



ANNUAL REPORT 2017

Hardide plc Annual Report 2017

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 Group has manufacturing facilities in Oxfordshire, United Kingdom and Virginia, USA.

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Key Points

Financial

- Record sales of £3.24m (2016: £2.14m). 51% higher than FY2016, largely due to recovery of demand from the oil and gas markets
- Sales in H2 2017 14% ahead of H1 2017
- Gross profit of £1.59m (2016: £0.69m)
- Gross margin of 49.1% (2016: 31.9%)
- Group operating loss of £1.24m (2016: loss of £1.47m)
- Loss before interest, tax, depreciation and amortisation reduced to £0.74m (2016: loss of £1.30m before exceptional items)
- Cash at bank at 30 September 2017 of £1.21m (2016: £1.97m)





Business & Operational

- Gained full Airbus Approved Supplier status for UK site
- Achieved Nadcap accreditation for UK site - the world's leading independent certification program for special processes within the aerospace industry
- Development and trialling of multiple components for aerospace customers well advanced
- US coatings facility performing well; 47% of total Group sales to North American customers
- Technical development work underway on potentially patentable applications
- Board continues to maintain a positive view on the Group's potential for growth

CHAIRMAN'S AND CEO'S REPORT

Introduction

The Group has made very good progress in the year in all of its key sectors and the Group is reporting record full year sales of £3.24m (2016: £2.14m). The global downturn in oil and gas activity that began in 2014, and adversely affected most companies operating in this sector including Hardide, bottomed out in the first half of the period and by year-end we saw a 92% improvement in oil and gas sales over FY16. Revenue from our other key sectors of flow control, aerospace and precision engineering also increased.

Strategic plans to develop the aerospace sector were advanced significantly as the UK site gained global approved supplier status from Airbus and achieved the prestigious Nadcap accreditation. The latter becoming a pre-requisite for all suppliers to many aerospace primes and their supply chains worldwide.

Post-period, in October 2017, an oversubscribed fundraising of £2.54m (before expenses) was completed. This comprised an Initial Fundraising of £1.72m at 1.7 pence per Hardide Share and a second deferred fundraising that will raise a further £0.82m at 1.7 pence per Hardide Share. This second tranche is subject to advance assurance before the end of March 2018 from HM Revenue & Customs of eligibility under the Enterprise Investment Scheme (EIS) and/or Venture Capital Trust (VCT) tax relief schemes. At the same time, Martinsville-Henry County Economic Development Corporation (MCEDC) approved a US\$240,000 loan in support of the expansion of the Group's Martinsville facility. The proceeds of this loan will be used to help fund new reactors and other developments at the Martinsville site and bring it up to aerospace standards. Proceeds will also be used to upgrade existing UK and US production equipment, increase marketing resources and strengthen the Statement of Financial Position.

Financial Results

The Group generated record sales of £3.24m in the year ended 30 September 2017 (2016: £2.14m). Primarily this reflects a return in demand from key customers in the oil and gas sector, but also increasing demand from other sectors and new applications. A 130% increase in gross profit compared with a 51% growth in sales demonstrates the Group's high operational gearing. The Group reported an operating loss of £1.24m (2016: loss of £1.47m). The result is a £0.56m improvement in earnings before interest, tax, depreciation and amortisation, with a loss of £0.74m (2016: £1.30m loss).

On the Statement of Financial Position, net assets at 30 September 2017 were £3.29m (2016: £4.38m). This included a cash balance of £1.21m (2016: £1.97m).

Operational Overview

Customers and Markets

Strong progress was made towards our strategic goal to diversify our customer and market base. During the oil and gas industry downturn which began in 2014, we continued with development projects that are now turning into production sales. This includes a collaboration with MasterFlo Valve, Inc. of Canada, to develop a new solution to protect high pressure, high temperature (HPHT) subsea choke valves. Its success has been demonstrated by qualification to all API requirements and deployment in deepwater wells for a major oil and gas operator. Development work with a global oil and gas operator led to a framework supply agreement being finalised post-period. This is Hardide's first direct oil and gas operating company customer. The operator is the ultimate beneficiary of the improved performance afforded to drilling and production tools by Hardide's technology. Sales to date have been to the oil service companies supplying the operating companies and we believe that working directly with the end-user will result in new and different applications. A second supply agreement was signed post-period with an international developer and provider of completion technology solutions.

The Airbus global approved supplier status and Nadcap accreditation achieved during the year at Bicester have strengthened the platform for securing future aerospace business. Life-testing continues on wing components for the Airbus A320, A330 and A380 and on landing gear parts. Development and trialling of further components for both fixed- and rotary- wing aircraft is well underway. We believe the medium and long-term potential value to the Group is worth the effort involved in the longer sale cycles in this sector and we are confident that future volume sales will result.

The Hardide coating continues to be integral to the performance of the new high-resolution airport X-ray baggage scanning machine that commenced volume production during 2016. A new application for Royal Mail moved into production during the year and Hardide-coated deflector plates were fitted into all letter sorting machines in the UK before Christmas 2017. We are currently working with Royal Mail on the development and testing of two more high-wear parts for sorting machine applications. The Group is exploring new precision engineering applications for the coating in the powder metallurgy, metal injection moulding, plastic extrusion and 3D printing sectors.

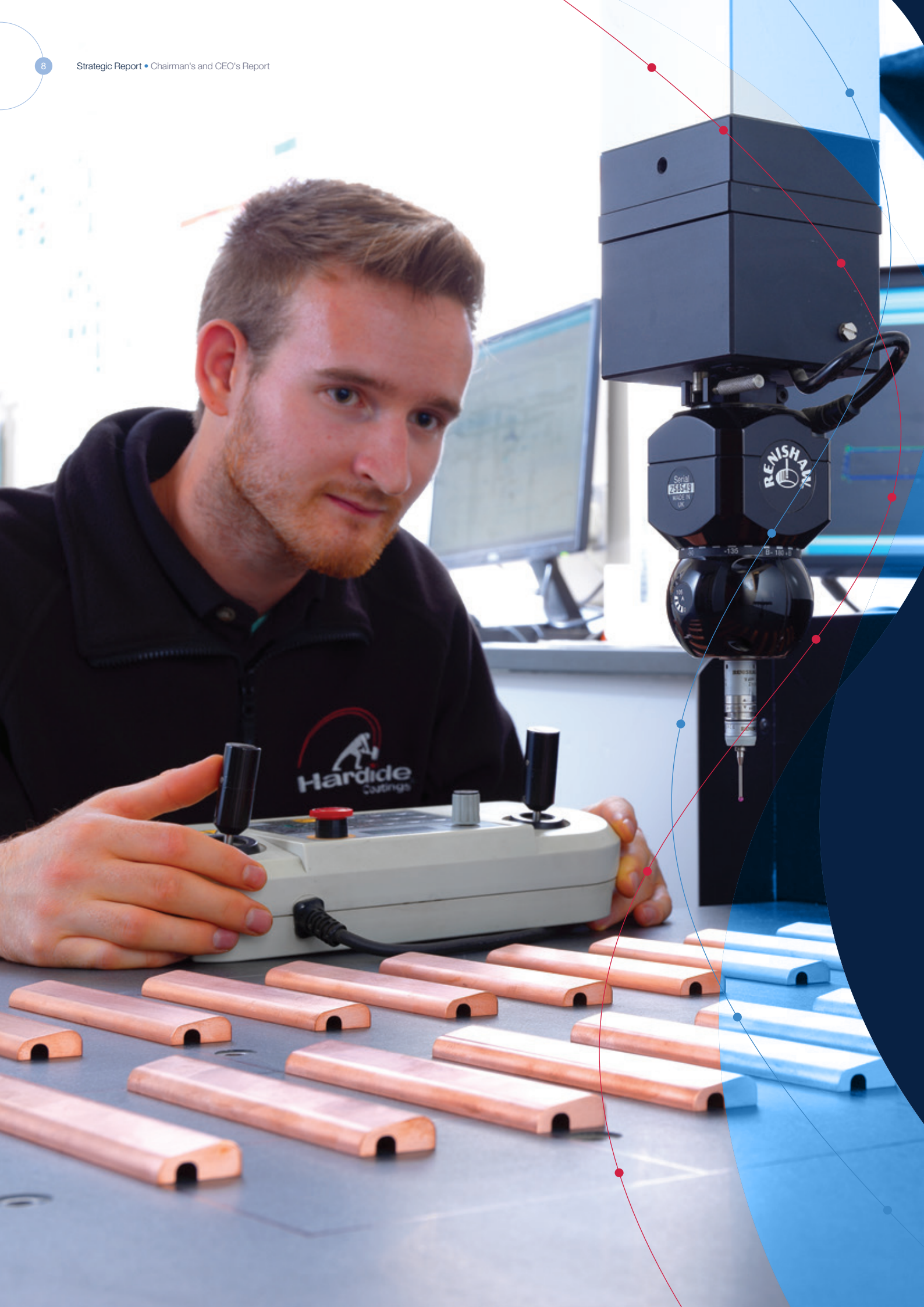
Hardide's technical director has delivered several presentations at high-profile technical conferences throughout Europe and papers have been published in several international publications. These continue to raise awareness across existing and new industries and regions.

Hardide-T was everything I wanted in a hard coating. It offers a far superior level of initial wear resistance, a continued level of protection over time and a many-fold extension of component life.



Mark Jordan
National Asset Lifecycle Manager
Royal Mail





Production, Technology, Research & Development and Industry Accreditations

Sales to customers in North America accounted for 47% of revenue in FY17 and are expected to rise significantly over the medium and long term. In anticipation of increased demand, it is planned that some of the proceeds from the fundraising will be used to acquire two new coating reactors. An order was placed for the first reactor in November 2017 and that is intended to be operational by Autumn 2018. So as to accommodate bigger components and greater batch sizes, the second reactor is planned to be larger than existing ones. It is expected that this will be ordered late FY18 and be fully operational in FY20. Investment will also be made to enhance the capability of pre-treatment and other process areas in the UK and US and bringing more reactors up to aerospace standards.

The investment in new reactors will also provide the capacity to support technical development projects. These are fundamental to the Group's strategy to diversify and win new business. By dedicating resource to technical development projects during the recent oil and gas downturn, the Group was well-advanced with many new applications when the market recovered. At any one time, the Group has a number of strategic development projects underway, as well as several in-house and third-party test programmes aimed at generating new applications.

The Group was very pleased to secure Airbus Approved Supplier status and the challenging Nadcap global aerospace standard for the Bicester site during the year, as well as transition to the new ISO9001:2015 quality management system. Post-period, Hardide Coatings Ltd completed its transition audit to the new-standard of aerospace AS9100 Revision D. In September 2017, we recruited an aerospace-experienced Quality Assurance Manager with responsibility for both the UK and US sites. Aerospace accreditation of the US facility to AS9100 is planned during the first half of calendar year 2018.

The REACH sunset date banning the use of hexavalent chromium salts in the European Union (EU) passed in September 2017. Before that date, a group representing industries traditionally using hard chrome submitted an application for a seven-year extension that would enable use-specific exemptions to be granted. Their argument being that this would allow time to industrialise alternatives to chromium coatings. This application is awaiting a decision by the European parliament, and is expected to be taken in mid-2018. We have been in dialogue with our aerospace customers who inform us that the possible extension will not alter their plans to develop chromium-free aircraft designs. The life of

aircraft and parts currently in design is far longer than any deferral period and the additional compliance costs will make hard chromium plating less available and more expensive. We are confident that the possible approval of the extension will have no material impact on our progress in the aerospace market.

Another European regulation is also expected to benefit Hardide in the longer term: In January 2017, the European Chemicals Agency (ECHA) proposed to re-classify cobalt metal as a carcinogen, mutagen and reproductive toxicant. It is expected that allowable occupational exposure limits for cobalt in inhalable form will be reduced significantly. When these restrictions are approved, as they are widely expected to be, the compliant use of HVOF coatings will be substantially more difficult. High velocity oxy-fuel is a thermal spray tungsten carbide coating alternative to hard chrome plating which is produced using cobalt metal powder. The re-classification will affect the production and handling of the metal powders used in this technique, the coating application process and the post-coat grinding. Each of these processes produces substantial amounts of cobalt dust. This re-classification is likely to be replicated worldwide as part of the United Nation's Globally Harmonised System (GHS) – the single worldwide system for classifying and communicating the hazardous properties of industrial and consumer chemicals. The Hardide coating process poses none of these risks and offers a technically, commercially and environmentally superior alternative.

Intellectual Property

The IP committee met quarterly to review the IP portfolio. During the year, a European patent was granted for the coating of industrial diamonds, in addition to the equivalent patent in China. Research continues into the development of new coating variants and applications with the objective of strengthening and widening the Group's IP portfolio.

Brexit Effect

There has been no change to the status reported in 2016. That is, 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. None of the existing development programmes with customers are expected to be adversely affected.

Group Sales (GB£ Millions)

H2 2017

1.73

H1 2017

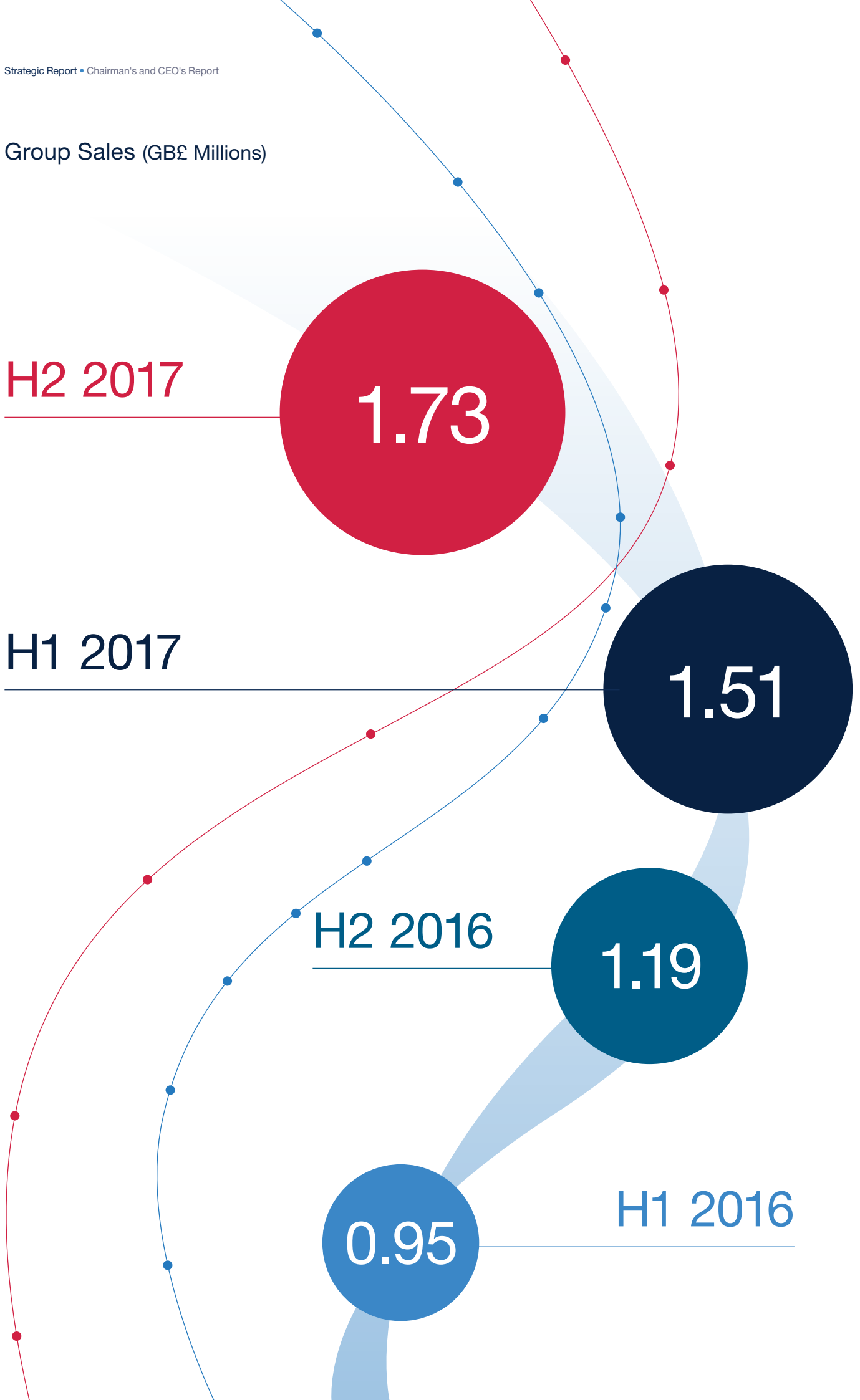
1.51

H2 2016

1.19

0.95

H1 2016



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 would enhance the product ranges of many other surface technology companies. 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.

As demonstrated by the successful fundraising in October 2017, the Board continues to maintain its positive view of Hardide's potential for growth. Accordingly, the Group will invest further in expanding production capacity, marketing, business development and R&D. 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, particularly in North America. The Group's efforts to further diversify will continue and the new and soon-to-be-expanded production base in the US will be deployed to develop North American business across multiple sectors. At the same time, we aim to expand further our presence in selected UK & European markets.

The civil aerospace market continues to represent significant growth potential for us, and in addition to the recently-gained industry approvals for the UK site, the Group plans to gain AS9100 aerospace approval for the US facility during 2018.

We see substantial new application opportunities in the oil and gas sector and are working to convert these into future revenue. The precision engineering market continues to develop with multiple new applications foreseen.

At all times, the Group aims to achieve success and customer satisfaction in a safe, environmentally-conscious and socially-responsible manner taking account the needs of all stakeholders. The Group manages hazards to employees by the deployment of robust safety control systems and procedures and rigorous adherence to relevant health and safety legislation. In addition, Hardide encourages the reporting of accidents, near-misses and unsafe conditions, all of which are regularly reviewed by the executive's Health & Safety Committee and Board where appropriate. At every stage of the process our operational aim is to minimise the overall impact on the environment. Hardide takes a proactive approach to environmental issues and has targets to reduce waste and its carbon footprint and these are regularly reviewed as part of our ISO14001 environmental management system.

Outlook

Hardide's technical and commercial activity over the year, and the post-period fundraising, have established a solid platform for growth and the Group is well positioned to deliver further improvement in performance. Investment will be made in line with expected demand and costs will continue to be closely monitored.

We remain confident in the outlook and expect further progress in 2018. Against the backdrop of new applications in oil and gas and precision engineering, and the conversion of aerospace test programmes into sales, supported by a strong Statement of Financial Position, we continue to see strong growth prospects for the Group.

Finally, we take this opportunity to thank our employees and shareholders for their continued support.

Robert Goddard

Chairman
15 January 2018

Philip Kirkham

CEO
15 January 2018

FINANCIAL REVIEW

Key Financial Performance Indicators

Full year sales amounted to £3.24m as momentum continued to build in the second half with increased activity from existing customers as well as contributions from new customer gains. Revenue in the second half of the year (H2) at £1.73m was up 14% on the first half's £1.51m, and the year as a whole was 51% higher than the previous year. Performance was driven in particular by a rebound of sales to the oil and gas sector, although revenue from all our markets showed year on year increases.

The cost of sales increased by just 13% compared with 2016, reflecting the fairly fixed nature of our labour force as well as the economies of scale of increased throughput. As a result, gross profit margins reached 49% for the full year (2016: 32%) with a 52% gross margin in H2.

Administrative expenses increased by 17% to £2.33m compared with £1.99m in 2016. A significant amount of this increase is due to the reduction in grants received towards the costs of our US operation in Martinsville, which fell by £0.11m compared with the previous year. Earnings before interest, tax, depreciation and amortisation showed a loss of £0.74m, an improvement of £0.56m over the underlying EBITDA loss of £1.30m in 2016. Our new facility in Martinsville, USA made a small EBITDA loss of £0.03m in its first full year of operation.

The Group's depreciation charge increased from £0.42m to £0.50m reflecting a full year's charge on the equipment in Martinsville. As we continue to invest in research and development programmes on new coatings and applications, our tax charge remains negative.

On the Statement of Financial Position, the net book value of Property, Plant and Equipment declined due to the large depreciation charge exceeding additions, which amounted to £0.15m as we undertook some minor improvements to processing capability in the UK. Inventories rose by £0.1m due to increases in raw material stocks and manufactured components for processing in the new financial year. There were higher than usual amounts of parts processed but not despatched at year end. Trade receivables were 16% higher than the previous year, but no bad debts were incurred during the year and none has been provided for.

Peter Davenport
Finance Director



Gross Profit %

H2 2017

52%

H1 2017

45%

H2 2016

36%

H1 2016

27%



STRATEGIC REPORT

Preamble

This strategic report has been prepared after the successful raising of funds for the further development of Hardide; particularly in the USA. This was by way of subscription to and placing of new equity, together with a 'soft' loan from the municipality in which our US facility is based.

The fundraising followed several notable successes in the year to 30 September 2017 and the months following. These included final approval by Airbus of our production and laboratory processes, the successful accreditation to the demanding Nadcap¹ aerospace standard and the signing of framework agreements with a major international oil and gas operating company and a global provider of completion technology solutions.

A review of the business of the Group is included in the Strategic Report, Financial Review and Chairman's and CEO's Report. These reports describe the principal activities, key risks and performance indicators together with the financial position, future developments and corporate governance of the Group.

Overview

The Board maintains the view that the value of the Group will be maximised by increasing the number of and sales revenue from high-value applications; together with a strong pipeline of future profitable opportunities. It is intended to achieve this by additional marketing effort and continuing technical work on some long-duration but high-potential development programmes. These include the recently-patented variant of the coating for industrial diamonds in high-performance cutting and abrasive tools and multiple aerospace components. We will continue to work to develop useful variants of the coating and new applications that are sufficiently distinct to enable them to be patented.

The Board believes that the Hardide range would be a very attractive addition for some of the major coatings companies. This is because it would fill a gap in their product range. A larger organisation would also have the resources and distribution to take Hardide into many new geographies. The value and viability of that has been successfully demonstrated by the creation of our new facility in the US and the additional sales and customer interest that has arisen as a result.

Substantial opportunities for new applications and new customers or sectors usually takes years to develop. However, once qualified, the volumes and margins for the coating from these can be very attractive. It is important therefore that the Group has a strong

Statement of Financial Position and a healthy cash position to enable it to continue making revenue investment for the medium to long term and to give security to our customers.

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

Production

The successful establishment in early 2016 of a new coatings facility in the US is already serving its intended purpose of enabling the Group to address a substantial part of the large North American market that would otherwise not be accessible to us, as well as providing a geographically-separate production facility to provide the security of supply for customers who have effectively 'designed-in' Hardide for critical components.

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 even beyond the two additional reactors that can now be ordered following the fundraising in October 2017. There are no plans at present to create further new coating facilities in other geographies.

Sales & Marketing

Customer contact

Although Hardide's coating has wide applicability in many industry sectors, it is a special, problem-solving product. As such, and being novel, it is not nearly as well-known as more established coatings. Indeed, potential specifiers and users encountered at conferences and trade fairs often report that they had until then been unaware of Hardide. Raising awareness among potential users is of continuing importance. In recognition of this, the Group will continue vigorously with its programme of high-level technical presentations, international email campaigns, and attendance at trade fairs and conferences. In addition, a range of channels such as trade press and social media will continue to be used to the full extent that resources permit.

¹ Nadcap is a global aerospace standard and is the top approval in the aerospace and defence (A&D) market. It is run by an independent agency (PRI) for a collective of A&D primes (Airbus, Boeing, Lockheed Martin, Raytheon etc.). PRI is the Performance Review Institute and it manages the approval and audit system for Nadcap so as to ensure common agreed standards and high-quality processes among approved suppliers.

Of course, our business development managers do contact potential users who have not signalled an immediate interest but unless there is a near-term need for Hardide's product they may not seek to learn about its properties. However, these customers often contact us at a later date when a need arises. Instead, business development staff are mostly concerned with following up interest expressed by potential users who have an identified immediate need.

Diversification

The customer and sector diversification element of the Group's strategy remains in place and evidence of success in this regard is the substantial and potential growth in sales to a UK manufacturer of a new high-speed baggage scanner. With tough new standards for airport security, there is high potential for worldwide sales of this product.

Geographies

Geographically, we will continue with our push into the major European 'high-end' manufacturing markets; particularly Germany, Switzerland and Italy. In North America, our new US production facility has meant that customers there who are more comfortable with domestic suppliers are proving to be much more receptive.

Product ranges, customers and market characteristics

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

Oil & Gas

Historically, this has been the dominant sector for Hardide and may remain so. However, overall demand can be highly cyclical and our customers within it have been very concentrated. Determined development work by the Group in this sector has resulted recently in very promising prospects for gaining new and significant customers. Moreover, the conditions in which new oil and gas reserves are found are becoming 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 & gas industry are famously secretive and our agreements with them prevent the Group from publicising their name or 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 the technical and production approvals by Airbus for Hardide has enabled us to promote the coating to a wide range of other aerospace manufacturers. Though not as large a market in total as oil & gas, our penetration of it is expected to grow significantly.

The aerospace industry is notoriously reluctant to accept new products, but once that is done, sales can be 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 the oil and gas, and petrochemical markets. Nonetheless the sector is important to the Group and we will continue to develop it.

Power generation

We are partnering on long-term projects with manufacturers of power generation turbines to improve the operating performance and efficiency of their equipment. If successful, this would result in substantial sales over a sustained period.

Precision engineering

Here, the potential market size is considerable but specialised and highly fragmented. We intend to build on the recent aerospace approvals and successful sales to the precision engineering sector.

Principal Risks and Uncertainties

Despite the greater diversification being achieved, the proportion of the Group's sales to a few major customers remains high. However, good progress is still being made in developing significant new accounts and substantial further new applications for Hardide are in trials. As a proportion of total sales, those to the oil & gas industry will continue to be significant, especially in the short- to medium-term as sales are developed with the major oil and gas customers with whom we signed framework agreements just after the FY17 year end.

The Group's exposure to the oil & gas industry means that we suffer from volatile demand from that 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 Group's growth. While this is now much less acute, it may still affect the rate of growth of the Group 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 indicated 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 and technical resources are 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 justify embarking on the programme in the first place.

Loss of key technical personnel is a risk for the Group. We have strengthened the technical team over the past two years and now have a strong group of well-qualified people in engineering, metallurgy and chemistry. We will continue our strategy of developing individuals and recruit more technical expertise as appropriate.

The Board has speculated about various degrees of 'Brexit' and the effect they might have on the Group. These include the effect on currency exchange rates. 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 operated and robust health and safety systems are in place. The Group's business continuity plan includes duality of production capability across the UK and US plants, as well as an IT disaster-recovery plan. Similarly, if disruption to the US site were to occur, all products there are capable of being coated in the UK. In 2018, the increase in capacity at the US facility will provide further security against an inability to supply due to production difficulties in the UK.

At all times, the Group aims to achieve success and customer satisfaction in a safe, environmentally-conscious and socially-responsible manner taking into account the needs of all stakeholders.

Cash

The recent successful fund raising will strengthen our financial position. The Group is planning capital expenditure to increase and upgrade the Group's processing capacity as well as making further revenue investment in technical and market development. The strengthened financial position will provide greater security in the event of another downturn in demand. Since Hardide is a unique product, it is important to our major customers that we demonstrate a strong financial position that will support the Group in the event of possible adverse trading or disruption to production.



Hardide
Coatings

BOARD OF DIRECTORS

Robert John Goddard

Chairman

Robert Goddard 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, notably Universe Group plc of which he was Chairman until October 2017. He is an active investor in, and supporter of, several early-stage med-tech 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 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 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 is a co-founder of Hardide plc and is currently responsible for the Group'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 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 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 £1,096,000 (2016: £1,341,000 loss). The directors have declared that no dividends will be paid in respect of the 2017 financial year (2016: Nil).

Directors

The present membership of the Board is set out on pages 18 & 19, and changes to the Board and the beneficial interests of the directors and their families in the shares of Hardide plc are shown below.

	Appointed	Resigned	30 September 2017 Number of shares	30 September 2016 Number of shares
Robert Goddard	28 January 2008	-	6,723,050	6,723,050
Andrew Boyce	18 June 2012	-	-	-
Jan Ward	02 March 2015	-	1,250,000	1,250,000
Philip Kirkham	1 September 2012	-	2,004,717	2,004,717
Yuri Zhuk	14 March 2005	-	6,281,132	6,281,132
Peter Davenport	21 March 2006	-	4,376,667	4,376,667

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 Group's business.

The Group's key management personnel comprise the executive directors.

Directors' Interests in Share Options

The Group has share option schemes under the terms of which certain directors are able to subscribe for ordinary shares in Hardide plc. 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) as adopted by the European Union. 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 as adopted by the European Union 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 Group'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 Group'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 receivables and payables 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 Group 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 Group, 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 Group will be able to continue in operation and meet its liabilities in full as they fall due.

Substantial Shareholders

At 30 September 2017 the following shareholders had a disclosable interest in 3% or more of the nominal value of Hardide plc's shares:

	Shareholding	%
R Boyce & Associates	266,546,226	17.4
A Badenoch & Associates	246,953,334	16.1
Hargreave Hale Investment Managers	144,805,000	9.4
Amati Global Investors Ltd	144,277,219	9.4
Mr Timothy Simpkin	66,882,996	4.4
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

Post Balance Sheet Events

On 27 October 2017 Hardide PLC announced that it had raised £1.716m before expenses by a placing of 100,941,175 ordinary shares. A further £0.821m before expenses will be raised by a placing of 48,294,117 subject to receipt of advance assurance from HMRC that the shares will qualify as "eligible shares" for the purposes of the Enterprise Investment Scheme.

On 9 November 2017 Hardide Coatings Inc placed an order for a third chemical vapour deposition reactor for its Martinsville facility, valued at €576,120. The reactor is expected to be delivered and commissioned in summer 2018.

Hardide Coatings Inc has applied for a 5 year term loan offered by Martinsville - Henry County Economic Development Corporation. The amount of the loan is \$240,000 and can be drawn down in instalments of 30% upon ordering the reactor, 60% when it is shipped from the manufacturer, and 10% after delivery to Martinsville. The interest rate on the loan is fixed at 2% for the term, repayments are due quarterly and will start once the loan has been fully disbursed. The loan is secured against the reactor and Hardide PLC has acted as guarantor.

Robert Goddard

Director

CORPORATE GOVERNANCE STATEMENT

The UK 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 currently-small size of the Group and its present stage of development mean that it would not be sensible or possible to adhere to all 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 Group 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 of Quoted Companies 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 Group 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:

Director	Full Board		Audit Committee		Remuneration & Nomination Committee		Risk Committee		Intellectual Property Committee	
	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	10	-	-	8	8	-	-	-	-

In addition, in some instances directors who were not members of a committee at the date of its meeting attended by invitation some parts of the meetings of the Audit, and Remuneration & 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 two written directors' resolutions in the year.

There is a formal schedule of matters reserved for the Board. This includes any raising of funds, the setting of high level targets, approval of budgets, strategy, capital & revenue expenditure above certain limits, 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 consideration or development of certain key aspects of strategy.

Business Reviews

At its regular monthly meetings, the Board reviews both the financial position of the Group and information about non-financial performance. It does this at each Board meeting. Financial information includes monthly Statements of Financial Position, cash flow and detailed profit & loss accounts for the Group, the Company and its subsidiaries; together with analyses of movements in cash, trade receivables & payables, and Property, Plant and Equipment. Close attention is also paid to the development of sales by sector and by customer; as well as progress with initiatives to develop major new sectors and customers.

Non-financial information is reviewed at least monthly by the Board. It includes reports from each executive director; plant performance; delivery performance; research & development; sales activity; and health, safety & environmental performance. Progress on strategic projects is also 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 his 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 the opportunity to address concerns on a one-to-one basis.

Composition and Effectiveness of the Board

Except for Mr Andrew Boyce, each of the directors directly 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 has been granted options on ordinary shares of Hardide plc; all as declared elsewhere in this report.

Since he represents a substantial shareholding in Hardide plc, Mr 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 reviewed Mr Goddard's activities outside of Hardide and is satisfied that none of these conflicts with his role as Chairman of Hardide. The same applies to the other non-executive directors.

The terms and conditions for non-executive directors are agreed by the Board. They are available for inspection at the Hardide plc'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 judgment 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 and their roles are 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 quarterly. 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 Group's 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 Group 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 to 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 Group's internal controls and risk management systems.
3. Review the Group's arrangements for its employees to raise concerns about possible wrongdoing and ensure these arrangements allow proportionate and independent investigation.
4. Review and keep up to date the Group's procedures for detecting and preventing bribery and fraud.
5. 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.
6. 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 also provides non-audit services, but there are no other relationships that may compromise the auditor's objectivity and independence.

Auditor

The auditors, James Cowper Kreston, replaced Critchleys LLP as auditors for the year ended 30 September 2017 and will be proposed for reappointment in accordance with section 485 of the Companies Act 2006. 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.

During the year there were no significant issues that the Committee needed to consider.

Intellectual Property (IP) 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 Committee

The Board acknowledges that it is responsible for the Group'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 to which the Group may be exposed and recommends how these may be avoided, mitigated, 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.

The members of this Committee, which meets quarterly are Robert Goddard (Chair), Philip Kirkham, and Peter Davenport. Reports of the Committee and its assessment of risks are made to the Board and the Audit Committee. Descriptions of the principal risks that the Group has identified are included in the Strategic Report.

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

Remuneration Policy

Remuneration

The Company is aware of the rules for reporting on remuneration policy. Although these are not mandatory for AIM-listed companies, during the coming year, and in accordance with its normal practice the Board will consider what policies and actions it may implement so as to comply with the spirit of the rules, so long as it is practicable to do so. Policy for the remuneration of the Executive Directors includes three main objectives. These are to:

- provide remuneration packages to attract, retain and motivate Executive Directors and senior management of the calibre needed to run the Group successfully;
- ensure that there is a strong link between such remuneration and the Group's strategy; and
- align the Executive Directors' interests with those of shareholders.

Remuneration components

The remuneration of the Executive Directors has three components. They are:

- a base salary, including any benefits and pension;
- an annual performance-related discretionary bonus (non-pensionable); and
- a long-term incentive plan comprising 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 granting of Share Options should be reviewed at least annually by the Committee having taken the advice of both the Company's Chairman and its CEO;
- share options are recognised as effective means of incentivising and encouraging the retention of senior executives and employees;
- grants may be considered for exceptional performance that has been shown to have, or is likely to have, a positive impact upon Hardide plc's share value;
- grants 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 vary. Usually they incorporate the period since grant and the achievement of particular level of Hardide plc's share price; and finally
- any grant is always at the discretion of the Main Board.

Bonus

Due to the unpredictable market conditions at the start of the financial year there was no formal bonus scheme in operation for executive directors and members of staff for 2016/17. However, a small discretionary bonus was paid to all members of staff except for the executive management team and Directors.

Service Contracts

P D Kirkham, P N Davenport and Y N Zhuk have service contracts that are terminable at up to 12 months' notice by either party. The committee considers these contracts are in line with market practice.

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 at one 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 compensation for Executive or Non-Executive Directors in the event of loss of office. The Remuneration Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly. An important consideration here is 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 was 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 from 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. The main provisions of the Act and Group policies and procedures appear in the staff handbook. Annually, all staff are required to confirm that they have read, understood and complied with these.

The Market Abuse Regulation ('MAR')

To ensure compliance with MAR, considerable work was undertaken to produce policies and procedures. Management of these is now greatly facilitated by software that, among other things maintains insider lists and provides notifications to the FCA. All relevant members of staff have received copies of the policies and procedures.

The General Data Protection Regulation ('GDPR')

This regulation is not due to come into effect until May 2018. However, recognising the far-reaching application of the Regulation and the considerable fines payable in the event of its breach, the Group began developing a GDPR action plan in July 2017. With assistance from an external consultancy the Group has identified data that will be covered and is implementing policies and procedures aimed at ensuring compliance.

Business Model and Strategy

A high-level description of the Group's business model, strategy and risks appears in the Strategic Report. A summary of this is also included in the Chairman's and CEO's Report.

On behalf of the Board,

Robert Goddard

Director
15 January 2018

INDEPENDENT AUDITOR'S REPORT

To the Members of Hardide plc

Opinion

We have audited the financial statements of Hardide Plc (the 'Company') for the year ended 30 September 2017 which comprise the Consolidated Statement of Comprehensive Income, the Consolidated and Company Statement of Financial Position, the Consolidated and Company Statement of Changes in Equity, the Consolidated and Company Statement of Cash Flows and notes to the financial statements, including a summary of significant accounting policies. The financial framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union.

In our opinion:

- the financial statements give a true and fair view of the state of the Group and of the parent company's affairs as at 30 September 2017 and of the Group's loss and the Group's and parent company's cash flows for the year then ended;
- the financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and, as regard the parent company's financial statements, as applied in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

Basis for opinion

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

In particular, we looked at where the directors made subjective judgments, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all our audits we also addressed the risk of management override of internal controls, including evaluating whether there is evidence of bias by the directors that represented a risk of material misstatement due to fraud.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account our understanding of the Group and parent company and their environment, the accounting processes and controls, and the industry in which the Group and Company operate.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the directors have not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Group and parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

An overview of the scope of our audit

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)'). We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements.

The audit scope was as follows:

Hardide plc - the parent company holding investments throughout the Group - full scope audit.

Hardide Coatings Limited - a trading entity that generates a significant amount of the trading results for the Group - full scope audit.

Hardide Coatings Inc - a trading entity that generates a significant amount of the trading results for the Group - agreed-upon procedures for the purpose of inclusion in the consolidated financial statements.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the Key audit matters section below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) we identified, including those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. We determined that there were no key matters applicable to the parent company to communicate in our report.

Revenue recognition

Risk description

There is an inherent risk of error and fraud regarding revenue.

How the scope of our audit responded to the risk

To assess the appropriateness and completeness of revenue recognised in the year we performed the following procedures:

- discussed the revenue recognition policy with management and performed a walkthrough to understand the revenue recognition process;
- examined a sample of revenue transactions by reference to underlying contractual terms;
- examined on a sample basis sales orders, goods delivery notes, invoices and postings for items despatched during the year and around the period end;
- reviewed manual journals posted to the revenue account in the period and subsequent to year-end gaining an understanding of the appropriateness of these;
- considered the appropriateness and application of the Group's accounting policy for revenue recognition; and
- considered the disclosures in the financial statements regarding revenue.

Key observations

The results of our testing were satisfactory and we consider the disclosures surrounding revenue to be appropriate.

Grant income recognition

Risk description

The Group has a number of grant agreements in place. There is a risk that the grant income is not recognised correctly or in the wrong period.

How the scope of our audit responded to the risk

To assess the appropriateness and completeness of grant income recognised in the year we performed the following procedures:

- gained an understanding through walkthroughs performed and discussions with management of the process in place for recognising grant income;
- examined the grants by reference to underlying terms within the grant agreements;
- reviewed the Group's expenditure in relation to the grants to ensure that the grant proceeds were used for the purposes of the grants;
- reviewed the Group's performance against the performance conditions;
- considered the appropriateness and application of the Group's accounting policy for grant income recognition; and
- considered the disclosures in the financial statements regarding the recognition of grant income.

Key observations

The results of our testing were satisfactory and we consider the disclosure surrounding the recognition of grant income to be appropriate.

Share-based payments

Risk description

The Group and Company provides share based incentive plans for directors and employees. During the year the Group and Company issued further tranches of share options, these options vest over a three year period provided all performance criteria are met. As detailed in note 17 the total charge to the Statement of Comprehensive Income for the year was £51,000 (2016: £28,000).

The selection and application of accounting policies in accordance with IFRS 2 'Share-based payments' is complex due to the bespoke nature of arrangements in place. Further they require significant judgment regarding the assumptions which are applied in calculating the fair value of the options.

How the scope of our audit responded to the risk

To assess the appropriateness of the application of accounting standards and the assumptions and judgments made by management we performed the following procedures:

- gained an understanding through walkthroughs performed and discussions with management of the process in place for issuing share options and recognising share-based payments;
- examined the documents setting out the scheme rules and terms of the schemes to determine the appropriateness of accounting policies made by management;
- assessed the inputs included in the fair value calculations, considering the reasonableness of assumptions made and the methodology followed;
- performed recalculations and sample-testing on the source documentation to check the accuracy of the calculations provided; and
- considered the disclosures in the financial statements regarding the schemes.

Key observations

The results of our testing were satisfactory and we consider the disclosures surrounding share-based payments to be appropriate.

Management override

Risk description

In preparing the financial statements management are required to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form a basis for making the judgments about the carrying value of assets and liabilities that are not available from other sources.

How the scope of our audit responded to the risk

During the course of our audit we performed the following procedures to address the risk of management override:

- gained an understanding through walkthroughs performed and discussions with management of the process in place for posting journal entries;
- assessed the appropriateness of accounting policy choices made by management and the basis of key judgments, estimates and assumptions;
- reviewed manual journal entries posted within the period for indicators of management bias, transactions outside the normal course of business or indicators of fraudulent activity;

- examined on a sample basis manual journals deemed to be higher risk gaining an appropriate understanding of the business rationale as well as confirming the accuracy of postings; and
- considered the value, nature and cause of misstatements identified during the course of the audit to identify indicators of bias.

Key observations

The results of our testing were satisfactory and we consider the disclosures surrounding accounting policy choices and key accounting judgments to be appropriate.

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

Based on our professional judgment we determined overall materiality for the financial statements as a whole to be £62,000 (2016: £42,000), based on 5 per cent of the pre-tax loss of £1,235,000. As there is Group focus on improving the profitability of the Group, a profit benchmark was considered appropriate. Performance materiality of £44,000 (2016: £29,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £3,000 (2016: £2,100), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Materiality in the prior year was based on a revenue based benchmark.

Based on our professional judgment we determined overall materiality for the parent company as a whole to be £50,000 (2016: £68,000), based on 5 per cent of the pre-tax loss of £1,002,000 (2016: £1,367,000). As there is Group focus on improving the profitability of the Company, a profit benchmark was considered appropriate. Performance materiality of £35,000 (2016: £48,000) was applied for testing and it was agreed with the board that we would report on all audit differences in excess of £2,500 (2016: £3,400), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Materiality in the prior year was based on an expenditure based benchmark.

For each component in the scope of our Group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £30,000 and £50,000.

Other information included in the annual report

The directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated we do not express any form of assurance conclusion thereon. In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit of otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

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

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

- adequate accounting records have not been kept by the parent company, or returns adequate for the audit have not been received from branches not visited by us; or
- the parent company financial statements are not in agreement with the accounting records and returns; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Responsibilities of directors

As explained more fully in the directors' responsibilities statement set out on page 20, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the Group and parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors' either intend to liquidate the Group and parent company or to cease operating, or have no realistic alternative but to do so.

Auditors' responsibilities for the audit of the financial statements

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.

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statement.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: <http://www.frc.org.uk/>. This description forms part of our auditors' report.

James Pitt BA (Hons) ACA (Senior Statutory Auditor)

For and on behalf of

James Cowper Kreston

Chartered Accountants and Statutory Auditors

2 Chawley Park

Cumnor Hill

Oxford OX2 9GY

United Kingdom

15 January 2018

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2017

	Note	2017 £ '000	2016 £ '000
Revenue	2	3,241	2,142
Cost of sales		(1,651)	(1,457)
Gross profit		1,590	685
Administrative expenses		(2,325)	(1,989)
Depreciation and amortisation		(503)	(418)
Reversal of fixed asset impairment	11	-	232
Release of onerous lease provision		-	23
Operating (loss)	3	(1,238)	(1,467)
Finance income	4	4	6
Finance costs	5	(1)	(1)
(Loss) on ordinary activities before taxation		(1,235)	(1,462)
Taxation	7	139	121
(Loss) on ordinary activities after taxation		(1,096)	(1,341)
(Loss) per share: Basic	8	(0.1)p	(0.1)p
(Loss) per share: Diluted	8	(0.1)p	(0.1)p
Other Comprehensive Income			
Items that may be reclassified to profit or loss:			
Exchange differences on translation of foreign operations		(42)	258
Total comprehensive loss for the year attributable to owners of the parent company		(1,138)	(1,083)

All operations are continuing.

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

For Hardide plc, company registered number 05344714

At 30 September 2017

	Note	2017 £ '000	2016 £ '000
Assets			
Non-current assets			
Goodwill	9	69	69
Intangible assets	10	1	1
Property, plant & equipment	11	1,490	1,872
Total non-current assets		1,560	1,942
Current assets			
Inventories	12	160	60
Trade and other receivables	12	622	566
Other current financial assets	12	242	270
Cash and cash equivalents	12	1,212	1,967
Total current assets		2,236	2,863
Total assets		3,796	4,805
Liabilities			
Current liabilities			
Trade and other payables	13	488	408
Financial liabilities	13	5	17
Total current liabilities		493	425
Net current assets		1,743	2,438
Non-current liabilities			
Financial liabilities	14	12	3
Total non-current liabilities		12	3
Total liabilities		505	428
Net assets		3,291	4,377
Equity attributable to equity holders of the parent			
Share capital	16	3,242	3,242
Share premium	16	10,306	10,305
Retained earnings		(10,060)	(8,964)
Share-based payments reserve		235	184
Translation reserve		(432)	(390)
Total equity		3,291	4,377

The financial statements were approved and authorised for issue by the Board on 15 January 2018.

Robert Goddard
Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2017

	2017 £ '000	2016 £ '000
Cash flows from operating activities		
Operating (loss)	(1,238)	(1,467)
Impairment of intangibles	1	2
Depreciation	503	416
Reversal of property, plant and equipment impairment	-	(232)
Share option charge	51	28
(Increase) / Decrease in inventories	(100)	1
(Increase) / Decrease in receivables	(91)	(18)
Increase / (Decrease) in payables	78	(160)
(Decrease) in provisions	-	(23)
Exchange rate variance	-	31
Cash generated from operations	(796)	(1,422)
Finance income	4	6
Finance costs	(1)	(1)
Tax received	207	64
Net cash generated from operating activities	(586)	(1,353)
Cash flows from investing activities		
Purchase of property, plant and equipment	(152)	(561)
Net cash used in investing activities	(152)	(561)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	-	1,571
Finance lease repayment	(17)	(17)
Net cash used in financing activities	(17)	1,554
Net (decrease) in cash and cash equivalents	(755)	(360)
Cash and cash equivalents at the beginning of the year	1,967	2,327
Cash and cash equivalents at the end of the year	1,212	1,967

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2017

	Share Capital	Share Premium	Share-based Payments	Foreign Translation	Retained Earnings	Total Equity
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
At 1 October 2016	3,242	10,305	184	(390)	(8,964)	4,377
Issue of new shares	-	1	-	-	-	1
Share options	-	-	51	-	-	51
Exchange translation	-	-	-	(42)	-	(42)
Loss for the year	-	-	-	-	(1,096)	(1,096)
At 30 September 2017	3,242	10,306	235	(432)	(10,060)	3,291

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.

Standards, amendments and interpretations effective in 2017 and applied by the Group

The Group has adopted the following revisions and amendments to IFRS issued by the International Accounting Standards Board, which are relevant to and effective for the Group's financial statements for the period beginning 1 October 2016.

- IFRS 2 Share-based Payment - Definitions of vesting conditions
- IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination
- IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
- IFRS 7 Financial Instruments: Disclosures - Servicing contracts
- IFRS 7 Financial Instruments: Disclosures Applicability of the offsetting disclosures to condensed interim financial statements
- IFRS 8 Operating Segments - Aggregation of operating segments
- IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28
- IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28 IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception - Amendments to IFRS 10, IFRS 12 and IAS 28
- IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11
- IFRS 14 Regulatory Deferral Accounts
- IAS 1 Disclosure Initiative - Amendments to IAS 1
- IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38

- IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation/amortisation
- IAS 19 Employee Benefits - Discount rate: regional market issue
- IAS 24 Related Party Disclosures - Key management personnel
- IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27
- IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'

The Directors have assessed that the adoption of these revisions and amendments did not have an impact on the financial position or performance of the Group.

b. Standards, amendments and interpretations that are not yet effective and have not been early adopted:

At the date of authorisation of these financial statements, the following Standards and Interpretations which have not been applied in these financial statements were in issue but not yet effective:

Effective date* 01 Jan 17

- IAS 7 Disclosure Initiatives - Amendments to IAS 7
- IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12
- AIP IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

Effective date* 01 Jan 18

- IFRS 2 Classification and Measurement of Share based Payment Transactions- Amendments to IFRS 2
- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration
- AIP IFRS 1 First-time Adoption of International Financial Reporting Standards - Deletion of short-term exemptions for first-time adopters
- AIP IAS 28 Investments in Associates and Joint Ventures - clarification that measuring investees at fair value through profit or loss is an investment-by-investment choice

Effective date* 01 Jan 19

- IFRS 16 Leases

* the standard is effective for accounting periods beginning in or after this date

The Directors anticipate that the adoption of these Standards and Interpretations in future periods will have no material impact on the financial statements of the Group.

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 Hardide plc and entities controlled by Hardide plc (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 inter-company 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 Group'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 (1 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, for computer software this is typically 4 years.

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 property, plant and equipment 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 Statement of Financial Position 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 Statement of Financial Position 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 Group'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 statement of financial position 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 Statement of Financial Position. 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 workplace pension scheme for its employees since November 2016, and makes the statutory minimum 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 Statement of Financial Position date.

Deferred tax assets and liabilities are recognised where the carrying amount of an asset or liability in the Statement of Financial Position differs from its tax base. 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 Statement of Financial Position 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 Statement of Financial Position 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 judgment 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.

(d) The Group measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determination of the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and model used for estimating fair value for share-based payment transactions are disclosed in Note 17 to the Consolidated Financial Statements.

(e) The Group accounts for grants when they are received or due to be received. Where a grant contains performance criteria, the likelihood that those criteria will not be met and therefore a proportion of the grant will have to be repaid is assessed and, if deemed likely, a liability is recognised.

2. Segmental Analysis

Under IFRS8, 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 into UK and USA operation and Corporate central functions, and this factor identifies the Group's reportable segments.

Year ended 30 September 2017

	UK operation		US operation		Corporate		Eliminations		Total	
	£ '000		£ '000		£ '000		£ '000		£ '000	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
External revenue	2,504	2,037	737	105	-	-	-	-	3,241	2,142
Inter-segment revenue	-	-	-	-	-	-	-	-	-	-
Interest revenue	2	4	-	-	2	2	-	-	4	6
Interest expense	1	1	-	-	-	-	-	-	1	1
Depreciation	150	176	353	242	-	-	-	-	503	418
Impairment reversal	-	-	-	(232)	-	-	-	-	-	(232)
Income tax income	-	-	-	-	139	120	-	-	139	120
Release of Provision	-	-	-	(23)	-	-	-	-	-	(23)
Reportable segment profit / (loss)	87	(503)	(613)	(414)	(1,002)	(1,367)	432	943	(1,096)	(1,341)
Segment assets	3,154	3,086	1,541	1,701	2,003	2,835	(2,902)	(2,817)	3,796	4,805
Expenditure for non-current assets	127	57	28	599	-	-	-	-	155	656
Segment liabilities	277	250	9,426	9,242	2,003	1,873	(11,201)	(10,937)	505	428

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	Europe	N America	Rest of World	Total
	£ '000	£ '000	£ '000	£ '000	£ '000
External sales					
2017	1,674	41	1,526	-	3,241
2016	1,007	26	1,107	2	2,142

Three external customers (2016 – four) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2017. The external sales for these customers were £0.841m, £0.577m, and £0.475m 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):

	2017 £ '000	2016 £ '000
Auditor's remuneration:		
Fees payable to the Company's current auditor for the audit of the Group's accounts	16	11
Cost of inventory recognised as an expense	694	614
Research and development	203	200
Income from grants	(80)	(190)
Operating lease rentals		
- plant and machinery	31	24
- property	152	163
Share option expense	51	28
Depreciation and amortisation	503	418
Exchange differences	7	(31)

4. Finance Income

	2017 £ '000	2016 £ '000
Interest on bank deposits	4	6

5. Finance Costs

	2017 £ '000	2016 £ '000
Interest on finance leases	1	1

6. Employees

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

	2017 Number	2016 Number
Technical	13	13
Production	15	12
Sales and marketing	5	5
Management and admin	4	5
	37	35

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

	2017 £ '000	2016 £ '000
Wages and salaries	1,822	1,581
Social security costs	181	165
Employer pension contributions	11	-
Share option expense	51	28
	2,065	1,774

Of the total share option expense of £51,000 in the year, £35,000 relates to options held by directors.

The Group contributes to defined contribution plans for employees. The assets of the scheme are held separately from those of the Group in independently administered funds. The Group contributes 1% (2016: Nil) of pensionable salary to the scheme for all eligible employees who opted into the scheme. The pension cost charge represents contributions payable by the Group to the fund. There were no amounts outstanding to be paid at the year end.

The directors are the Key Management Personnel of the Group. Remuneration of directors during the year was as follows:

		2017 £ '000	2016 £ '000
Philip Kirkham (Chief Executive)	Salary	157	153
	Car allowance	15	15
Dr Yuri Zhuk (Technical Director)	Salary	101	99
	Pension	1	-
Peter Davenport (Finance Director)	Salary	79	77
Robert Goddard (Non-Executive Chairman)	Fees	50	50
Andrew Boyce (Non-Executive Director)	Fees	22	22
Jan Ward (Non-Executive Director)	Fees	22	22
Total directors' remuneration		447	438

7. Taxation

(a) Analysis of charge in the year:

	2017 £ '000	2016 £ '000
Loss on ordinary activities before taxation	(139)	(121)

(b) Factors affecting current tax charge:

The tax assessed on the profit on ordinary activities for the year is lower than (2016: lower than) the standard rate of corporation tax in the UK of 19.5% (2016: 20%)

	2017 £ '000	2016 £ '000
Loss on ordinary activities before taxation	(1,235)	(1,462)
Loss on ordinary activities by rate of tax	(241)	(292)
Effect of:		
Expenses not deductible for tax purposes	10	5
Deferred tax not recognised	120	181
Adjustment in respect of prior periods	(14)	(1)
R&D enhanced expenditure	(95)	(95)
R&D surrendered	81	81
Total current tax (note 7a)	(139)	(121)

The standard rate of corporation tax in the UK is currently 19.5% (2016: 20%). The Group has unutilised trading tax losses in the UK of approximately £1.1m (2016: £1.1m) 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

	2017 £ '000	2016 £ '000
(Loss) / Profit on ordinary activities after tax	(1,096)	(1,341)

Basic earnings per ordinary share:

Weighted average number of ordinary shares in issue	1,534,914,852	1,345,202,056
Earnings per share	(0.1)p	(0.1)p

As net losses were recorded in 2017 and 2016, the potentially dilutive share options are anti-dilutive for the purposes of the loss per share calculation and their effect is therefore not considered.

9. Goodwill

	£ '000
Cost at 1 October 2016 and 30 September 2017	69
Net book value at 1 October 2016 and 30 September 2017	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

	2017 £ '000	2016 £ '000
Cost at 1 October	6	15
Additions	-	-
Disposals	-	(9)
Cost at 30 September	6	6
Net book value at 1 October	1	3
Amortisation b/fwd	5	12
Disposals	-	(9)
Impairment charge	-	2
Net book value at 30 September	1	1

11. Property, Plant and Equipment

	Leasehold buildings £ '000	Plant, vehicles and fixtures £ '000	Computer equipment £ '000	Total £ '000
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)
Impairment	-	(255)	-	(255)
Exchange differences	-	-	-	-
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
Cost at 1 October 2016	485	3,761	105	4,351
Additions	12	133	8	153
Disposals	-	(36)	(15)	(51)
Exchange differences	(8)	(50)	-	(58)
Cost at 30 September 2017	489	3,808	98	4,395
Depreciation at 1 October 2016	250	2,160	69	2,479
Provided in the year	28	459	16	503
Disposals	-	(34)	(15)	(49)
Exchange differences	(2)	(26)	-	(28)
Depreciation at 30 September 2017	276	2,559	70	2,905
Net book value at 1 October 2016	235	1,601	36	1,872
Net book value at 30 September 2017	213	1,249	28	1,490

12. Current Assets

	2017 £ '000	2016 £ '000
Inventories		
Raw materials and consumables	95	60
Manufactured parts for resale	28	-
Work in progress	37	-
	160	60
Receivables		
Trade receivables	609	525
Other receivables	13	41
	622	566
Other current financial assets		
Prepayments	76	56
VAT receivable	32	12
Accrued income	134	202
	242	270
Cash and cash equivalents		
Sterling	834	1,735
US Dollar	368	215
Euro	10	17
	1,212	1,967
Total current assets	2,236	2,863

There is no general provision for bad debts. During the year, no specific trade receivable was classified as a bad debt. Trade receivables are regularly reviewed for age and possible impairment. It is the directors' opinion that, as at the statement of financial position date, no trade receivable required impairment. The ageing of trade receivables is as follows:

	2017 £ '000	2016 £ '000
Current	371	181
1 month	219	230
2 months	6	60
3 months	5	56
More than 3 months	8	(2)
Total trade receivables	609	525

A total of £238,000 (2016: £344,000) trade receivables are over 30 days old and therefore overdue.

13. Current Liabilities

	2017 £ '000	2016 £ '000
Trade payables	376	293
Taxation and social security costs	48	45
Accruals	64	70
Finance lease obligations	3	17
Lease incentives	2	-
Total current liabilities	493	425

14. Non-current other Financial Liabilities

	2017 £ '000	2016 £ '000
Lease incentives	12	-
Finance lease obligations	-	3
	12	3

15. Total Commitments under Operating Leases

The future aggregate minimum lease payments under non-cancellable operating leases at the Statement of Financial Position date were as follows:

	Land and buildings		Plant	
	2017 £ '000	2016 £ '000	2017 £ '000	2016 £ '000
Within one year	150	67	30	24
In the second to fifth years	513	241	31	36
In more than five years	146	215	-	-
	809	523	61	60

16. Share Capital

	2017		2016	
	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
Authorised deferred shares of 0.9p each	-	-	250,000	2,250
Allotted ordinary shares of 0.1p each	1,534,958	1,535	1,534,906	1,535
Allotted deferred shares of 0.9p each	189,642	1,707	189,642	1,707

During the year, one employee exercised options over 52,000 shares.

17. Share-based Payment

	Number	Weighted average exercise price
Outstanding at 1 October 2016	116,759,600	0.66p
Exercisable at 1 October 2016	41,919,100	0.62p
Granted during year	9,000,000	0.84p
Exercised during year	52,000	0.45p
Forfeited during year	-	-
Outstanding at 30 September 2017	125,707,600	0.67p
Exercisable at 30 September 2017	73,957,600	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)	15,351,000	0.65p

During the year no director exercised any share options. As part of the Group's share option scheme, the following options were granted to directors during the year at an exercise price of 0.975p:

Peter Davenport (Finance Director)	3,000,000
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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 65%, a risk-free interest rate of 1.27%, and an expected life of 3.5 years. The average calculated fair value of options granted during the year was 0.29p per share.

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, or Group profitability, or new business. At 30 September 2017 the weighted average remaining contractual life of all outstanding options was 5 years and 7 months (2016: 6 years and 4 months).

The total charge to the income statement for share options during the year was £51,000 (2016: £28,000).

18. Post Balance Sheet Events

On 27 October 2017 Hardide plc announced that it had raised £1.716m before expenses by a placing of 100,941,175 ordinary shares. A further £0.821m before expenses will be raised by a placing of 48,294,117 subject to receipt of advance assurance from HMRC that the shares will qualify as “eligible shares” for the purposes of the Enterprise Investment Scheme.

As a result of the share placing, on 9 November 2017 Hardide Coatings Inc placed an order for a third chemical vapour deposition reactor for its Martinsville facility, valued at €576,120. The reactor is expected to be delivered and commissioned during summer 2018.

Consequent upon ordering the new reactor, Hardide Coatings Inc has applied for a 5 year term loan offered by Martinsville - Henry County Economic Development Corporation. The amount of the loan is \$240,000 and can be drawn down in instalments of 30% upon ordering the reactor, 60% when it is shipped from the manufacturer, and 10% after delivery to Martinsville. The interest rate on the loan is fixed at 2% for the term, repayments are due quarterly and will start once the loan has been fully disbursed. The loan is secured against the reactor and Hardide plc has acted as guarantor.

19. Related Party Transactions

There were no related party transactions to report with either directors or key management other than those disclosed in note 6.

20. Capital Commitments

At the Statement of Financial Position date Hardide Coatings Limited had a capital commitment of £100,000 for the purchase of equipment (2016: Nil).

21. Contingent Liabilities

Hardide Coatings Inc received a grant of \$170,000 during 2015 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 has been agreed with the grantor to defer the assessment date to the end of December 2018.

A further grant of \$150,000 was received from the Governor’s Development Opportunity Fund in 2016 through the Virginia Economic Development Partnership Authority which contained performance obligations concerning the number of employees and the value of taxable assets located in Henry County, Virginia, but with an achievement date of 30 June 2018.

If these performance obligations are not met then a proportion of the grants are potentially repayable, the amount depending on the shortfall against those performance obligations. The directors have assessed the Group’s performance against those obligations and consider they are likely to be achieved.

The same contingent liabilities existed at 30 September 2016.

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's principal financial instruments are financial assets comprising Trade and other receivables (excluding prepayments) and cash balances; and financial liabilities comprising trade payables as disclosed in notes 12 and 13. These are all measured at fair value with changes in carrying amount charged or credited to the Income Statement, with the exception of borrowings which are measured at amortised cost.

Exposure to credit, liquidity, currency and interest rate 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, in particular the ageing of trade receivables and the amount of cash on deposit with various institutions. As at 30 September 2017 the Group had trade receivables and other receivables of £622,000 (2016: £566,000) and cash deposits of £1,212,000 (2016: £1,967,000).

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 2017 and the maturity profile of the carrying value of the Group's financial liabilities are shown in note 13. All financial liabilities will be settled within six months unless stated in note 14. The Group's policy is to ensure that it has sufficient cash to allow it to meet its liabilities. This risk is monitored by the Board which receives forecast cash flows on a monthly basis, an annual budget and quarterly revenue and cost forecasts. The Group currently has no bank credit facility.

Currency 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 risks arise when Group companies enter into transactions denominated in a currency other than their functional currency. Movements in exchange rates also affect the value of the Group's foreign currency cash balances in the UK. Exchange rate movements during the year resulted in a cost of £7,000 (2016: £31,000 gain).

Interest rate risk

Interest rate risk arises on borrowings and cash balances which are at floating interest rates. Changes in rates could have the effect of either increasing or decreasing the Group's net profit. The major risk is to UK rates and there is no exposure to rates in the USA or Europe.

As at 30 September 2017, the Group had no floating rate borrowings, and all its cash deposits were in floating rate accounts.

PARENT COMPANY STATEMENT OF FINANCIAL POSITION

For Hardide plc, company registered number 05344714

At 30 September 2017

	Note	2017 £ '000	2016 £ '000
Assets			
Non-current assets			
Investments	3	1,164	1,100
Amounts owed by Group undertakings	4	9,330	9,206
Provision	4	(9,330)	(9,206)
Total non-current assets		1,164	1,100
Current assets			
Trade and other receivables	5	174	226
Cash and cash equivalents		750	1,522
Total current assets		924	1,748
Total assets		2,088	2,848
Liabilities			
Current liabilities			
Trade and other payables	6	2,023	1,886
Total current liabilities		2,023	1,886
Net current assets / (liabilities)		(1,099)	(138)
Total liabilities		2,023	1,886
Net assets / (liabilities)		65	962
Equity			
Share capital	7	3,242	3,242
Share premium		10,306	10,305
Retained earnings		(13,718)	(12,716)
Share-based payments reserve		235	131
Total equity		65	962

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 £1,002,000 (2016: loss of £1,367,000) after accounting for an increase in the provision against the intercompany loan of £124,000 and an exchange rate loss on intercompany loan of £308,000.

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

The financial statements were approved and authorised for issue by the Board on 15 January 2018.

Robert Goddard

Director

STATEMENT OF CASH FLOWS

For the year ended 30 September 2017

	2017 £ '000	2016 £ '000
Cash flows from operating activities		
Operating profit / (loss)	(711)	(547)
Share option charge	40	16
(Increase) / Decrease in receivables	(9)	(6)
Increase / (Decrease) in payables	(31)	41
Cash generated from operations	(711)	(496)
Finance income	3	2
Tax received / (paid)	207	64
Net cash generated from operating activities	(501)	(430)
Cash flows from investing activities		
Net loan to subsidiaries	(271)	(431)
Net cash used in investing activities	(271)	(431)
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	(772)	710
Cash and cash equivalents at the beginning of the year	1,522	812
Cash and cash equivalents at the end of the year	750	1,522

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2017

	Share Capital	Share Premium	Share-based Payments	Retained Earnings	Total Equity
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	-	-	-	(1,367)	(1,367)
At 30 September 2016	3,242	10,305	131	(12,716)	962
At 1 October 2016	3,242	10,305	131	(12,716)	962
Issue of new shares	-	-	-	-	-
Share options	-	1	104	-	105
Loss for the year	-	-	-	(1,002)	(1,002)
At 30 September 2017	3,242	10,306	235	(13,718)	65

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:

	2017	2016
	Number	Number
Management and admin	2	3
Sales and marketing	1	1
Technical	4	3

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

	2017	2016
	£ '000	£ '000
Wages and salaries	589	570
Social security costs	62	58
Share option expense	40	16
	691	644

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

3. Investments

	2017	2016
	£ '000	£ '000
Investments in subsidiaries	1,164	1,100

At 30 September 2017 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	Dormant company

4. Amounts Owed by Group Undertakings

The amounts owed by Hardide Coatings Inc amounting to £9,330,000 (2016 £9,206,000) 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 £124,000 (2016 £2,260,000) has been debited to the profit and loss account in the year.

5. Trade and other Receivables

	2017	2016
	£ '000	£ '000
Taxation recoverable	20	11
Prepayments and accrued income	154	215
	174	226

6. Trade and other Payables

	2017 £ '000	2016 £ '000
Trade payables	79	85
Social security and other taxes	20	19
Amounts owed to group undertakings	1,902	1,742
Accruals and deferred income	22	40
	2,023	1,886

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 £160,000. 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.

7. Share Capital

	2017		2016	
	Number 000	Value £ '000	Number 000	Value £ '000
Authorised ordinary shares of 0.1p each	-	-	1,750,000	1,750
Authorised deferred shares of 0.9p each	-	-	250,000	2,250
Allotted ordinary shares of 0.1p each	1,534,958	1,535	1,534,906	1,535
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 2017 or 30 September 2016.

9. Contingent Liabilities

There were no contingent liabilities at 30 September 2017 or 30 September 2016.

10. Related Party Transactions

Hardide plc has inter-company transactions with both Hardide Coatings Ltd and Hardide Coatings Inc, both of which are wholly-owned members of the Group. These are made up of cash and VAT balance transfers, intercompany management charges, intercompany royalty charges and amounts received by or paid on behalf of other group companies, as follows:

Nature of transaction	2017		2016	
	With Hardide Coatings Ltd £ '000	With Hardide Coatings Inc £ '000	With Hardide Coatings Ltd £ '000	With Hardide Coatings Inc £ '000
Rendering or receiving management services	140	-	282	-
Transfers of research and development costs	(149)	-	(140)	-
Transfers under licence agreements	250	70	204	-
Transfers under finance arrangements	(503)	362	(893)	931
Settlement of liabilities on behalf of the entity	102	-	35	12
Balance outstanding at 30 September 2017	(1,902)	9,330	(1,742)	9,206

11. Post Balance Sheet Events

On 27 October 2017 Hardide plc announced that it had raised £1.716m before expenses by a placing of 100,941,175 ordinary shares. A further £0.821m before expenses will be raised by a placing of 48,294,117 subject to receipt of advance assurance from HMRC that the shares will qualify as “eligible shares” for the purposes of the Enterprise Investment Scheme.

12. Financial Instruments

The financial instruments risk management is disclosed in note 22 of the financial statements and applies to the parent Company with the amounts as disclosed in notes 5 and 6 of the Company’s notes to the financial statements.

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P Davenport
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