2018 Annual Report

Hardide plc

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.

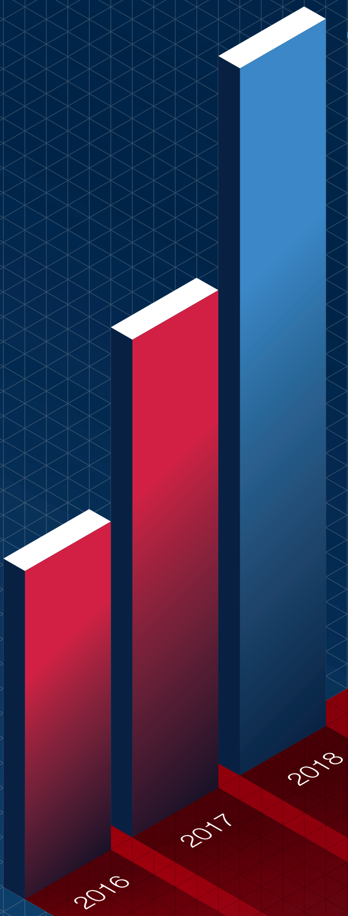
Hardide surface engineering technology transforms the way that parts perform under severe service conditions. Previously, levels of friction, abrasion and aggressive chemical attack have led to part failure, downtime and extreme cost. Our coatings are enabling customers in high wear/high value industries 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, UK and Virginia, USA.

CONTENTS

Business & Operational Highlights

- Significant rise in sales to oil and gas sector; supported by strong demand from the two new supply agreements previously announced
- Increased sales benefitted from new customers and the continuing recovery of the oil and gas sector
- 84% year-on-year increase in sales to customers in North America - accounting for 61% of total Group sales
- Technical work successfully completed with Airbus on production parts and final commercial discussions underway
- Investment in additional capacity: third reactor installed in the US, further upgrades to production equipment in US and UK
- Both US and UK sites are now accredited to aerospace quality management system AS9100 Rev D
- Awarded funding for three projects: one from Innovate UK and two from The National Aerospace Technology Exploitation Programme (“NATEP”)
- Appointment of two new non-executive directors bringing extensive aerospace and strategic business experience
- Appointment of senior independent director

Financial Highlights

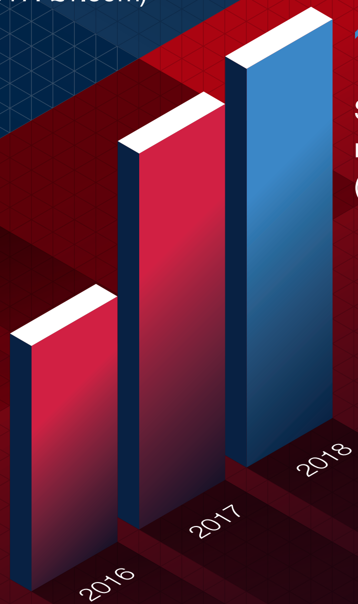


↑42%

Record revenues, up 42% to £4.61m (2017: £3.24m)

↑52%

Gross profit increased by 52% to £2.41m (2017: £1.59m)

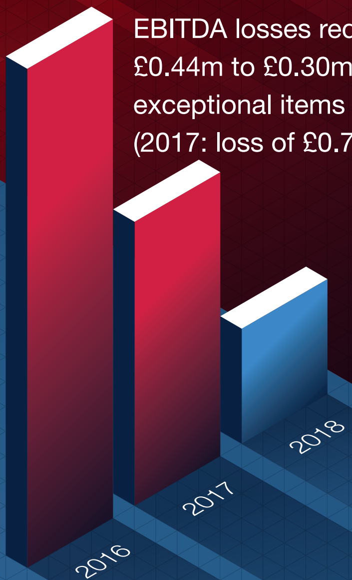


↑52%

Stronger gross margin of 52% (2017: 49%)

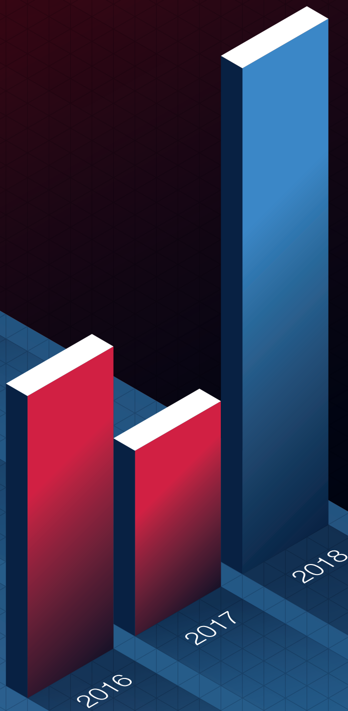
£0.44m

EBITDA losses reduced by £0.44m to £0.30m before exceptional items (2017: loss of £0.74m)



£3.30m

Cash at bank at 30 September 2018 of £3.30m (2017: £1.21m)



CHAIRMAN'S AND CEO'S REPORT

INTRODUCTION

Hardide reported record full year sales of £4.61m, a 42% increase over FY17 (2017: £3.24m). The global upturn in the oil and gas sector, boosted by the two new supply contracts, benefitted the Group with a strong improvement in oil and gas sales when compared with FY17. Sales increased across all geographies but was particularly marked in North America, where an 84% uplift from last year was achieved.

In February 2018, an oversubscribed fundraising of £2.54m (before expenses) was completed. At the same time, a US$0.24m low-interest loan facility was made available by Martinsville-Henry County Economic Development Corporation (MHCEDC) in Virginia, USA. This has helped fund the third coating reactor, equipment upgrades and other developments at the Martinsville site, thereby bringing it up to aerospace standard.

In July 2018, strategic plans to develop the aerospace sector were advanced in the US as the facility there gained aerospace certification to AS9100 Rev D. This followed the UK site's transition to AS9100 Rev D in December 2017. Progress towards securing aerospace contracts in Europe has gathered pace, with technical testing concluded and commercial discussions underway on production parts for Airbus, and parts in development for several other European and US manufacturers. This slow pace of progress is normal in the aerospace industry.

We continued our strategy to achieve further growth of the business by investing ahead of revenue in business development, production equipment and capacity.

FINANCIAL RESULTS

The Group generated record sales of £4.61m in the year ended 30 September 2018 (2017: £3.24m). Direct expenses including production salaries increased by 33% which allowed Group gross profit to grow by 52% to £2.41m. Overhead costs rose by 17% as we continued to invest in marketing, business development resource, research and development and IT, as well as reflecting a slight reduction in grants received compared to the previous year. We recruited an additional Business Development Engineer for the North American market; and we incurred significant expense developing the process to coat extremely complex components which resulted in the award of the second of our two new supply contracts.

The Group's EBITDA loss before exceptional items of £0.25m reduced by 59% to £0.30m (2017: £0.74m loss). Depreciation expense also fell year on year as some equipment in Martinsville became fully written-down.

In 2015 and 2016, Hardide Coatings, Inc. received two grants worth a combined US$0.32m towards the cost of the new Martinsville facility. These grants had performance criteria attached relating to increasing both the number of employees and the amount of taxable property at the facility within a certain time frame. We have reviewed these criteria and decided prudently to make a provision in the accounts for the potential repayment of these grants in full. This has been shown as an exceptional item. The deep and long recession in the oil industry during the period 2014 to 2017 meant that the development of our US business has taken longer than originally projected. Notwithstanding, we have asked the grantors to extend the performance review deadlines.

There has been a slight change to the business model in this financial year. A substantial new, high-volume supply contract has Hardide responsible for the complete supply and stocking of the product. This means that in a few cases, in addition to coating components, the Group is responsible for purchasing the metal for those components and the sub-contract machining of them. Since the added-value of Hardide is in the coating and not in the value of metal or the machining of it, the percentage mark-up that the Group can achieve on the bought-in elements is lower than the margin on the coating itself. However, the high sales value under this contract, albeit at a lower percentage margin, provides a significant uplift to the Group's overall gross profit. As such, this supply contract is a very positive development for the Group. This is the second such contract where customers have asked Hardide to be responsible for the full supply of the parts; this significantly improves and secures our position as a long-term supplier to them.

On the balance sheet, net assets at 30 September 2018 were £5.08m (2017: £3.29m). This included a cash balance of £3.30m (2017: £1.21m).

OPERATIONAL OVERVIEW

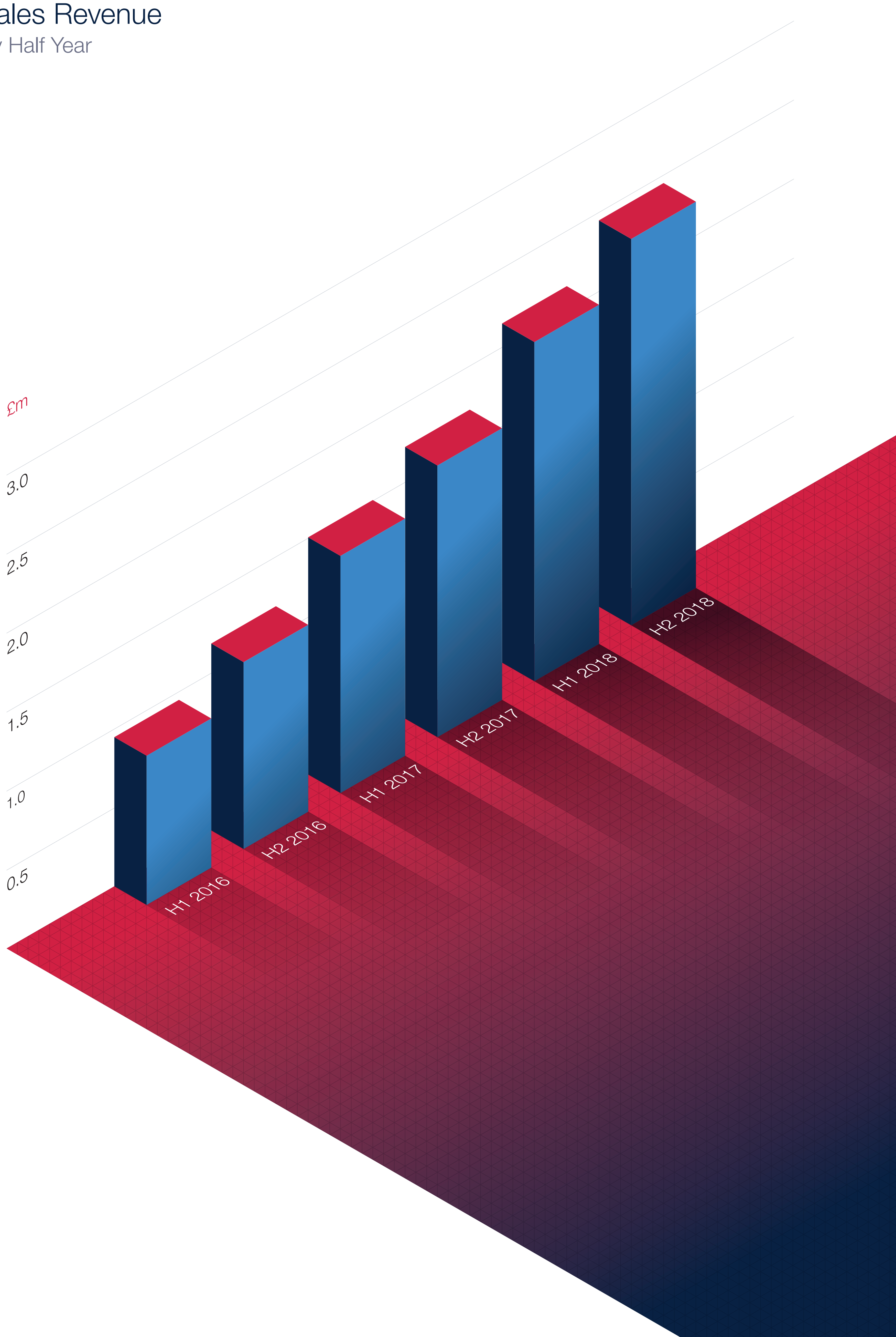
Customers and Markets

Activity returned strongly to the oil and gas sector and with it the volume of sales in the second half of FY18 to the two customers with whom we announced new, major supply agreements last year. We worked with the first customer – a North American provider of high-value 'completion' technology – to develop an arrangement whereby Hardide builds an agreed level of stock from which coated product can be provided on a 'just-in-time' basis. This cuts lead time for the customer by more than 50%. With the Hardide coating, their tool lasts longer and enables more efficient production, thereby lowering extraction cost and delivering competitive advantage.

The first high-volume production orders were received under the second agreement, which is with a global oil and gas operator. The complex design of the component presented considerable technical and production challenges and it is a notable achievement by the Hardide technical and production teams that these were overcome. The technology is now being deployed in a deepwater production field. Coating of these parts is now being transferred from the UK to our US facility.

Strong demand is forecast for a third oil and gas application. This is from a current blue chip oil services customer for key components in a new downhole tool.

Sales Revenue
By Half Year



Progress towards securing supply contracts for Airbus components is gathering pace. Over the last year, substantial development work has been undertaken with both Airbus and one of their tier 1 suppliers on a range of components. Frequent joint meetings have been taking place so as to reach a conclusion as fast as is possible. The availability of trial components and information flow from the tier 1 partner was challenging, but now all technical details and required changes have been finalised and agreed. The focus is now on agreeing commercial terms and once this is done, pre-production and/or full production orders should follow shortly thereafter. This pace of progress, while slow and frustrating, is typical for the introduction of a new process to the aerospace industry. However, once complete it is expected that demand for the components will continue for many years.

Additional components for another tier 1 supplier to Airbus are also in the final stages of a life testing programme, with very promising results. We expect progress with these components will be much quicker than with the earlier approval process with Airbus.

Testing of transmission components at Leonardo Helicopters is almost complete and the Hardide coating is showing excellent results.

Other development work is also ongoing with a number of UK, European and North American aerospace companies including Triumph Aerospace Systems Group and has been aided by the recent approval of both Bicester and Martinsville sites to aerospace standard AS9100 Rev D and also the Nadcap accreditation at Bicester.

Good progress was made in our goal to diversify our customer base. This is due largely to the three new major contracts and helped as well by several other smaller accounts arising from development projects. The resurgence of oil and gas activity and the protracted process of securing volume aerospace sales means that our market diversification plans are taking longer than we would like. However, the Board is satisfied that the risk from over-reliance on a small number of customers is now much reduced and that sector diversity will improve as sales into the aerospace sector result alongside sales to other sectors where trials are showing promise, including power generation and coating industrial diamonds for use in the hard-facing of components.

In North America, we strengthened our business development team by appointing a business development engineer. Based in Houston, Texas he is dedicated to the oil and gas sector. This will allow our existing VP of Business Development in North America to concentrate on developing new markets, including aerospace.

Our first participation in a US aerospace exhibition took place in Arizona in December 2018 and in July 2018, we exhibited at the Farnborough Airshow as part of the North West Aerospace Alliance group. This resulted in increased awareness of Hardide and many productive new leads.

New opportunities arose throughout the year as a direct result of Hardide's technical director making presentations at several top tier conferences in North America and Europe. We continued to publish papers and secure editorial in trade journals in these regions throughout the year.

Being novel technology, achieving awareness has been challenging but now, with substantial sales into new applications that can be publicised, together with sustained marketing, awareness of our technology is improving steadily and expected to lead to new business and the expansion of our customer base.

Production, Technology, Research & Development and Accreditations

In July 2018, the quality management system at the production facility in Martinsville was certified for the first time to the stringent AS9100 Revision D and ISO9001 and the site is now approved to coat aerospace and space industry components. While the UK facility has been approved to this standard for many years, it transitioned to Revision D in December 2017. A complement to ISO 9001:2015, Revision D includes an increased focus on senior management commitment, risk management and product safety requirements.

An emphasis on R&D activity during the oil industry downturn resulted in the Group making sufficient progress to apply successfully for three grants for the further development of the Hardide coating for oil and gas, and aircraft components.

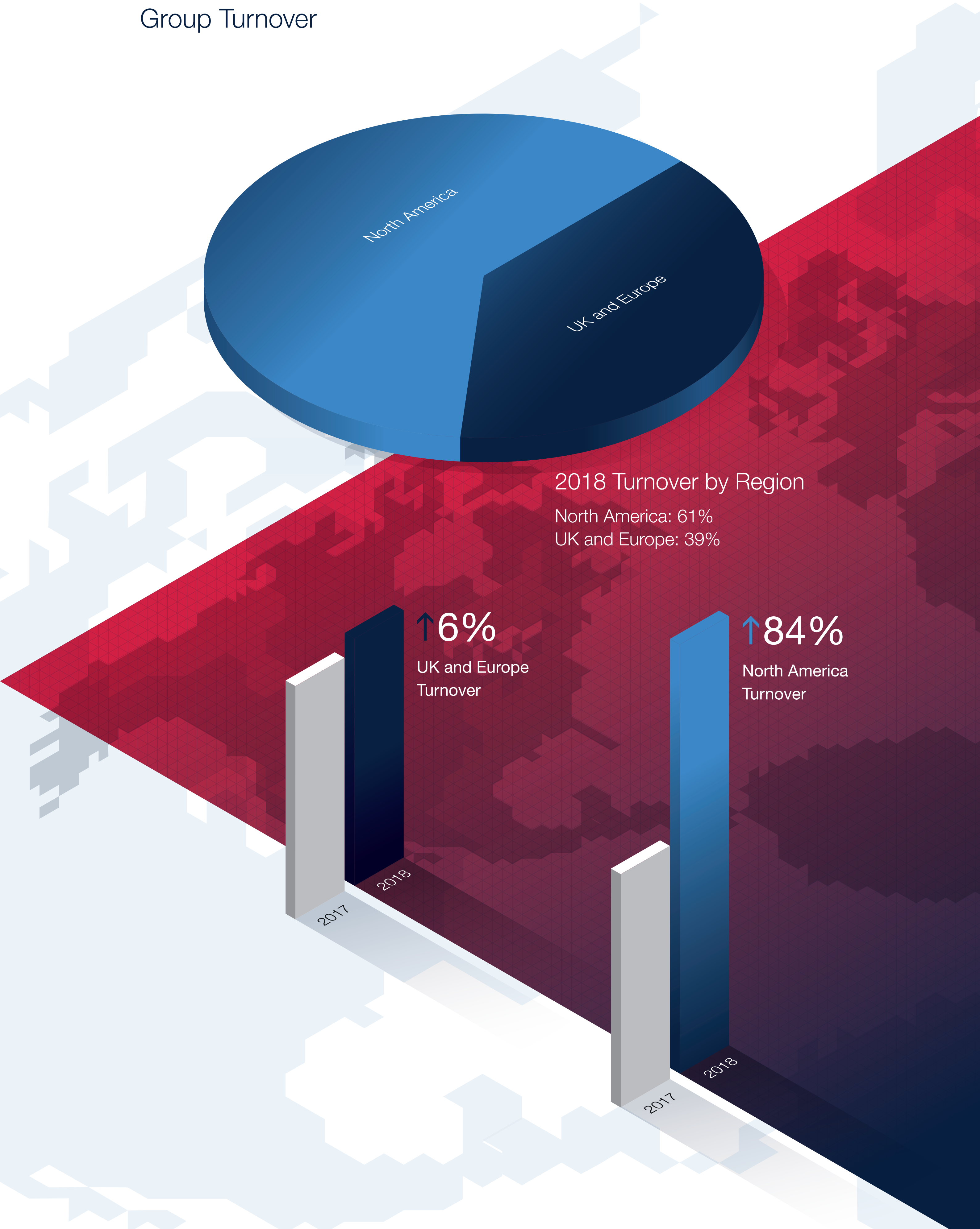
Since January 2018, and with grant support from Innovate UK, the technical team has been making good progress on a low temperature variant of the coating. Following in-depth experimental and analytical work, a production-ready, low temperature coating process was developed and is now under extensive testing by several leading UK laboratories. This new coating will enable the Group to widen the range of materials that can be coated, including some grades of steel and alloys widely used in the subsea oil and gas, and aerospace industries. This project will continue until spring 2019.

During the period, the Group was awarded funding for two projects from NATEP. The funding will help further the application of Hardide coatings for aircraft components. NATEP is a £14.4m aerospace initiative programme designed to further the application of 40 technologies in the UK aerospace supply chain. Hardide Coatings is the lead partner on both of the projects.

The first project is the development of a grinding and super-finishing methodology for Hardide-A, which is a proven direct and REACH (Registration, Evaluation, Authorisation and Restriction of Chemicals) compliant replacement for hard chrome plating. This project is supported by Airbus and Perfect Bore Manufacturing Ltd.

The second project is for testing and characterisation of the low temperature coating and optimisation of the process that will increase the range of aerospace substrate materials suitable for Hardide coating. Airbus and Leonardo Helicopters as end-users and Perfect Bore Manufacturing as component manufacturer

Group Turnover



and Westmoreland Laboratories are all support partners. Both projects began on 1 September 2018 and will each take up to 18 months to complete.

The recent fundraising enabled the acquisition of a third reactor for our US site, as well as upgrades to production and process equipment in the US and UK. These upgrades have brought the US facility up to aerospace standard and enabled the UK site to operate more efficiently, as well as to coat a wider range of products. The new reactor for Martinsville is now in place and will be commissioned before the end of December 2018. Further investment in reactors at the Martinsville facility is under constant review. A new, larger pre-treatment line is also on order for Martinsville and will be ready early in 2019. The investment in new reactors in the US will release capacity for technical development projects in the UK as production for US customers continues to be transferred to Martinsville.

At any one time, the Group has several strategic development, feasibility and test programmes underway. These are essential to our ability to diversify and win new business. Capacity and resource to undertake this work is fundamental to the long-term growth of the business.

The predicted significant growth in activity at both the UK and US sites means that new or additional premises may soon be required. An evaluation of options is now underway and investment decisions will be made in line with expected customer demand.

As the business has grown in size and complexity, with multiple sites and evolving customer needs, new business software is now required. A new SAGE 200 Enterprise Resource Planning (ERP) system is being installed and phased-in to business processes. This will achieve efficiencies in management and administration by integrating day-to-day processes, including inventory and order management, accounting, human resources, and customer relationship management.

Intellectual Property

The IP committee met quarterly to review the IP portfolio. During the year, new UK and international patent applications were submitted for a further-enhanced Hardide coating and its new applications, particularly in power generation. This is currently under examination by the UK's Intellectual Property Office. Japanese and Russian Federation patents were granted for the coating of industrial diamonds. Research continues into the development of new coating variants and applications with the objective of strengthening and widening the Group's IP portfolio. Good progress was made during the year on development of a new coating variant; also with patent potential.

STRATEGY

Hardide's coatings are technologically advanced and often convey considerable commercial advantage by helping to solve complex and difficult engineering problems. Our coatings provide a unique combination of advantageous properties and would enhance the product ranges of many other surface technology companies. With high operational gearing, the Group is working towards significantly increasing its revenue, which means maximising gross profit. The Board believes that a strong upward trajectory in gross profit will be seen externally as a clear indicator of the Group's value.

As demonstrated by the successful fundraising during the year, the Board maintains 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 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 market sectors.

We see substantial new opportunities in our key sectors and are working to convert these into sales. The precision engineering sector continues to develop with multiple new applications expected.

EMPLOYEES AND SHAREHOLDERS

In addition to expressing its thanks and appreciation to our loyal and dedicated staff, the Board thanks Jan Ward, who resigned from the Board during the year, for her contribution. We welcome our new non-executive directors: Charles Irving-Swift and Tim Rice.

The majority of our shareholders have continued to support the Group over many years. They have shared the Board's vision and we hope that they now feel justified in doing so as sales revenue accelerates and significant sales to the aerospace sector are in prospect.

OUTLOOK

The Board is confident of further improvements in performance in FY19 as we progress towards becoming EBITDA-positive. The increase in oil and gas activity, the strong sales pipeline in the UK and North America and the progress being made in test programmes for new applications support this position.

We continue to nurture our long-term relationships with Airbus and Leonardo Helicopters and are confident that soon we will see the benefit to the Group.

Robert Goddard
Chairman
5 February 2019

Philip Kirkham
CEO
5 February 2019

FINANCIAL REVIEW

STATEMENT OF COMPREHENSIVE INCOME

Revenue increased by 42% to £4.61m from £3.24m in 2017. First half sales amounted to £2.16m, with £2.45m in the second half which benefitted from the two major supply agreements signed during the year. Costs of sales rose by 33%, which included the subcontract manufacturing element of one of those agreements. Nevertheless, gross profit increased by 52% to £2.41m at a gross margin of 52% (2017: 49%) as the increased revenue diluted the relatively fixed costs of the production payroll.

Administrative expenses increased by 17% to £2.71m as we added business development resource in North America, an additional NED and continued investment in marketing; together with ongoing research and development expenditure.

The resulting EBITDA loss of £0.30m before exceptional items of £0.25m represented an improvement of £0.44m compared to the 2017 EBITDA loss of £0.74m.

We have made a provision of £0.25m in the 2018 accounts for the repayment in full of two US grants received towards the creation of our new facility in Martinsville, Virginia. These grants were received during 2014 and included performance targets for number of jobs created and value of taxable assets installed, with claw-back provisions should those targets not be met by specific dates during the 2019 financial year. Due to the slump in activity in the oil and gas sector, at 30 September 2018 we had not achieved those targets. We have requested extensions to the performance dates for both grants but in their absence we have provided prudently for their full repayment.

STATEMENT OF FINANCIAL POSITION

Non-current assets were £0.57m higher than 2017 after charging depreciation and impairment of intangible assets of £0.37m. Principally, this reflects the costs of the new reactor at Martinsville, 90% of which was invoiced in the year. We also invested in new and upgraded equipment in Bicester and a new ERP computer system for use by the whole Group.

Inventory levels rose by £0.13m as we now hold a stock of manufactured components for call-off under one of the major supply agreements we entered in to in the second half of the year. Stock components are guaranteed to be purchased within certain time periods and in the event of termination of the agreement. We also increased our stocks of raw materials in anticipation of a large order in Q1 of 2019.

Trade receivables increased by £0.13m or 21%. This was due to a 42% increase in sales. We did not write off or provide for any bad debts during 2018.

Trade payable balances more than doubled to £1.06m, however this included 60% of the cost of the new reactor, as well as payables for manufactured stock and raw materials. Also within current liabilities is the provision for potential repayment of grants.

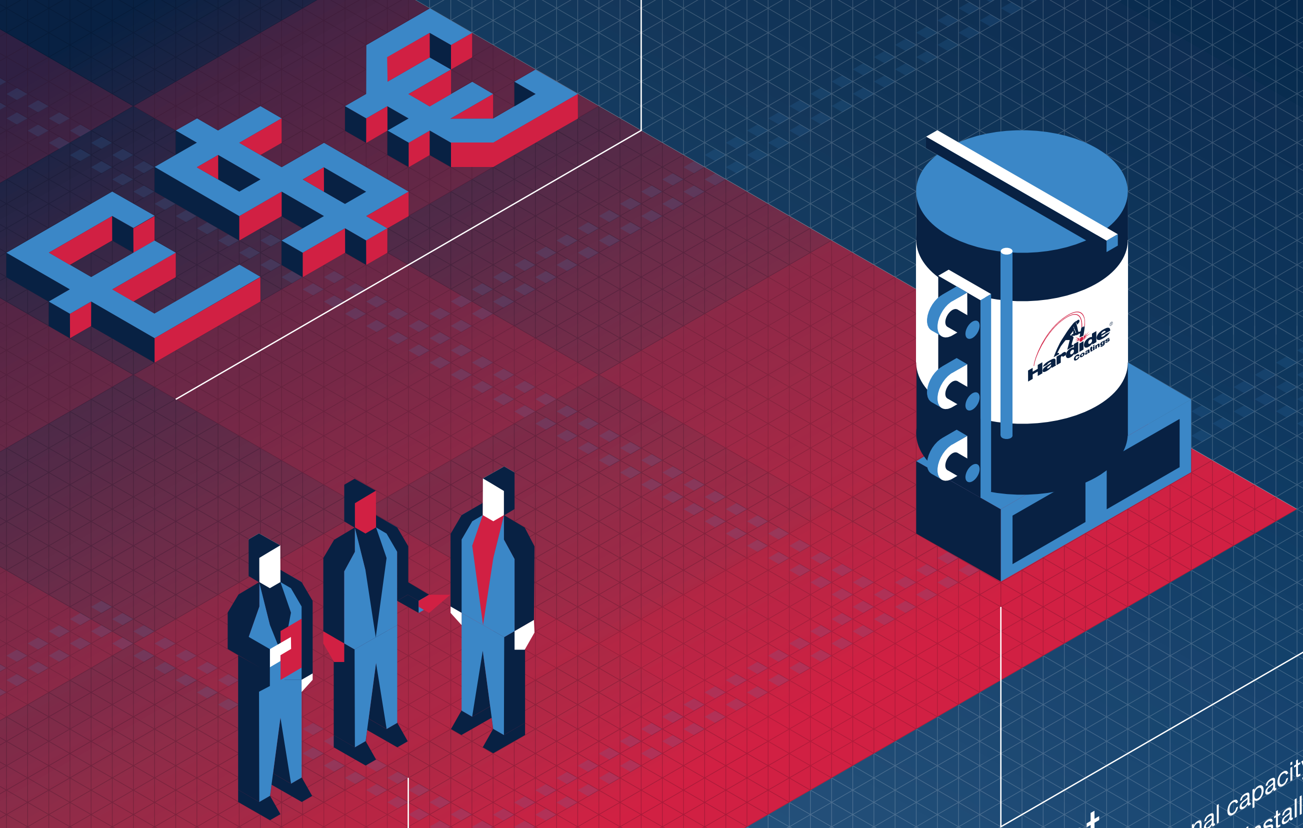
During the year we received the first $72,000 instalment of a $240,000 loan from Martinsville Henry County Economic Development Corporation, towards the cost of the third reactor now installed in our Martinsville facility. The balance will be received during 2019.

Peter Davenport

Finance Director

Investment

Funding has been awarded for three projects, one from Innovate UK and two from The National Aerospace Technology Exploitation Programme (NATEP).

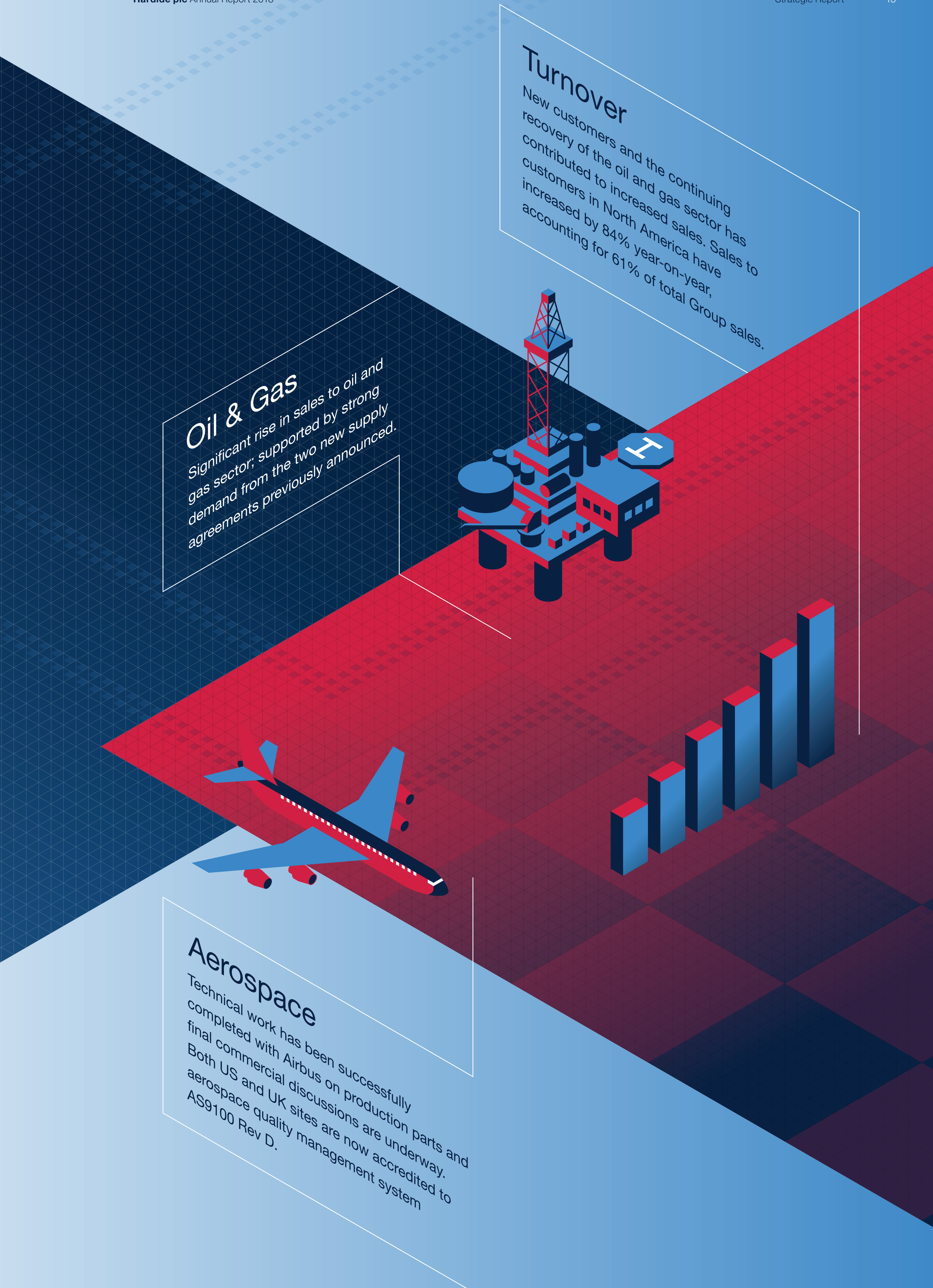


Plant

Investing in additional capacity has seen a third reactor installed in the US and further upgrades to production equipment in the US and UK.

People

The appointment of two new non-executive directors, one of whom was designated as senior independent director, brings extensive aerospace and strategic business experience.


Turnover
New customers and the continuing recovery of the oil and gas sector has contributed to increased sales. Sales to customers in North America have increased by 84% year-on-year, accounting for 61% of total Group sales.
Oil & Gas
Significant rise in sales to oil and gas sector; supported by strong demand from the two new supply agreements previously announced.
Aerospace
Technical work has been successfully completed with Airbus on production parts and final commercial discussions are underway. Both US and UK sites are now accredited to aerospace quality management system AS9100 Rev D.

STRATEGIC REPORT

PREAMBLE

This strategic review has been prepared after the successful raising of £2.54 million (before expenses of £0.07m) for the further development of Hardide plc; particularly in the USA. This was by way of subscription to and placing of new equity. This was in addition to a 'soft' loan from the municipality in which our US facility is based.

The fundraising followed notable successes in the year to 30 September 2018. Chief among these was the securing of supply arrangements with two major new customers. The Company's US production facility was also accredited to ISO 9001 and AS 9100 Rev D.

OVERVIEW

The Board believes that a strong upward trajectory in gross profit will be seen externally as a clear indicator of the Company's value. Accordingly, the focus is on working and investing to grow revenues significantly so that, because of the Company's high operational gearing[1], gross profit is maximised. Inevitably, in the short term this will not maximise EBITDA.

As expected, the successful establishment of our new facility in the US has given rise to additional customer interest and consequent sales in North America. Of strategic importance is that it has also demonstrated management's ability to undertake the difficult process of transferring its technology to a remote site. This gives confidence that further geographical expansion can be made successfully when the time comes. Whilst there are no current plans to build more coating facilities in locations other than those the Company has in North America and the UK, in due course this is likely to change.

Substantial opportunities for new applications and new customers or sectors usually take 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 balance sheet and a healthy cash position to enable it to continue making revenue investment for the medium to long term. Moreover, our customers need to know that, as the exclusive supplier of critical parts, the Group is financially-sound.

Historically, the Group has been very exposed to a small number of customers and markets, and sharp fall backs in demand from these has presented existential threats. This year, more progress has been made in widening our base of sectors, products and customers. Nonetheless, further diversification is desirable, and remains a strategic objective.

PRODUCTION

The successful establishment in early 2016 of our 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 security of supply for customers who have effectively 'designed-in' Hardide for critical components.

In the near- to medium-term, most growth in demand is expected to arise in North America and in anticipation of that, a third reactor was installed there in November 2018. There remains space in the existing premises for considerable further expansion of capacity.

SALES & MARKETING

Customer contact

Although Hardide's coating has wide applicability in many industry sectors, it is a specialised, 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 remark that they had until then been unaware of Hardide. It follows that raising awareness among potential users remains of great importance and increased resources are being directed at this objective. Thus, 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.

In parallel with these 'awareness' campaigns, our business development managers frequently contact potential users who have not signalled an immediate requirement. However, these customers often make contact at a later date when a need arises. Therefore, business development staff are concerned mostly with following up interest expressed by potential users who have an identified and immediate need.

In the US, we have recruited this year a professionally-qualified mechanical engineer as an additional business development engineer. He is based in Houston and so is well-placed to focus on the oil & gas sector, which is his principal target. This appointment will allow more resource to be applied to develop other markets, including North American aerospace.

Diversification

The customer and sector diversification element of the Group's strategy remains in place and one piece of 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.

[1] Over the last three years, revenue has grown at an average rate of 47% and over the same period, gross profit rose by 87%. At the same time, short-run fixed costs grew by only 17% per year.

We have successfully developed applications for a major global oil & gas operator. This is for high volume and high value applications and we believe will be taken up by others in the field. This, together with our new supply contract with a North American manufacturer of well-stimulation tools, is a major customer and sector diversification away from directional drilling applications historically very significant to Hardide. They also spread our oil & gas business across both exploration and production.

Efforts to penetrate the aerospace industry are currently well-advanced with Airbus, Leonardo and others; this market tends to be counter-cyclical to the oil & gas sector and should balance well our portfolio of market sectors.

Geographies

We will continue with our efforts to develop 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 Company classifies its applications 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 and finds many diverse applications, useful estimates of the overall size of the addressable market are not possible. However, the addressable market is believed to be very large indeed.

Oil & Gas

Historically, this has been the dominant sector for Hardide and may remain so. However, overall demand from the sector can be highly cyclical and our customers within it have been somewhat concentrated. Determined development work by the Group in this sector has resulted in the securing of new and significant customers. Moreover, the conditions in which new oil & 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 notoriously secretive and our agreements with them prevent the Company from publicising their name or the coating's particular 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.

The aerospace industry is notoriously reluctant to accept new products, but once that it has, sales can be relatively predictable, consistent and likely to be sustained over an extended 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 also somewhat dependent upon demand from the oil & gas, and petrochemical markets. Nonetheless the sector is important to the Group and we will continue to develop it.

Precision engineering

Here, the potential market size is very large, but it is specialised and highly fragmented and therefore hard to address. Nonetheless, we intend to build on the recent aerospace approvals and successful sales to the precision engineering sector.

Power generation

We are partnering on long-term projects with manufacturers and important users of turbines for power generation. If accepted, the Hardide coating will improve the operating performance and efficiency of such equipment and should result in substantial sales over a sustained period.

INTELLECTUAL PROPERTY, PRODUCT DEVELOPMENT AND R&D

New UK and international patent applications have been submitted recently. The technology covered by these would further enhance protection of the coating and deposition process, and includes specific attributes for the coating of industrial gas and steam turbine blades.

There is a range of metals in common use that cannot tolerate the temperature of Hardide's current CVD coating process. Very good progress has been made this year in developing a low-temperature process that does not alter the mechanical properties of these metals. If, as expected, the suitability of the new process is confirmed then a wider range of new applications will be open to coating with Hardide; especially in the aerospace and oil & gas industries.

The development cost of this low-temperature process was supported by a grant from Innovate UK.

The Company also received a grant from NATEP[2] for the development of applications of the low-temperature coating on aerospace metals. The same body also awarded a separate grant for a project to develop innovative techniques for 'super-finishing'[3] of Hardide-coated product. Both these projects began on 1st September 2018 and will last for 18 months. Both projects have multiple industrial partners, including Airbus and Leonardo Helicopters; Hardide is the lead partner in each case.

The Company continues with its more-fundamental research into new and potentially-patentable variants of the Hardide coating.

[2] National Aerospace Technology and Exploitation Programme

[3] The process of achieving extremely fine and precise surface finishes

RISKS

Despite the greater diversification being achieved, the proportion of the Company's sales to a few major customers and sectors remains high. 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 substantial sales are developed with the major oil & gas customers with whom we signed framework agreements in this financial year.

The Group's exposure to the oil & gas industry means that we are exposed to 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 Company's growth. While this is now much less acute, it may still affect the rate of growth of the Company and so may be viewed as a risk. The Group has little or no influence over the duration of testing, which nearly always takes longer than originally 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 the Company devotes significant application development time and technical resources 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 recruiting more technical expertise, partly to provide for succession to vital roles within the Company.

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 exchange rate. 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 outside Europe brings the risk of disruption to supplies to the UK plant due to various factors. Furthermore, most supplies of the process gas pass through other EU countries and so there is a 'Brexit risk'. We are mitigating this potential risk by having in place supply contracts and arrangements that include an element of 'buffer stock' held within Europe as well at our suppliers' UK sites. In North America there are multiple suppliers of process gas and there is local production of these. Therefore, the risk of shortage in the US is low.

A major incident could lead to the closure of the coating plant in the UK, resulting in a disruption to service. To mitigate this risk, all operations are carried out to relevant ISO9001/AS9100 and ISO14001 standards. This means that equipment is maintained according to a planned schedule and processes of continuous improvement and '5S' are operated. Also, robust health and safety systems are in place. The Company's business continuity plan includes duality of production capability across the UK and US plants, as well as a disaster-recovery plan to be deployed in the event of a major failure of IT systems. 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 has provided 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 and takes into account the needs of all stakeholders.

CASH

The fund raising completed successfully in February 2018 will strengthen our balance sheet and has allowed capital expenditure that will enable the increase and upgrade of the Company's processing capacity, as well as making further revenue investment in technical and market development.

The strengthened balance sheet 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 balance sheet that will support the Company in the event of possible adverse trading or disruption to production.

PARTICULAR STRATEGIC CHALLENGES

Planning for increases in capacity

Our customers usually have great difficulty in forecasting their long-term demand and we often see large variances, both higher and lower, in their actual demand relative to their forecast. Therefore we use 'best estimates' for our future load and capacity calculations. These are based on our knowledge of customers and sectors, together with estimates of the projected value of new applications in our pipeline. Lead time for the installation of new coating capacity is close to 12 months and so we need to plan capacity at least two years ahead. The current challenge is how best to increase capacity in the UK. The current facility there has been running full for some while and so we are now examining ways of securing additional space for medium- to long-term expansion.

Increasing volume

As volume and customer numbers increase, the matching of capacity to demand will become easier. This is because each new increment in capacity will become a smaller proportion of existing capacity and the serving of more-numerous customers will mean that peaks and troughs in overall demand will become progressively smaller in relation to average demand. Accordingly, increasing sales is the leading objective for the Company, especially since, as already indicated, production overheads rise at a markedly slower rate than sales. This is amply demonstrated by the most recent three years where gross profit grew at a rate of nearly twice that of sales.

Awareness of the Hardide coating and expanding its market

Being a relatively new product in the industry and the fact that it often performs a problem-solving role, means that awareness among potential customers for Hardide and our awareness of those customers is hard to achieve. The Company has a programme designed to inform a wider range of industries about Hardide.

Lead time to acceptance

Nearly always, new customers will undertake rigorous testing of Hardide's coating before accepting it and this process usually takes considerable time. A series of tests at independent laboratories has been commissioned and these will provide additional data that in some cases will be accepted by potential customers and thereby shorten the acceptance lead time.

Staff numbers & employee expertise

Although employee numbers will not increase as fast as expected sales, additional, skilled employees will be needed to cope with the increase in demand and to replace staff who leave. Since the Hardide coating process is new, unique and not used by other companies, the only individuals with substantive and up-to-date knowledge of the process are those employed by Hardide. This means that recruits for many of our activities have to be trained by the Company. This takes time and so the development of new staff needs to be begun ahead of demand.

BOARD OF DIRECTORS

Robert John Goddard

Chairman

Robert was appointed Chairman in January 2008 and is a member of the Audit Committee and the Intellectual Property Committee. He is chairman of the Risk Committee.

Robert has some 25 years of experience serving on the boards of public companies, both in the UK and overseas and most of them as chairman. A chartered engineer and with an MBA (from London Business School), he has extensive international experience as a senior executive in the oil industry and in speciality chemicals. He was Group Development Director of Burmah Castrol until 2000. Following that he 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 sometimes adviser to, several early-stage med-tech and pharmaceutical companies.

Current external appointments: Senior Partner at RedStart Partners; Partner at Boundless Ventures LLP

Philip David Kirkham

Chief Executive Officer

Philip was appointed Chief Executive Officer on 1st September 2012. Philip is a member of the Intellectual Property Committee and the Risk Committee.

Philip has an executive general management career spanning more than 40 years, the last 30 years at board level in companies predominantly within the metals and engineering sector. His career includes Manufacturing Director at DSF Refractories, Divisional Managing Director at MS International plc, Senior Vice President Metals Division at Firth Rixson Ltd, Executive Vice President at Rolls-Royce plc and CEO of Materials Advantage Group. Prior to this he held senior operational roles at the British Steel Corporation and Sheffield Forgemasters. He holds a BSc in Chemical Engineering from the University of Manchester and an MSc in Advanced Manufacturing Management. Philip is a Chartered Engineer, European Engineer, Fellow of the Institution of Mechanical Engineers and Fellow of the Institution of Engineering and Technology. He brings a wealth of knowledge and experience in engineering and manufacturing industries as well as international, general and commercial management experience.

Current external appointments: None

Andrew Richard Boyce

Non-Executive Director

Andrew was appointed Non-executive Director on 12th June 2012. Andrew is a member of the Remuneration and Nomination Committee.

Andrew represents a significant 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. He has a deep knowledge and understanding of the Hardide business. He has significant experience as a director on multiple boards and adds an informed and challenging dimension to the Board. 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.

Current external appointments: Director of a number of farming and property companies. Other appointments of note include non-executive director of Atlantic Healthcare plc, a pharmaceutical company, where he is chair of the Remuneration Committee and a member of Nominations Committee, and director of TDCM Ltd, manufacturer of electric motors for the automotive sector and electric two-wheeler market, where he is chair of the Remuneration and Nominations Committee.

Timothy Julian Rice

Non-Executive Director

Timothy was appointed Non-executive Director on 20th March 2018. Tim is chairman of the Remuneration and Nomination Committee.

Background and suitability for the role: Tim brings more than 30 years of experience in the aerospace and defence sectors, having held senior executive positions with companies such as Vector Aerospace, Safran Group, Spirent and Dowty. He is an experienced adviser to companies in the aerospace and defence sectors, involved in strategy, business development and partnering, and organisational change. Tim has a BSc in Mechanical Engineering and holds an MBA from Warwick University. In addition, he is a Chartered Engineer, a Fellow of the Institution of Mechanical Engineers and a Fellow of the Royal Aeronautical Society.

Current external appointments: Director - C House Consulting Limited, Trustee - Midlands Air Ambulance Charity, Trustee - Insight Gloucestershire

Peter Neil Davenport

Finance Director

Peter joined Hardide Coatings Limited as Financial Controller in June 2005, becoming Finance Director of Hardide plc in March 2006. He is Company Secretary and a member of the Risk Committee.

Peter joined the Royal Mail Group's Corporate Accountancy Training Scheme in 1995 and was placed in a variety of roles throughout the Group including internal audit, marketing, investment appraisal, and management accounting. He passed his final CIMA exams in 1998 and joined Parcelforce Worldwide as Operations Analyst and was promoted to Operations Management Accountant in 2000. He joined Valspar Industries UK Ltd as Accounts Manager in 2002 with responsibility for all aspects of the finance function of a £10m turnover business including sales administration, payroll, credit control, purchase ledger and distribution.

Current external appointments: Director of John Moore Heritage Services Ltd, an archaeological consultancy

Charles Edward Irving-Swift

Senior Independent Director

Charles was appointed Non-executive Director on 20th March 2018 and designated Senior Independent Director on 23rd August 2018. Charles is chairman of the Audit Committee.

Charles has spent 35 years in the engineering and construction materials industries, including 27 years in general management roles and four years in strategic planning. After an initial plant management assignment in Germany, Charles assumed pan-European and global divisional CEO responsibilities for multi-site, multinational businesses, focusing on the implementation of performance improvement and restructuring plans with Dana Corporation (USA), TT electronics, plc, (UK), Armstrong World Industries, Inc. (USA) and O&S Doors, Ltd (UK) and leading their growth into new geographical markets abroad. Charles has extensive international experience, having spent 16 years in expatriate positions in Germany, France and the USA. He also brings significant UK plc knowledge to the Board, having served as Non-Executive Director of Victrex plc, where he was Chairman of the Audit Committee, and Non-Executive Director of Brammer plc, where he was Chairman of the Remuneration Committee. Charles holds a BA Honours Degree in Modern Languages from the University of Oxford and an MBA from INSEAD Business School in France. He is fluent in French and German. The Company benefits from Charles's extensive international management, strategic planning and plc board experience in industrial businesses.

Current external appointments: None

Dr Yuri Nikolaevich Zhuk

Technical Director

Yuri is a co-founding director. He is chairman of the Intellectual Property Committee.

Yuri started his career as a scientist and later became a technology entrepreneur gaining over 25 years of successful international technology business experience in advanced materials. 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. As a co-founder of Hardide, Yuri managed the Company's CVD coating technology development from early laboratory stage to the aerospace-approved manufacturing technology now used by blue chip customers. He participated in several fundraisings from the first seed capital round to the Hardide plc listing on the London Stock Exchange AIM market. As Technical Director, Yuri is responsible for the Company's technology, R&D, patenting, production improvement and applications development programmes, working with key customers. He is the author of patents and numerous scientific and technical publications, and has presented the Company and technology at leading international conferences. Yuri brings in-depth knowledge of advanced coatings and surface engineering technology, proven expertise in management of R&D and commercialisation of advanced materials, technology start-ups, patenting and intellectual property management, as well as general business management experience.

Current external appointments: None

REPORT OF THE DIRECTORS

RESULTS

The Group loss for the period, after taxation, amounted to £865,000 (2017: £1,096,000 loss). The directors have declared that no dividends will be paid in respect of the 2018 financial year (2017: 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 2018 Number of shares	30 September 2017 Number of shares
Robert Goddard	28 January 2008	-	7,311,285	6,723,050
Andrew Boyce	18 June 2012	-	588,235	-
Charles Irving-Swift	20 March 2018	-	505,050	-
Tim Rice	20 March 2018	-	550,000	-
Jan Ward	02 March 2015	20 March 2018	-	1,250,000
Philip Kirkham	1 September 2012	-	2,592,952	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

In addition to the shares Andrew Boyce holds in his own name, he also 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 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 judgements 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 judgement 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 2018 the following shareholders had a disclosable interest in 3% or more of the nominal value of Hardide plc's shares:

	Shareholding	%
R Boyce & Associates	267,134,461	15.7
A Badenoch & Associates	248,550,000	14.6
Amati Global Investors Ltd	180,878,526	10.7
Canaccord Genuity Wealth Management (Institutional)	155,557,710	9.2
Unicorn Asset Management Ltd	99,101,407	5.8
Canaccord Genuity Wealth Management (Non-Discretionary)	81,829,947	4.8
W S C Richards OBE	68,520,353	4.0
T Simpkin esq	66,882,996	3.9

Robert Goddard
Director

5 February 2019

CORPORATE GOVERNANCE STATEMENT

CORPORATE GOVERNANCE CODE PUBLISHED BY THE QUOTED COMPANIES ALLIANCE (THE 'CODE')

The Company has adopted formally the Code published in April 2018 by the Quoted Companies Alliance. It is the policy of the Board to comply with the Code wherever it is practicable to do so. The following Statement sets out how the Company complies with the salient aspects of the Code.

THE BOARD

Attendance

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

	Scheduled Board Meetings		NEDs only		Audit Committee		Remuneration & Nomination Committee		Risk Committee		Intellectual Property Committee	
Director	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended	Eligible	Attended
A R Boyce	12	12	1	1	1	1	8	8	-	-	-	-
P N Davenport	12	12	-	-	-	-	-	-	4	4	-	-
R J Goddard	12	12	1	1	3	3	-	-	4	4	4	4
P D Kirkham	12	12	-	-	-	-	-	-	4	4	4	4
T J Rice	6	5	1	1	-	-	3	3	-	-	-	-
C Irving-Swift	6	6	1	1	2	2	-	-	-	-	-	-
J E Ward	6	6	-	-	-	-	5	5	-	-	-	-
Y N Zhuk	12	12	-	-	-	-	-	-	-	-	4	4

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.

Board Committees

There are four standing Board Committees, as described later 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 13 such written directors' resolutions in the year.

Occasionally ad hoc Board Committees are convened when prompt decisions are required.

Matters reserved by the Board and authority levels

There is a formal schedule of matters reserved for Board decision. This includes any raising of funds, the setting of high level targets, approval of budgets, strategy, and capital and 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.

Formulation of strategy

Formulation of Corporate Strategy is led by the Chairman and set by the whole Board. Whilst the creation of budgets and Business Strategy is undertaken mainly by the executive directors and done in compliance with the framework of the Corporate Strategy. The Business Strategy is challenged by the Board, finally approved and then monitored by it.

Business Reviews

At its regular monthly meetings, the Board reviews both the financial position of the Group and information about non-financial performance. Financial information includes detailed profit & loss accounts, cash flow statements and balance sheets for 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 applications, sectors and customers.

Non-financial information is reviewed at least monthly by the Board. It includes reports from each executive director and key performance indicators such as plant performance, delivery performance, research & development, sales activity and health, safety & environmental performance. Progress on strategic projects is also reviewed monthly.

COMPOSITION, CULTURE AND EFFECTIVENESS OF THE BOARD

Number of directors

Recently, it was decided that there should be a majority of non-executive directors. In addition, there was a developing need for a director with high-level expertise, experience and network in the aerospace industry. Moreover, to comply fully with the Code, the chairs of the Audit Committee and the Remuneration & Nomination Committee need to be independent directors and the Chairman of the Company should not chair either of these Committees. Perhaps most importantly, it was considered that some fresh thinking was needed and that the appointment of two new non-executive directors would help guard against the development of a mono-culture. Moreover, an additional non-executive director would mean that the Company would be able to designate a senior independent director ('SID').

Recruitment and induction

Accordingly, after a wide-ranging process lead by a professional search firm, Tim Rice and Charles Irving-Swift were appointed as non-executive directors in March 2018. Their respective backgrounds are set out in the RNS announcement of their appointments.

The two new directors participated in a comprehensive induction programme ahead of their first Board and Committee meetings. These inductions were led by the Chairman and Chief Executive Officer (CEO) and at various points involved all of the executive team. Ahead of this, the new directors were issued with all the terms of reference for the various Board Committees and the full range of written policies and procedures, including the Company's share dealing code.

As a result, both of the new directors were enabled to take the initiative quickly on several matters and have already demonstrated their readiness and ability to do so; as well as contribute valuable new thinking and insights.

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 in the annual report.

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.

Independence of directors

The 'independence' of each of the four non-executive directors has been assessed by four, single purpose ad hoc committees of directors. Excluded in turn was the non-executive director in question. The main criteria for independence were:

i. Based on the observed conduct of the director at and outside Board and Committee meetings, has that director acted clearly and consistently in the best interests of the Company?

ii. Has there been any matter affecting the Company that might have given rise or might give rise in the future to any conflict of interest?

iii. Is the director's direct or indirect holding of shares or other financial instruments of the Company substantial enough to cause an external observer to believe the director in question might possibly have a potential conflict of interest? In this case, 'substantial' has been taken to mean 10% or more of the total issued share capital.

Mr Boyce is not considered to be an independent director because he did not satisfy the third of these tests. Nonetheless, it should be noted that Mr Boyce is party to a Relationship Agreement with the Company. Each of the three other non-executive directors is considered by the Board to be 'independent'.

Culture of the Board

All directors are conscious that the growth now expected of Hardide will present new challenges. There will be more specialism and the dynamics of staff interaction will change. The Board is now well equipped with directors able to support that change in more ways than hitherto.

Non-executive directors are actively and regularly consulted by the Chairman and encouraged to provide feedback. Also, 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. Despite this, and because there are now four non-executive directors, the Board has concluded that there should be a Senior Independent Director and has designated Charles Irving-Swift to assume that role.

Open exchange among Board members is a well-established 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.

Rather than raising it at a formal Board meeting, sometimes the first airing of an idea or a concern can be done more effectively on an informal basis. To this end, directors are encouraged to meet informally off-site to discuss any Company matters that they choose.

The CEO and Chairman have an off-site meeting every month. At this meeting they discuss the upcoming Board meeting, the latest performance indicators and particular challenges facing the Company and high-level 'people' issues.

All directors may have access to independent professional advice at Company expense.

Roles of CEO, Senior Independent Director and Chairman

As Hardide is a small company, most directors have a range of tasks and responsibilities

CEO:

All members of the senior management team, including the other two executive directors report to the CEO. The CEO develops, gains Board approval for and implements the Business Strategy, and designs and implements the sales and marketing plans. By virtue of his deep experience in mechanical engineering he provides strong support for operations and engineering. Also, he has the principal responsibility for the Company's financial performance. He maintains a strong relationship with the Chairman and is jointly responsible with him for shareholder communication and, by way of staff briefings ensures broader awareness of the Company's performance and challenges among employees. These staff briefings are usually held on a monthly basis. Ensuring compliance with the quality management systems, adequate staff training, the health & safety of employees and the environment performance are direct accountabilities of the CEO.

Senior Independent Director ('SID'):

This is a recent appointment and the SID is charged with:

i being a conduit for concerns of directors, shareholders and other stakeholders who prefer to discuss matters that they have been unable to resolve through other channels.

ii being available to meet principal shareholders.

iii being a sounding board for the Chairman.

iv along with other non-executive directors and having taken soundings among other suitable parties, conducting regular reviews of the performance of the Chairman.

The Chairman:

The role of the Company's Chairman is to:

i ensure effective communication with shareholders.

ii be available to shareholders for private meetings with principal shareholders.

iii set the overall rules for corporate governance and ensure compliance with these.

iv lead the development of Corporate Strategy.

v ensure effective and open communication among directors; particularly at Board meetings.

vi chair the Risk Committee and be an ordinary member of the Audit Committee and the Intellectual Property Committee.

vii together with the CEO, direct and lead induction programmes for new directors.

viii ensure the appropriate content, accuracy, format and presentation of information for the Board.

Evaluation of the Board and individual directors

The Chairman and the CEO agree annually a set of objectives for the CEO and this is shared with other non-executive directors. These objectives are taken into account when setting remuneration for the CEO. The CEO conducts performance planning exercises for his direct reports. Previous year's performance is discussed each time. As with the CEO, and in co-operation with him, the Remuneration & Nomination Committee takes account of personal performance plans for each executive director.

Collectively and individually, the directors monitor the performance of the Board as a whole 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; together with the performance and 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, a process has been agreed whereby objectives for the Board are agreed formally and responsibility for the skills and behaviour needed to meet those objectives is identified and then incorporated into the performance planning process for each individual director. Alongside this formal process, the Chairman has frequent contact with individual directors; this provides the opportunity for effective two-way 'calibration' and is another way of addressing performance concerns on a one-to-one basis. The newly-designated SID is also available for one-to-one meetings with other directors.

Meetings of the four non-executive directors may include consideration at appropriate times of the performance of individual executive directors.

Range of skills and experience

A formal exercise was undertaken to establish the range of skills and experience needed on the Board. These included professional qualifications and practice in engineering and accounting, together with relevant experience in corporate governance and the formulation and implementation of strategy. Each director was 'assessed' against the criteria. Except for a professional qualification in accounting and in-depth knowledge of advanced coating technology, at least two directors possessed each of the skills or experience assessed as needed among the directors. Four of the directors have MBAs.

With assistance from the CEO, meetings of the non-executive directors will re-visit the available range of skills and experience among the directors and 'mark' these against those ideally needed to achieve the Board's objectives.

Company Secretary

At present, the Finance Director (Mr Davenport) also acts as the Company Secretary. The directors have reviewed this dual role and consider it to be acceptable. This is on the grounds that the corporate structure of the Company is fairly simple and Mr Davenport has ready access to advice from a specialist firm that is familiar with Hardide's needs in respect of secretarial matters.

Succession planning

Overseen by the Remuneration and Nominations Committee, a process is underway to complete a formal succession plan for those directors and senior staff who are vital to the operation and ultimate success of the business. The relevant roles and individuals have been identified and the Chairman and the CEO have agreed on suitable measures to be put in place.

Terms of appointment of non-executive directors

The non-executives' principal terms and conditions are available for inspection by shareholders ahead of any general meeting of the Company. What follows is a summary of those terms and conditions.

Annual fees for the Chairman are £50,000 and those for the other non-executive directors are £25,000. For Charles Irving-Swift, these fees are paid wholly under the PAYE system. For the Chairman, Andrew Boyce and Tim Rice, fees are paid split between their personal service companies and the PAYE system.

The terms of appointment of all non-executive directors require them to serve on Board Committees and devote sufficient time to their roles. All directors are entitled to seek independent legal advice and have personal indemnity insurance paid for by the Company.

All directors are obliged to inform the Board of any new professional commitments or potential conflicts of interest.

Directors are bound by confidentiality, especially with regard to technology and following the end of their appointment may not, for one year, be engaged in any business or technology that is competitive with Hardide.

All non-executive directors' appointments are terminable at one month's notice by either party.

BOARD COMMITTEES

The 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.

The terms of Reference for each standing Board Committee can be found on the Company's website.

Remuneration and Nomination Committee

The Committee comprises Tim Rice as chair (since August 2018) and the previous chair, Andrew Boyce. It meets at least quarterly. In this financial year it met eight times. Its duties are to:

i Determine and agree with the Board the framework or broad policy for the remuneration and contractual terms of the Chief Executive Officer (CEO), Chairman, the executive directors and such other members of the senior management as it is designated to consider.

ii 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.

iii Design 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 managers and the performance targets to be used.

iv 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.

v Within the terms of the agreed policy and in consultation with the Chairman and/or CEO as appropriate, determine the total individual remuneration package of each executive director and other senior managers who report to the CEO, including bonuses, incentive payments and share options, other share awards or other benefits. Particular attention is paid to designing remuneration packages that are in alignment with the budget for the year ahead and especially with the Company's strategic goals.

vi At suitable times, review the implementation of succession plans.

vii Oversee any proposal for major changes in employee benefits throughout the Group.

Audit Committee

The Audit Committee comprises Charles Irving-Swift (chair since August 2018) and Robert Goddard (the previous chair). Normally, the Finance Director attends by invitation. Whilst no non-executive member of the Board has a full qualification in accounting, Mr Irving-Swift and Mr Goddard are both deemed competent by virtue of their MBAs.

The Audit Committee meets at least 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:

i Monitor the integrity of the financial statements and the financial reporting process.

ii Review and challenge the effectiveness of the Group's internal controls, risk identification and risk management systems.

iii Review the Group's arrangements for its employees to raise concerns in confidence and with impunity about possible wrongdoing and ensure these arrangements allow proportionate and independent investigation.

iv Review and keep up to date the Group's procedures for detecting and preventing bribery and fraud; and ensure that the Group complies with all relevant legislation in those jurisdictions where the Group operates and/or employs staff.

v 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.

vi 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, including taxation services, but there are no other relationships with the auditor of which the Company is aware that may compromise the auditor's objectivity and independence.

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

During the year there were no significant matters regarding the auditor or the audit process that the Committee needed to act upon.

The Company's auditors, James Cowper Kreston, were reappointed for the year ended 30th September 2018 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 by reference to the auditor's audit plan, post-audit management letter and discussion with the finance director and Audit Committee.

Intellectual Property Committee

The IP Committee comprises Yuri Zhuk (Chair), Robert Goddard and Philip Kirkham and meets quarterly. It is charged with reviewing and in some cases deciding upon all matters relating to intellectual property, including patents, trademarks and know-how. It is also responsible for non-disclosure agreements and joint development agreements designed to protect and develop intellectual property. When necessary the Committee uses services of the company Patent Attorneys (HGF) Ltd to perform patent search and provide legal advice on the IP matters. The Committee makes recommendations to the Board where the Committee does not have delegated powers.

Risk Management Committee and the management of significant events

The Board has overall responsibility for the Company's system of risk management and does so in cooperation with its Risk Management Committee. The Committee's role is to identify the strategic, operational and financial risks to which the Company 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 considered by the Committee include those relating to movements in exchange rates, solvency, and liquidity; as well as operational risks.

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 Company has identified are included in the Strategic Report.

The Company has a comprehensive 'Bid Alert Manual' and this is updated at least annually. Much of its content would also be used in the management of a major adverse incident. Directors are asked to ensure that a copy is available to them at all times. In addition, the Company has a Crisis Management and Disaster Recovery Procedure.

REMUNERATION

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 Code, so long as it is practicable to do so.

Policy for the remuneration of the executive directors includes three main objectives. These are to:

i provide remuneration packages to attract, retain and motivate executive directors and senior management of the calibre needed to run the Group successfully.

ii ensure that there is a strong link between such remuneration and the Group's strategy.

iii align the executive directors' interests with those of shareholders.

Remuneration components

The remuneration of the executive directors has three components. They are:

i base salary.

ii an annual performance-related discretionary bonus (non-pensionable).

iii a long-term incentive plan comprising share options.

Share Option scheme

The share option scheme was reviewed by the Remuneration & Nomination Committee during the year and agreed to by the Board with the following terms:

i 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.

ii share options are recognised as effective means of incentivising and encouraging the retention of senior managers and employees.

iii 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.

iv also, grants may be considered for long-serving key managers and employees where it is considered they have added value over the term of their employment and should be recognised, incentivised and retained.

v vesting criteria vary. Usually they incorporate the period since grant and the achievement of particular share price above that current at the date of grant.

vi any grant is always at the discretion of the main Board.

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 apart from the non-executive director under review.

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 & Nomination Committee considers the circumstances of individual cases of early termination and determines compensation payments accordingly. An important principle is not to reward poor performance.

EXTERNAL ADVISERS

The Company consults a range of professional advisers. Principally, these are:

i Its Nominated Adviser, Broker and Corporate Finance adviser. These functions are widely understood and so not elaborated here.

ii Corporate lawyer – who also advises on intellectual property matters not within the scope of support available from the patent attorney.

iii Patent attorney – who, in addition to advising on patent strategy and the handling of patent renewals, also assists with the preparations of patent applications.

iv Tax adviser. Unless they are conflicted, the Company's auditor provides tax advice and prepares returns. It also advises on R&D tax credits.

v A specialist adviser in company secretarial matters. Also provides advice and looks after the Company's statutory books and filings.

vi Adviser on the implementation of data sets, rules and procedures required under the GDPR (expected to be once-off only).

vii Employment lawyer.

viii A Health, Safety & Environment adviser.

The identities of the first four of these advisers can be found on the final page of the Company's Annual Report. The roles of the last four above are obvious from the title of the adviser and so are not elaborated upon here.

BRIBERY ACT, 2010 (THE 'ACT')

Well before the Act came into force, the Group had in place a full "Anti-bribery Policy" and this was in parallel with 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 raise, in confidence, concerns about financial or other impropriety with any director. The Group Compliance Officer reports to the Board. From time to time, the Board considers whether these policies need to be updated. The main provisions of the Act and Company policies and procedures appear in the staff handbook. Annually, all staff are required to confirm that they have read, understood and complied with these.

Hardide's policy regarding its anti-bribery rules and guidance thereon may be found on the Company's website.

THE MARKET ABUSE REGULATION ('MAR')

The Company has comprehensive policies and procedures designed to achieve compliance with MAR. This 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.

Hardide has elected to adopt a 30-day closed period, in accordance with MAR requirements.

THE GENERAL DATA PROTECTION REGULATION ('GDPR' OR 'REGULATION')

This Regulation came into effect in May 2018. Prior to that, and in recognition of its far-reaching application, as well as the considerable fines payable in the event of its breach, the Company, with the assistance of an external consultancy began developing its GDPR compliance plan in mid-2017. As a result of this, all the procedures and proper records were in place before the due date.

FORMULATION OF STRATEGY AND BUSINESS MODEL

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

The Company distinguishes between Corporate Strategy and Business Strategy. The former is developed by the full Board and the latter by executive directors and senior staff, but approved by the Board. The Company has a policy of re-visiting its strategies at least annually. The Business Model is derived from the Business Strategy.

CYBER SECURITY

Recently, the Company has significantly strengthened its cyber security systems. It has done so with the assistance of an external specialist cyber security company and has been awarded the government-backed Cyber Essentials accreditation.

COMMUNICATION WITH STAKEHOLDERS

Shareholders

When there is a significant event affecting the Company, full use is made of the Regulatory News Service (the 'RNS'). Shortly after full- and half-year results are published, as well when seeking new funding, the CEO, FD and Chairman make themselves available to present the results in person, and do so. In addition, the Chairman has regular contact with significant shareholders and they are free to contact him with any concerns. Face-to-face or telephone contact between the Chairman and shareholders is encouraged by way of letters to significant shareholders inviting them to make direct contact with either him or the Senior Independent Director. Alternatively, shareholders are free to make contact via finnCap, the Company's brokers.

From time to time, shareholders visit Hardide's premises. On these occasions, they are invited to ask questions and are welcome to express concerns that they may have and give their opinion on how they would like to see the Company develop.

Hardide's website is comprehensive and, as well as statutory documents, includes profiles of directors and descriptions of a wide range of Company features and activity. Hard copies of Hardide's annual report are available from the Company on request.

Other Stakeholders

In addition to shareholders, the Company considers stakeholders to include the employees, customers, suppliers, the local community and other parties with whom it interacts. As part of its Quality Management Systems, the Company has a comprehensive 'map' of all of its stakeholders.

All UK-based staff are invited to a monthly briefing where the CEO presents, explains, and responds to questions about, important developments in the Company or its environment. Since Hardide's processes are unique in many respects, new staff are most unlikely to have knowledge of the processes and so require lengthy training. Therefore, the Company attaches great importance to the wellbeing and retention of its staff. All employees have health plan benefits and undergo regular health checks as appropriate to their work activity.

The Company is accredited to and complies with the international environmental management standard, ISO 14001.

On behalf of the Board,

Robert Goddard
Chairman

5 February 2019

INDEPENDENT AUDITOR'S REPORT

To the Members of Hardide plc

OPINION

We have audited the financial statements of Hardide Plc (the 'Group') for the year ended 30 September 2018 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 2018 and of the Group's loss and the Group's and parent company's cash flows for the year then ended;
- the financial statements of the Group and of the parent company 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 on 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.

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) (ISAs (UK)). We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, 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.

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 – audit 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 judgement, 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.

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 6 the total charge to the Statement of Comprehensive Income for the year was £73,000 (2017: £51,000).

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 judgement 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 judgements, 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 judgements 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 judgements, 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 judgements 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.

On the basis the Group focus is on increasing sales significantly and transitioning from significant losses, towards break-even and profitability, a turnover rather than profit measure was deemed the most appropriate benchmark to use to calculate materiality. Having regard to both the size of the business and its performance, 1.5% of turnover was viewed as an appropriate level to set materiality. Based on our professional judgement materiality was set at £69,000 (2017: £62,000). Performance materiality of £48,300 (2017: £44,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £3,500 (2017: £3,000), 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 pre-tax loss based benchmark.

The parent company does not generate significant sales and incurs significant expenditure. As a result, we believe a loss-based measure to be the most appropriate benchmark to use to calculate materiality. Having regard to both the size of the company and its performance, 5% of the loss before tax, after adjusting for foreign exchange gains and losses on intercompany balances and intercompany charges turnover, was viewed as an appropriate level to set materiality. Based on our professional judgement materiality was set at £41,000 (2017: £50,000). Performance materiality of £28,700 (2017: £35,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £2,100 (2017: £2,500), 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 pre-tax loss 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 £40,000 and £69,000.

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 11, 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

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/auditorsresponsibilities
This description forms part of our auditors' report.

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.

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

For and on behalf of

James Cowper Kreston
Chartered Accountants and Statutory Auditor
2 Chawley Park
Cumnor Hill
Oxford OX2 9GG
United Kingdom

5 February 2019

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2018

	Note	2018 £ '000	2017 £ '000
Revenue	2	4,613	3,241
Cost of sales		(2,201)	(1,651)
Gross profit		**2,412**	**1,590**
Administrative expenses		(2,711)	(2,325)
Depreciation and amortisation		(373)	(503)
Exceptional item: Provision for grant repayment	14	(246)	-
Operating (loss)	3	**(918)**	**(1,238)**
Finance income	4	8	4
Finance costs	5	(3)	(1)
(Loss) on ordinary activities before taxation		**(913)**	**(1,235)**
Taxation	7	48	139
(Loss) on ordinary activities after taxation		**(865)**	**(1,096)**
(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		47	(42)
Total comprehensive loss for the year attributable to owners of the parent company		**(818)**	**(1,138)**

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 2018

	Note	2018 £ '000	2017 £ '000
Assets			
Non-current assets			
Goodwill	9	69	69
Intangible assets	10	25	1
Property, plant & equipment	11	2,033	1,490
Total non-current assets		**2,127**	**1,560**
Current assets			
Inventories	12	286	160
Trade and other receivables	12	749	622
Other current financial assets	12	265	242
Cash and cash equivalents	12	3,302	1,212
Total current assets		**4,602**	**2,236**
Total assets		**6,729**	**3,796**
Liabilities			
Current liabilities			
Trade and other payables	13	1,336	488
Financial liabilities	13	10	5
Provisions			
Provision for grant repayment	14	246	-
Total current liabilities		**1,592**	**493**
Net current assets		**3,010**	**1,743**
Non-current liabilities			
Financial liabilities	15	58	12
Total non-current liabilities		**58**	**12**
Total liabilities		**1,650**	**505**
Net assets		**5,079**	**3,291**
Equity attributable to equity holders of the parent			
Share capital	17	3,405	3,242
Share premium	17	12,676	10,306
Retained earnings		(10,925)	(10,060)
Share-based payments reserve		308	235
Translation reserve		(385)	(432)
Total equity		**5,079**	**3,291**

The financial statements were approved and authorised for issue by the Board on 5 February 2019.

Robert Goddard
Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2018

	2018 £ '000	2017 £ '000
Cash flows from operating activities		
Operating (loss)	(918)	(1,238)
Impairment of intangibles	2	1
Depreciation	371	503
Share option charge	73	51
(Increase) in inventories	(124)	(100)
(Increase) in receivables	(149)	(91)
Increase in payables	793	78
Increase in provisions	246	-
Cash generated from / (used in) operations	**294**	**(796)**
Finance income	8	4
Finance costs	(3)	(1)
Tax received	93	207
Net cash generated from / (used in) operating activities	**392**	**(586)**
Cash flows from investing activities		
Purchase of property, plant and equipment	(887)	(152)
Net cash used in investing activities	**(887)**	**(152)**
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	2,533	-
Finance lease repayment	(3)	(17)
New loans raised	55	-
Net cash generated from / (used in) financing activities	**2,585**	**(17)**
Net increase / (decrease) in cash and cash equivalents	**2,090**	**(755)**
Cash and cash equivalents at the beginning of the year	**1,212**	**1,967**
Cash and cash equivalents at the end of the year	**3,302**	**1,212**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2018

	Share Capital £ '000	Share Premium £ '000	Share-based Payments £ '000	Foreign Translation £ '000	Retained Earnings £ '000	Total Equity £ '000
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**
At 1 October 2017	**3,242**	**10,306**	**235**	**(432)**	**(10,060)**	**3,291**
Issue of new shares	163	2,370	-	-	-	2,533
Share options	-	-	73	-	-	73
Exchange translation	-	-	-	47	-	47
Loss for the year	-	-	-	-	(865)	(865)
At 30 September 2018	**3,405**	**12,676**	**308**	**(385)**	**(10,925)**	**5,079**

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 2018 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 Company's financial statements for the period beginning 1 October 2017.

1. IFRS 2 Share-based Payment - Definitions of vesting conditions
2. IFRS 3 Business Combinations - Accounting for contingent consideration in a business combination
3. IFRS 5 Non-current Assets Held for Sale and Discontinued Operations - Changes in methods of disposal
4. IFRS 7 Financial Instruments: Disclosures - Servicing contracts
5. IFRS 7 Financial Instruments: Disclosures - Applicability of the offsetting disclosures to condensed interim financial statements
6. IFRS 8 Operating Segments - Aggregation of operating segments
7. IFRS 8 Operating Segments - Reconciliation of the total of the reportable segments' assets to the entity's assets
8. 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
9. 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
10. IFRS 11 Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11
11. IFRS 14 Regulatory Deferral Accounts
12. IAS 1 Disclosure Initiative - Amendments to IAS 1
13. IAS 16 and IAS 38 - Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38
14. IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets - Revaluation method - proportionate restatement of accumulated depreciation/amortisation
15. IAS 19 Employee Benefits - Discount rate: regional market issue
16. IAS 24 Related Party Disclosures - Key management personnel
17. IAS 27 - Equity Method in Separate Financial Statements - Amendments to IAS 27
18. IAS 34 Interim Financial Reporting - Disclosure of information 'elsewhere in the interim financial report'
19. IAS 7 Disclosure Initiatives - Amendments to IAS 7
20. IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12
21. AIP IFRS 12 Disclosure of Interests in Other Entities - Clarification of the scope of the disclosure requirements in IFRS 12

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

Standards, amendments and interpretations that are not yet effective for Hardide Plc 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 January 2018

- 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 January 2019

- IFRS 9 Prepayment features with negative compensation (amendments to IFRS 9)
- IFRIC 23 Uncertainty over income tax treatments
- IFRS 16 Leases

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

The directors are currently reviewing the impact on the financial statements of the Group in future periods, particularly in relation to IFRS 15 and IFRS 16.

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.

Principal activity

The principal activity of the Group and parent company is a leading producer of patented Chemical Vapour Deposition (CVD) coatings for the oil and gas industry, flow control equipment, advanced engineering and aerospace.

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: 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.

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 shorter of the useful economic life of the asset and the lease term. 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.

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 approximately 100 days 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. Research and Development Tax Credits are recognised on an accruals basis.

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 judgements:

Estimates and judgements 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 30% 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) 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.

(c) 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.

(d) 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 in to UK and USA operation and Corporate central functions, and this factor identifies the Group's reportable segments.

Year ended 30 September 2018

	UK operation £ '000		US operation £ '000		Corporate £ '000		Eliminations £ '000		Total £ '000	
	2018	2017	**2018**	2017	**2018**	2017	**2018**	2017	**2018**	2017
External revenue	**3,757**	2,504	**856**	737	**-**	-	**-**	-	**4,613**	3,241
Inter-segment revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Interest revenue	**2**	2	**-**	-	**6**	2	**-**	-	**8**	4
Interest expense	**-**	1	**3**	-	**-**	-	**-**	-	**3**	1
Depreciation	**159**	150	**214**	353	**-**	-	**-**	-	**373**	503
Income tax	**-**	-	**-**	-	**48**	139	**-**	-	**48**	139
Provision	**-**	-	**246**	-	**-**	-	**-**	-	**246**	-
Reportable segment profit / (loss)	**578**	87	**(803)**	(613)	**(1,499)**	(1,002)	**859**	432	**(865)**	(1,096)
Segment assets	**4,195**	3,154	**2,327**	1,541	**3,141**	2,003	**(2,925)**	(2,902)	**6,729**	3,796
Expenditure for non-current assets	**303**	127	**584**	28	**-**	-	**-**		**887**	155
Segment liabilities	**711**	277	**11,242**	9,426	**1,969**	2,003	**(12,272)**	(11,201)	**1,650**	505

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

	UK £ '000	Europe £ '000	N America £ '000	Rest of World £ '000	Total £ '000
External sales					
2018	**1,759**	**53**	**2,801**	**-**	**4,613**
2017	1,674	41	1,526	-	3,241

Four external customers (2017 – three) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2018. The external sales for these customers were £1.043m, £0.971m, £0.594m and £0.500m 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):

	2018 £ '000	2017 £ '000
Auditor's remuneration:		
fees payable to the Company's current auditor for:		
- the audit of the Group's accounts	16	16
- fees payable for tax compliance	3	3
Cost of inventory recognised as an expense	1,111	694
Research and development	401	203
Income from grants	(60)	(80)
Operating lease rentals		
- plant and machinery	29	31
- property	149	152
Share option expense	73	51
Depreciation and amortisation	371	503
Exchange differences	7	7

4. FINANCE INCOME

	2018 £ '000	2017 £ '000
Interest on bank deposits	8	4

5. FINANCE COSTS

	2018 £ '000	2017 £ '000
Interest on finance leases	-	1
Interest on loans	1	-
Late payment penalty	2	-
	3	**1**

6. EMPLOYEES

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

	2018 Number	2017 Number
Technical	13	13
Production	17	15
Sales and marketing	5	5
Management and admin	4	4
	39	**37**

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

	2018 £ '000	2017 £ '000
Wages and salaries	2,148	1,822
Social security costs	215	181
Employer pension contributions	21	11
Share option expense	73	51
	2,457	**2,065**

Of the total share option expense of £73,000 in the year, £28,000 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 2% (2017: 1%) 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:

		2018 £ '000	2017 £ '000
Philip Kirkham (Chief Executive)	Salary	180	157
	Car allowance	-	15
	Accrued bonus	32	-
Dr Yuri Zhuk (Technical Director)	Salary	100	101
	Pension	8	1
	Accrued bonus	27	-
Peter Davenport (Finance Director)	Salary	81	79
	Accrued bonus	8	-
Robert Goddard (Non-Executive Chairman)	Fees	50	50
Andrew Boyce (Non-Executive Director)	Fees	23	22
Charles Irving-Swift (Non-Executive Director)	Fees	13	-
Tim Rice (Non-Executive Director)	Fees	13	-
Jan Ward (Non-Executive Director)	Fees	11	22
Total directors' remuneration		**546**	**447**

7. TAXATION

(a) Tax on ordinary activities:

	2018 £ '000	2017 £ '000
UK Corporation Tax Charge	(80)	(139)
Adjustment in respect of prior years	32	-
	(48)	**(139)**
Deferred Tax		
Origination and reversal of timing differences	-	-
Adjustments in respect of prior periods	-	-
Effect of rate change on opening balance	-	-
Tax	**(48)**	**(139)**

(b) Factors affecting current tax charge:

The tax assessed on the profit on ordinary activities for the year is lower than (2017: lower than) the standard rate of corporation tax in the UK of 19% (2017: 19.5%)

	2018 £ '000	2017 £ '000
Loss on ordinary activities before taxation	(913)	(1,235)
Loss on ordinary activities by rate of tax	(174)	(241)
Effect of:		
Expenses not deductible for tax purposes	64	10
Deferred tax not recognised	104	120
Adjustment to opening/closing deferred tax	(3)	-
Adjustment in respect of prior periods	32	(14)
R&D enhanced expenditure	(96)	(95)
R&D surrendered	25	81
Total current tax (note 7a)	**(48)**	**(139)**

The standard rate of corporation tax in the UK is currently 19% (2017: 19.5%). The Group has unutilised trading tax losses in the UK of approximately £2.0m (2017: £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

	2018 £ '000	2017 £ '000
(Loss) / Profit on ordinary activities after tax	(865)	(1,096)

Basic earnings per ordinary share:

Weighted average number of ordinary shares in issue	1,661,657,670	1,534,914,852
Earnings per share	(0.1)p	(0.1)p

As net losses were recorded in 2018 and 2017, 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 2017 and 30 September 2018	69
Net book value at 1 October 2017 and 30 September 2018	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

	2018 £ '000	2017 £ '000
Cost at 1 October	6	6
Additions	26	-
Disposals	-	-
Cost at 30 September	**32**	**6**
Net book value at 1 October	1	1
Amortisation b/fwd	5	5
Disposals	-	-
Impairment charge	2	-
Net book value at 30 September	**25**	**1**

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings £ '000	Plant, vehicles and fixtures £ '000	Computer equipment £ '000	Total £ '000
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**
Cost at 1 October 2017	489	3,808	98	4,395
Additions	17	857	17	891
Disposals	-	(45)	(12)	(57)
Exchange differences	7	42	-	49
Cost at 30 September 2018	**513**	**4,662**	**103**	**5,278**
Depreciation at 1 October 2017	276	2,559	70	2,905
Provided in the year	30	326	15	371
Disposals	-	(42)	(12)	(54)
Exchange differences	1	21	1	23
Depreciation at 30 September 2018	**307**	**2,864**	**74**	**3,245**
Net book value at 1 October 2017	213	1,249	28	1,490
Net book value at 30 September 2018	**206**	**1,798**	**29**	**2,033**

12. CURRENT ASSETS

	2018 £ '000	2017 £ '000
Inventories		
Raw materials and consumables	143	95
Manufactured parts for resale	134	28
Work in progress	9	37
	286	**160**
Receivables		
Trade receivables	737	609
Other receivables	12	13
	749	**622**
Other current financial assets		
Prepayments	99	76
VAT receivable	70	32
Accrued income	96	134
	265	**242**
Cash and cash equivalents		
Sterling	2,013	834
US Dollar	973	368
Euro	316	10
	3,302	**1,212**
Total current assets	**4,602**	**2,236**

Included within cash and cash equivalents is £500,000 (2017: £Nil) held on short-term deposit.

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:

	2018 £ '000	2017 £ '000
Current	465	371
1 month	254	219
2 months	9	6
3 months	11	5
More than 3 months	(2)	8
Total trade receivables	**737**	**609**

A total of £272,000 (2017: £238,000) trade receivables are over 30 days old and therefore overdue.

13. CURRENT LIABILITIES

	2018 £ '000	2017 £ '000
Trade payables	1,055	376
Taxation and social security costs	53	48
Accruals	228	64
Finance lease obligations	-	3
Lease incentives	2	2
Loans	8	-
Total current liabilities	**1,346**	**493**

During the year the Group entered in to a term loan agreement with Martinsville Henry County Economic Development Corporation for a 5 year term loan of $240,000 (£184,000) to be drawn down in instalments coinciding with the stage payments on a new chemical vapour deposition reactor being installed in our Martinsville facility. At the balance sheet date $72,000 (£55,000) had been received. The interest rate on the loan is fixed at 2% over the term, repayments are due quarterly and start once the loan has been fully disbursed. The loan is secured against the reactor and Hardide plc has acted as guarantor.

14. PROVISIONS

	2018 £ '000	2017 £ '000
Provision for grant repayment	246	-

During 2015 and 2016 the Group received a total of $320,000 (£246,000) in grants towards the establishment of its new facility in Martinsville, USA. These grants contained performance obligations concerning the number of employees and the value of taxable assets to be achieved. If these performance obligations are not met then some or all of the grants are potentially repayable. Having assessed the Group's performance against those obligations, the Directors consider they are unlikely to be achieved by the performance dates currently in place, so have made a provision for the repayment of the full amount of those grants. The Group has applied for an extension of the specified performance dates, if the extension is not granted then the grants will be repayable by 30 September 2019.

15. NON-CURRENT OTHER FINANCIAL LIABILITIES

	2018 £ '000	2017 £ '000
Lease incentives	11	12
Loans	47	-
	58	**12**

16. 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	
	2018 £ '000	2017 £ '000	2018 £ '000	2017 £ '000
Within one year	151	150	28	30
In the second to fifth years	429	513	17	31
In more than five years	90	146	-	-
	670	**809**	**45**	**61**

17. SHARE CAPITAL

	2018		2017	
	Number 000	Value £ '000	Number 000	Value £ '000
Allotted ordinary shares of 0.1p each	1,698,077	1,698	1,534,958	1,535
Allotted deferred shares of 0.9p each	189,642	1,707	189,642	1,707

During the year, the Company raised £2,537,000 before expenses (£2,452,000 net of commission, legal fees and expenses) by way of placing 199,235,290 ordinary 0.1p shares at a price of 1.7p per share, in two tranches on 01 November 2018 and 19 February 2019. Also during the year 13,883,000 employee share options were exercised.

A description of the Company's reserves is as follows:
Share Capital - represents the nominal value of shares that have been issued.
Share premium account - includes any premiums received on issue of share capital. Any transaction costs associated with the issuing of shares are deducted from share premium.
Other reserve - this comprises the share-based payments reserve, credited with amounts charged to the profit and loss account for share options.
Profit and loss account - includes all current and prior period retained profits and losses.

18. SHARE-BASED PAYMENT

	Number	Weighted average exercise price
Outstanding at 30 September 2017	125,707,600	0.67p
Exercisable at 30 September 2017	73,957,600	0.62p
Granted during year	11,000,000	1.61p
Exercised during year	(13,883,000)	0.58p
Forfeited during year	(1,000,000)	0.78p
Outstanding at 30 September 2018	121,824,600	0.81p
Exercisable at 30 September 2018	70,074,600	0.74p

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 nor were any options awarded to directors.

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 50%, a risk-free interest rate of 1.16%, and an expected life of 4 years. The average calculated fair value of options granted during the year was 0.59p 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 2018 the weighted average remaining contractual life of all outstanding options was 5 years and 4 months (2017: 5 years and 7 months).

The total charge to the income statement for share options during the year was £73,000 (2017: £51,000).

19. POST BALANCE SHEET EVENTS

From 01 October 2018 Hardide Aerospace Coatings Limited is no longer dormant.

20. RELATED PARTY TRANSACTIONS

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

21. CAPITAL COMMITMENTS

At the Statement of Financial Position date Hardide Coatings Inc had a capital commitment of €71,000 (£63,000) for the purchase of equipment (2017: £100,000).

22. CONTINGENT LIABILITIES

There are no contingent liabilities to be disclosed.

23. 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 2018 the Group had trade receivables and other receivables of £749,000 (2017: £622,000) and cash deposits of £3,302,000 (2017: £1,212,000).

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 2018 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 (2017: £7,000 loss).

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 2018, 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 2018

	Note	2018 £ '000	2017 £ '000
Assets			
Non-current assets			
Investments	3	1,198	1,164
Amounts owed by group undertakings	4	10,461	9,330
Provision	4	(10,461)	(9,330)
Total non-current assets		**1,198**	**1,164**
Current assets			
Trade and other receivables	5	113	174
Cash and cash equivalents		1,830	750
Total current assets		**1,943**	**924**
Total assets		**3,141**	**2,088**
Liabilities			
Current liabilities			
Trade and other payables	6	1,969	2,023
Total current liabilities		**1,969**	**2,023**
Net current (liabilities)		**(26)**	**(1,099)**
Total liabilities		**1,969**	**2,023**
Net assets		**1,172**	**65**
Equity			
Share capital	7	3,405	3,242
Share premium		12,676	10,306
Retained earnings		(15,217)	(13,718)
Share-based payments reserve		308	235
Total equity		**1,172**	**65**

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 £1,499,000 (2017: loss of £1,002,000) after accounting for an increase in the provision against the intercompany loan of £1,131,000 and an exchange rate gain on intercompany loan of £277,000.

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

The financial statements were approved and authorised for issue by the Board on 5 February 2019.

Robert Goddard
Director

PARENT COMPANY STATEMENT OF CASH FLOWS
For the year ended 30 September 2018

	2018 £ '000	2017 £ '000
Cash flows from operating activities		
Operating (loss)	(699)	(711)
Share option charge	39	40
(Increase) / Decrease in receivables	6	(9)
Increase / (Decrease) in payables	37	(31)
Cash used in operations	**(617)**	**(711)**
Finance income	6	3
Tax received	93	207
Net cash used in operating activities	**(518)**	**(501)**
Cash flows from investing activities		
Net loan to subsidiaries	(935)	(271)
Net cash used in investing activities	**(935)**	**(271)**
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	2,533	-
Net cash used in financing activities	**2,533**	**-**
Net increase / (decrease) in cash and cash equivalents	**1,080**	**(772)**
Cash and cash equivalents at the beginning of the year	**750**	**1,522**
Cash and cash equivalents at the end of the year	**1,830**	**750**

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY
For the year ended 30 September 2018

	Share Capital	Share Premium	Share-based Payments	Retained Earnings	Total Equity
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**
At 1 October 2017	**3,242**	**10,306**	**235**	**(13,718)**	**65**
Issue of new shares	163	2,370	-	-	2,533
Share options	-	-	73	-	73
Loss for the year	-	-	-	(1,499)	(1,499)
At 30 September 2018	**3,405**	**12,676**	**308**	**(15,217)**	**1,172**

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:

	2018 Number	2017 Number
Management and admin	2	2
Sales and marketing	1	1
Technical	4	4

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

	2018 £ '000	2017 £ '000
Wages and salaries	622	589
Social security costs	79	62
Share option expense	39	40
Employer pension costs	13	-
	753	**691**

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

3. INVESTMENTS

	2018 £ '000	2017 £ '000
Investments in subsidiaries	1,198	1,164

At 30 September 2018 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 £10,461,000 (2017 £9,330,000) 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 £1,131,000 (2017 £124,000) has been debited to the profit and loss account in the year.

5. TRADE AND OTHER RECEIVABLES

	2018 £ '000	2017 £ '000
Taxation recoverable	-	20
Prepayments and accrued income	113	154
	113	**174**

6. TRADE AND OTHER PAYABLES

	2018 £ '000	2017 £ '000
Trade payables	26	79
Social security and other taxes	24	20
Amounts owed to group undertakings	1,811	1,902
Accruals and deferred income	108	22
	1,969	**2,023**

Amounts owed to Hardide Coatings Ltd are shown as a current liability. The movement in the year was a net decrease in the liability of £91,000. 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

	2018		2017	
	Number 000	Value £ '000	Number 000	Value £ '000
Allotted ordinary shares of 0.1p each	1,698,077	1,698	1,534,958	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 2018 or 30 September 2017.

9. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 September 2018 or 30 September 2017.

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	2018		2017	
	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	127	-	140	-
Transfers of research and development costs	(151)	-	(149)	-
Transfers under licence agreements	376	89	250	70
Transfers under finance arrangements	(261)	764	(503)	362
Settlement of liabilities on behalf of the entity	-	-	102	-
Balance outstanding at 30 September	(1,811)	10,461	(1,902)	9,330

11. POST BALANCE SHEET EVENTS

From 01 October 2018 Hardide Aerospace Coatings Limited is no longer dormant.

12. FINANCIAL INSTRUMENTS

The financial instruments risk management is disclosed in note 22 of the Group 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.

DIRECTORS AND ADVISERS

DIRECTORS

R Goddard
P Kirkham
P Davenport
Y Zhuk
A Boyce
C Irving-Swift
T Rice

Secretary
P Davenport

BANKER

Royal Bank of Scotland
Dale Street
Liverpool
L2 2PP

REGISTRAR

Share Registrars Limited
The Courtyard
17 West Street
Farnham
Surrey
GU9 7DR

PATENT AGENT

Harrison Goddard Foote
Belgrave Hall
Belgrave Street
Leeds
LS2 8DD

NOMINATED ADVISER AND BROKER

finnCap
60 New Broad Street
London
EC2M 1JJ

REGISTERED OFFICE AND PRINCIPAL PLACE OF BUSINESS

11 Wedgwood Road
Bicester
Oxon
OX26 4UL

AUDITOR

James Cowper Kreston
2 Chawley Park
Cumnor Hill
Oxford
OX2 9GG

Hardide plc

www.hardide.com