Hardide plc

Hardide plc Annual Report

2016

Hardide plc is the leading global innovator and provider of advanced tungsten carbide coatings that significantly increase the working life of critical metal components operating in abrasive, erosive, corrosive and chemically aggressive environments.

Hardide™ is a family of nanostructured and patented, low temperature CVD (chemical vapour deposition) coatings which provide exceptional wear and corrosion resistance and uniquely combine extreme toughness with ductility. Our coatings are 'value-adding' to components and lower operational costs by reducing downtime, increasing productivity and improving performance. They can be precision applied to external and internal surfaces including complex geometries, enabling a level of engineering design flexibility not possible with alternative technologies.

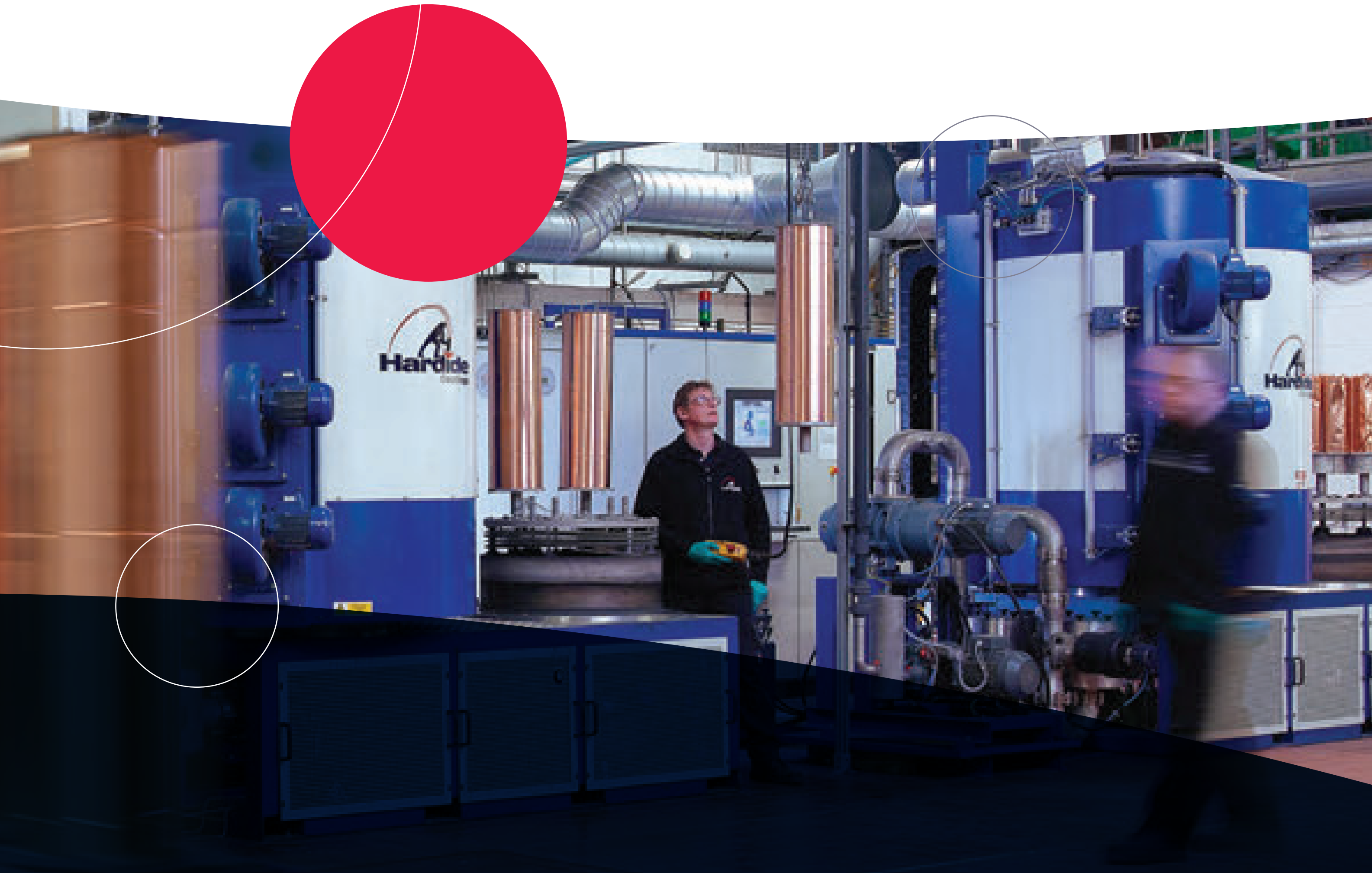
Hardide surface engineering technology transforms the way that parts perform under severe service conditions. Previously, levels of friction, abrasion and aggressive chemical attack have led to part failure, downtime and extreme cost. Our coatings are enabling customers in high wear/high value industries including oil and gas drilling and production, aerospace, flow control, power generation and precision engineering to optimise part life, improve product performance and make significant operating cost savings. The Company has production facilities in Oxfordshire, UK and Virginia, USA.

Contents

Key Points

Financial

- Sales of £2.14m (2015: £3.00m). Affected by the oil and gas downturn as expected
- Sales in H2 25% ahead of H1. Signs of slow recovery from existing oil and gas customers and conversion of new opportunities
- Gross profit of £0.69m (2015: £1.81m)
- Group operating loss of £1.47m (2015: loss of £0.22m)
- Loss before interest, tax, depreciation and amortisation of £1.30m (2015: loss of £0.33m), before crediting reversal of fixed asset impairment and release of provision
- Successful fundraising of £1.60m completed during September 2016. Enables implementation of growth plans
- Cash at bank at 30 September 2016 of £1.97m



Business/Operational

- Good progress made towards increasing aerospace business
- US coatings facility now operational and generating regular revenue
- Increasing sales in precision engineering - up 126% from prior year
- Board expects growth in both aerospace and precision engineering markets and a slow return in oil and gas activity to contribute towards improved performance in 2017
- Costs reduced in response to lower orders from the oil and gas sector

Chairman's and CEO's Report

Introduction

In common with most companies operating in the oil and gas sector, over the last 18 months Hardide's revenue was adversely affected by the longest and most severe downturn in global oil and gas activity in decades. The Group is reporting full year sales of £2.14m (2015: £3.00m), primarily reflecting the fall in demand from customers in oil and gas exploration drilling. In response to this industry-wide slump, the Company took a number of actions throughout the year to cut costs and limit cash outflow. This was achieved while completing the new US coatings facility in Virginia, which became operational in February 2016.

H2 saw a 25% improvement in sales over H1, with sales to customers in oil and gas and precision engineering sectors both rising by over 50%. Indications from major oil and gas customers are that the bottom of the cycle has been reached, the oil market is close to balance and so drilling activity is expected to pick up in 2017.

Significant progress was made with our strategic plan to develop the aerospace market with technical approval by Airbus of the coating in late 2015. Our new, highly-experienced aerospace business development manager is successfully identifying further applications with potential new customers and a number of new test programmes are underway. Also, after a lengthy development programme, sales commenced to the manufacturer of a new type of high-speed X-ray screening machine for airport baggage. We expect that sales for this ground-breaking aviation security technology will grow in line with its adoption and demand for the coating will rise. Even during this oil and gas downturn, many new applications have come to us from engineers in the sector as they become increasingly aware of the potential for Hardide coatings to further improve tool life, efficiency and reduce operating costs.

A placing of 200,202,000 new ordinary shares at 0.8p per share was completed during September 2016 and raised £1.60m (gross). The proceeds are to be used to invest in a range of projects and activities that the board believes will enhance shareholder value.

Financial Results

The Company generated total sales of £2.14m in the year ended 30 September 2016. This compares with £3.00m for the prior year, with the slowdown in the global oil and gas sector beginning in H2 2015 and continuing throughout 2016. Some signs of a pick-up have emerged recently and our key oil and gas customers are signalling that they expect a slow recovery as 2017 progresses.

Gross profit for the year decreased to £0.69m (2015: £1.81m) and gross margin reduced to 32% (2015: 60%). This sharp reduction was due mainly to the mix of product being processed and the fixed nature of production salaries. In addition, managing component manufacturing for a growing customer, Virginia site validation and the recruitment of additional production staff in Virginia also depressed percentage margins.

After accounting for the reversal of fixed asset impairment and the release of provision, the Company incurred an operating loss of £1.47m (2015: loss of £0.22m). The impairment reversal related to the redeployment of plant in the US which had previously been written off; and the release of a provision that covered the final months of the lease on the Group's former site in Houston, which we fully-exited in October 2015. The loss before interest, tax, depreciation and amortisation was £1.30m (2015: £0.33m loss). Cash grants of £0.18m were received from the Martinsville Henry County Economic Development Corporation and the Commonwealth of Virginia.

On the balance sheet, net assets at 30 September 2016 were £4.38m (2015: £3.86m). This included a cash balance of £1.97m (2015: £2.33m). Final one-off capex costs of £0.60m were incurred in completing the installation and commissioning of the Virginia facility. Capital expenditure for the Group totalled £0.66m.

Operational Overview

Customers and Markets

The diversification of our customer and market base remains an important strategic goal. Over the year, we made good progress in increasing sales to customers in the precision engineering sector. These rose 126%, with volume orders being received for components for the new airport X-ray baggage screening machine.

Significant headway was made with Airbus, with the coating being technically approved for use as an alternative to hard chrome plating by design engineers and the sub-contractor network. Life-testing of the coating on specific high-volume Airbus A320 components is now underway, with commercial discussions taking place regarding these and other volume components for both single-aisle and wide-body aircraft. Announcements of further progress are expected during 2017.

The dramatic drop in exploration and drilling by our customers in the oil and gas and flow control sectors, both in the UK and North America, resulted in falls in revenue of 47% and 17% respectively. During the year, we worked closely with a major oil service company in North America to enhance the performance of an onshore hydraulic fracturing tool. The technology is now proven and we expect a strengthening of demand from this customer as North American onshore drilling activity continues to rise. The Baker-Hughes rig count, an accepted measure of the state of the North American drilling industry, has shown encouraging month-on-month increases since March 2016. After extensive testing and trials, the coating was specified by a major global manufacturer for a series of subsea flow control applications and first orders are now being received for these components. For the first time, the Company's sales to North America exceeded those to the UK.

The take-or-pay supply agreement with GE, which had an original term of two years but as has been previously announced was extended to three years, expires at the end of February 2017. GE has indicated that they expect to be left with an excess of inventory due to reduced customer demand from the oil and gas sector. As expected by Hardide management, GE needs time to reduce this overstocking before re-ordering. Clearly, how long that takes will depend upon their rate of usage. We have current orders in production that will complete the contract by February 2017. GE has made clear that the coating has been very successful and as a result they have now standardised on use of the coating on all variants of their product and will resume ordering as soon as their current inventory levels have reduced.

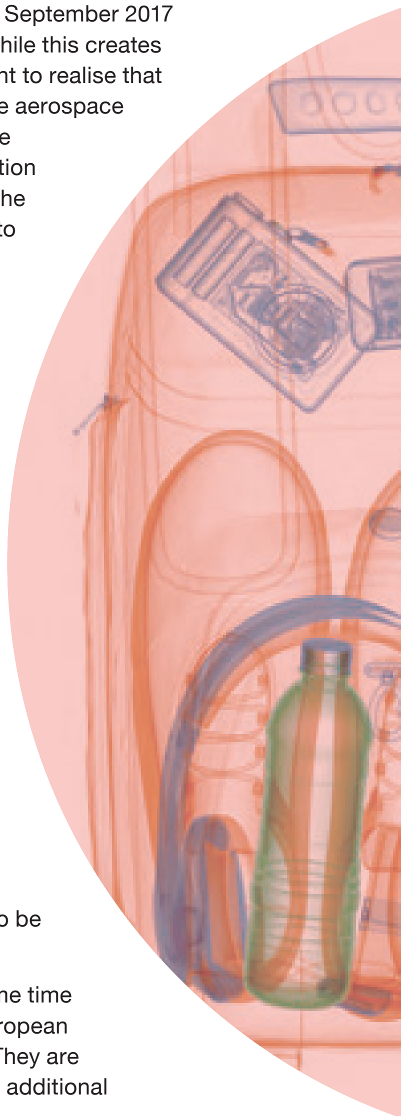
To raise awareness further in new geographies and industries, a programme of presentations of technical papers at prestigious international industry conferences was undertaken by Hardide's technical director. In July, we exhibited at the Farnborough International Airshow where some promising new customer contacts were made.

Major New Customer Trials and Industry Accreditations

The Hardide coating has been technically approved by Airbus and Leonardo Helicopters (formerly AgustaWestland) as a replacement for hard chrome plating (HCP). The HCP process uses hexavalent chrome, which has a sunset date of 21 September 2017 imposed by EU REACh regulations. While this creates opportunities for Hardide, it is important to realise that demand for Hardide coatings within the aerospace sector is not limited to just hard chrome replacement. For example, the application of Hardide coating to components on the Eurofighter Typhoon aircraft is related to its anti-galling properties. Also, the coating is currently being tested as an alternative to HCP, HVOF (high velocity oxy-fuel) and other hard coatings in several aerospace companies in Europe and North America.

The component testing programme with Leonardo Helicopters has progressed much more slowly than expected. This has been due to the unavailability of the customer's highly-specialised rig used to test these safety-critical components. It is now expected that the tests will begin in early 2017. Post-period we received new parts from this customer for coating and testing. These are for less-critical applications, which do not need the specialised rig and so we expect the testing of them to be quicker.

Trials have also been underway for some time on hydraulic actuators with a major European manufacturer of aircraft landing gear. They are now considering the use of Hardide on additional components.



For some while now, industries traditionally using hard chrome have been lobbying the EU for an extension of the REACh sunset date. Part of their argument for this has been the difficulty that a ban on HCP would present for replacement parts for aircraft no longer in production. The Company has been in dialogue with its aerospace customers for some time about the possible extension and as a result we are confident that if the seven-year extension now proposed by the European Chemicals Agency is accepted by the European parliament, it will have no material impact on our progress in the aerospace markets. None of our aerospace test programmes or current revenue opportunities are for ‘legacy’ parts and none are expected to be affected by any deferral of the sunset date.

In November 2015, Hardide Coatings Ltd passed its triennial re-certification audit for the aerospace AS9100:Rev C and ISO9001 quality management systems. During the year, we also upgraded our environmental certification to the new ISO14001:2015 standard. Certification of the facility in Virginia is intended to take place in 2017. For some time now we have been preparing for the aerospace industry’s global accreditation standard, Nadcap. Audit of the Bicester site has been scheduled by the assessors for the second quarter of calendar 2017.

Production, Technology, Research & Development

The new production facility in Virginia became production-ready in February 2016 and is now integral to supporting sales to North America. Additional production personnel were recruited in Virginia, bringing the US headcount there to seven. Led by a team from the UK, procurement, installation and commissioning of equipment was managed smoothly within time and budget. Validation of the production process by major US customers took several months and the site is now approved for production and is producing regular revenue.

The UK-based technical team was strengthened by the recruitment of a R&D engineer and the total number of staff in the UK was reduced during the year to better align with sales revenues.

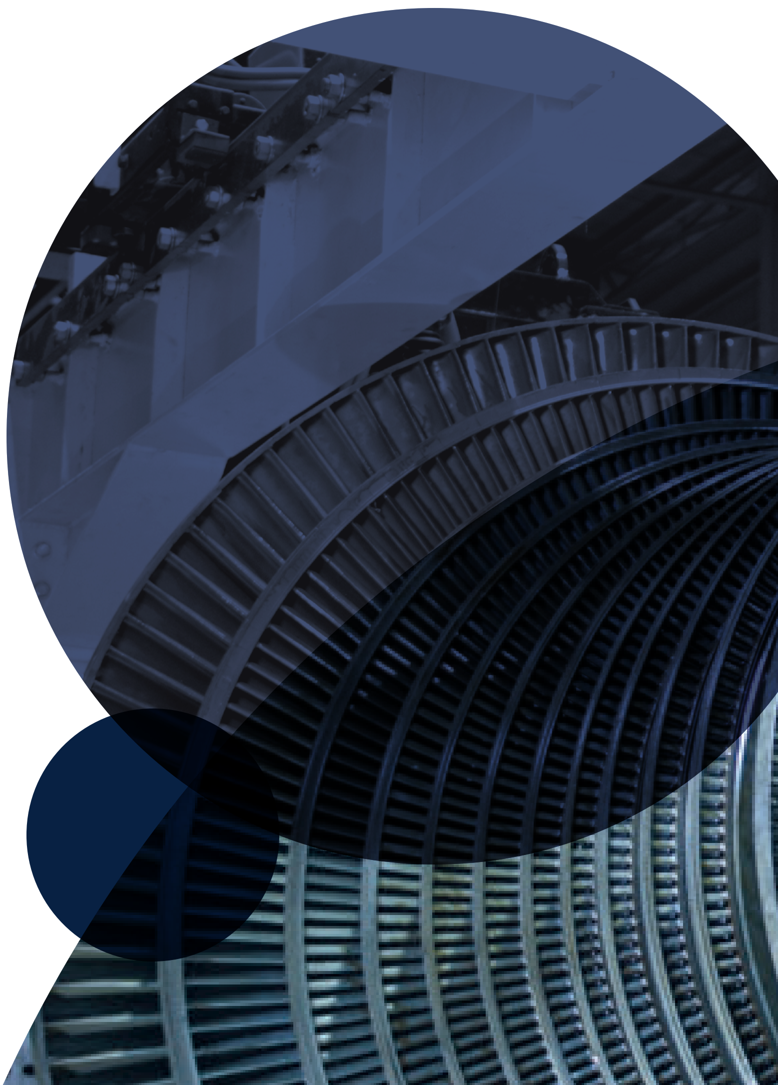
The Group continued with various test programmes aimed at developing further potential new applications. These programmes include both in-house and third-party projects.

Intellectual Property

The IP committee met quarterly to review the IP portfolio. During the year, a US patent was granted for the coating for industrial diamonds, a process that enables their secure bonding to metallic substrates. Research continues into the development of new coating variants, and if successful these will strengthen and widen the Group’s IP portfolio.

Brexit Effect

To the extent that it can predict the effects of Brexit, the Group expects no particular negative effects on its business and is currently benefitting modestly from the weaker pound, more than 50% of its revenue being denominated in US dollars. None of the existing development programmes with customers should be adversely affected.



Strategy

Hardide's coatings are technologically advanced and can convey considerable commercial advantage by helping to solve complex and difficult engineering problems. Our coatings provide a unique combination of advantageous physical properties and enhance the range of many other companies' offerings. While the acceptance process for a new application is typically long and involved, particularly for large customers, there is significant potential for long-term revenues once Hardide's technology is adopted and embedded in a design.

The board continues to maintain its positive view of the Company's potential for growth and accordingly will continue to invest in marketing, business development, R&D and process development so as to grow revenue and gross profit. Presently, this has to be considered in the light of the longest downturn for over 20 years in our current main market of oil and gas, and a commercial landscape with low visibility. Nonetheless, the board is confident in the medium and longer-term outlook and encouraged by the progress being made in diversifying and developing the customer base. The Group will use its new production base in the US to develop North American business across multiple market sectors and we will expand our presence in selected European markets. The civil aerospace market represents a significant growth potential for our coating range, as do new applications in the oil and gas sector. We are also targeting expansion in other precision engineering sectors.

At all times, the Group aims to operate in a safe, environmentally-conscious and socially-responsible manner, valuing its employees' contributions.

Outlook

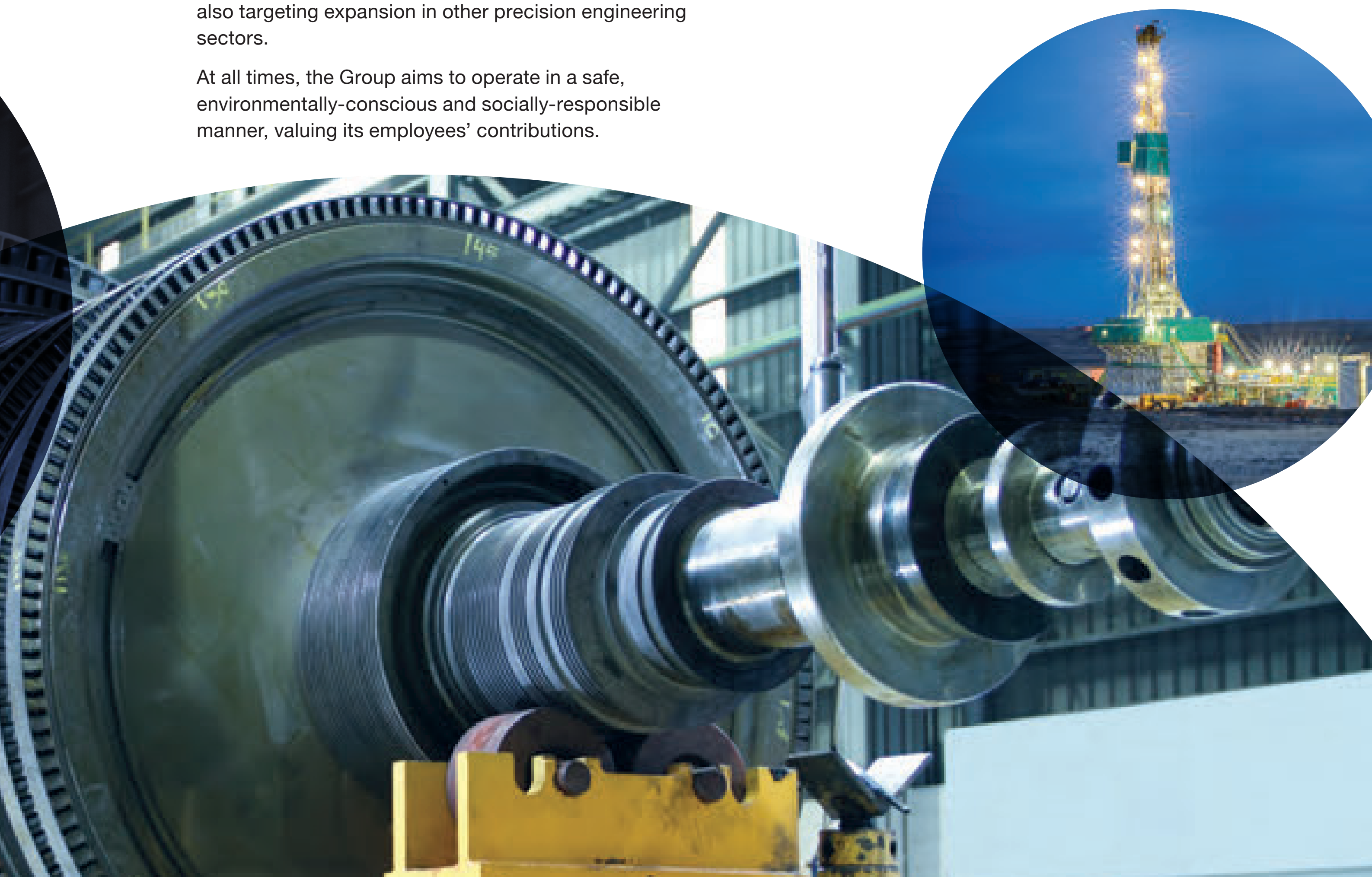
Visibility from our oil and gas customers remains limited as the industry adjusts to the lower oil price. However, current market indications give the board confidence that demand will slowly return during 2017 as drilling activity picks up. The Company is well-positioned to benefit when this happens. The board is further encouraged by progress with the North American fracking tool manufacturer referred to earlier and is optimistic about potential opportunities when the sector recovers.

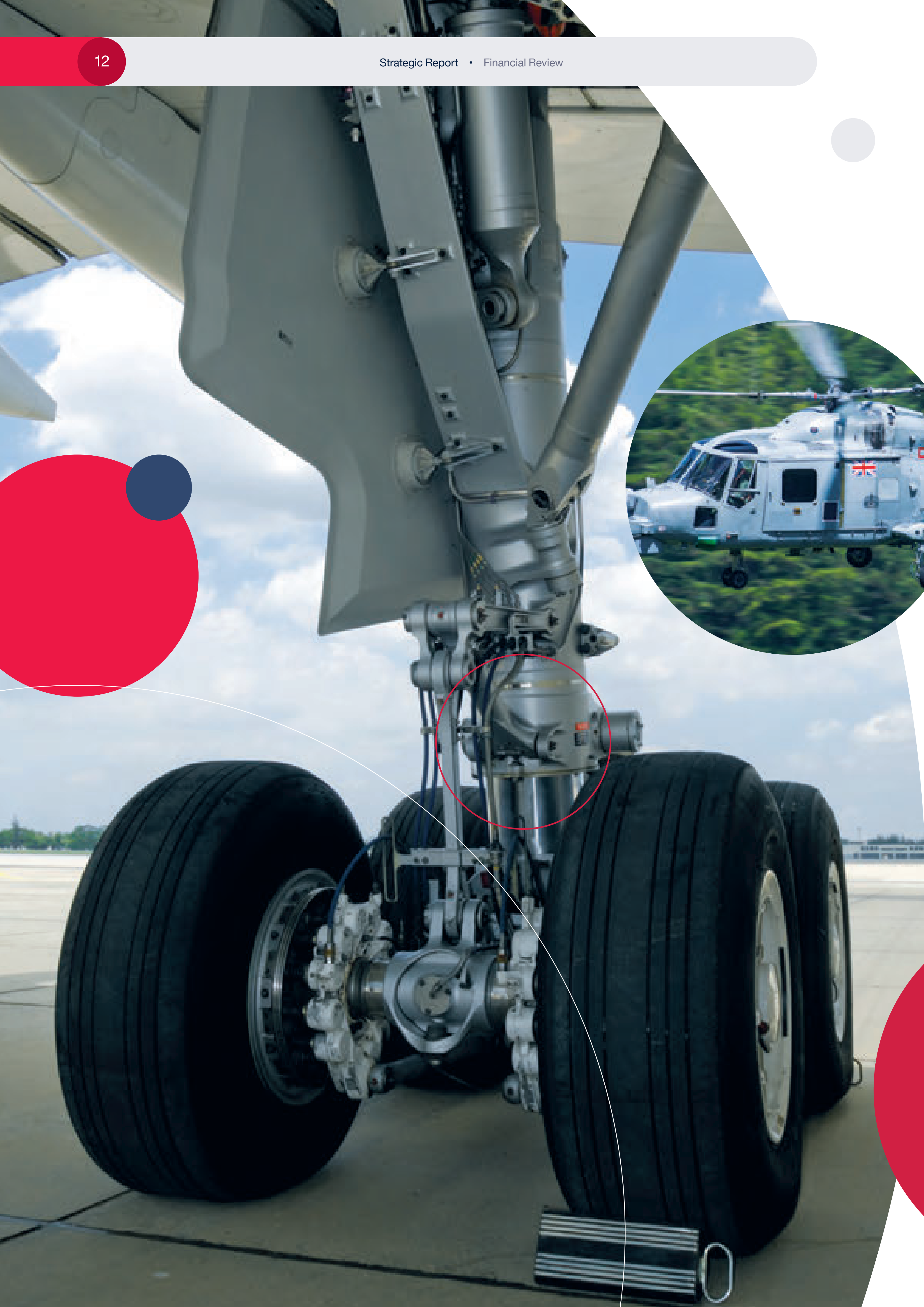
We are in the early stages of growth with our X-ray machine customer and are moving forward with commercial discussions with Airbus and tests on new applications with Leonardo Helicopters and several aerospace component manufacturers.

Our balance sheet is sound and costs are under tight control. Based on the progress of customers' tests and the range of strategic development projects underway, the board is positive about the medium and longer term prospects for the Group.

Robert Goddard
Chairman
16 January 2017

Philip Kirkham
CEO
16 January 2017





Financial Review

Although total sales revenue fell by 29%, costs of sales actually increased year on year by £259k, leading to a reduction in gross profit of £1,120k to £685k. The majority of this cost increase related to the Virginia operation as we increased headcount and conducted customer validation tests ahead of the start of production. We also incurred increased subcontract manufacturing costs due to full component supply to one growing customer. Moreover, sales mix in the year was skewed away from the higher-margin products.

Compared with the previous year, Group administration costs were reduced by £141k. Net overheads relating to the Virginia facility increased by £158k; made up of cost increases of £30k and reduction in grants received of £128k. UK overheads fell as we targeted all areas of discretionary spend to cut non-essential costs, but maintained expenditure on sales, marketing and R&D in order to be prepared for future growth in sales. Overhead costs relating to the Group's mothballed Houston facility reduced significantly.

While overall Group headcount increased due to recruitment in Virginia and some UK sales and R&D personnel, UK production and administration headcount fell by five as a result of selective redundancies and not replacing leavers, as we adjusted our cost base in light of the fall in revenue.

We took advantage of spare production capacity by increasing research and development work, hence the increase in R&D tax credit to £121k.

The lease on our former Houston facility was terminated at the end of November 2015. We had previously provided for the lease payments up to the date of termination, and the final £23k of this provision was released in this financial year. In previous years, the net book value of the equipment remaining at Houston had been impaired because of uncertainty about its future use. Some of this equipment was relocated to our new Virginia plant and £232k of the previous impairment charge on those items was reversed. The remaining Houston fixed assets were written off, as detailed in Note 11 to the accounts and related to specialist fixtures, fixed installations, computer equipment and leasehold improvements.

With over half of the Group sales revenue denominated in US dollars, the exchange rate movement towards the end of the year meant a credit to the P&L of £31k. The change in exchange rate of sterling with dollar also meant an increase in the cost price and net book value of the Group's fixed assets in Virginia.

Peter Davenport
Finance Director

Strategic Review

Overview

The board retains its view that the value of the Company will be maximised by increasing the number of, and sales revenue from, high-value applications to customers where the coating provides excellent performance benefits over competing products. It is intended to achieve this by additional marketing effort and continuing work on a number of long-duration development programmes with high potential. These include the coating variant to replace hard chromium plating in the aerospace and other industries and the use of the newly-patented coating variant for industrial diamonds in high-performance cutting and abrasive tools. We will continue to work to develop useful variants of the coating that are sufficiently distinct to enable them to be patented. The Board believes that it is reasonable to expect the Hardide range would be a very attractive addition to fill a gap in the ranges that some of the larger players offer to their customers.

Substantial opportunities for new applications and new customers or sectors often take years to develop. However, once qualified, the volumes and margins for the coating from these sources can be very attractive. It is important therefore that the Company has a strong balance sheet and a healthy cash position to enable it to continue making revenue investment for the medium to long term.

Historically, the Company has been very exposed to a small number of customers and markets, and fall back in demand from these has often presented considerable difficulties. Recently, further progress has been made in widening our sector, customer and product base. Even so, yet greater diversification is still highly desirable and is being actively pursued. Sales to the aerospace industry will help considerably to balance and smooth demand; as will sales to the precision engineering sector.

Production

The successful establishment this year of a new coatings facility in the US serves two important strategic purposes. First, production in the US enables the Company to address a substantial part of the large North American market that would otherwise not be accessible to us. Second, a geographically-separate production facility provides the needed security of supply for customers who have effectively 'designed-in' Hardide for critical components and where there is no alternative to Hardide.

Most growth in demand is expected to arise in North America and the premises housing our US production facility allow for considerable expansion of capacity. There are no plans at present to create further new coating facilities in other geographies.

Marketing

Although Hardide's coating has wide applicability in many industry sectors, it is a niche, problem-solving product. As such, and being fairly novel, is not nearly as well-known as other, established coatings. Indeed, potential specifiers and users encountered at conferences and trade fairs often report that they had until then been unaware of Hardide. The need to raise awareness among potential users is of continuing importance and has been recognised by the Company for many years. High-level technical presentations, digital campaigns, attendance at trade fairs and a range of media such as the trade press continue to be used to the full extent that resources permit.

Of course, our business development managers do make contact with potential users who have not signalled an interest but unless they have an immediate need for Hardide's product they will not seek to learn about its properties. Instead, business development staff are mostly concerned with following up interest expressed by potential users who have an identified and immediate need.

The customer and sector diversification element of the Company's strategy remains in place and there has been further success this year with substantial sales of coated components to a UK manufacturer of a new high-speed baggage scanner. There is high potential for worldwide sales of this product.

Geographically, we will continue with our push into the major European 'high-end' manufacturing markets; particularly Germany, Switzerland and Italy. In North America we are concentrating on building demand that will be met by our new US production facility.

Product ranges, customers and market characteristics

The Company classifies its applications for use in five sectors. These are: Oil and Gas (both exploration and production), Aerospace, Flow Control, Power Generation and Precision Engineering. Since Hardide is a unique product and somewhat 'niche', estimates of market size are hard to make. Despite that, and beginning with the aerospace industry, we have recently commissioned external market research to help us understand addressable market size and improve targeting.

Oil and gas

Historically, this has been the dominant sector for Hardide and may remain so. However, overall demand is highly cyclical and our customers within it have been very concentrated. Determined development work by the Company in this sector has resulted recently in very promising prospects for gaining new, significant customers. Moreover, the conditions in which new oil and gas reserves are found are increasingly abrasive, erosive and corrosive and so present more opportunities for Hardide in an industry where long-term growth in demand is still forecast.

Customers in the oil and gas industry are famously secretive and our agreements with them prevent the Company from publicising the coating's use. This feature makes development of new customers much harder than it otherwise would be.

Aerospace

The aerospace industry is much more open and we are using the technical approval by Airbus for Hardide to promote the coating to a range of other aerospace manufacturers. Though not as large a market in total as oil and gas, it is expected to grow significantly.

The aerospace industry is notoriously difficult to penetrate with new products but once that is done, sales are relatively predictable, consistent and likely to be sustained over a longer period.

Flow control

The use of high performance coatings for severe-service pumps and valves tends to be project-based and therefore demand is uneven and is also somewhat dependent upon demand from oil and gas customers. Nonetheless the sector is important to the Company and we will continue to develop it.

Power generation

We are partnering on long-term projects with manufacturers of steam and gas turbines, where use of the coating can prevent erosion, increase operating efficiency and reduce maintenance costs. If successful, this would result in substantial sales over a sustained period.

Precision engineering

Here, the potential market size is considerable but highly fragmented. We intend to build on the recent successful sales of components for high-speed x-ray scanners and tooling for plastics processing; together with a range of new opportunities that have been identified.

Risk

The proportion of sales made to a few major customers remains high. However, good progress has been made recently in developing significant new accounts and substantial further new applications for Hardide are in trials.

The Group's exposure to the oil and gas industry means that we suffer from volatile demand within this sector. The high proportion of essentially-fixed costs in the business means that a rise or fall in sales has significant impact on profitability.

In the past, cessation or delay of customers' test programmes has inhibited the Company's growth. While this is now less acute than in the past, it may still affect the rate of growth of the Company and so may be viewed as a risk. The Group has little or no influence over the duration of testing, which nearly always takes longer than originally projected by the customer. It is common for test programmes to take several years to complete, particularly in safety-critical applications such as aerospace. It is also a risk that significant application development time is spent on test programmes that do not result in sales, or on programmes that get postponed due to budgetary constraints or changes to customers' priorities. We mitigate this risk by trying to establish as early as possible the likelihood of a customer test programme coming to fruition and that the potential commercial opportunities for Hardide justifies embarking on the programme in the first place.

Loss of key technical personnel is a risk for the Group. In October 2015, a new technical R&D engineer was appointed and an HR strategy to address the long-term recruitment, development and retention of staff is being implemented.

The board has speculated about various degrees of 'Brexit' and the effect they might have on the Company. These include the effect on currency exchange rates. Now with its production facility in the US, the Group has a partial hedge against the GBP:USD rate of exchange. A global economic decline stemming from Brexit seems unlikely but were that to occur, the demand for hydrocarbons would be held back and as a result so would the demand for Hardide in this sector and possibly others.

Certain process gases are key to the Hardide technology and their origin being outside Europe brings the risk of disruption to supplies to the UK plant due to various factors. We mitigate this potential risk by having in place supply contracts and arrangements that include an element of 'buffer stock' held within the UK and Europe. This risk is very low for the US facility due to the presence there of multiple suppliers and local production.

A major incident could lead to the closure of the coating plant in the UK, resulting in a disruption to service. All operations are carried out to relevant ISO9001/AS9100 and ISO14001 standards, equipment is maintained to a planned schedule, processes of continuous improvement and '5S' are operating and robust health and safety systems are in place. An additional electricity supply feed has been installed into the UK site to reduce the risk of disruption to the coating reactors. A business continuity plan is in place which includes duality of production capability across the UK and US plants.

At all times, the Group aims to achieve success in a safe, environmentally-conscious and socially-responsible manner.

Cash

Completion of the new facility in the US, the extended approval process by Airbus and others, plans for operational and marketing development and the severe collapse in demand from our oil and gas customers necessitated a placing of new equity in the summer of this year. As a result, there is now a much stronger cash position and some delayed technical and market development programmes can now be resumed.


unbeatable fuel efficiency
A321 AIRBUS

Board of Directors

Robert John Goddard

Chairman

Robert Goddard (65) joined the board as Non-Executive Chairman in January 2008. A chartered engineer, Robert was on the board of Burmah Castrol until March 2000 as Group Development Director having previously managed its worldwide fuels business and a substantial part of its chemicals business. He subsequently joined Amberley Group plc in November 2000 as Chief Executive, where he turned around its four speciality chemical subsidiaries. More recently he has undertaken a number of advisory and turnaround assignments. In addition, he is Chairman of AIM-quoted Universe Group plc. He is an active investor in, and supporter of a number of early-stage technology companies. Robert chairs the Risk Committee and the Audit Committee and is a member of the IP Committee.

Philip David Kirkham

Chief Executive Officer

Philip Kirkham (63) was appointed Chief Executive Officer in September 2012. Before joining Hardide, since 2008, he was CEO of private equity backed Material Advantage Group which supplies machined metal components to the oil and gas industry. Previously he held senior management positions at Firth Rixson Ltd and Rolls-Royce plc. Philip is a chartered engineer and a European engineer (Eur Ing) with a BSc in Chemical Engineering and an MSc in Advanced Manufacturing Management. He is a fellow of both the Institution of Mechanical Engineers and the Institution of Engineering and Technology. Philip is a member of the Risk Committee and of the IP Committee.

Peter Neil Davenport

Finance Director

Peter Davenport (50) joined Hardide as Financial Controller in June 2005 and was appointed Finance Director in March 2006. He is an associate of the Chartered Institute of Management Accountants, with a BA in Geography from Oxford University and an MSc in Environmental Science from Oxford Polytechnic, as well as holding a Certificate in School Business Management. Peter trained as an accountant with the Royal Mail and worked for Parcelforce Worldwide for five years before joining the UK subsidiary of global coatings company Valspar. Peter is a member of the Risk Committee.

Dr Yuri Nikolaevich Zhuk

Technical Director

Dr Yuri Zhuk (55) is a co-founder of Hardide plc and is currently responsible for the company's technology, R&D, patenting, production improvement and applications development programmes. Dr Zhuk started his career as a scientist and later became a technology entrepreneur gaining over 20 years of successful international technology business experience. He holds an MSc (with Distinction) in Physics and a PhD degree in Plasma Physics and Chemistry from the Lomonosov Moscow State University, and an MBA from the UK Open University. He is the author of several patents and scientific and technical publications, and has presented Hardide at leading international conferences. Yuri chairs the IP Committee.

Andrew Richard Boyce

Non-Executive Director

Andrew Boyce (54) joined the board of Hardide plc in June 2012. Andrew represents a family shareholding with a 17.4% interest in the Group's issued share capital: the family having been an investor in the Group since 2003. Since 1987, Andrew has been involved in the management and growth of numerous family businesses. These encompass farming, property and other commercial activities. After graduating in 1984 with a Diploma in Agriculture and Estate Management from the Royal Agricultural College, Cirencester, Andrew worked in commercial property sales and lettings, and development site appraisals and acquisitions. Andrew chairs the Remuneration and Nomination Committee and is a member of the Audit Committee.

Janice Elizabeth Ward

Non-Executive Director

Jan Ward CBE (59) joined the board of Hardide plc in March 2015. Jan is the CEO and co-founder of Corrotherm International, a supplier of specialist metals for critical applications in the energy and aerospace sectors. She has over 30 years' experience in industry and over 25 years at Board level. Jan holds a number of business appointments and is the winner of several prestigious business awards. She holds a BSc in Mechanical Engineering and is a Fellow of the Institute of Directors and of the Royal Society for Encouragement of Arts, Manufactures and Commerce. She was named a CBE in the 2015 New Year's Honours list for services to business and was awarded an Honorary Doctorate of Engineering by Southampton Solent University in 2015. Jan is a member of the Remuneration and Nomination Committee.

Report of the Directors

Results

The Group loss for the period, after taxation, amounted to £1,341,000 (2015: £116,000 loss).

Directors

The present membership of the Board is set out on page 18, and changes to the board and the beneficial interests of the directors and their families in the shares of the company are shown below.

	Appointed	Resigned	30 September 2016 Number of shares	30 September 2015 Number of shares
Robert Goddard	28 January 2008		6,723,050	4,223,050
Andrew Boyce	18 June 2012		-	-
Janice Ward	2 March 2015		1,250,000	-
Philip Kirkham	1 September 2012		2,004,717	754,717
Yuri Zhuk	14 March 2005		6,281,132	5,031,132
Peter Davenport	21 March 2006		4,376,667	3,126,667

Although Andrew Boyce holds no shares in his own name, he represents family and trust holdings totalling 266,546,226 shares. No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the company's business.

Directors' Interests in Share Options

The company has share option schemes under the terms of which certain directors are able to subscribe for ordinary shares in the company. Details of the directors' interests in share options are shown in Note 17 to the Group accounts.

Directors' Responsibilities for the Financial Statements

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

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

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

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

The directors are responsible for the maintenance and integrity of corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Statement of disclosure of information to auditors

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the company's auditor is unaware, and
- the director has taken all steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the auditors are aware of that information.

Financial Risk Management Objectives and Policies

The Group uses various financial instruments including finance leases, equity and cash and various items, such as trade debtors and trade creditors that arise directly from its operations. The main purpose of these financial instruments is to raise finance for the Group's operations. The existence of these financial instruments exposes the Group to a number of financial risks. Financial risk management is undertaken by the board's Risk Management committee, further details about which appear on page 24.

Going Concern

The directors consider it appropriate to adopt the going concern basis of accounting for these accounts, and have assessed that the company will continue to be able to do so in the future. In making this assessment, the directors have considered all available information and have not identified any material uncertainties that cast doubt upon the continuing use of the going concern basis.

Longer Term Viability

The directors have assessed the prospects of the company, and the risks facing it, both as described more fully in the Strategic Report, and in their judgment there is a reasonable expectation that the company will be able to continue in operation and meet its liabilities in full as they fall due.

Substantial Shareholders

At 30 September 2016 the following shareholders had a disclosable interest in 3% or more of the nominal value of the Company's shares:

Name	Shareholding	%
R Boyce & Associates	266,546,226	17.4
A Badenoch & Associates	248,550,000	16.2
Amati Global Investors Ltd	144,277,219	9.4
Hargreave Hale AIM VCT PLC	96,055,000	6.3
Unicorn Asset Management Ltd	62,500,100	4.1
WSC Richards, OBE	56,913,000	3.7
Peter Lobbenberg, esq	47,500,000	3.1

Payment Policy and Practice

It is the company's policy that payments to suppliers are made at the start of the second month following the date of invoice, unless other arrangements have been agreed. At 30 September 2016 the Group had an average of 67 days outstanding in trade creditors (2015: 57 days).

Robert Goddard
Director

Corporate Governance Statement

The Corporate Governance Code, April 2016 (the 'Code') and the 2014 Requirements for the 'Strategic Report'

Though full compliance with the Code is not mandatory for Hardide, it is the policy of the board to adopt its principles and comply with its guidelines wherever practicable and helpful. The small size of the Company and its current stage of development mean that it would not be sensible or possible to adhere to a number of the guidelines in the Code. In addition to summarising its Corporate Governance procedures, the following statement also sets out some aspects of the Code with which the Company does not comply and explains why it does not or in some cases complies with the spirit of the Code by some other means.

The Company's board is aware of the 2014 requirements for the Strategic Report and supports the spirit of these and where it considers it helpful to shareholders it has adopted this approach in the text of this annual report. However, again given the size of the Company and its relative lack of complexity, the board has not decided to comply in all respects with each requirement.

The Role of the Board

During the year, programmed board meetings were held each month, with committee meetings scheduled quarterly or called as required. Directors' attendance at these meetings was as follows:

	Full Board		Audit Committee		Intellectual Property Committee		Risk Committee		Remuneration & Nomination Committee	
Director	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
R J Goddard	12	12	3	3	4	4	4	4	-	-
P D Kirkham	12	12	-	-	4	4	4	4	-	-
P N Davenport	12	12	-	-	-	-	4	4	-	-
Y N Zhuk	12	12	-	-	4	4	-	-	-	-
A R Boyce	12	12	3	3	-	-	-	-	8	8
J E Ward	12	12	-	-	-	-	-	-	8	8

In addition, directors who were not members of a committee at the date of its meeting, (R J Goddard, P D Kirkham, P N Davenport) attended by invitation some parts of the meetings of the Audit, and Remuneration and Nomination Committees

There are four board Committees as detailed further on in this section. In the normal course, these Committees make recommendations to the board. Minutes of Committee meetings are made available to the board as a whole but may be redacted at the discretion of the Chairman of the Committee, if necessary in consultation with the Company Chairman. Where it is urgent that a recommendation of a Committee needs to be accepted by the board, this is done by a directors' resolution in writing. There were no written directors' resolutions in the year.

There is a formal schedule of matters reserved for the board. This includes the setting of high level targets, approval of budgets, strategy, capital expenditure, license agreements, incentive schemes and the like. Authority levels for expenditure are delegated to individual executives or management committees according to a schedule agreed by the board.

Whilst the formulation of budgets and strategy is undertaken mainly by the executive directors, this is done against a framework set by the whole board, challenged by the board and finally approved by it. At certain points in the formulation of strategy, the board may convene and participate in the development of certain key aspects of strategy.

Business Reviews

The board reviews at its regular monthly meetings both the financial position of the Group and information about non-financial performance. It does this at each board meeting. Financial information includes monthly balance sheets, cash flow and profit and loss accounts for the Group, the Company and its subsidiaries, together with analysis of movements in cash, trade debtors and creditors, and fixed assets. Close attention is also paid to the development of sales by sector and customer, as well as progress with initiatives to develop major new sectors and customers.

Non-financial information reviewed at least monthly by the board includes reports and key performance indicators, including plant performance, delivery performance, research and development activity, sales activity and health, safety and environmental performance. Progress with strategic projects is reviewed monthly.

Non-Executive Directors

It is not thought that the Company is large enough to warrant the formal appointment of a senior non-executive director. Instead, other non-executive directors are actively and regularly consulted by the Chairman and encouraged to provide feedback. Similarly, the Chairman has regular contact with major shareholders and they are free to contact him outside those meetings, and do so. The Chairman relays shareholder opinion to the non-executive directors or the full board, as appropriate.

Open exchange among board members is part of the culture of the Company and by this means the Chairman is made aware of matters of substance and style that merit attention. In addition, each director is free to speak in confidence to the Chairman; as is any member of staff.

There is no formal mechanism in place for appraising the effectiveness of the board as a whole or of the Chairman alone. The Remuneration and Nomination Committee has not recommended that such a process is implemented. Nonetheless, as already stated, the non-executive directors have frequent contact with the Chairman and this provides an opportunity to address concerns on a one-to-one basis.

Composition and Effectiveness of the Board

Except for Mr Boyce, each of the directors owns ordinary shares in Hardide plc. Mr Boyce represents a large percentage of shares by virtue of his directorship of companies that own Hardide shares. Each of Mr Kirkham, Mr Davenport, Dr Zhuk and Mr Goddard have been granted options on ordinary shares of Hardide plc, all as declared elsewhere in this report.

By virtue of his representing a substantial shareholding, Mr Andrew Boyce is not considered to be an independent director. Each of the other two non-executive directors is considered by the board to be ‘independent’.

The board has again reviewed Mr Goddard’s activities outside of Hardide and is satisfied that none of these conflict with his role as Chairman of Hardide.

The terms and conditions for non-executive directors are agreed by the board. They are available for inspection at the Company’s registered office and at the location of the AGM for a period before that meeting begins.

All directors may have access to independent professional advice at Company expense if this is felt by them in their own judgement that it is needed to enable them to discharge their duties and that the cost of such advice is reasonable in the circumstances.

Collectively and individually, the directors monitor the performance of the board and its members on a range of measures. These include attendance, familiarity with the board packs, the quality of those board packs, an understanding of the matters under discussion, the ability to contribute to board discussion and the quality of the challenge made to executive proposals and performance and the thoroughness of reporting and recommendations made by board Committees. Given its size, a formal evaluation of board performance by an outside agency is not believed to be appropriate. Instead, it is the board's opinion that the Chairman’s frequent contact with other directors provides sufficient opportunity for effective two-way ‘calibration’.

Board Committees

There are four standing Committees of the board as detailed below. Each committee has written terms of reference approved by the board. These are kept under review and updated as needed. The membership and chair of board Committees is determined by the board but, given the small number of directors, refreshing membership on a regular or frequent basis is not possible.

Remuneration and Nomination Committee

The Committee comprises Andrew Boyce (Chair) and Jan Ward and meets at least annually, in this year it met eight times. Its duties are to:

1. Determine and agree with the board the framework or broad policy for the remuneration and contractual terms of the Company’s Chief Executive, Chairman, the executive directors and such other members of the executive management as it is designated to consider.
2. Design or approve the design of, and determine targets for, any performance-related pay schemes operated by the Company and approve the total annual payments made under such schemes. Such schemes and payments are subject to final approval by the board.
3. Review the design of all share incentive plans for approval by the board. For any such plans, determine each year whether awards should be made and, if so, the overall amount of such awards, the individual awards to directors and other senior executives and the performance targets to be used.

4. Ensure that contractual terms on termination, and any payments made, are fair to the individual and the Company, that failure is not rewarded and that the duty to mitigate loss is fully recognised.
5. Within the terms of the agreed policy and in consultation with the Chairman and/or Chief Executive as appropriate, determine the total individual remuneration package of each executive director and other senior executives who report to the Chief Executive, including bonuses, incentive payments and share options, other share awards or other benefits.
6. Oversee any major changes in employee benefits throughout the Company or Group.

Audit Committee

The Audit Committee comprises Robert Goddard (Chair) and Andrew Boyce. Peter Davenport attends by invitation. Whilst no non-executive member of the board has a full qualification in accounting, Mr Goddard is deemed competent by virtue of his MBA.

The Audit Committee meets twice each year with the Company's auditor at appropriate times during the reporting and audit cycle, and in addition as required. The Committee met three times during the year. The duties of the Audit Committee are to:

1. Monitor the integrity of the financial statements and the financial reporting process.
2. Review the effectiveness of the Company's internal controls and risk management systems.
3. Review the Company's arrangements for its employees to raise concerns about possible wrongdoing, and ensure these arrangements allow proportionate and independent investigation; and to review the Company's procedures for detecting and preventing bribery and fraud.
4. Monitor the performance of the statutory audit and review the independence and effectiveness of the external auditor, and consider and make recommendations in relation to the appointment, re-appointment and removal of the Company's external auditor.
5. Consider and if necessary agree the terms of reference under which the Risk Committee operates, review the work of the Risk Committee and identify any potential gaps that may need to be addressed.

The external auditor does not provide any non-audit services, and there are no other relationships which may compromise the auditor's objectivity and independence. Our current external auditor, Critchleys LLP, has been in place since 2008, and their remuneration is disclosed in note 3 to the accounts. This is our current audit partner's first year in the role. The effectiveness of the audit and auditor are reviewed with reference to the auditor's audit plan, post-audit management letter and discussion with the finance director.

The Committee did not consider any significant issues during the year.

Intellectual Property Committee

The IP Committee comprises Yuri Zhuk (Chair), Robert Goddard and Philip Kirkham and meets quarterly. It is charged with reviewing all matters relating to intellectual property, including patents, trademarks and so on. It is also responsible for non-disclosure agreements and joint development agreements designed to protect and develop intellectual property. The Committee makes recommendations to the board where the Committee does not have delegated powers.

Risk Management

The board acknowledges that it is responsible for the Company's system of risk management, and manages risk through its Risk Management Committee. The Committee's role is to identify the strategic, operational and financial risks that the Company may be exposed to and recommends how these may be avoided, mitigated or insured against, or some combination of these. Risks are ranked by assessing their likelihood of occurrence and their potential impact. Risks looked at by the Committee include those relating to solvency and liquidity.

This Committee comprises Robert Goddard (Chair), Philip Kirkham, and Peter Davenport, and meets quarterly. Reports of the Committee and its assessment of risks are made to the board and the Audit Committee. A description of the principal risks which the Company has identified is included in the Strategic Report.

The Company is currently too small to operate an internal audit function, so the Audit Committee is responsible for examining the Company's internal financial policies and procedures and recommending amendments or improvements.

Remuneration Policy

Remuneration

The policy for the remuneration of the Executive Directors includes three key objectives:

- To provide remuneration to attract, retain and motivate Executive Directors and senior management of the calibre to run the Company successfully;

- To ensure that there is a strong link between such remuneration and the Company's strategy; and
- To align the Executive Directors' interests with those of shareholders.

Remuneration components

The remuneration of the Executive Directors has three components.

- A base salary Including any benefits and pension.;
- An annual performance related discretionary bonus (non- pensionable); and
- A long term incentive plan comprising of share options.

Share Option scheme

The share option plan was reviewed by the Remuneration Committee during the year and agreed by the Board under the following terms:

- The award of Share Options should be reviewed at least annually by the Committee having taken the advice of both the Company's Chairman and CEO;
- Share options are recognised as effective means to encourage the retention of key executives and employees;
- Awards may be considered for exceptional performance that has been shown to have, or is likely to have, a positive impact upon the company's share value;
- Awards may be considered for long serving key executives and employees where it is considered they have added value over the term of their employment;
- Vesting Procedures will vary and are likely to be a balance incorporating both time and performance related to the Company's share price;
- Any such award will always be at the discretion of the Main Board; and
- Employees may be considered for participation in a share option scheme after completing their probation period.

Bonus

In the past financial year there was a bonus scheme in operation for executive directors and members of staff employed by the Company on or before 1st October 2015 and still employed by the Company when the bonus is paid. That bonus scheme was based on the company's trading being an improvement over the previous year. Bonuses will not be paid in respect of the year to 30th September 2016.

Service Contracts

P D Kirkham, P N Davenport and Y N Zhuk have service contracts which are terminable on up to 12 months' notice by either party. The committee consider these contracts are in line with the market.

Non-executive Directors

Non-executive Directors' remuneration is reviewed by all members of the Board other than the non-executive Director under review. R J Goddard, A R Boyce and J E Ward all have letters of appointment terminable on 1 month's notice by either party.

Robert Goddard is the only non-executive director to have been granted share options.

Compensation for loss of office

There are no predetermined special provisions for Executive or Non-Executive Directors with regard to compensation in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly with the aim not to reward poor performance.

Bribery Act, 2010 (the 'Act')

Before the Act came into force, the Group had in place a full "Anti-bribery Policy" and this has been augmented by a "Whistleblower's Policy". Under guidelines set by the board, a designated 'Group Compliance Officer' manages the processes and procedures that flow from these policies, in particular the areas perceived to be most at risk from bribery or behaviour that is fraudulent or unethical. Any member of staff may, in confidence, raise concerns about financial or other impropriety with any director. The Group Compliance Officer reports to the board as needed. From time to time, the board considers whether these policies need to be updated.

Business Model and Strategy

A high-level description of the Group's business model, strategy and risks appears in the Strategic Report.

On behalf of the board,

Robert Goddard

Director
16 January 2017

Independent Auditor's Report

To the Members of Hardide plc

We have audited the financial statements of Hardide Plc for the year ended 30 September 2016 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statements of Financial Position, the Consolidated Statement of Cash Flows, the Consolidated Statement of Changes in Equity and the related notes. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

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

Respective Responsibilities of Directors and Auditors

As explained more fully in the Directors' Responsibilities Statement (set out on pages 20 and 21) the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's (APB's) Ethical Standards for Auditors.

Scope of the Audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Group's and the parent company's circumstances and have been consistently applied and adequately disclosed, the reasonableness of significant accounting estimates made by the directors, and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent misstatements or inconsistencies we consider the implications for our report.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent Company's affairs as at 30 September 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice;
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

Opinion on other Matter Prescribed by the Companies Act 2006

In our opinion:

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

Matters on which we are Required to Report by Exception

We have nothing to report in respect of the following matters where the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent Company financial statements are not in agreement with the accounting records or returns;

  or

- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Andrew Rodzynski

Senior Statutory Auditor
for and on behalf of

Critchleys LLP

Statutory Auditor
Oxford
16 January 2017

Consolidated Income Statement

For the year ended 30 September 2016

	Note	2016 £ ’000	2015 £ ’000
Revenue	2	2,142	3,003
Cost of sales		(1,457)	(1,198)
Gross profit		**685**	**1,805**
Administrative expenses		(1,989)	(2,130)
Depreciation and amortisation		(418)	(161)
Reversal of fixed asset impairment	11	232	-
Release of onerous lease provision	14	23	269
Operating profit / (loss)	3	**(1,467)**	**(217)**
Finance income	4	6	12
Finance costs	5	(1)	(2)
Profit / (loss) on ordinary activities before taxation		**(1,462)**	**(207)**
Taxation	7	121	91
Profit / (loss) on ordinary activities after taxation		**(1,341)**	**(116)**
Profit / (loss) per share: Basic	8	(0.1)p	(0.01)p
Profit / (loss) per share: Diluted	8	(0.1)p	(0.01)p

All operations are continuing.

The accompanying accounting policies and notes form an integral part of these financial statements.

Consolidated Statement of Financial Position

At 30 September 2016

	Note	2016 £ '000	2015 £ '000
Assets			
Non-current assets			
Goodwill	9	69	69
Intangible assets	10	1	3
Property, plant & equipment	11	1,872	1,262
Total non-current assets		**1,942**	**1,334**
Current assets			
Inventories	12	60	59
Trade and other receivables	12	566	469
Other current financial assets	12	270	271
Cash and cash equivalents	12	1,967	2,327
Total current assets		**2,863**	**3,126**
Total assets		**4,805**	**4,460**
Liabilities			
Current liabilities			
Trade and other payables	13	408	544
Financial liabilities	13	17	16
Provision for lease obligation	13	-	21
Total current liabilities		**425**	**581**
Net current assets		**2,438**	**2,545**
Non-current liabilities			
Financial liabilities	14	3	20
Total non-current liabilities		**3**	**20**
Total liabilities		**428**	**601**
Net assets		**4,377**	**3,859**
Equity attributable to equity holders of the parent			
Share capital	16	3,242	3,041
Share premium	16	10,305	8,935
Retained earnings		(8,964)	(7,623)
Share-based payments reserve		184	154
Translation reserve		(390)	(648)
Total equity		**4,377**	**3,859**

The financial statements were approved and authorised for issue by the Board on 16 January 2017.

Robert Goddard

Director

Consolidated Statement of Cash Flows

For the year ended 30 September 2016

	2016 £ '000	2015 £ '000
Cash flows from operating activities		
Operating profit / (loss)	(1,467)	(217)
Impairment of intangible assets	2	1
Depreciation	416	160
Reversal of fixed asset impairment	(232)	-
Share option charge	28	27
(Increase) / Decrease in inventories	1	(9)
(Increase) / Decrease in receivables	(18)	67
Increase / (Decrease) in payables	(160)	81
Increase / (Decrease) in provisions	(23)	(269)
Exchange rate variance	31	-
Cash generated from operations	**(1,422)**	**(159)**
Finance income	6	12
Finance costs	(1)	(2)
Tax received / (paid)	64	53
Net cash generated from operating activities	**(1,353)**	**(96)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(561)	(1,029)
Net cash used in investing activities	**(561)**	**(1,029)**
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	1,571	1
Finance lease repayment	(17)	(16)
Net cash used in financing activities	**1,554**	**(15)**
Net increase / (decrease) in cash and cash equivalents	**(360)**	**(1,140)**
Cash and cash equivalents at the beginning of the year	**2,327**	**3,467**
Cash and cash equivalents at the end of the year	**1,967**	**2,327**

Consolidated Statement of Changes in Equity

For the year ended 30 September 2016

	Share Capital	Share Premium	Share-based Payments	Foreign Translation	Retained Earnings	Total Equity
At 1 October 2014	**3,041**	**8,934**	**127**	**(639)**	**(7,507)**	**3,956**
Issue of new shares	-	1	-	-	-	1
Share options	-	-	27	-	-	27
Exchange translation	-	-	-	(9)	-	(9)
Loss for the year	-	-	-	-	(116)	(116)
At 30 September 2015	**3,041**	**8,935**	**154**	**(648)**	**(7,623)**	**3,859**
At 1 October 2015	**3,041**	**8,935**	**154**	**(648)**	**(7,623)**	**3,859**
Issue of new shares	201	1,370	-	-	-	1,571
Share options	-	-	28	-	-	28
Exchange translation	-	-	2	258	-	260
Loss for the year	-	-	-	-	(1,341)	(1,341)
At 30 September 2016	**3,242**	**10,305**	**184**	**(390)**	**(8,964)**	**4,377**

Notes to the Group Financial Statements

1. Accounting Policies

Accounting Convention

The Group is required to prepare its financial statements in accordance with International Financial Reporting Standards (IFRS), as adopted in the EU, International Accounting Standards (IAS) and Interpretations (IFRIC).

Standards, Interpretations and Amendments to Published Standards not yet Effective

Amendments to standards and interpretations issued, but not effective for the financial year beginning 1 October 2015 and not early adopted, will have no material impact on the financial statements.

The following principal accounting policies have been applied:

Basis of Preparation

The financial statements have been prepared on the going concern basis, under the historical cost convention. These financial statements are presented in pounds sterling because that is the currency of the primary economic environment in which the Group operates. All amounts are rounded to the nearest thousand pounds.

Going Concern

The directors believe that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future

Basis of Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) made up to 30 September each year.

Control is achieved where Hardide plc has the power to govern the financial and operating policies of an investee entity so as to obtain benefits from its activities.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Transactions between and balances with Group companies are eliminated together with unrealised gains on intercompany transactions. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Acquisitions are accounted for by the purchase method. The cost of an acquisition is measured as the fair value at the date of exchange of the consideration provided plus any costs directly attributable to the acquisition. On acquisition, the assets and liabilities and contingent liabilities of the acquired business that meet the conditions for recognition under IFRS 3 are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. Any deficiency of the cost of acquisition below the fair values of the identifiable net assets acquired is credited to profit or loss in the period of acquisition.

Revenue Recognition

Revenue represents the invoiced amount of goods sold and services provided during the period, excluding value added tax and other sales taxes, trade discounts, and intra-group sales. Revenue is recognised when performance has occurred and a right to consideration has been obtained. This is normally when goods have been despatched or services provided to the customer, title and risk of loss have been transferred and collection of related receivables is probable.

Research and Development

Expenditure on research and development costs is charged to the income statement in the period in which it is incurred unless such costs should be capitalised under the requirements of the applicable standard, which is only when the future economic benefits expected to arise are deemed probable and the costs can be reliably measured.

Intangible Assets: Goodwill

Goodwill represents the excess of the cost of acquisition over the Company's interest in the fair value of the identifiable assets and liabilities of a subsidiary at the date of acquisition. Goodwill is recognised as an asset and reviewed for impairment at least annually.

Goodwill arising on acquisitions before the date of transition to IFRS (01 October 2006) has been retained at the previous UK GAAP amounts subject to being tested for impairment at that date and at least annually thereafter.

On disposal of a subsidiary the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Intangible Assets: Development Costs

Capitalised development costs are amortised on a straight line basis over their useful economic lives once the product is available for use.

Intangible Assets: Other

Separable intangible assets are recognised separately from goodwill on all acquisitions after the date of transition, are initially measured at fair value and amortised over their useful economic lives. Purchased intangible assets are capitalised at cost and amortised over their useful economic lives.

Impairment of Intangible Assets

Goodwill is allocated to cash-generating units for the purposes of impairment testing. The recoverable amount of the cash-generating unit to which the goodwill relates is tested annually for impairment or when events or changes in circumstances indicate that it might be impaired. Any impairment is recognised immediately in the income statement and is not subsequently reversed.

Intangible assets other than goodwill are tested for impairment when a trigger event occurs. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Recoverable amount is the higher of fair value less costs to sell, and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted. An impairment loss is recognised to the extent that the carrying value exceeds the recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease. A reversal of an impairment loss is recognised as income immediately, unless the asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

Property, Plant and Equipment

Property, plant and equipment are stated at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is provided on the cost of assets less any residual value over their estimated useful lives, using the straight line method, as follows:

Plant & machinery	2 to 10 years
Leasehold improvements	Over remaining term of lease
Fixtures & fittings	4 years
Computer equipment	4 years

Depreciation is not charged on assets under construction.

Borrowing costs related to the purchase of fixed assets are not capitalised.

The carrying values of property, plant and equipment and investments measured using a cost basis, are reviewed for impairment only when events indicate the carrying value may be impaired.

Investments

Investments held as fixed assets are stated at cost less any provision for impairment.

Inventories

Inventories are valued at the lower of cost and net realisable value. The costs incurred in bringing each product to its present location and condition are accounted for as follows:

Raw materials	Cost of purchase on a first in, first out basis
Work in Progress and Finished goods	Cost of raw materials and direct labour and a proportion of manufacturing overheads based on the normal level of activity.

Net realisable value is based on the estimated selling price less estimated costs to completion and estimated costs necessary to make the sale. Inventory is regularly tested for obsolescence, any items so identified are written off to the P&L account. There is no general obsolescence provision.

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are included in the balance sheet at fair value or, if lower, at the present value of the minimum lease payments. Depreciation is charged over the useful economic life of the assets. Lease payments are apportioned between the finance charges and the reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability.

Leases where the lessor retains substantially all the risks and rewards of ownership are classified as operating leases. Rentals payable under operating leases are charged to the income statement on a straight line basis over the term of the lease.

Financial Instruments

The Group does not enter into hedging or speculative derivative contracts.

Financial assets and liabilities are recognised on the Group's balance sheet when the Group becomes a party to the contractual provisions of the instrument.

Income and expenditure arising on financial instruments is recognised on the accruals basis, and credited or charged to the profit and loss account in the financial period to which it relates.

Financial Liabilities and Equity

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into.

A financial liability exists where there is a contractual obligation to deliver cash or another financial asset to another entity, or to exchange financial assets or financial liabilities under potentially unfavourable conditions. In addition, contracts which result in the entity delivering a variable number of its own equity instruments are financial liabilities. Shares containing such obligations are classified as financial liabilities.

Finance costs and gains or losses relating to financial liabilities are included in the income statement. The carrying amount of the liability is increased by the finance cost and reduced by payments made in respect of that liability.

An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities. Dividends and distributions relating to equity instruments are debited directly to reserves.

Equity instruments issued are recorded at the proceeds received, net of direct issue costs.

Compound Instruments

Compound instruments comprise both a liability and an equity component. The elements of a compound instrument are classified in accordance with their contractual provisions. At the date of issue, the liability component is recorded at fair value, which is estimated using the prevailing market interest rate for a similar debt instrument without the equity feature. Thereafter, the liability component is accounted for as a financial liability in accordance with the accounting policy set out above. The residual is the equity component, which is accounted for as an equity instrument.

Cash and Cash Equivalents

Cash and cash equivalents include cash at bank and in hand, and short-term deposits with an original maturity period of three months or less.

Trade and other Receivables and Payables

Trade and other receivables are stated at amounts receivable less any provision for recoverability. Trade payables are stated at their nominal value.

Government Grants

Government grants towards research and development and investment are recognised as income over the periods necessary to match them with the related costs and are deducted in reporting the related expense.

Foreign Currencies

The Company's functional and presentation currency is Sterling. Transactions denominated in foreign currencies are translated into sterling at the rates ruling at the date of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the rates of exchange ruling at that date. Gains and losses arising on translation are recognised in the income statement.

On consolidation, the assets and liabilities of the Group's overseas operations are translated into Sterling at the exchange rate at the date of the balance sheet. Income and expense items are translated at the average exchange rates for the period. Exchange differences arising are classified as equity and are transferred to the translation reserve.

Exchange gains and losses arising on the translation of the Group's net investment in foreign entities are also classified as equity.

Share-based Payments

The fair value of equity-settled share payments is determined at the date of grant and is recognised on a straight line basis over the vesting period based on the Group's estimate of options that will eventually vest.

Fair value is measured by use of a Black-Scholes pricing model.

Retirement Benefits

The Group operates a stakeholder scheme for its employees, but does not make any contributions to it.

Short-term Employee Benefit Costs

The undiscounted amount of short-term benefits attributable to services that have been rendered in the period are recognised as an expense. Any difference between the amount of cost recognised and the cash payments made is treated as a liability or prepayment as appropriate.

Taxation

The charge for current tax is based on the results for the period as adjusted for items that are non-assessable or disallowed, and is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the balance sheet differs from its tax base. 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. Deferred tax liabilities are recognised for taxable temporary differences. Such assets and liabilities are not recognised if the temporary difference arises from the amortisation of goodwill or the initial recognition of other assets and liabilities in a transaction that is not a business combination and affects neither the tax profit nor the accounting profit.

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

Deferred tax is charged or credited in the income statement except where it relates to items charged or credited to equity, in which case the deferred tax is dealt with there.

Borrowings

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date. All borrowing costs are recognised in the income statement in the period in which they are incurred.

Provisions

Provisions are made when the Group has a present obligation as a result of past events, it is more likely than not that an outflow of economic benefits will be required to settle the obligation, and the amount can be reliably estimated. Provisions are discounted to present value where the impact is significant, using a discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation.

Critical accounting estimates and judgments

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. 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 period are addressed below:

(a) Property, plant and equipment represents a significant proportion of the asset base of the Group being 39% of the Group's total assets. The estimates and assumptions made to determine their carrying value and related depreciation are significant to the Group's financial position and performance. The charge in respect of periodic depreciation is derived after determining an estimate of an asset's expected useful life and the expected residual value at the end of its life. No residual value is expected for any of the Group’s assets and, apart from some items of high-value specialised equipment, plant and machinery is estimated to have 4 years of useful life from the date of purchase or installation.

(b) Recognition of deferred tax assets occur when it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Recognition, therefore, involves judgement regarding the prudent forecasting of future taxable profits of the business. Because of the ongoing losses of the Group, there is uncertainty as to when taxable profits might occur against which existing tax losses could be relieved. As such no deferred tax asset has been recognised.

(c) Going concern basis including its effect on the impairment of assets. The Group monitors cash flow as part of its day to day control procedures and management consider cash flow projections on a monthly basis and also prepares detailed forward projections for future periods which also include various scenarios. As a consequence, the Directors are satisfied that the Group is able to maintain sufficient resources to continue in operation for the foreseeable future. Accordingly, they have adopted the going concern basis in preparing the financial statements. Were this not to be the case the carrying value of the Group’s assets may have to be impaired.

2. Segmental Analysis

Under IFRS 8, operating segments are defined as a component of equity (a) that engages in business activities from which it may earn revenues and incur expenses (b) whose operating results are regularly reviewed and (c) for which discrete financial information is available. The Group management is organised in to UK and USA operation and Corporate central functions, and this factor identifies the Group's reportable segments.

Year ended 30 September 2016

	UK operation £ '000		US operation £ '000		Corporate £ '000		Eliminations £ '000		Total £ '000	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015	**2016**	2015
External revenue	**2,037**	3,003	**105**	-	**-**	-	**-**	-	**2,142**	3,003
Inter-segment revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Interest revenue	**4**	4	**-**	-	**2**	8	**-**	-	**6**	12
Interest expense	**1**	2	**-**	-	**-**	-	**-**	-	**1**	2
Depreciation	**176**	161	**242**	-	**-**	-	**-**	-	**418**	161
Reversal of Impairment	**-**	-	**(232)**	-	**-**	-	**-**	-	**(232)**	-
Income tax income	**-**	-	**-**	-	**120**	91	**-**	-	**120**	91
Release of Provision	**-**	-	**(23)**	(269)	**-**	-	**-**	-	**(23)**	(269)
Reportable segment profit / (loss)	**(503)**	234	**(414)**	(18)	**(424)**	(332)	**-**	-	**(1,341)**	(116)
Segment assets	**3,086**	3,677	**1,701**	1,024	**2,835**	2,075	**(2,817)**	(2,316)	**4,805**	4,460
Expenditure for non-current assets	**57**	257	**599**	782	**-**	-		-	**656**	1,039
Segment liabilities	**250**	348	**9,242**	7,097	**1,873**	1,333	**(10,937)**	(8,177)	**428**	601

The Group currently has a single business product, so no secondary analysis is presented. Revenue from external customers is attributed according to their country of domicile. Turnover by geographical destination is as follows:

	UK £ '000	Europe £ '000	N America £ '000	Rest of World £ '000	Total £ '000
External sales					
2016	**1,007**	**26**	**1,107**	**2**	**2,142**
2015	1,710	92	1,199	2	3,003

Four external customers (2015 – three) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2016. The external sales for these customers were £0.450m, £0.426m, £0.369m and £0.315m which have been recorded within both the UK and US operation reportable segments, excluding central costs.

3. Operating Profit or Loss

This is stated after charging / (crediting):

	2016 £ '000	2015 £ '000
Auditor's remuneration:		
Fees payable to the Company's current auditor for the audit of the Company's accounts	11	11
Cost of inventory recognised as an expense	614	494
Research and development	200	96
Income from grants	(190)	(323)
Operating lease rentals		
- plant and machinery	24	28
- property	163	268
Share option expense	28	27
Depreciation and amortisation	418	161
Exchange differences	(31)	(11)

4. Finance Income

	2016 £ '000	2015 £ '000
Interest on bank deposits	6	12

5. Finance Costs

	2016 £ '000	2015 £ '000
Interest on finance leases	1	2

6. Employees

The average number of employees, including executive directors but not including non-executive directors, during the year comprised:

	2016 Number	2015 Number
Technical	13	10
Production	12	13
Sales and marketing	5	4
Management and admin	5	5
	35	**32**

Staff costs, including executive and non-executive directors, amounted to:

	2016 £ '000	2015 £ '000
Wages and salaries	1,581	1,391
Social security costs	165	159
Share option expense	28	27
	1,774	**1,577**

The remuneration of directors during the year was as follows:

		2016 £ '000	2015 £ '000
Philip Kirkham (Chief Executive)	Salary	153	150
	Car allowance	15	15
Dr Yuri Zhuk (Technical Director)	Salary	99	97
Peter Davenport (Finance Director)	Salary	77	76
Robert Goddard (Non-Executive Chairman)	Fees	50	50
Andrew Boyce (Non-Executive Director)	Fees	22	18
William Zakroff (Non-Executive Director)	Fees	-	7
Janice Ward (Non-Executive Director)	Fees	22	13
Total directors' remuneration		**438**	**426**

7. Taxation

	2016 £ '000	2015 £ '000
UK corporation tax on the profit / (loss) for the year	-	-
R&D tax credit	120	81
Adjustment in respect of prior year R&D tax credits	1	10
Adjustment in respect of prior year UK corporation tax	-	-
	121	**91**

The standard rate of corporation tax in the UK is currently 20%. The group has unutilised trading tax losses in the UK of approximately £1.1m (2015: £0.6m) available to carry forward against future trading profits. The general principle in IAS 12 is that a deferred tax asset is recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the unused tax losses can be utilised. No deferred tax asset has been recognised in respect of these amounts due to the unpredictability of future taxable profits.

8. Earnings per Ordinary Share

	2016 £ '000	2015 £ '000
(Loss) / Profit on ordinary activities after tax	(1,341)	(116)

Basic earnings per ordinary share

Weighted average number of ordinary shares in issue	1,345,202,056	1,334,678,304
Earnings per share	(0.1)p	(0.01)p

Fully diluted earnings per ordinary share

Number of ordinary shares in issue	1,534,906,304	1,334,678,304
Outstanding share options	116,759,600	76,833,600
Total	1,651,665,904	1,411,511,904
Earnings per share	(0.1)p	(0.01)p

9. Goodwill

	£ '000
Cost at 1 October 2015 and 30 September 2016	69
Net book value at 1 October 2015 and 30 September 2016	69

Goodwill relates to the acquisition of the net liabilities of Isle Hardide Limited by Hardide Coatings Limited which occurred in October 2000 and which were valued at £99,095, for which no consideration was paid. The goodwill had previously been amortised over 20 years under UK GAAP until conversion to IFRS on 1 October 2006. Total amortisation up to that date amounted to £30,000 giving a net book value of £69,000.

10. Intangible Assets

	2016 £ '000	2015 £ '000
Cost at 1 October	15	15
Additions	-	-
Disposals	(9)	-
Cost at 30 September	**6**	**15**
Net book value at 1 October	3	5
Amortisation b/fwd	12	10
Disposals	(9)	-
Impairment charge	2	2
Net book value at 30 September	**1**	**3**

The intangible assets relate to computer software costs which are amortised over four years.

11. Property, Plant and Equipment

	Leasehold buildings £ '000	Plant, vehicles and fixtures £ '000	Computer equipment £ '000	Total £ '000
Cost at 1 October 2014	244	2,852	125	3,221
Additions	221	780	38	1,039
Disposals	(3)	-	-	(3)
Exchange differences	-	-	-	-
Cost at 30 September 2015	**462**	**3,632**	**163**	**4,257**
Depreciation at 1 October 2014	217	2,510	111	2,838
Provided in the year	17	132	11	160
Disposals	(3)	-	-	(3)
Impairment	-	-	-	-
Exchange differences	-	-	-	-
Depreciation at 30 September 2015	**231**	**2,642**	**122**	**2,995**
Net book value at 1 October 2014	27	342	14	383
Net book value at 30 September 2015	**231**	**990**	**41**	**1,262**
Cost at 1 October 2015	462	3,632	163	4,257
Additions	8	644	4	656
Disposals	(20)	(611)	(64)	(695)
Exchange differences	35	96	2	133
Cost at 30 September 2016	**485**	**3,761**	**105**	**4,351**
Depreciation at 1 October 2015	231	2,642	122	2,995
Provided in the year	39	376	17	432
Disposals	(20)	(603)	(70)	(693)
Reversal of impairment	-	(255)	-	(255)
Depreciation at 30 September 2016	**250**	**2,160**	**69**	**2,479**
Net book value at 1 October 2015	231	990	41	1,262
Net book value at 30 September 2016	**235**	**1,601**	**36**	**1,872**

12. Current Assets

	2016 £ '000	2015 £ '000
Inventories		
Raw materials and consumables	60	59
	60	**59**
Receivables		
Trade receivables	525	421
Other receivables	41	48
	566	**469**
Other current financial assets		
Prepayments	56	86
VAT debtor	12	27
Accrued income	202	158
	270	**271**
Cash and cash equivalents		
Sterling	1,735	1,451
US Dollar	215	549
Euro	17	327
	1,967	**2,327**
Total current assets	**2,863**	**3,126**

There is no general provision for bad debts. During the year, no specific trade receivable was classified as a bad debt. Trade debtors are regularly reviewed for age and possible impairment. It is the directors' opinion that, as at the balance sheet date, no trade debt required impairment.

13. Current Liabilities

	2016 £ '000	2015 £ '000
Trade payables	293	299
Taxation and social security costs	45	45
Accruals	70	194
Finance lease obligations	17	16
Lease deposit	-	6
Provision for lease obligations	-	21
Total current liabilities	**425**	**581**

14. Non-current other Financial Liabilities

	2016 £ '000	2015 £ '000
Finance lease obligations	3	20
	3	**20**

At 30 September 2013 a provision was made for the payments due over the remaining term of the lease on the Group's Houston facility, less payments expected to be received under non-cancellable subleases. As at 30 September 2015 $33,000 (£21,000) provision remained to cover the lease obligations up to the termination date of 04 December 2015. An accrual of $86,000 (£57,000) was made in the 2015 accounts to cover the costs of termination, mainly comprising broker commissions and compensation payments to the landlord. $8500 (£6,000) deposit was due to be returned to the sublessee. All these amounts were settled during the 2016 financial year and no further obligations or provisions exist in relation to Houston.

15. Total Commitments under Operating Leases

	Land and buildings		Plant	
	2016 £ '000	2015 £ '000	2016 £ '000	2015 £ '000
In one year or less	7	23	3	11
In two to five years	-	92	57	12
In more than five years	516	493	-	-
	523	**608**	**60**	**23**

16. Share Capital

	2016		2015	
	Number 000	Value £ '000	Number 000	Value £ '000
Authorised ordinary shares of 1p each	-	-	-	-
Allotted ordinary shares of 1p each	-	-	-	-
Authorised ordinary shares of 0.1p each	1,750,000	1,750	1,750,000	1,750
Authorised deferred shares of 0.9p each	250,000	2,250	250,000	2,250
Allotted ordinary shares of 0.1p each	1,534,906	1,535	1,334,678	1,335
Allotted deferred shares of 0.9p each	189,642	1,707	189,642	1,707

The Company raised a total of £1,601,616 before expenses by way of placing 200,202,000 ordinary 0.1p shares at a price of 0.8p per share in two tranches, on 09 August and 29 September 2016. During the year, one employee exercised options over 26,000 shares.

17. Share-based Payment

	Number	Weighted average exercise price
Outstanding at 1 October 2015	76,833,600	0.66p
Exercisable at 1 October 2015	39,814,000	0.57p
Granted during year	40,478,000	0.81p
Exercised during year	(26,000)	0.45p
Forfeited during year	(526,000)	0.83p
Outstanding at 30 September 2016	116,759,600	0.66p
Exercisable at 30 September 2016	41,919,100	0.62p

The current directors' interests in share options are as follows:

	Number	Weighted average exercise price
Robert Goddard (Chairman)	16,181,000	0.61p
Philip Kirkham (Chief Executive)	40,000,000	0.81p
Yuri Zhuk (Technical Director)	18,351,000	0.69p
Peter Davenport (Finance Director)	12,351,000	0.57p

During the year no director exercised any share options. As part of the Company's share option scheme, the following options were granted to directors during the year at an exercise price of 0.8p:

Robert Goddard (Chairman)	6,000,000
Philip Kirkham (Chief Executive)	20,000,000
Yuri Zhuk (Technical Director)	6,500,000
Peter Davenport (Finance Director)	3,500,000

The fair values of employee options granted are measured at date of grant by the use of a Black-Scholes pricing model, the assumptions used in the model vary depending on the date of grant and vesting period. Inputs include share price at date of grant, exercise price, historical volatility, the expected life of the option, and the risk-free interest rate. Expected volatility is calculated from the recent historical volatility of the share price. No other features are incorporated into the measurement of fair value.

Valuation of all options granted during this year used a volatility of 70%, a risk-free interest rate of either 1.27% or 1.41% depending upon date of grant, and an expected life of 3.5 or 4 years. The average calculated fair value of options granted during the year was 0.04p.

All options have a maximum term of 10 years from date of grant and are settled with equity upon exercise. No options expired during the year. Vesting criteria are a mix of time-based and performance-based, the performance criteria are the market capitalisation or price per share of the Company. At 30 September 2016 the weighted average remaining contractual life of all outstanding options was 6 years and 4 months.

18. Post Balance Sheet Events

There are no post balance sheet events to report.

19. Related Party Transactions

There were no related party transactions to report with either directors or key management.

20. Capital Commitments

There are no capital commitments at the date of the balance sheet.

21. Contingent Liabilities

Hardide Coatings Inc received a grant of $170,000 from the Commonwealth of Virginia Tobacco Indemnification and Community Revitalisation Commission, which contained performance obligations concerning the number of employees and the value of taxable assets located in Henry County, Virginia, to be achieved by the end of December 2017. It received a further grant of $150,000 from the Governor's Development Opportunity Fund through the Virginia Economic Development Partnership Authority which contained the same performance obligations but with an achievement date of 30 June 2018.

If these performance obligations are not met then a proportion of the grant is repayable, the amount depending on the shortfall against those performance obligations.

22. Financial Instruments – Risk Management

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. The Group uses financial instruments comprising borrowings, cash, liquid resources and various items such as trade debtors and creditors that arise directly from its operations. Exposure to credit, liquidity and market risks arises in the normal course of the Group's business. The Group does not enter into derivative financial instruments.

Credit Risk

The Group's credit risk is primarily attributable to its credit sales. The Group has significant concentration of sales to a few key customers, however, since the ultimate customers for the Group's products are predominantly blue-chip multinational companies, the board believes that this is not a significant risk. Credit risk also arises from cash and deposits with banks. These risks are reviewed regularly by the board.

Liquidity Risk

The Group seeks to manage financial risk by ensuring sufficient liquidity is available to meet foreseeable needs and to invest cash assets safely and profitably. The interest rate exposure of the Group as at 30 September 2016 and the maturity profile of the carrying value of the Group's financial liabilities are shown in note 13. The Group's policy is to ensure that it has sufficient cash to allow it to meet its liabilities. The board receives forecast cash flows on a monthly basis and uses these as the basis for forward planning.

Market Risk

The Group is exposed to translation and transaction foreign exchange risk arising because the Group has operations in more than one country. As such, the Group's net assets arising from such overseas operations are exposed to currency risk resulting in gains or losses on retranslation into sterling. Foreign exchange risk also arises when Group companies enter into transactions denominated in a currency other than their functional currency.

Fair Value

The directors consider that the fair values of the financial instruments of the Group are not significantly different from their book value.

Parent Company Balance Sheet

At 30 September 2016

	Note	2016 £ '000	2015 £ '000
Assets			
Non-current assets			
Investments	3	1,100	1,100
Amounts owed by Group undertakings	4	9,206	6,947
Provision	4	(9,206)	(6,947)
Total non-current assets		**1,100**	**1,100**
Current assets			
Trade and other receivables	5	226	163
Cash and cash equivalents		1,522	812
Total current assets		**1,748**	**975**
Total assets		**2,848**	**2,075**
Liabilities			
Current liabilities			
Trade and other payables	6	1,886	1,333
Total current liabilities		**1,886**	**1,333**
Net current assets / (liabilities)		**(138)**	**(358)**
Total liabilities		**1,886**	**1,333**
Net assets / (liabilities)		**962**	**742**
Equity			
Share capital	7	3,242	3,041
Share premium		10,305	8,935
Retained earnings		(12,716)	(11,349)
Share-based payments reserve		131	115
Total equity		**962**	**742**

Under section 408 of the Companies Act 2006 the company has not included its own profit and loss account in these financial statements. The parent company's loss for the year was £1,367,000 (2015: loss of £1,467,000) after accounting for an increase in the provision against the intercompany loan of £2,260,000 and an exchange rate gain on intercompany loan of £1,317,000.

The accompanying notes form an integral part of these financial statements.

The financial statements were approved and authorised for issue by the Board on 16 January 2017.

Robert Goddard
Director

Statement of Cash Flows

For the year ended 30 September 2016

	2016 £ '000	2015 £ '000
Cash flows from operating activities		
Operating profit / (loss)	(547)	(431)
Share option charge	16	8
(Increase) / Decrease in receivables	(6)	26
Increase / (Decrease) in payables	41	(25)
Cash generated from operations	**(496)**	**(422)**
Finance income	2	9
Tax received / (paid)	64	53
Net cash generated from operating activities	**(430)**	**(360)**
Cash flows from investing activities		
Net loan to subsidiaries	(431)	(1,273)
Net cash used in investing activities	**(431)**	**(1,273)**
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	1,571	-
Net cash used in financing activities	**1,571**	**-**
Net increase / (decrease) in cash and cash equivalents	**710**	**(1,632)**
Cash and cash equivalents at the beginning of the year	**812**	**2,444**
Cash and cash equivalents at the end of the year	**1,522**	**812**

Statement of Changes in Equity

For the year ended 30 September 2016

	Share Capital	Share Premium	Share-based Payments	Retained Earnings	Total Equity
At 1 October 2014	**3,041**	**8,934**	**108**	**(9,882)**	**2,201**
Issue of new shares	-	1	-	-	1
Share options	-	-	7	-	7
Loss for the year	-	-	-	(332)	(332)
Provision against intercompany loan	-	-	-	(1,518)	(1,518)
Exchange difference	-	-	-	383	383
At 30 September 2015	**3,041**	**8,935**	**115**	**(11,349)**	**742**
At 1 October 2015	**3,041**	**8,935**	**115**	**(11,349)**	**742**
Issue of new shares	201	1,370	-	-	1,571
Share options	-	-	16	-	16
Loss for the year	-	-	-	(424)	(424)
Provision against intercompany loan	-	-	-	(2,260)	(2,260)
Exchange difference	-	-	-	1,317	1,317
At 30 September 2016	**3,242**	**10,305**	**131**	**(12,716)**	**962**

Hardide plc – Adoption of IFRS

Set out below is a reconciliation to show the effect on the reported figures of the Company moving from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS). The reconciliations of equity as at 1 October 2014 (the date of transition to IFRS) and as at 30 September 2015 (the date of our last UK GAAP financial statements), as required by IFRS 1 are shown below.

First time adoption of IFRS

The Company's transition date to IFRS was 1 October 2014, which is the beginning of the comparative period for the year ended 30 September 2015. The Group has applied IFRS 1 for the first time adoption of IFRS and has elected to use the following exemptions:

- Business combinations – business combinations that took place prior to 1 October 2014 have not been restated;
- Share-based payment – the Group has applied the requirements of IFRS 2 Share-based payments to all grants of equity instruments after 7 November 2002 that were unvested as of 1 October 2014.

There are no key impacts of implementing IFRS with respect to the Company's accounts.

Reconciliation of Equity

At 1 October 2014 (date of transition to IFRS)

	UK GAAP £ '000	Effect of transition to IFRS £ '000	IFRS £ '000
Assets			
Non-current assets			
Investments	1,100	-	1,100
Amounts owed by Group undertakings	5,433	-	5,433
Provision	(5,433)	-	(5,433)
Total non-current assets	**1,100**	**-**	**1,100**
Current assets			
Other current financial assets	134	-	134
Cash and cash equivalents	2,444	-	2,444
Total current assets	**2,578**	**-**	**2,578**
Total assets	**3,678**	**-**	**3,678**
Liabilities			
Current liabilities			
Trade and other payables	1,477	-	1,477
Total current liabilities	**1,477**	**-**	**1,477**
Net current assets / (liabilities)	**1,101**	**-**	**1,101**
Total liabilities	**1,477**	**-**	**1,477**
Net assets	**2,201**	**-**	**2,201**
Equity			
Current liabilities			
Share capital	3,041	-	3,041
Share premium	8,934	-	8,934
Retained earnings	(9,882)	-	(9,882)
Share-based payments reserve	108	-	108
Total equity	**2,201**	**-**	**2,201**

Reconciliation of Equity

At 30 September 2015 (date of last UK GAAP financial statements)

	UK GAAP £ '000	Effect of transition to IFRS £ '000	IFRS £ '000
Assets			
Non-current assets			
Investments	1,100	-	1,100
Amounts owed by Group undertakings	6,947	-	6,947
Provision	(6,947)	-	(6,947)
Total non-current assets	**1,100**	**-**	**1,100**
Current assets			
Other current financial assets	163	-	163
Cash and cash equivalents	812	-	812
Total current assets	**975**	**-**	**975**
Total assets	**2,075**	**-**	**2,075**
Liabilities			
Current liabilities			
Trade and other payables	1,333	-	1,333
Total current liabilities	**1,333**	**-**	**1,333**
Net current assets / (liabilities)	**(358)**	**-**	**(358)**
Total liabilities	**1,333**	**-**	**1,333**
Net assets	**742**	**-**	**742**
Equity			
Current liabilities			
Share capital	3,041	-	3,041
Share premium	8,935	-	8,935
Retained earnings	(11,349)	-	(11,349)
Share-based payments reserve	115	-	115
Total equity	**742**	**-**	**742**

Notes to the Parent Company Accounts

1. Principal Accounting Policies

The financial statements of the Company are presented as required by the Companies Act 2006 and in accordance with IFRS. The principal accounting policies adopted are the same as for those set out in the Group's financial statements.

2. Employees

The average number of employees, including executive directors but excluding non-executive directors, during the year comprised:

	2016 Number	2015 Number
Management and admin	3	2
Sales and marketing	1	1
Technical	3	3

Staff costs, including executive and non-executive directors, during the year amounted to:

	2016 £ '000	2015 £ '000
Wages and salaries	570	526
Social security costs	58	73
Share option expense	16	8
	644	**607**

Details of individual directors' remuneration are included in note 6 to the Group financial statements.

3. Investments

	£ '000
Investments in subsidiaries at 1 October 2015 and 30 September 2016	1,100

At 30 September 2016 the Company held 100% of the share capital of the following subsidiaries:

	Class of share	Amount	Country	Nature of business
Hardide Coatings Limited	Ordinary	100%	UK	Surface engineering
Hardide Coatings, Inc.	Ordinary	100%	USA	Surface engineering
Hardide Aerospace Coatings Limited	Ordinary	100%	UK	Surface engineering

4. Amounts Owed by Group Undertakings

The amounts owed by Hardide Coatings Inc amounting to £9,206,000 (2015 £6,947,000) has been classified as a non-current asset. A provision has been made for the full amount owed because of doubts about its recoverability. The increase in debt during the year of £2,260,000 has been credited to the profit and loss account in the year.

5. Trade and other Receivables

	2016 £ '000	2015 £ '000
Prepayments and accrued income	11	18
Taxation recoverable	215	145
	226	**163**

6. Trade and other Payables

	2016 £ '000	2015 £ '000
Trade creditors	85	22
Social security and other taxes	19	19
Amounts owed to Group undertakings	1,742	1,230
Accruals and deferred income	40	62
	1,886	**1,333**

7. Share Capital

	2016		2015	
	Number 000	Value £ '000	Number 000	Value £ '000
Authorised ordinary shares of 0.1p each	1,750,000	1,750	1,750,000	1,750
Authorised deferred shares of 0.9p each	250,000	2,250	250,000	2,250
Allotted ordinary shares of 0.1p each	1,534,906	1,535	1,334,678	1,335
Allotted deferred shares of 0.9p each	189,642	1,707	189,642	1,707

Details of the movement in share capital can be found in note 16 to the Group financial statements.

8. Capital Commitments

The company has no capital commitments at 30 September 2016 or 30 September 2015.

9. Contingent Liabilities

There were no contingent liabilities at 30 September 2016 or 30 September 2015.

10. Related Party Transactions

Amounts owed to Hardide Coatings Ltd are shown as a current liability. The movement in the year was a net increase in the liability of £512,000. This debt is unsecured and is expected to be settled in cash or by the provision of services from Hardide plc to Hardide Coatings Ltd.

11. Post Balance Sheet Events

There are no post balance sheet events to report.

12. Share-based Payment

	Number	Weighted average exercise price
Outstanding at 1 October 2015	60,006,000	0.62p
Exercisable at 1 October 2015	33,593,500	0.58p
Granted during year	37,832,000	0.80p
Exercised during year	-	-
Forfeited during year	(500,000)	0.85p
Outstanding at 30 September 2016	97,338,000	0.69p
Exercisable at 30 September 2016	33,926,500	0.58p

The current directors' interests in share options are as follows:

	Number	Weighted average exercise price
Robert Goddard (Chairman)	16,181,000	0.61p
Philip Kirkham (Chief Executive)	40,000,000	0.81p
Yuri Zhuk (Technical Director)	18,351,000	0.69p
Peter Davenport (Finance Director)	12,351,000	0.57p

During the year no director exercised any share options. As part of the Company's share option scheme, the following options were granted to directors during the year at an exercise price of 0.8p:

Robert Goddard (Chairman)	6,000,000
Philip Kirkham (Chief Executive)	20,000,000
Yuri Zhuk (Technical Director)	6,500,000
Peter Davenport (Finance Director)	3,500,000

The fair values of employee options granted are measured at date of grant by the use of a Black-Scholes pricing model, the assumptions used in the model vary depending on the date of grant and vesting period. Inputs include share price at date of grant, exercise price, historical volatility, the expected life of the option, and the risk-free interest rate. Expected volatility is calculated from the recent historical volatility of the share price. No other features are incorporated into the measurement of fair value.

Valuation of all options granted during this year used a volatility of 70%, a risk-free interest rate of either 1.27% or 1.41% depending upon date of grant, and an expected life of 3.5 or 4 years.

All options have a maximum term of 10 years from date of grant and are settled with equity upon exercise. No options expired during the year. Vesting criteria are a mix of time-based and performance-based, the performance criterion is the market capitalisation of the Company. At 30 September 2016 the weighted average remaining contractual life of all outstanding options was 6 years and 6 months.

Directors and Advisors

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P Davenport
R Goddard
P Kirkham
J Ward
Y Zhuk

Secretary
P Davenport

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