordinary Shares in connection with their (or another person's) office or employment, traders, brokers, dealers in securities, insurance companies, banks, financial

institutions, investment companies, tax-exempt organisations, persons connected with the Company, persons holding Ordinary Shares as part of hedging or conversion transactions, Shareholders who are not resident in the UK, collective investment schemes, trusts and those who hold 5 per cent. or more of the Ordinary Shares, is not considered. Any Shareholder who is in any doubt as to their tax position, or who is subject to tax in a jurisdiction other than the United Kingdom, is strongly recommended to consult their own professional advisers.

### 13.2 *Taxation of dividends*

13.2.1 The Company will not be required to withhold amounts on account of UK tax at source when paying a dividend.

13.2.2 With effect from 6 April 2016, the previous system of dividend tax credits was abolished and was replaced with a new tax-free allowance for individuals of £5,000 in dividend income per tax year. In the Budget on 8 March 2017, it was announced that this tax free allowance is to reduce to £2,000 from 6 April 2018, however this change to the law has not yet been enacted. Dividends falling within this allowance will not be subject to income tax. Dividend income in excess of the tax-free allowance will be taxed at the following rates:

13.2.2.1 7.5 per cent. (basic rate taxpayers);

13.2.2.2 32.5 per cent. (high rate taxpayers); and

13.2.2.3 38.1 per cent. (additional rate taxpayers).

13.2.3 Shareholders that are within the charge to UK corporation tax will be subject to corporation tax on dividends paid by the Company, unless (subject to special rules for such Shareholders that are small companies) the dividends fall within an exempt class and certain other conditions are met. Whether an exempt class applies and whether the other conditions are met will depend on the circumstances of the particular UK resident company shareholder, although it is expected that the dividends paid would normally be exempt when received by a UK resident company shareholder. Regardless of whether dividends fall within an exempt class, such Shareholders will not be entitled to a tax credit attaching to the dividend.

13.2.4 Shareholders resident for tax purposes outside the UK may be subject to foreign taxation on dividends received on their Placing Shares or in respect of other transactions relating to the shares under the tax law of their country of residence. Such shareholders will not be subject to any further UK tax on their dividends where they have no other sources of income from the UK and do not have a UK permanent establishment, representative or, in the case of trustees, there are no UK resident beneficiaries of the trust. Entitlement to claim repayment of any part of a tax credit, however, will depend, in general, on the existence and terms of any double tax convention between the United Kingdom and the country in which the holder is resident (however, given the rate of the tax credit on dividends, the holder will not generally be able to claim repayment). Non-UK resident shareholders should consult their own tax advisers as soon as possible concerning their tax liability on dividends received; what relief, credit or entitlement to a refund of any tax credit may be available in the jurisdiction in which they are resident for tax purposes; or other taxation consequences arising from their ownership of the Placing Shares.

### 13.3 *Taxation of capital gains for Shareholders*

13.3.1 To the extent that a Shareholder acquires Ordinary Shares allotted to him, the Ordinary Shares so allotted will, for the purpose of tax on chargeable gains, be treated as

acquired on the date of allotment. The amount paid for the Ordinary Shares will generally constitute the base cost of a Shareholder's holding.

- 13.3.2 A disposal or deemed disposal of Ordinary Shares by a UK resident Shareholder may give rise to a chargeable gain (or allowable loss) for the purposes of UK capital gains tax ("**CGT**") (where the Shareholder is an individual or a trustee of a settlement) or UK corporation tax on chargeable gains (where the Shareholder is within the charge to UK corporation tax), depending on their circumstances and subject to any available exemption or relief.
  - 13.3.3 As regards an individual Shareholder or trustees of settlements, the principal factors that will determine the extent to which a gain will be subject to CGT are: (i) the extent to which they realise any other capital gains in the tax year of assessment in which the gain arises; (ii) the extent to which they have incurred capital losses in that or any earlier tax year or assessment; and (iii) the level of annual allowance of tax-free gains in the tax year of assessment in which the disposal takes place.
  - 13.3.4 Subject to the availability of any such exemptions, reliefs and/or allowable losses, a disposal of Ordinary Shares by UK resident individuals, trustees and personal representatives will generally be subject to CGT at the rate of 20 per cent. However, individuals whose taxable income for the year in question is less than the upper limit of the basic rate income tax band are subject to CGT at the rate of 10 per cent., except to the extent that the aggregate of their total taxable income and gains (less allowable deductions) in that year exceeds the upper limit of the basic rate income tax band. Any such excess over the upper limit is subject to CGT at the rate of 20 per cent.
  - 13.3.5 An individual Shareholder who has ceased to be resident in the UK for tax purposes for a period of less than five years and who disposes of the Ordinary Shares during that period may also be liable to capital gains tax on his return to the UK in relation to any capital gain realised (subject to any available exemption or relief).
  - 13.3.6 Subject to the availability of any exemptions, reliefs and/or allowable losses, a disposal of Ordinary Shares by companies subject to UK corporation tax will generally be subject to UK corporation tax at the prevailing rate of up to 20 per cent. (19 per cent. from 1 April 2017). Indexation allowance may be available to reduce any chargeable gain arising on such disposal but cannot act to create or increase a chargeable loss.
- 13.4 *Stamp duty and stamp duty reserve tax ("SDRT")*
- 13.4.1 No stamp duty or SDRT will generally be payable on the issue of the new Ordinary Shares.
  - 13.4.2 No UK stamp duty or stamp duty reserve tax will be payable on the issue by the Company of Ordinary Shares. Since 28 April 2014, neither stamp duty nor stamp duty reserve tax will apply to trades in Ordinary Shares made on a recognised growth market such as AIM where the shares are not also listed on a recognised stock market.
  - 13.4.3 In the event that any of the above assumptions does not apply, stamp duty or SDRT may apply to transfers of Ordinary Shares at the rate of 0.5 per cent. of the amount or value of the consideration (rounded up in the case of stamp duty to the nearest £5).
- 13.5 *VCT*
- 13.5.1 Advance assurance has been sought and obtained from HMRC that the Company should be a "qualifying company" for the purpose of investment by VCTs.
  - 13.5.2 The qualifying status for VCT purposes will be contingent upon certain conditions being met by the Company and the relevant VCT investor. Neither the Company nor the

Company's advisers give any warranties or undertakings that VCT qualifying status will be available or that, if initially available, such status will not be subsequently withdrawn. Should the law change, then any qualifying status previously obtained may be lost.

- 13.5.3 Circumstances may arise (which may include the sale of the Company) where the Directors believe that the interests of the Company are not best served by acting in a way that preserves VCT qualifying status. In such circumstances, the Company cannot undertake to conduct its activities in a way designed to secure or preserve any such status claimed by any Shareholder.

### 13.6 EIS

- 13.6.1 The Company has applied for and obtained provisional assurance from HMRC that the new Ordinary Shares will be eligible for EIS purposes, subject to the submission of the relevant claim form in due course. The obtaining of such provisional assurance and submission of such a claim by the Company does not guarantee EIS qualification for an individual, whose claim for relief will be conditional upon his or her own circumstances and is subject to holding the shares throughout the relevant three year period.
- 13.6.2 The continuing status of the new Ordinary Shares as qualifying for EIS purposes will be conditional on qualifying conditions being satisfied throughout the relevant period of ownership.
- 13.6.3 Neither the Company nor the Directors give any warranty, representation or undertaking that any investment in the Company by way of EIS shares will remain a qualifying investment for EIS purposes.
- 13.6.4 The following provides an outline of the EIS tax reliefs available to individuals and trustee investors. Any potential investor should obtain independent advice from a professional adviser in relation to their own particular set of personal circumstances.
- 13.6.5 In summary, EIS relief may be available where a qualifying company issues new shares, the purpose of which is to raise money for a qualifying business activity. The EIS shares must be subscribed for in cash and be fully paid up at the date of issue and must be held, for three years after they were issued.
- 13.6.6 EIS income tax relief is available to individuals only — the current relief is 30 per cent. of the amount subscribed for EIS shares to be set against the individual's income tax liability for the tax year in which the EIS investment is made, and is available up to a maximum of £1,000,000 in EIS subscriptions per tax year. The relief is available for the tax year in which the shares are issued but, by election, shares may be treated as having been issued in the previous tax year. This relief is generally only available to individuals who are not connected with the Company in the period of two years prior to and three years after the subscription.
- 13.6.7 Very broadly, an individual is connected with the issuing company if (*inter alia*) he alone or together with his associates controls the Company or any subsidiary of the Company. Furthermore, the individual cannot hold a stake in the Company exceeding 30 per cent. of the Company's ordinary share capital, or 30 per cent. of the Company's issued share capital or 30 per cent. of the rights to assets on a winding up, or 30 per cent. of the voting rights, either personally or with his associates.
- 13.6.8 Where EIS income tax relief has been given and has not been withdrawn, any gain on the subsequent disposal of the shares in qualifying circumstances is generally free from CGT. CGT relief is also given for any allowable losses arising on the disposal of the shares (less any income tax relief already claimed on those shares) against either income or chargeable gains.

13.6.9 Individuals and trustees who have realised gains on other assets within one year before or up to three years after the EIS shares are issued, are able to defer a capital gains tax liability arising on those gains by making a claim to reinvest an amount of those gains against the cost of the EIS share subscription. Deferred gains will become chargeable on a disposal or deemed disposal of the EIS shares. In this case, the investor can be connected with the Company and obtain such capital gains tax deferral relief. CGT deferral relief will be denied in certain circumstances.

### 13.7 *Inheritance Tax*

13.7.1 The Ordinary Shares are assets situated in the UK for the purposes of UK inheritance tax. The gift of such shares by, or on the death of, an individual Shareholder may give rise to a liability of UK inheritance tax. Relief may be available where the Company meets all the relevant qualifying conditions for Business Property Relief to apply, provided that the shares have been held for the qualifying period (usually two years) prior to the event giving rise to inheritance tax.

13.7.2 Generally, United Kingdom inheritance tax is not chargeable on gifts to individuals if the transfer is made more than seven complete years prior to death of the donor. For inheritance tax purposes, a transfer of assets at less than full market value may be treated as a gift and particular rules apply to gifts where the donor reserves or retains some benefit. Special rules also apply to close companies and to trustees of settlements who hold Ordinary Shares, bringing them within the charge to inheritance tax. Holders of Ordinary Shares should consult an appropriate professional adviser if they make a gift of any kind or intend to hold any Ordinary Shares through such a company or trust arrangement, or in a situation where there is potential for a charge both to United Kingdom inheritance tax and to a similar tax in another jurisdiction, or if they are in any doubt about their United Kingdom inheritance tax position. Shareholders should consult their own tax advisers as to the inheritance tax implications of acquiring Ordinary Shares.

## 14. **Related Party Transactions**

14.1 Banjo Limited was formed in 2006 by Gerard Johnson and Chris Banks in order to supply their own manufacturing engineering services to Safran Nacelles. Over time, various contractors were supplied by Banjo Limited, with that company earning an administration charge for its services on top of the hourly rate charged by the relevant contractor. By 2012, when Jonathan Bridges joined the board of Banjo Limited and became a shareholder, there were up to six people supplied to Safran Nacelles at any one point in time, with contractors also being provided to Kaman Composites. The shareholders decided in 2015 to exit this business and gradually reduced the number of contractors being supplied. It was then decided in 2016 to wind the company up and it was struck off on 28 March 2017.

14.2 Mark Mills has historically provided services to the Company through Insurance and Legal Services Limited. Fees payable to this company for the provision of Mr Mills' services have been included in the aggregate remuneration for the directors for the last financial year as set out paragraph 6.2 of this Part V. Mr Mills no longer provides services to the Company in this way and has entered into a letter of appointment with the Company as summarised in paragraph 6.1.1 of this Part V.

14.3 Peter Turner has historically provided services to the Company through Theofano Interiors Limited. Fees payable to this company for the provision of Mr Turner's services have been included in the aggregate remuneration for the directors for the last financial year as set out paragraph 6.2 of this Part V. Mr Turner no longer provides services to the Company in this way and has entered into a letter of appointment with the Company as summarised in paragraph 6.1.4 of this Part V.

## **15. Other Information**

- 15.1 The accounting reference date of the Company is 31 October.
- 15.2 The fees and expenses of, and incidental to, the Admission are estimated at approximately £1.2 million (net of recoverable VAT). These include (but are not limited to) accountancy fees, solicitors fees and the fees of the Company's nominated adviser and broker.
- 15.3 Except for the Material Contracts referred to in paragraph 10 of this Part V, there are no contracts or agreements which are of fundamental importance to the Company's business.
- 15.4 Save as disclosed in this document, the Company is not dependent on any patents, licences, industrial or commercial or financial contracts or new manufacturing processes which have a material effect on the Company's business or profitability.
- 15.5 None of the Directors perform any principal activities outside the Company that are significant with respect to the Company.
- 15.6 Except as stated in this document, there have been no principal investments made by the Company during the last three financial years and there are no principal future investments on which firm commitments have been made.
- 15.7 Except as otherwise stated in this document and save as set out below, no person (excluding professional advisers named in the Admission Document and trade suppliers) has received, directly or indirectly, from the Company within the 12 months preceding the Company's application to AIM, or has entered into any contractual arrangements with the Company to receive, directly or indirectly, from the Company on or after Admission fees totalling £10,000 or more, securities which have a value of £10,000 or more or any other benefit with a value of £10,000 or more at the date of Admission.
- 15.8 Grant Thornton UK LLP has given and not withdrawn its written consent to the inclusion in this document of its report at Part III and references to it in the form and context in which it appears.
- 15.9 Grant Thornton UK LLP is registered with the Institute of Chartered Accountants in England and Wales to carry out audit work.
- 15.10 finnCap, as nominated adviser and broker to the Company, has given and not withdrawn its written consent to the issue of this document with the inclusion in it of references to its name in the form and context in which it appears.
- 15.11 Save as otherwise disclosed in this Admission Document, there has been no significant change in the financial or trading position of the Company since 31 October 2016, being the date to which the financial information set out in Part III of this Admission Document was prepared.
- 15.12 Save as disclosed in this document, there are no environmental issues that the Directors have determined may affect the Company's utilisation of tangible fixed assets and the Directors have not identified any events that have occurred since the end of the last financial year and which are considered to be likely to have a material effect on the Company's prospects for the current financial year.
- 15.13 The financial information relating to the Company contained in this document does not comprise statutory accounts for the purposes of section 431 of the Act.
- 15.14 Where information has been sourced from a third party, the Company confirms that the information has been accurately reproduced and that as far as it is aware and is able to ascertain from the information published by those third parties, no facts have been omitted which would render the information produced inaccurate or misleading.

15.15 The Placing Price of 85 pence represents a premium of approximately 84.75 pence to the 0.25 pence nominal value of an Ordinary Share.

#### **16. Documents Available For Inspection**

Copies of the following documents will be available for inspection at the offices of DWF LLP during normal business hours on any weekdays (Saturdays and Public Holidays excepted) for 30 days from the date of Admission:

16.1 Articles of Association of the Company;

16.2 the Accountants' Report set out in Part III of this document;

16.3 the consent letters from the Company's advisers referred to in paragraph 15 of this Part V.

#### **17. Availability of this Document**

Copies of this document will be available free of charge to the public on any weekday (Saturdays, Sundays and public holidays excepted) for a period of one month from the date of Admission at the Company's offices and the offices of DWF LLP, the Company's legal advisers, the addresses of which are disclosed on page 5 of this document.

**Head office**

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