Hardide plc

ANNUAL REPORT 2019

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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.

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FINANCIAL HIGHLIGHTS

- Record revenues, up 10% to £5.1m (FY2018: £4.6m)
- Gross profit of £2.4m (FY2018: £2.4m) reflecting shifting sales mix / customer diversification
- Gross margin of 48% (FY2018: 52%); gross margin of 51% in H2
- EBITDA loss before exceptional items of £0.6m, including £0.1m costs relating to moving site (FY2018: loss before exceptional items of £0.3m)

£5.1m

Record Revenues

£0.6m

EBITDA loss before exceptional items

£2.4m

Gross Profit

BUSINESS & OPERATIONAL HIGHLIGHTS

TRADING

- Broadening of customer and sector bases continuing
  - Over half of the sales were from customers gained in the last four years
  - Sales to oil and gas sector down 9% overall but H2 considerably stronger at 22% up on H1
  - 87% increase in sales to the flow control sector
  - 40% increase in sales to the precision engineering sector
  - 14-fold increase in sales of coated industrial diamonds
  - Revenue from North American customers increased to 65% of total Group sales - Martinsville facility delivered maiden positive EBITDA contribution (excluding overhead marketing costs)

STRATEGIC

- Hardide-A coating selected as the replacement for hard chrome plating on various Airbus aircraft components
- Three additional coating reactors currently on order - two for the UK (including larger capacity reactor) and one for the US
- On track for the relocation of the UK operation to a new facility by September 2020 - decision taken to increase investment in “future proof” equipment

TECHNOLOGY

- Innovate UK grant-funded project completed resulting in the launch of two new low-temperature Hardide coating variants
- Awarded grant funding towards two National Aerospace Technology Exploitation Programme (NATEP) projects

POST-PERIOD

- New patent granted by the UK Intellectual Property Office covering a water droplet erosion resistant coating for turbine blades and other components
- Hardide-A coating selected for use on components for the new Lockheed Martin F-35 Lightning II Joint Strike Fighter

CHAIRMAN'S AND CEO'S REPORT

INTRODUCTION

The Group is pleased to report record full year sales for the second consecutive year of £5.1m - a 10% increase over last year (FY2018: £4.6m). Sector and customer diversification continued as we gained new applications. Over half of the sales were from customers gained within the last four years. The oil and gas industry remained our largest market. However, our sales to it suffered a 9% decline in revenue in the year. We expect this to be reversed in the current financial year as we saw a 22% increase in oil and gas sales in H2 (second half of the year) compared with H1 (first half of the year).

There were two significant corporate projects this year. The first was the fundraising of £3.5m (net) announced in February 2019, which has allowed us to continue our strategy to grow the business further by investing ahead of revenue in marketing, capacity and production equipment.

The second event was the signing of a 15-year lease on newly-built premises close to the existing site, to replace the current facility in Bicester. The building has double the available floor space and a greater roof height, which will allow the installation of larger coating reactors. Three new reactors have been ordered; two for the UK and one for the US. One of the UK reactors will have a larger capacity and enable the coating of components that are too large for the current reactors, such as turbine blades and some aircraft parts.

We are particularly pleased to report that our Martinsville site, opened in January 2016 with the benefits of the fundraising announced in August 2014, made an EBITDA profit (excluding overhead marketing costs) for the financial year for the first time.

FINANCIAL RESULTS

The Group generated record sales of £5.1m in the year ended 30 September 2019 (FY2018: £4.6m).

Direct expenses including production salaries increased by 20% due to the higher volume and mix of sales, together with an increase in production staff numbers ahead of the expected increase in activity.

Group gross profit was the same as last year at £2.4m (FY2018: £2.4m). However, H2 showed a much-improved performance over H1, with sales revenues 15% higher and a better mix of sales. Gross margin recovered from 45% in H1 to 51% in H2, giving an overall gross margin for the year of 48% (FY2018: 52%). The first half gross margin suffered from an adverse product mix, as previously reported in the Interim results.

Overhead costs including the extra costs associated with the lease on the new building rose by 12% (8.4% excluding these costs), including the full year cost of an additional US Business Development Engineer.

The Group's EBITDA loss before exceptional items was £0.6m including £0.1m of costs relating to the new building in Bicester (FY2018: £0.3m loss before exceptional items). The EBITDA loss in H2, excluding new building costs, was a much reduced £0.1m compared with a loss of £0.4m in H1. Grant income amounted to £0.1m in the year.

On the balance sheet, net assets at 30 September 2019 were £7.7m (30 September 2018: £5.1m). This included a cash balance of £4.8m (30 September 2018: £3.3m). Inventories increased substantially as we took the opportunity to purchase a considerable amount of gas at a discounted price (also reflected in trade payables), while the similarly substantial increase in trade receivables resulted from particularly strong trading towards the end of the year.

OPERATIONAL OVERVIEW

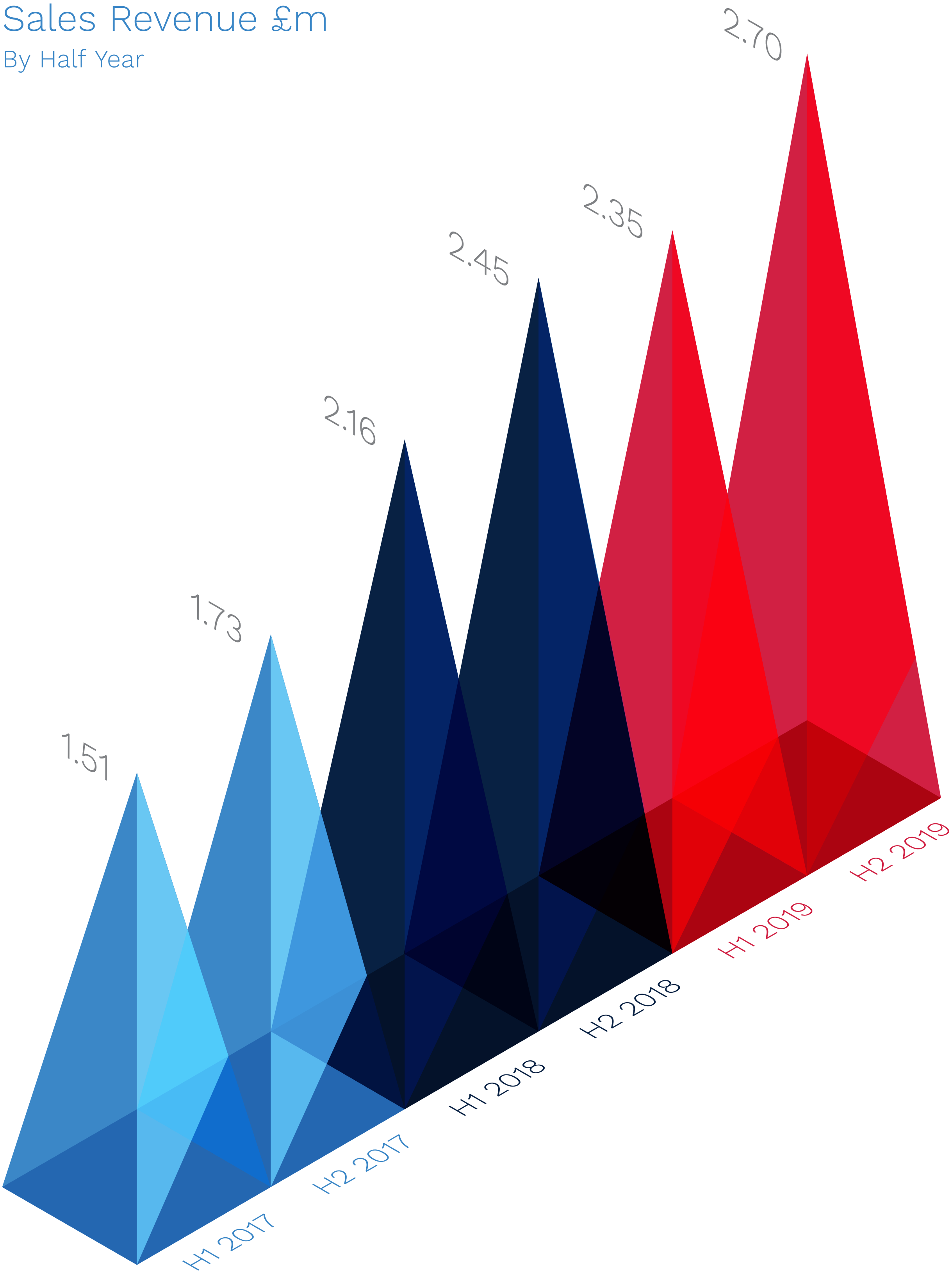
Customers and Markets

Revenue from flow control customers increased by 87% and from precision engineering by 40%. Demand increased sharply during the year from a global player in pumps, one of our longest standing US customers, as they expanded their use of the Hardide coating from their premium range to several new models. This resulted in a 93% increase in sales to this customer compared with the previous year. We are in discussions with the same customer about using the Hardide coating on more products in the year ahead.

Aerospace

In the aerospace sector, Airbus selected the Hardide-A coating as the replacement for hard chrome plating on compression flap pads on a range of aircraft types. Qualification of other components is also nearing completion and we are in detailed discussions with Airbus' tier 1 suppliers about production orders, expected to commence in 2020. Hardide-coated parts have been flying for evaluation by a major MRO (maintenance, repair and overhaul organisation) for over 4,000 hours on an Airbus A320. Subject to examination at servicing, production orders are expected in the current financial year. Other development work for European and North American aerospace companies is continuing. In November 2019, post year-end, we announced that Hardide-A has been selected to replace HVOF (high velocity oxy-fuel) thermal spray coatings on components for Lockheed Martin's new F-35 Joint Strike Fighter. This follows an extensive test programme and is another example of the potential of Hardide's coatings to replace the most widely used tungsten carbide coating, HVOF, in severe service applications. The testing of components

Sales Revenue £m
By Half Year



at Leonardo Helicopters was successful and the parts are now incorporated into a full transmission assembly ready for the final test. Full approval is expected in 2020. We are also in technical discussions with a number of other significant companies in the aerospace and defence industries and early stage trials have commenced.

Recent independent tests showed that the Hardide-A coating increased the fatigue life of components, rather than it being decreased, as in the case of most other hard coatings. Not surprisingly, this has attracted the interest of many engineers. We are very pleased with the technical performance of the coating and confident that announcements of supply agreements will be forthcoming in the near term. The progress in securing aerospace production orders has been much slower than we would have liked, although this is a common feature of the introduction of a new product to the aerospace industry.

Oil & Gas

Activity remains generally buoyant in the oil and gas sector, although the phasing of demand from two customers contributed to a 9% year-on-year fall in sales. One customer changed its manufacturer of the components that we coat and this caused an extended delay to their supply of components. This began to be resolved in the second half and a normal rate of supply has now resumed. In addition, the Canadian oil industry has been experiencing restrictions on pipeline capacity and this has resulted in a slowdown of demand from the second customer.

Demand is now returning to previous levels and we saw a 22% increase in sales to oil and gas customers in H2 compared with H1. We expect further growth in demand from oil and gas customers in the year ahead. During the period, sales more than doubled to one of the world's largest oilfield service companies, placing them among our top three oil and gas customers. We worked with them to develop a coating for critical components on a 'breakthrough' directional drilling tool and this is now being deployed by operators around the world. This tool also uses Hardide coated industrial diamonds. A high volume of production orders continued to be received under our supply arrangement with a very large global oil and gas operator. This is for components of complex design that presented considerable technical and production challenges. Due to its production-enhancing benefits, these components are of high value to the customer. The technology has been deployed in deepwater fields in the Gulf of Mexico and shortly off the coast of West Africa. The coating of these parts is being carried out at our US facility. As a result of this technical success, shortly we will begin testing with a European manufacturer of a similarly complex part which is used extensively in other industries. Demand for the coating of industrial diamonds for oil and gas customers rose significantly (14-fold) as the drilling market resumed growth, and sales of these products increased considerably. We continue to have many new and potentially high-volume applications being developed with customers in the oil and gas sector

Power Generation and Precision Engineering

Significant advances were made with our long-term project to develop a water droplet erosion resistant coating for blades and vanes used in turbines in the power generation industry. Post-period, a UK patent was granted that incorporates and protects this and other applications. An application for an international PCT (Patent Cooperation Treaty) patent is in progress to cover many other countries. EDF Energy plans to start field testing Hardide-coated blades in a power station turbine during 2020 and we are at various stages of progress with several other power engineering customers on the testing of coatings for turbine blades. We see this as an important market for Hardide coatings in the future and one that will continue to grow.

There was regular demand throughout the year for our coated components for the high speed X-ray baggage screening machine. We expect demand to grow as this customer achieves greater market penetration and increases their rate of manufacture.

Marketing

During the year, we exhibited at several highly-targeted aerospace and oil and gas events, both in the UK and the US. These have resulted in new leads and contacts and fully justify our decision to exhibit in 2020 at the Singapore Airshow and Farnborough International Airshow.

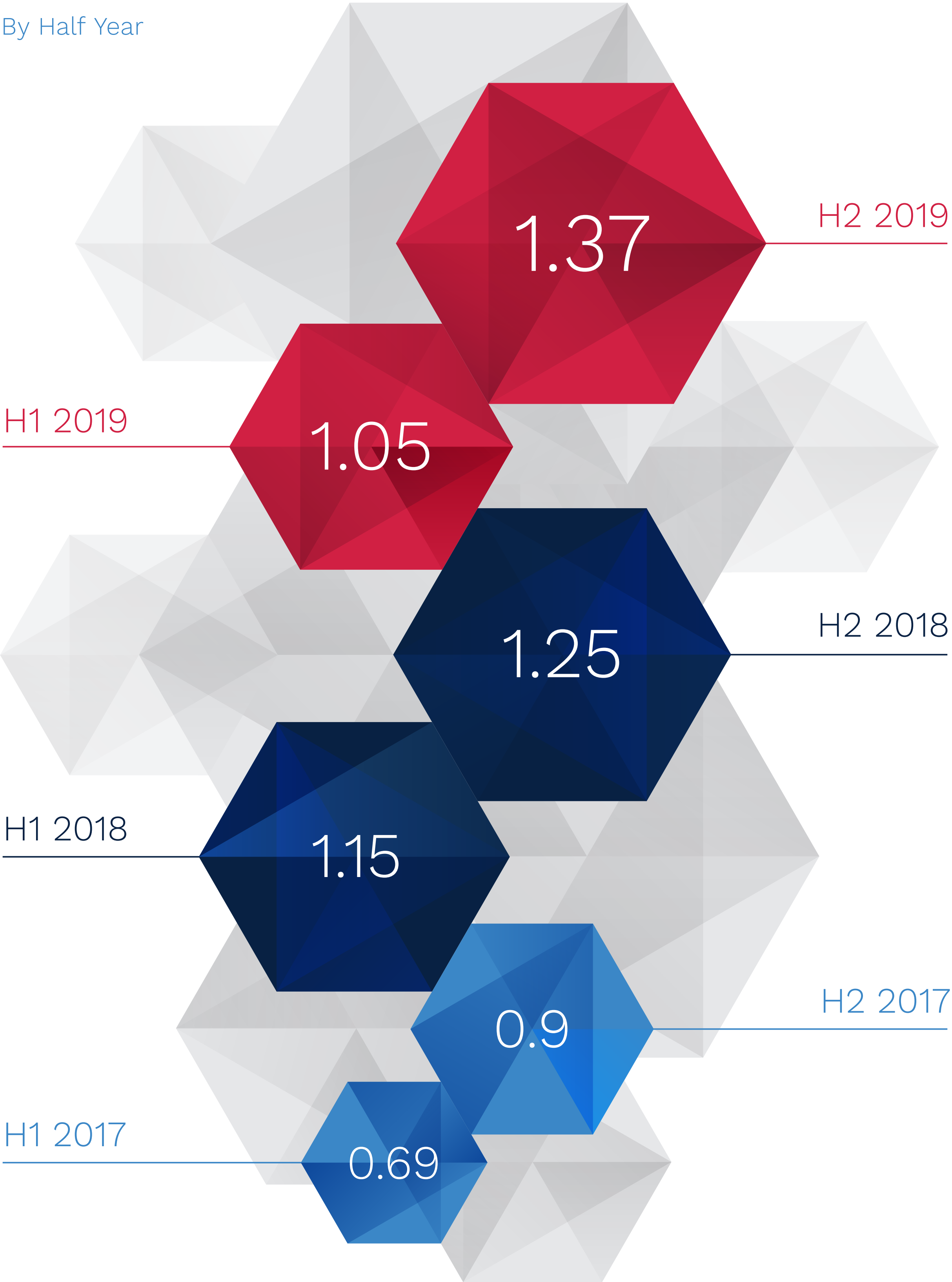
Raising awareness of Hardide's capabilities remains a priority. Through conference presentations in person and via webinar, Hardide's Technical Director has successfully extended awareness among new audiences internationally.

The performance of our online presence is monitored continually and so we know that our website is used extensively as a technical resource. As a novel technology with no direct competitors, the website is a vital source of accurate information and data about Hardide's coatings and their applications. Next year will see a new Hardide website. This will provide updated content and functionality for technical and investor visitors.

Production, Technology, Research & Development and Accreditations

A third reactor for our US site was installed in November 2018, together with a second and larger pre-treatment line. This enabled the transfer from the UK of complete lines of product for several US customers and the processing of larger components. In turn, this has increased the range of products for US customers who prefer an 'in-country' supplier. The

Gross Profit £m
By Half Year



Martinsville facility was particularly busy in the second half and has been fully utilising all three coating reactors. A fourth reactor was ordered for the US site, and this is due for delivery in spring 2020.

The move to the new UK site will result in a more modern and efficient production environment with further improved environmental performance. Investment in equipment and technology to reduce emissions and improved filtration systems is being made alongside two new coating reactors and a second and larger pre-treatment line. These will enable bigger components to be processed, including turbine blades and some aircraft landing gear components.

The project, partly funded by Innovate UK, to develop and characterise a new low-temperature Hardide coating process was completed successfully. As a result, the Group has launched two new low temperature coating variants – Hardide-LT and Hardide-LA. These open up new opportunities for the coating of a wide range of metals commonly used in the aerospace, and oil and gas sectors. Production orders for them are now being received.

Work continued on two, 18-month projects to apply the new low temperature coating to additional substrates in the aerospace sector and to develop new grinding and super-finishing techniques. These have been part-funded by the National Aerospace Technology Exploitation Programme (NATEP) and are being carried out in collaboration with Airbus, Leonardo Helicopters and other industry partners.

The quality management systems at the Bicester and Martinsville sites were recertified in February 2019 to aerospace quality management system AS9100D/ISO9001:2015, thereby confirming approval for coating aerospace and space industry components. In July 2019, within two years of first being accredited by NADCAP (National Aerospace and Defense Contractors Accreditation Program), the Bicester site was awarded NADCAP Merit Status for its superior performance and commitment to continual improvement in aerospace quality. The Bicester site was also recertified to environmental standard ISO14001:2015 in September 2019. Plans are underway to achieve NADCAP accreditation for the US site by the end of 2020 and Airbus production approval at that site is being planned for 2021.

Brexit

The Group has evaluated the potential effects of a variety of Brexit scenarios and is not expecting to be affected in any material fashion due to the low level of transactions with other EU countries.

Intellectual Property

The IP committee met quarterly to review the IP portfolio. In October 2019, shortly after the full year end, the UK Intellectual Property Office granted a patent on the further-enhanced Hardide coating and its new applications, particularly in power generation. This is an important achievement. Fundamental research continues into the development of new coating variants and applications that will further strengthen and widen the Group's IP portfolio.

Site relocation

The project to relocate the UK operation to a new building in Bicester is advancing well. Contracts have been placed and, at the time of writing, the building is now being fitted-out internally and a larger capacity electricity supply is being installed to cope with power requirements. As detailed planning of the move proceeds, the decision was made to take the opportunity to "future proof" and improve the operating capabilities of the Group by investing in superior new equipment rather than transfer dated equipment, notwithstanding that the costs of such are expected to be slightly ahead of the Board's previous expectations for the relocation project. The Board is exploring the most effective means of financing these incremental costs and has provisionally secured a first line of asset finance attached to a new reactor. The new production equipment will start to be installed in March 2020. This has to be operational before the transfer of work and equipment from the existing facility can begin. Two new coating reactors are on order for the site, as well as other items of key processing plant. The project is on schedule for full operation at the new site in September 2020.

STRATEGY

Hardide's technologically advanced surface engineering coatings help solve complex and difficult technical problems and frequently convey considerable commercial advantage to users. Our coatings provide a unique combination of valuable mechanical and chemical properties that cannot be achieved by any other type of coating. In recognition of that, Hardide has joint application developments underway with three major coating companies, each of which has a strong international presence. We expect that cooperation of this kind will develop further.

Another form of industrial cooperation that has already proved to be highly beneficial is the relationships that have been developed with major end-users of Hardide coatings, rather than with customers directly. These end-users currently include Airbus, Leonardo Helicopters, EDF Energy and major US oil and gas companies. By cooperating with such large end-users, not only is awareness improved greatly, but more importantly, there will be 'end-user pull' on their tier 1 suppliers. The Group is aiming to increase the number of end-users with whom we have close cooperation.

Over the past year, very good progress has been made in diversifying the customer base, but we continue to strive to diversify further. As a result, we are on the threshold of meaningful sales to aerospace customers and there has been very encouraging development of our coatings for the power generation industry – potentially a very large market for Hardide. A new patent has been granted recently for this application.

The Board retains its positive view of Hardide's potential for growth and is investing further in expanding production capacity, marketing, business development and R&D (note that R&D costs are not capitalised) to help drive this. In the short term, further spending on these activities is not profit-maximising, but the Board is confident that spending of this kind will maximise shareholder value. The Group does not have any material borrowings and its asset base is attractive to providers of asset finance. The Board is exploring this as a financing option to manage efficiently the cash costs of expansion and investment.

We were very pleased to have been able to lease a new and considerably larger facility nearby in Bicester. To maintain production capacity during the transition to the new site, all Hardide's UK activity will be moved progressively, and the Group will be operating from the new site by September 2020. In addition to being more efficient, the new premises will assist in enabling the Group to improve continually its environmental performance. Many of Hardide's employees have unique skills and so minimising staff turnover as a result of a move is very important. A new and much more agreeable location close to our existing one will help retention and create a much-improved working environment.

In North America, further progress has been made in diversifying and expanding the customer base. To meet the resulting further growth in demand, an additional reactor will be installed there in spring 2020.

EMPLOYEES AND STAKEHOLDERS

Hardide benefits hugely from its loyal, able and dedicated staff, both in Bicester and in Martinsville. They have again worked hard to deliver record sales and achieved many technical successes this year. The Board thanks our staff for their commitment. We also thank our shareholders and other stakeholders in the business for their continued support and confidence in the future for our business.

OUTLOOK

The start to the new financial year has been strong and the Board is confident of continued revenue growth and business diversification in the coming year. The Board expects gross profit margins to remain at levels comparable to the second half of FY2019.

The project to relocate the business to a new site is on-track and we are looking forward to operating from the facility in autumn 2020 and to the increase in capacity this will provide. This move will enhance efficiency and open up new business opportunities, as well as presenting a modern facility to our blue-chip customer base and investors. The costs of the project are being monitored closely and are expected to be borne in the current financial year. The Board aims to ensure that the asset base of the Group matches its needs for the future and will invest further to deliver this.

Robert Goddard
Chairman

23rd January 2020

Philip Kirkham
CEO

23rd January 2020

FINANCIAL REVIEW

STATEMENT OF COMPREHENSIVE INCOME

Sales revenue for the year as a whole increased by 9.5% to £5.05m, up from £4.61m in the prior year. Sales in the first half of £2.35m (H1 2018: £2.16m) increased to £2.70m in the second half (H2 2018: £2.46m). Since 2015/16, group revenues have shown a 33% compound annual growth rate.

However, an abnormal product mix in the first half meant that gross margins were just 45%; mix returned to expected proportions in the second half which saw gross margins recover to 51%. Overall gross margin for the year was 48%. Because of the dilutive effect of increasing revenue on relatively fixed production salaries, gross profit has shown a much larger compound annual growth rate of 52% than revenue growth.

Costs of sales rose by 19.7% to £2.64m (2018: £2.20m), reflecting an increase in production headcount both in the UK and USA, the full year effect of a customer supply agreement whereby Hardide is responsible for sourcing as well as coating the components, and the adverse sales mix in the first half.

Administrative expenses increased by 12% to £3.04m (2018: £2.71m) as we continued to invest in business development and incurred overhead costs relating to the new site in Bicester. Grant income amounted to £64k in the year (2018: £60k).

The Group's depreciation charge increased by £108k to £481k as the new third reactor in our US facility was commissioned. We also charged a provision against profit of £101k to take account of the onerous nature of our lease on our existing Bicester premises, along with an estimate of dilapidation costs which might occur.

The Group loss before interest, tax, depreciation and amortisation (EBITDA) for the year amounted to £0.62m, of which £0.44m was incurred in the first half, reducing to £0.18m in the second half, which also included £0.1m of costs incurred for the new site. Excluding these, EBITDA loss would have been £0.08m in the second half. Our Martinsville site produced a maiden EBITDA profit (excluding business development costs).

STATEMENT OF FINANCIAL POSITION

Non-current assets increased by £717k during the year, net of £481k depreciation charge. This included £538k of deposit and stage payments for fixtures and equipment to be installed in our new Bicester site.

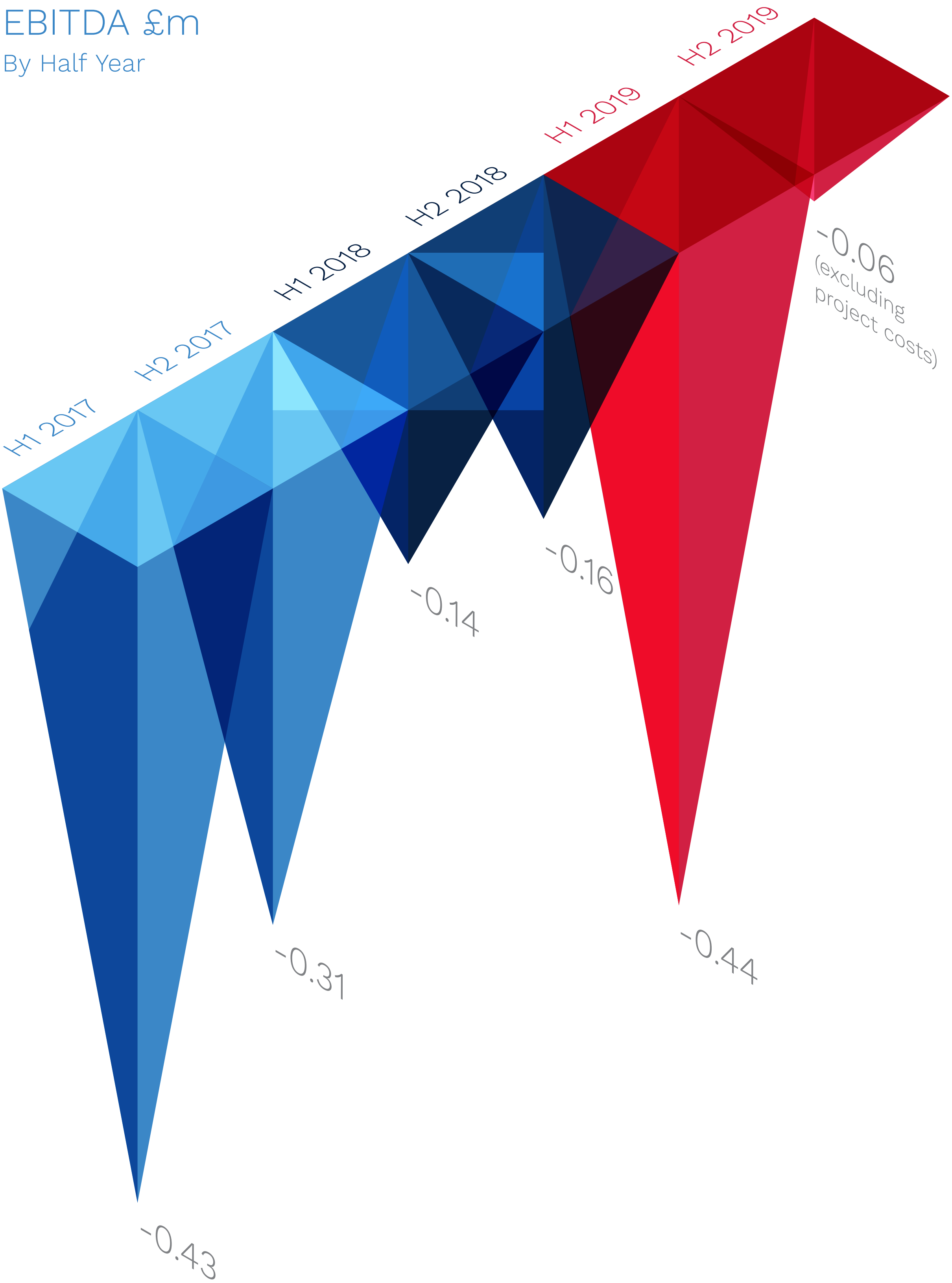
Inventories rose to £691k from £286k in 2018, in large part due to receiving a significant quantity of our key process gas in the USA just before year end which was being offered by a supplier at a significant discount to our usual price. Trade and other receivables also increased by £254k compared to 2018 due to high sales in the final quarter.

During the year, the final instalments were received of a $240k (£195k), 5 year term loan from Martinsville Henry County Economic Development Corporation which increased non-current financial liabilities; also included in that heading is the liability created by the start of a 10.5 month rent-free period on our new Bicester premises. The provisions charged in 2018 remain for potential repayment of grants received towards the creation of our Martinsville USA facility, although an extension of the performance date of one of the grants has been applied for.

In March 2019, Hardide plc raised £3.5m net of expenses to invest in a new UK facility to replace its existing site in Bicester and fund additional equipment. At the same time, Hardide plc consolidated its 0.1p ordinary shares in to 4p ordinary shares in the ratio of 40:1.

Peter Davenport
Finance Director

EBITDA £m
By Half Year



STRATEGIC REPORT

PREAMBLE

This strategic review has been prepared after the successful raising of £3.5 million (net) in March 2019 for the further development of Hardide plc. This was by way of subscription to and placing of new equity.

The fundraising was in addition to other notable successes in the year to 30 September 2019. Among these was securing the 15-year lease of new premises nearby to accommodate all of Hardide's UK production requirements for the immediate future, together with R&D and administration offices. A considerable amount of management effort has been spent over the year on detailed planning for the move to the new site.

OVERVIEW

The Board believes that a strong upward trajectory in gross profit will be seen externally as a clear indicator of the Group's value. Accordingly, an important focus is on investing to grow revenues significantly so that, because of the Group's high operational gearing, gross profit is maximised.

The additional customer interest in North America and consequent sales has justified our decision to locate a manufacturing facility in the US. 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 provides confidence that further geographical expansion can be made successfully when the time comes. In this respect, we are at the very early stages of assessing the merits of a Hardide facility in the Far East to cater for the considerable potential in this region.

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 Company continues to have 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, Hardide is financially sound.

The Company is making good progress in its strategic goal of broadening its customer and sector base and is now less exposed to a small number of customers and markets. This year, good progress has also been made in widening our base of industry sectors, products and customers and Hardide is now far less vulnerable to demand fluctuations. Nonetheless, further diversification can be achieved and remains a strategic objective.

Hardide has had good success in working with end-users and their tier one suppliers. This enables a 'push and pull' approach to developing additional revenue. This is an important part of our overall strategy and we plan to develop it further.

PRODUCTION

The successful establishment in early 2016 of our coating facility in the US continues to serve its intended purpose of enabling the Company to address a substantial part of the large North American market that would otherwise not be available to us. Additionally, being a geographically separate production facility provides greater security of supply for customers who have effectively 'designed in' or single-sourced Hardide for critical components. An additional benefit of establishing a geographically remote facility is our development of in-house expertise and experience in the transfer of Hardide technology. This will be of great benefit when there is to be further geographic expansion.

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 and a fourth will be in place in Spring 2020. There remains space in the existing premises for considerable further expansion of capacity.

SALES & MARKETING

Customer contact

Although Hardide's coatings have wide applicability in very 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 Company 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. The recent announcement of approvals by Airbus and Lockheed Martin will help greatly to 'spread the word'.

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

In North America, we now have two professionally-qualified engineers as business development executives. The longer-serving manager is now concentrating on developing the aerospace industry and other precision engineering companies, while the principal target of the new business development engineer is the oil & gas sector.

Whilst the past year has seen pleasing diversification by customer, it remains an important strategic goal to diversify further by industry sector. A ramp up in sales to the aerospace industry is expected this year and further progress is being made with development of the application of our recently patented coating for turbines in the power generation industry.

Customer and industry diversification

The customer and industry diversification element of the Group's strategy will continue to play a major part in our planning.

In 2017-18, we developed new applications for a major global oil & gas operator, for high volume and high value applications and which we believe will be taken up by other major oil & gas producers. Together with our new supply contract with a North American manufacturer of well stimulation tools, this is a major customer and sector diversification away from directional drilling and helps spread our oil & gas business across both exploration and production.

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

The Board is of the view that Hardide will be more robust if, in addition to aerospace and oil & gas, it was to serve a third major industry. In that regard, we are making good progress with addressing the power generation industry with a coating that will reduce wear on turbine blades. Already the coating variant for this application has received a UK patent and an international patent application is in progress.

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.

Meanwhile, we recognise that potential customers in SE Asia and China continue to show high growth rates in the aerospace, power generation and oil & gas industries. Preliminary assessments have begun to determine where best to invest first. Before detailed planning gets underway, we intend to stabilise and strengthen our position in North America and Europe.

PRODUCT RANGES, CUSTOMERS AND MARKET CHARACTERISTICS

The Company classifies its applications into five sectors: Oil & Gas (both exploration and production), Aerospace, Flow Control, Power Generation and Precision Engineering. Since Hardide provides a unique product and has many diverse applications, a useful estimate of the overall size of the total addressable market is not possible. However, taken together they are believed to be very large indeed.

Oil & Gas

Historically, this has been the dominant sector for Hardide and may remain so; at least for the medium term. However, overall demand from the sector can be highly cyclical and previously 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.

Customers in the oil & gas industry are notoriously secretive and our agreements with them usually prevent the Company from publicising their name and especially not the coating's particular use. This feature makes development of new customers much harder than otherwise it would be.

Aerospace

In contrast, the aerospace industry is much more open and approvals by Airbus and Lockheed Martin for Hardide have enabled us to promote the coating to a wide range of other aerospace manufacturers.

The aerospace industry is notoriously reluctant and slow to accept new products, but once it has, sales can be relatively predictable, consistent and likely to be sustained over an extended period.

Flow control

Flow control is our second largest market sector. Sales have grown substantially this year due to our main North American pump customer extending the application of the Hardide coating to a wider range, resulting in a high regular demand. Apart from this customer, 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. The flow control sector is important to the Group and we will continue to develop it.

Precision engineering

Here, the potential market size is considerable, but it is specialised and highly fragmented and therefore hard to address. Currently revenue from this sector is dominated by our airport baggage X-ray scanner customer, together with a number of other specialised applications.

Power generation

We are working closely with EDF and turbine manufacturers on testing our newly-patented coating. If accepted, the Hardide coating will improve the operating performance and efficiency of such equipment and should result in substantial sales over a long period.

INTELLECTUAL PROPERTY, PRODUCT DEVELOPMENT AND R&D

A new UK patent was granted in November 2019 for a new coating for protection of steam and gas turbine blades and vanes used in the power generation industry and the blades and vanes used in the low temperature compressor part of an aircraft engine. Additionally, the patent covers other components that are subject to erosion by cavitation. An international patent application is in progress. This patent will further enhance protection of our coating and deposition processes.

A project, partly funded by Innovate UK, to develop and characterise a new, low-temperature Hardide coating process was completed successfully. As a result, the Group has launched two new low temperature coating variants - Hardide-LT and Hardide-LA. These new products will open up new opportunities for the coating of a wide range of metals commonly used in the aerospace, and oil and gas sectors. Production orders for them are now being received.

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

The Company is making steady progress with more fundamental research into new and potentially patentable variants of the Hardide coating.

Recently, the Company sponsored one of its senior technical staff to pursue a doctorate (part-time) at Cranfield University. In addition, Hardide's technical director has become a visiting lecturer at the same institution. Not only will this assist the Company in keeping abreast of relevant technologies but also provide a means of educating future engineers of the benefits of high-performance coatings, especially Hardide's.

PARTNERING

Hardide's technologically advanced surface engineering coatings help solve complex and difficult technical problems and frequently convey considerable commercial advantage to users. Our coatings provide a unique combination of valuable mechanical and chemical properties that cannot be provided by any other type of coating. These features have assisted in the strengthening of our partnerships on long-term projects with important end-users and component manufacturers.

An example of this is the joint application developments that are underway with a number of major coating companies, each of which has a strong international presence. We expect that co-operation of this kind will develop further.

Another form of industrial co-operation that is proving to be highly beneficial is the relationships with major end-users of Hardide coatings, rather than just with their tier 1 suppliers. These end-users include Airbus, Leonardo Helicopters, EDF Energy and certain major US oil and gas companies. By co-operating with such large end-users, not only is awareness among other end-users improved greatly but, just as importantly, there will be 'end-user pull' on their tier 1 suppliers. The Company is aiming to increase the number of end-users with whom we have close co-operation.

RISK

Despite the markedly greater diversification achieved in the year, the proportion of the Group's sales to relatively few major customers and sectors remains high. As a proportion of total sales, those to the oil & gas industry will continue to be significant in the short- to medium-term as substantial sales are developed with the major oil & gas customers with whom we have signed framework agreements.

In the past, cessation or delay of customers' test programmes has inhibited Hardide's growth. While this is now much less acute, it still affects the rate of growth of the Group and so may be viewed as a risk. The Group has little or no influence over the commencement or 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 Group devotes significant application development time and technical resources on test programmes that do not result in sales, or on programmes that are 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 for Hardide justifies 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 team of well-qualified people in production, engineering, metallurgy and chemistry. We will continue our strategy of recruiting more technical and operational expertise and developing individuals, partly to provide for succession to vital roles within the Group.

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 slowdown stemming from Brexit is 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. At present, the Group has sales to Europe that are low relative to those to North America and the UK and so, reduced demand from Europe would have only a small effect overall.

[1] National Aerospace Technology Exploitation Programme [2] The process of achieving extremely fine and precise surface finishes

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 here there is a potential 'Brexit risk'. We mitigate this 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, therefore the risk of shortage in the US is considerably lower than in the UK.

A major incident could lead to the temporary closure of a coating plant resulting in a disruption to service. To mitigate this risk, all operations are carried out to relevant ISO9001/AS9100 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 the year, the increase in capacity at the US facility has provided further security against an inability to supply due to production difficulties in the UK.

THE ENVIRONMENT AND STAKEHOLDERS

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.

As part of the planning of the new replacement facility in Bicester, special attention has been paid to identifying items of plant and methods of waste treatment that reduce environmental impact or use less material, or both. This means that otherwise serviceable, but old and less-efficient, machinery will be replaced.

Hardide's products almost invariably greatly increase the life of components. They also help improve efficiency and reduce downtime for end-users. Each of these features bring environmental benefits and our business development managers endeavour to convince customers to purchase Hardide products not only on the basis of their 'whole life' cost but also the lowering of their environmental impact.

CASH

The fund raising completed successfully in March 2019 has strengthened our balance sheet and allowed the Group to increase and upgrade its processing capability and capacity at the same time as moving to a new site. Further revenue investment in technical and market development has also been enabled.

A strong balance sheet will provide greater security in the event of another downturn in demand. Also, since Hardide provides a unique product, it is important to our major customers that we continue to demonstrate a strong balance sheet that will support the Group 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 look to plan capacity at least two years ahead.

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 total turnover. This is partly responsible for the development of the P&L over the four most-recent years where sales on average increased by 33% but gross profit grew at a rate of 52% and fixed costs rose at only 15%. Accordingly, increasing sales is the primary objective for the Group. The first sale to a new customer of Hardide usually takes some years. Accordingly, expenditure on direct and indirect promotion of sales must continue to be made well ahead of the sales resulting from such promotion.

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 programmes 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 a 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 in order to have suitable succession plans in place. Since the Hardide coating process is unique and not used by other companies, the only individuals with substantive and up-to-date knowledge of the process are those employed by the Company. 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 must begin ahead of demand.

THE BOARD OF DIRECTORS

Robert John Goddard

Chairman

Robert was appointed as 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 and sold successfully its four speciality chemical subsidiaries, thereby increasing shareholder value considerably. 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 technology companies, mainly in med-tech and pharmaceuticals.

Current external appointments: Partner at Boundless Ventures LLP

Dr Yuri Nikolaevich Zhuk

Technical Director

Yuri is a co-founder and Technical Director. He is chairman of the Intellectual Property Committee.

Yuri started his career as a scientist and has more than 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 Open University in the UK. 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 has 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 all aspects of development of the Company's technology. He is the author of patents and numerous scientific and technical publications and has presented Hardide's 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.

Current external appointments: In 2019, Yuri was appointed a Visiting Fellow and a Recognised Teacher at the Cranfield University School of Aerospace, Transport and Manufacturing.

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

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

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 13.8% 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 as a 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.

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 advisor to companies in the aerospace and defence sectors, involved in strategy, business development, 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

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. Charles has held pan-European and global divisional CEO responsibilities for multi-site, multinational businesses, focusing on performance improvement and restructuring with Dana Corporation (USA), TT electronics plc (UK), Armstrong World Industries, Inc. (USA) and O&S Doors, Ltd (UK) and developing overseas markets. He spent 16 years in expatriate positions in Germany, France and the USA. He also brings his plc experience to the Board, having served as Non-executive Director of Victrex plc and Brammer plc, where he was Chairman of the Audit Committee, and Chairman of the Remuneration Committee, respectively. Charles holds a BA Honours Degree in Modern Languages from the University of Oxford and an MBA from INSEAD Business School. He is fluent in French and German.

Current external appointments: Non-executive Adviser of Innovo Ltd, an e-commerce business that streamlines B2B transactions and facilitates the commercialisation of breakthrough technologies.

REPORT OF THE DIRECTORS

RESULTS

The Group loss for the period, after taxation, amounted to £1,136,000 (2018: £865,000 loss). The directors have declared that no dividends will be paid in respect of the 2019 financial year (2018: 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.

			30 September 2019	30 September 2018
	Appointed	Resigned	**Number of ordinary 4p shares**	Number of ordinary 0.1p shares
Robert Goddard	28 January 2008	-	**369,807**	7,311,285
Andrew Boyce	18 June 2012	-	**1**	588,235
Charles Irving-Swift	20 March 2018	-	**16,792**	505,050
Tim Rice	20 March 2018	-	**17,916**	550,000
Philip Kirkham	1 September 2012	-	**81,490**	2,592,952
Yuri Zhuk	14 March 2005	-	**365,802**	6,281,132
Peter Davenport	21 March 2006	-	**318,191**	4,376,667

In addition to the share Andrew Boyce holds in his own name, he also represents family and trust holdings totalling 6,761,693 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 18 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 26.

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 2019 the following shareholders had a disclosable interest in 3% or more of the nominal value of Hardide plc's shares:

	Shareholding	%
Canaccord Genuity Wealth Management (Institutional)	6,888,942	14.0
Andrew Boyce & Associates	6,761,694	13.8
A Badenoch & Associates	5,600,000	11.4
Amati Global Investors	4,521,963	9.2
Unicorn Asset Management Ltd	2,827,702	5.8
Canaccord Genuity Wealth Management (Non-Discretionary)	2,171,790	4.4
T Simpkin	1,983,425	4.0
W S C Richards	1,838,009	3.7

Robert Goddard
Director

23rd January 2020

CORPORATE GOVERNANCE STATEMENT

2018-19

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. As shown in the table below, all directors attended each board meeting and members of each Committee Board also attended each meeting for which they were eligible.

	Scheduled Board Meetings*	NEDs only	Audit Committee**	Remuneration & Nomination Committee**	Risk Committee	Intellectual Property Committee
R J Goddard	12	2	2	-	4	4
P D Kirkham	12	-	-	-	4	4
P N Davenport	12	-	-	-	4	-
Y N Zhuk	12	-	-	-	-	4
A R Boyce	12	2	2	6	-	-
T J Rice	12	2	-	6	-	-
C Irving-Swift	12	2	2	-	-	-

*** In addition, in some instances, directors who were not members of a Committee at the date of its meeting, attended by invitation some or all parts of the meetings of the Audit, and Remuneration & Nomination Committees.*
** Where a Board-level decision is required to consider and accept a recommendation from a Board Committee, a single purpose Board meeting may be convened.*

Meetings with only Non-executive directors

These 'NED-only' meetings first took place in this financial year. They serve to bring together matters better covered in this way and supplement the ongoing but less formal contact between and among non-executive directors.

These meetings have formal agenda and minutes are taken. Matters considered include performance of the Board as a whole and that of individual executive directors. Also considered may be the effectiveness of Board Committees, the identification and management of major risks; together with achievement of strategic plans.

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 four such written directors' resolutions in the year.

Occasionally *ad hoc* Board or Committee meetings 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 the appointment of directors, any raising of funds, the setting of high-level targets, approval of budgets, strategy, and capital and revenue expenditure above certain limits, license agreements and incentive schemes. 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. The creation of budgets and Business Strategy is set within the framework of the Corporate Strategy and prepared by the executive directors and other senior management. This Business Strategy is then challenged by the Board, adjusted if necessary, finally approved and then monitored by it. Adjustments agreed necessary are formalised in writing shortly after the review.

Approximately six months after the full strategy review, a meeting of directors and senior management reviews progress against the agreed strategy.

A summary of Hardide's Corporate Strategy can be found in the Company's Annual Report.

Business Reviews

At its regular monthly meetings, the Board reviews both the financial and non-financial performance of the Group. Financial information for the Company and its subsidiaries includes detailed profit & loss accounts, cash flow statements and balance sheets; together with analyses of movements in cash, trade debtors & creditors, and fixed assets. 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, including the current move to new premises, is also reviewed monthly.

During the course of the year the Board adopted a policy intended to ensure board leadership of health and safety matters and institute board-level review of progress against objectives and KPIs. An important feature of this is a half-yearly joint presentation by the CEO and VP of Operations.

COMPOSITION, CULTURE AND EFFECTIVENESS OF THE BOARD

Independence of directors

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 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.

The 'independence' of each of the four non-executive directors was assessed by four, single purpose ad hoc committees of directors. Excluded in turn from these meetings 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. However, 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'.

Number of directors

Since 2017-18, there has been a majority of non-executive directors. This has enabled the appointment of a senior independent director ('SID') and a director with high-level expertise, experience and network in the aerospace industry. Moreover, in compliance with the Code, the chairs of the Audit Committee and the Remuneration & Nomination Committee are now independent directors.

Culture of the Board and its capability to meet new challenges

Non-executive directors are actively and regularly consulted by the Chairman on a one-to-one basis and more formally during meetings of the non-executive directors alone. 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 SID and has designated Charles Irving-Swift to assume that role.

Open exchange and mutual challenge 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.

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.

All directors are conscious that the growth now expected of Hardide will present additional challenges. There will be more specialism and the dynamics of staff interaction will change. The Board is well equipped with directors who have experience of organisational growth and able to support changes that arise.

The move to a substantial new site, will present additional challenges. Again, executive directors and senior managers, working closely with external consultants, are delivering the expertise for fit-out and installation of plant and equipment.

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:

iv 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.

v being available to meet principal shareholders.

vi being a sounding board for the Chairman.

vii along with other non-executive directors and having taken soundings among other suitable parties, conducting 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 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 of the Intellectual Property Committee;

vii together with the CEO, direct and lead recruitment and induction programmes for new directors and senior recruits; and

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 and of the board as a whole.

Range of skills and experience

A formal exercise is undertaken annually to establish the range of skills and experience needed among the directors as a whole, and 'mark' these against those ideally needed to achieve the Board's objectives. These include professional qualifications and practice in engineering and accounting, together with relevant experience in corporate governance and the formulation and implementation of strategy. Each director is '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. Four of the directors have MBAs.

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 Company is fairly small, and its corporate structure is 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 formal succession plan is maintained for those directors and senior staff who are vital to the operation and ultimate success of the business. The relevant roles and individuals are identified, and the Chairman, CEO and Remuneration & Nominations Committee agree on action in respect of the roles covered by the plan.

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 the Chairman and Charles Irving-Swift, these fees are now paid wholly under the PAYE system. For 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; whereupon, other directors will consider the acceptability of such roles. To date, no additional commitment of a director has been found to be unacceptable.

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 and the previous chair, Andrew Boyce. It meets at least quarterly. In this financial year it met six 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 senior members of the management team who report to directors.
- 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 value 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 or CEO or both, 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 aligned 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 and Robert Goddard. 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 and professional experience.

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 two 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, review the independence and effectiveness of the external auditor; 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, for example tax advice, 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 audit process or its outcome that required action by the Committee.

The Company's auditors, James Cowper Kreston, were reappointed for the year ended 30th September 2019 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.

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 the services of the company's Patent Attorneys (HGF Ltd) to perform patent searches and provide legal advice on 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 as needed. 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; and

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

Remuneration components

The remuneration of the executive directors has up to five components. They are:

i base salary;

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

iii a long-term incentive plan comprising share options;

iv medical insurance for employee and family; and

v in some cases, a car allowance.

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 directors, 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. The current scheme incorporates three different elements:

  a the period since grant and the achievement of particular share price above that current at the date of grant, over two year and three-year periods,

  b the growth of sales made by the business,

  c the improvement in gross margin; and finally

iv 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. There has been no change this year.

Robert Goddard is the only current 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, Brokers 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 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 Employment lawyer; and

vii an adviser on matters related to Health, Safety & Environment .

The identities of the advisers in the first four above can be found on the final page of the Company's Annual Report. The roles of the remainder 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

The Company believes that it has strong cyber security systems. It has an ongoing contract with 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 regarding 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 or Allenby Capital, the Company’s joint 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. Once in production at the Company’s new site, there will be a special open day for shareholders.

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 its employees, customers, suppliers, the local community and other parties with whom it interacts. As part of its Quality and Environmental 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 14001:2015.

On behalf of the Board,

Robert Goddard
Chairman

23rd January 2020

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 2019 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 2019 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.

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 judgements 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.

PROVISIONS

Risk description

During the year the Group leased a new facility in the UK and plan to relocate to the new site when it is complete, which is scheduled for September 2020. As detailed in note 14 to the financial statements, the Group has recognised a provision for dilapidations of £50,000 (2018: £Nil) and a provision for an onerous lease of £51,000 (2018: £Nil). The assessment of these provisions requires judgement and estimations to be made by the Group. The estimates have been made based on the anticipated costs to restore the premises to their original condition and project timetables which are inherently uncertain.

How the scope of our audit responded to the risk

To assess the appropriateness and completeness of provisions 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 calculating provisions;
- examined the lease agreement for the Group's contractual obligations on termination of the lease;
- assessed the estimations and inputs included in the calculations, reviewing the appropriateness of the assumptions made;
- performed recalculations on the provisions to check the accuracy of the calculations;
- reviewed for additional sources of documentation to assess for completeness of the provision; and
- considered the disclosures in the financial statements regarding the provisions.

Key observations

The resuls of our testing were satisfactory and we consider the disclosures surrounding provisions 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 £76,000 (2018: £69,000). Performance materiality of £53,000 (2018: £48,300) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £3,000 (2018: £3,500), 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 turnover 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, was viewed as an appropriate level to set materiality. Based on our professional judgement materiality was set at £52,000 (2018: £41,000). Performance materiality of £36,000 (2018: £28,700) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £2,600 (2018: £2,100), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Materiality in the prior year was based on a 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 £56,000 and £64,000.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit of otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement in the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

OPINIONS ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006

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

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

MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

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

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

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

RESPONSIBILITIES OF DIRECTORS

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

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

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE FINANCIAL STATEMENTS

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.

USE OF OUR 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

23rd January 2020

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2019

	Note	**2019** **£ ’000**	2018 £ ’000
Revenue	2	**5,052**	4,613
Cost of sales		**(2,635)**	(2,201)
Gross profit		**2,417**	2,412
Administrative expenses		**(3,037)**	(2,711)
Depreciation and amortisation		**(481)**	(373)
Exceptional items: Provisions	14	**(101)**	(246)
Operating (loss)	3	**(1,202)**	(918)
Finance income	4	**15**	8
Finance costs	5	**(3)**	(3)
(Loss) on ordinary activities before taxation		**(1,190)**	(913)
Taxation	7	**54**	48
(Loss) on ordinary activities after taxation		**(1,136)**	(865)
(Loss) per share: Basic	8	**(2.5)p**	(0.1)p
(Loss) per share: Diluted	8	**(2.5)p**	(0.1)p
Other Comprehensive Income			
Items that may be reclassified to profit or loss: Exchange differences on translation of foreign operations		**113**	47
Total comprehensive loss for the year attributable to owners of the parent company		**(1,023)**	(818)

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 2019

	Note	**2019** **£ '000**	2018 £ '000
Assets			
Non-current assets			
Goodwill	9	**69**	69
Intangible assets	10	**30**	25
Property, plant & equipment	11	**2,745**	2,033
Total non-current assets		**2,844**	2,127
Current assets			
Inventories	12	**691**	286
Trade and other receivables	12	**1,003**	749
Other current financial assets	12	**277**	265
Cash and cash equivalents	12	**4,809**	3,302
Total current assets		**6,780**	4,602
Total assets		**9,624**	6,729
Liabilities			
Current liabilities			
Trade and other payables	13	**1,351**	1,336
Financial liabilities	13	**50**	10
Provisions			
Provision for grant repayment	14	**260**	246
Total current liabilities		**1,661**	1,592
Net current assets		**5,119**	3,010
Non-current liabilities			
Financial liabilities	15	**164**	58
Provisions			
Provision for onerous lease and dilapidations	14	**101**	-
Total non-current liabilities		**265**	58
Total liabilities		**1,926**	1,650
Net assets		**7,698**	5,079
Equity attributable to equity holders of the parent			
Share capital	17	**3,673**	3,405
Share premium	17	**15,987**	12,676
Retained earnings		**(11,964)**	(10,925)
Share-based payments reserve		**274**	308
Translation reserve		**(272)**	(385)
Total equity		**7,698**	5,079

The financial statements were approved and authorised for issue by the Board on 23rd January 2020.

Robert Goddard
Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2019

	2019 £ '000	2018 £ '000
Cash flows from operating activities		
Operating (loss)	**(1,202)**	(918)
Impairment of intangibles	**7**	2
Depreciation	**474**	371
Share option charge	**62**	73
(Increase) in inventories	**(392)**	(124)
(Increase) in receivables	**(266)**	(149)
Increase in payables	**73**	793
Increase in provisions	**116**	246
Cash generated from / (used in) operations	**(1,128)**	294
Finance income	**16**	8
Finance costs	**(3)**	(3)
Tax received	**-**	93
Net cash generated from / (used in) operating activities	**(1,115)**	392
Cash flows from investing activities		
Purchase of property, plant and equipment	**(1,106)**	(887)
Net cash used in investing activities	**(1,106)**	(887)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**3,578**	2,533
Finance lease repayment	**-**	(3)
New loans raised	**139**	55
Loans repaid	**(27)**	-
Net cash generated from financing activities	**3,690**	2,585
Effect of exchange rate fluctuations	**38**	-
Net increase in cash and cash equivalents	**1,507**	2,090
Cash and cash equivalents at the beginning of the year	**3,302**	1,212
Cash and cash equivalents at the end of the year	**4,809**	3,302

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2019

	Share Capital £ '000	Share Premium £ '000	Share-based Payments £ '000	Foreign Translation £ '000	Retained Earnings £ '000	Total Equity £ '000
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**
At 1 October 2018	**3,405**	**12,676**	**308**	**(385)**	**(10,925)**	**5,079**
Issue of new shares	268	3,311	-	-	-	3,579
Share options	-	-	(34)	-	97	63
Exchange translation	-	-	-	113	-	113
Loss for the year	-	-	-	-	(1,136)	(1,136)
At 30 September 2019	**3,673**	**15,987**	**274**	**(272)**	**(11,964)**	**7,698**

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 2019 and applied by the Group

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

There are no material changes or amendments to the financial statements, nor any financial effect, arising from the implementation of these revisions and amendments.

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 2019

- IFRS 16 Leases
- IFRS 9 Prepayment features with negative compensation (amendments to IFRS 9)
- IFRIC 23 – Uncertainty over income tax treatments
- Amendments resulting from Annual Improvements (2015-2017 Cycle)

Effective date* 01 January 2020

- IFRS 3 – Business Combinations
- IAS 1 – Presentation of Financial Statements and IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

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

The directors are currently reviewing the effect on the financial statements of the Group in future periods, but expects only IFRS 16 to have any material impact.

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.

Revenue shown in the Statement of Comprehensive Income only relates to revenue recognized from contracts with customers, and no other sources of revenue are included. Grant income is included as credits against administrative expenses. No impairment losses have been recognized to any receivable during the period.

Opening and closing balances of receivables from contracts with customers are shown in note 12. Hardide's performance obligations are satisfied upon despatch of goods from our premises. Hardide does not have any bill-and-hold arrangements with its customers. Our normal terms of payment are 30 days from date of invoice although for some customers, other terms have been agreed including End of Month Following, and 45 and 60 days from date of invoice. Contracts do not have financing components and consideration is not variable.

Hardide provides a coating service for components owned and provided by its customers, and also sells coated components it has sourced itself. Any component deemed by a customer as non-conforming can be returned for rework or, in the case of a Hardide-sourced component, replaced. Where neither of these are possible, a credit note is raised for the amount invoiced for the non-conforming product. Hardide does not provide any warranties or guarantees concerning the coating's performance, it is the responsibility of the customer to determine that the coating is suitable for and has been appropriately tested for its needs.

There are no remaining performance obligations to be disclosed. Performance obligations are satisfied in full upon delivery and revenue is recognised at that point. Our terms of business are ex-works in all cases, and delivery takes place when the goods are made available to the customer. Transaction price allocated to the performance obligation is fixed at the price specified in the customer purchase order and does not include any estimate for variable consideration, non-cash consideration or adjustment for the time value of money. Measurement of the obligation to rework or replace non-conformance is not included due to the rarity of such occurrences. There are no assets recognised from the costs of obtaining or fulfilling contracts with customers.

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 assets 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 one hundred 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 18 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.

(e) The Group has made provisions for onerous lease and dilapidations on its existing site in Wedgwood Road Bicester. These are based on judgements and estimates of when the premises will be vacated and the cost of remedial work which might be required by the landlord.

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 2019

	UK operation £ '000		US operation £ '000		Corporate £ '000		Eliminations £ '000		Total £ '000	
	2019	2018	**2019**	2018	**2019**	2018	**2019**	2018	**2019**	2018
External revenue	**3,632**	3,757	**1,420**	856	**-**	-	**-**	-	**5,052**	4,613
Inter-segment revenue	**-**	-	**-**	-	**-**	-	**-**	-	**-**	-
Interest revenue	**1**	2	**-**	-	**14**	6	**-**	-	**15**	8
Interest expense	**-**	-	**3**	3	**-**	-	**-**	-	**3**	3
Depreciation	**176**	159	**305**	214	**-**	-	**-**	-	**481**	373
Income tax	**-**	-	**-**	-	**54**	48	**-**	-	**54**	48
Provision	**101**	-	**-**	246		-	**-**	-	**101**	246
Reportable segment profit/(loss)	**15**	578	**(513)**	(803)	**(1,400)**	(1,499)	**762**	859	**(1,136)**	(865)
Segment assets	**4,217**	4,195	**2,952**	2,327	**4,910**	3,141	**(2,455)**	(2,925)	**9,624**	6,729
Expenditure for non-current assets	**677**	303	**429**	584	**-**	-	**-**	-	**1,106**	887
Segment liabilities	**688**	711	**12,925**	11,242	**1,505**	1,969	**(13,192)**	(12,272)	**1,926**	1,650

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					
2019	**1,660**	**84**	**3,308**	**-**	**5,052**
2018	1,759	53	2,801	-	4,613

The UK operation sells to the UK, Europe and some North American customers, while the US operation only sells to North America. During 2019, of the £3.308m sales to North American customers, £1.888m originated from the UK operation. All revenue is recognised at a point in time and no revenue is recognised over time.

Five external customers (2018 - four) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2019. The external sales for these customers were £1.146m, £0.849m, £0.817m, £0.642m and £0.576m 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):

	2019 £ '000	2018 £ '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	**1,385**	1,111
Research and development	**472**	401
Income from grants	**(64)**	(60)
Operating lease rentals		
- plant and machinery	**30**	29
- property	**191**	149
Share option expense	**62**	73
Depreciation and amortisation	**481**	371
Exchange differences	**(17)**	7

4. FINANCE INCOME

	2019 £ '000	2018 £ '000
Interest on bank deposits	**15**	8

5. FINANCE COSTS

	2019 £ '000	2018 £ '000
Interest on loans	**3**	1
Late payment penalty	**-**	2
	3	3

6. EMPLOYEES

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

	2019 Number	2018 Number
Technical	14	13
Production	21	17
Sales and marketing	5	5
Management and admin	5	4
	45	39

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

	2019 £ '000	2018 £ '000
Wages and salaries	2,262	2,148
Social security costs	253	215
Employer pension contributions	39	21
Share option expense	62	73
	2,616	2,457

Of the total share option expense of £62,000 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 3% (2018: 2%) 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:

		2019 £ '000	2018 £ '000
Philip Kirkham (Chief Executive)	Salary	184	180
	Accrued bonus	33	32
Dr Yuri Zhuk (Technical Director)	Salary	105	100
	Pension	10	8
	Accrued bonus	20	27
Peter Davenport (Finance Director)	Salary	83	81
	Accrued bonus	6	8
Robert Goddard (Non-Executive Chairman)	Fees	50	50
Andrew Boyce (Non-Executive Director)	Fees	25	23
Charles Irving-Swift (Non-Executive Director)	Fees	25	13
Tim Rice (Non-Executive Director)	Fees	25	13
Jan Ward (Non-Executive Director)	Fees	-	11
Total directors' remuneration		566	546

7. TAXATION

(a) Tax on ordinary activities:

	2019 £ '000	2018 £ '000
UK Corporation Tax Charge	**(56)**	(80)
Adjustment in respect of prior years	**2**	32
	(54)	(48)
Deferred Tax		
Origination and reversal of timing differences	**-**	-
Adjustments in respect of prior periods	**-**	-
Effect of rate change on opening balance	**-**	-
Tax	**(54)**	(48)

(b) Factors affecting current tax charge:
The tax assessed on the profit on ordinary activities for the year is lower than (2018: lower than) the standard rate of corporation tax in the UK of 19% (2018: 19%)

	2019 £ '000	2018 £ '000
Loss on ordinary activities before taxation	**(1,190)**	(913)
Loss on ordinary activities by rate of tax	**(226)**	(174)
Effect of:		
Expenses not deductible for tax purposes	**149**	64
Deferred tax not recognised	**71**	104
Adjustment in respect of prior periods	**2**	32
Adjustment to opening / closing deferred tax	**-**	(3)
R&D enhanced expenditure	**(67)**	(96)
R&D surrendered	**17**	25
Total current tax (note 7a)	**(54)**	(48)

The standard rate of corporation tax in the UK is currently 19% (2018: 19%). The Group has unutilised trading tax losses in the UK of approximately £3.2m (2018: £2.0m) 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

	2019 £ '000	2018 £ '000
(Loss) on ordinary activities after tax	**(1,136)**	(865)

Basic earnings per ordinary share:

Weighted average number of ordinary shares in issue	**46,100,981**	1,661,657,670
Earnings per share	**(2.5)p**	(0.1)p

As net losses were recorded in 2019 and 2018, the potentially dilutive share options are anti-dilutive for the purposes of the loss per share calculation and their effect is therefore not considered.

Earnings per share were affected by the share consolidation described in Note 17 whereby 40 ordinary 0.1p shares were consolidated in to 1 ordinary 4p share.

9. GOODWILL

	£ '000
Cost at 1 October 2018 and 30 September 2019	69
Net book value at 1 October 2018 and 30 September 2019	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

	2019 £ '000	2018 £ '000
Cost at 1 October	**32**	6
Additions	**12**	26
Disposals	**-**	-
Cost at 30 September	**44**	32
Net book value at 1 October	**25**	1
Amortisation b/fwd	**7**	5
Disposals	**-**	-
Amortisation	**7**	2
Net book value at 30 September	**30**	25

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings £ '000	Plant, vehicles and fixtures £ '000	Computer equipment £ '000	Total £ '000
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**
Cost at 1 October 2018	513	4,662	103	5,278
Additions	111	990	6	1,107
Disposals	-	(43)	(6)	(49)
Exchange differences	15	126	1	142
Cost at 30 September 2019	**639**	**5,735**	**104**	**6,478**
Depreciation at 1 October 2018	307	2,864	74	3,245
Provided in the year	33	433	17	483
Disposals	-	(37)	(6)	(43)
Exchange differences	4	44	-	48
Depreciation at 30 September 2019	**344**	**3,304**	**85**	**3,733**
Net book value at 1 October 2018	206	1,798	29	2,033
Net book value at 30 September 2019	**295**	**2,431**	**19**	**2,745**

12. CURRENT ASSETS

	2019 £ '000	2018 £ '000
Inventories		
Raw materials and consumables	**497**	143
Manufactured parts for resale	**127**	134
Work in progress	**67**	9
	691	286
Receivables		
Trade receivables	**991**	737
Other receivables	**12**	12
	1,003	749
Other current financial assets		
Prepayments	**128**	99
VAT receivable	**15**	70
Accrued income	**134**	96
	277	265
Cash and cash equivalents		
Sterling	**3,739**	2,013
US Dollar	**779**	973
Euro	**291**	316
	4,809	3,302
Total current assets	**6,780**	4,602

Included within cash and cash equivalents is £Nil (2018: £500,000) 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:

	2019 £ '000	2018 £ '000
Current	**656**	465
1 month	**296**	254
2 months	**15**	9
3 months	**25**	11
More than 3 months	**(1)**	(2)
Total trade receivables	**991**	737

A total of £335,000 (2018: £272,000) trade receivables are over 30 days old and therefore overdue.

13. CURRENT LIABILITIES

	2019 £ '000	2018 £ '000
Trade payables	**969**	1,055
Taxation and social security costs	**80**	53
Accruals	**302**	228
Lease incentives	**12**	2
Loans	**38**	8
Total current liabilities	**1,401**	1,346

The Group entered in to a loan agreement with Martinsville Henry County Economic Development Corporation for a 5 year term loan of $240,000 (£195,000) to be drawn down in instalments coinciding with the stage payments on the third chemical vapour deposition reactor installed in our Martinsville facility. The final instalment was received in February 2019. The interest rate on the loan is fixed at 2% over the term, repayments are due quarterly and commenced in March 2019. The loan is secured against the reactor and Hardide plc has acted as guarantor.

14. PROVISIONS

	2019 £ '000	2018 £ '000
Provisions bought forward	**246**	-
Provisions utilised	**-**	-
Provisions charged	**101**	246
Effect of movements in exchange rates	**14**	-
Provisions carried forward	**361**	246

	2019 £ '000	2018 £ '000
Provision for grant repayment	**260**	246
Provision for onerous lease	**51**	-
Provision for dilapidations	**50**	-
	361	246

During 2015 and 2016 the Group received a total of $320,000 (£260,000) 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 date on one of the grants worth $150,000.

During the current financial year Hardide Coatings Limited entered in to a lease on new premises in Bicester. These are currently being fitted out and it is anticipated relocation will begin from March 2020. The Directors have made a provision for rent payable from the completion of the relocation until the end of the lease on its current premises in October 2021, as well as a reasonable estimate of dilapidation costs, totalling £101,000 (2018:nil).

15. NON-CURRENT OTHER FINANCIAL LIABILITIES

	2019 £ '000	2018 £ '000
Lease incentives	**35**	11
Loans	**129**	47
	164	58

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	
	2019 £ '000	2018 £ '000	**2019 £ '000**	2018 £ '000
Within one year	**333**	151	**17**	28
In the second to fifth years	**1,066**	429	**5**	17
In more than five years	**1,781**	90	**-**	-
	3,180	670	**22**	45

17. SHARE CAPITAL

	2019		2018	
	Number 000	**Value £ '000**	Number 000	Value £ '000
Allotted ordinary shares of 4p each	**49,146**	**1,966**	-	-
Allotted ordinary shares of 0.1p each	**-**	**-**	1,698,077	1,698
Allotted deferred shares of 0.9p each	**189,642**	**1,707**	189,642	1,707

During the year, the Company consolidated its ordinary 0.1p shares in to ordinary 4p shares in the ratio of 40:1. At the same time it raised £3,600,000 before expenses (£3,451,000 net of commission, legal fees and expenses) by way of placing 6,000,002 ordinary 4p shares at a price of 60p per share. Also during the year 693,775 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 2018	3,045,615	32.4p
Exercisable at 30 September 2018	1,751,865	29.6p
Granted during year	25,000	48.5p
Exercised during year	693,775	18.3p
Lapsed during year	1,150,000	33.4p
Outstanding at 30 September 2019	1,226,840	39.5p
Exercisable at 30 September 2019	1,176,840	38.6p

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

	Number	Weighted average exercise price
Robert Goddard (Chairman)	87,500	24.0p
Philip Kirkham (Chief Executive)	500,000	32.4p
Yuri Zhuk (Technical Director)	12,500	34.4p
Peter Davenport (Finance Director)	12,500	34.4p

During the year no options were awarded to directors. The following options were exercised by directors:

	Number	Weighted average exercise price
Robert Goddard (Chairman)	167,025	18.0p
Yuri Zhuk (Technical Director)	208,775	18.0p
Peter Davenport (Finance Director)	208,775	18.0p

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 0.88%, and an expected life of 4 years. The average calculated fair value of options granted during the year was 18.4p 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 2019 the weighted average remaining contractual life of all outstanding options was 4 years and 5 months (2018: 5 years and 4 months).

The total charge to the income statement for share options during the year was £62,000 (2018: £73,000).

19. POST BALANCE SHEET EVENTS

There were no post balance sheet events to report.

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 $409,000 (£332,000) for the purchase of equipment (2018: £63,000). Hardide Coatings Ltd had capital commitments of £1,574,000 for the purchase of equipment and £1,107,000 for leasehold improvements.

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 2019 the Group had trade receivables and other receivables of £1,003,000 (2018: £749,000) and cash deposits of £4,809,000 (2018: £3,302,000).

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 2019 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 gain of £17,000 (2018: £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 2019, 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 2019

	Note	2019 £ '000	2018 £ '000
Assets			
Non-current assets			
Investments	3	**1,218**	1,198
Amounts owed by group undertakings	4	**11,886**	10,461
Provision	4	**(11,886)**	(10,461)
Total non-current assets		**1,218**	1,198
Current assets			
Trade and other receivables	5	**163**	113
Cash and cash equivalents		**3,530**	1,830
Total current assets		**3,693**	1,943
Total assets		**4,911**	3,141
Liabilities			
Current liabilities			
Trade and other payables	6	**1,505**	1,969
Total current liabilities		**1,505**	1,969
Net current (liabilities)		**2,188**	(26)
Total liabilities		**1,505**	1,969
Net assets		**3,406**	1,172
Equity			
Share capital	7	**3,673**	3,405
Share premium		**15,987**	12,676
Retained earnings		**(16,528)**	(15,217)
Share-based payments reserve		**274**	308
Total equity		**3,406**	1,172

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 £1,400,000 (2018: loss of £1,499,000) after accounting for an increase in the provision against the intercompany loan of £1,425,000 and an exchange rate gain on intercompany loan of £663,000.

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

The financial statements were approved and authorised for issue by the Board on 23rd January 2020.

Robert Goddard
Director

PARENT COMPANY STATEMENT OF CASH FLOWS

For the year ended 30 September 2019

	2019 £ '000	2018 £ '000
Cash flows from operating activities		
Operating (loss)	**(707)**	(699)
Share option charge	**35**	39
Decrease in receivables	**7**	6
Increase in payables	**27**	37
Cash used in operations	**(638)**	(617)
Finance income	**14**	6
Tax received	**-**	93
Net cash used in operating activities	**(624)**	(518)
Cash flows from investing activities		
Net loan to subsidiaries	**(1,254)**	(935)
Net cash used in investing activities	**(1,254)**	(935)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**3,578**	2,533
Net cash used in financing activities	**3,578**	2,533
Net increase in cash and cash equivalents	**1,700**	1,080
Cash and cash equivalents at the beginning of the year	**1,830**	750
Cash and cash equivalents at the end of the year	**3,530**	1,830

PARENT COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2019

	Share Capital £ '000	Share Premium £ '000	Share-based Payments £ '000	Retained Earnings £ '000	Total Equity £ '000
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**
At 1 October 2018	**3,405**	**12,676**	**308**	**(15,217)**	**1,172**
Issue of new shares	240	3,211	-	-	3,451
Share options	28	100	(34)	89	94
Loss for the year	-	-	-	(1,400)	(1,311)
At 30 September 2019	**3,673**	**15,987**	**274**	**(16,528)**	**3,406**

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:

	2019 Number	2018 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:

	2019 £ '000	2018 £ '000
Wages and salaries	**724**	622
Social security costs	**93**	79
Share option expense	**35**	39
Employer pension costs	**17**	13
	869	753

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

3. INVESTMENTS

	2019 £ '000	2018 £ '000
Investments in subsidiaries	**1,218**	1,198

At 30 September 2019 the company held 100% of the share capital of the following subsidiaries:

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

4. AMOUNTS OWED BY GROUP UNDERTAKINGS

The amounts owed by Hardide Coatings Inc amounting to £11,886,000 (2018: £10,461,000) 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 £1,425,000 (2018: £1,131,000) has been debited to the profit and loss account in the year.

5. TRADE AND OTHER RECEIVABLES

	2019 £ '000	2018 £ '000
Prepayments and accrued income	**163**	113

6. TRADE AND OTHER PAYABLES

	2019 £ '000	2018 £ '000
Trade payables	**28**	26
Social security and other taxes	**53**	24
Amounts owed to group undertakings	**1,320**	1,811
Accruals and deferred income	**104**	108
	1,505	1,969

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 £491,000. 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

	2019		2018	
	Number 000	Value £ '000	Number 000	Value £ '000
Allotted ordinary shares of 4p each	**49,146**	**1,966**	-	-
Allotted ordinary shares of 0.1p each	**-**	**-**	1,698,077	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 17 to the Group financial statements.

8. CAPITAL COMMITMENTS

The company has no capital commitments at 30 September 2019 or 30 September 2018.

9. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 September 2019 or 30 September 2018.

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	2019		2018	
	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	**167**	**-**	127	-
Transfers of research and development costs	**(89)**	**-**	(151)	-
Transfers under licence agreements	**363**	**-**	376	89
Transfers under finance arrangements	**50**	**762**	(261)	764
Settlement of liabilities on behalf of the entity	**-**	**-**	-	-
Balance outstanding at 30 September	**(1,320)**	**11,886**	(1,811)	10,461

11. POST BALANCE SHEET EVENTS

There are no post balance sheet events to report

12. FINANCIAL INSTRUMENTS

The financial instruments risk management is disclosed in note 23 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.

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