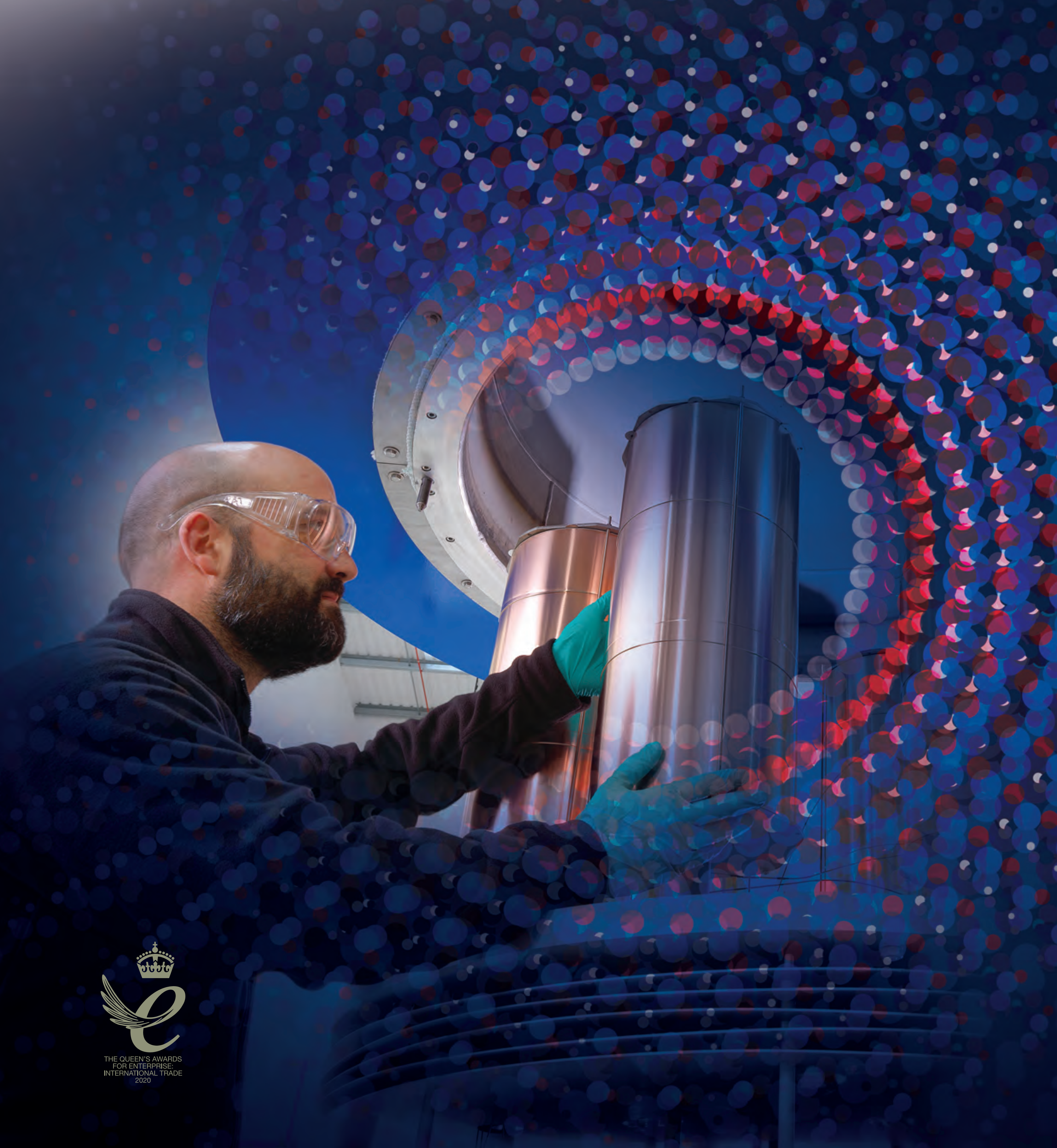
Hardide® plc

# ANNUAL REPORT 2020



THE QUEEN'S AWARDS FOR ENTERPRISE: INTERNATIONAL TRADE 2020

# HARDIDE PLC ANNUAL REPORT 2020

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 energy, aerospace, flow control, power generation and precision engineering to optimise part life, improve product performance and make significant operating cost savings. The Group has manufacturing facilities in Oxfordshire, UK and Virginia, USA.

# CONTENTS

# FINANCIAL HIGHLIGHTS

“Robust results in challenging conditions.

**£4.8m**

Revenue of £4.8m (FY2019: £5.1m)

**£2.3m**

Gross profit of £2.3m (FY2019: £2.4m)

**49%**

Gross margin of 49% (FY2019: 48%)

**(£0.5m)**

Reduced EBITDA loss of £0.5m before exceptional items, including £0.2m of costs relating to site relocation (FY2019: loss before exceptional items £0.6m). The beneficial impact on EBITDA this year of applying IFRS 16 is £0.4m (after IFRS 16, like for like FY2019 EBITDA loss of £0.4m).

**£2.5m**

Over-subscribed fundraising of £2.5m (before expenses) to fund additional equipment, enhance new UK site at Longlands Road, Bicester and strengthen the balance sheet.

**£2.7m**

Cash at bank at 30 September 2020 of £2.7m (FY2019: £4.8m)

# BUSINESS & OPERATIONAL HIGHLIGHTS

## TRADING

- Revenue was only 6% below FY2019 with increased revenue across all sectors other than oil & gas, which was adversely affected in H2 due to the slowdown of the global economy resulting from the COVID-19 pandemic
    - Sales to the energy sector down 14%. Parts for the delayed major oil and gas project order were received post period in October 2020
    - 9% increase in sales to the flow control sector
    - 19% increase in sales to the aerospace sector
    - 4% increase in sales to the precision engineering sector
    - 56% increase in sales of coated industrial diamonds
    - Revenue from UK and North American customers were each 49% of total Group sales (FY2019: UK 35%, North America 65%)
    - Revenue from Martinsville facility up 10% compared to FY2019, totaling 33% of Group sales
- Honoured with Queen's Award for Enterprise: International Trade 2020 in recognition of the outstanding growth of international sales

## STRATEGIC

- Relocation of UK operations to new site completed on time and within projected cost
- Two new coating reactors installed in UK including one large reactor, and one new reactor in the US. The Group now has nine operational reactors compared with six at the end of 2019
- Airbus production orders being received for the A380 wing compression flap pads. Coating of components for the Lockheed Martin F-35 Lightning II Joint Strike Fighter continues
- Long-term test programmes with our new coating for steam and gas turbine blades progressing well
- Major environmental improvements due to the new site and production processes
- Good progress in developing new opportunities in low or carbon-neutral energy technology with production orders received.

## TECHNOLOGY

- Successfully completed two National Aerospace Technology Exploitation Programme (NATEP) grant funded projects on a new ultra-low temperature coating for aerospace metals, which is now in late stages of development before being commercially available
- UK Intellectual Property Office granted a patent on the further-enhanced Hardide coating and its new applications, including turbine blades. National phase patenting has started in 10 leading industrial countries
- Validation began in nine countries of a European patent application for alloyed tungsten produced by chemical vapour deposition

# CHAIRMAN'S AND CEO'S REPORT

## INTRODUCTION

The Group is pleased to report full year sales of £4.8m (FY2019: £5.1m); down by just 6% on the last year. The strong first half continued into the start of H2 until the disruption in our customers' markets caused by the COVID-19 pandemic began to dampen their demand. After this promising start to H2, revenues overall were badly affected by lower sales to oil & gas customers. The Group's efforts to reduce further its dependence on industry sectors and particular customers, protected it from an even more severe exposure to the downturn. Sales to all other market sectors increased in the year; as did sales for the coating of several specialist oil & gas products, including those for subsea and sand filtration.

In January 2020, the Group completed an over-subscribed fundraising of £2.5m (before expenses). This was to fund completion of the new UK site, additional equipment and strengthen the balance sheet. At about the same time, Finance Director Peter Davenport announced his intention to leave the Group to pursue a career in education. The Board was sad to see Peter leave and thanks him for his diligence and important contribution to the growth and health of the Group over the years. Simon Hallam was appointed as Finance Director in April 2020. Very quickly, he has familiarised himself with Hardide and is making valuable contributions. We were also sorry in August 2020 to lose Charles Irving-Swift as non-executive director and thank him also for his contributions to the Board. Tim Rice has taken over the role of senior independent director.

One of the highlights of the year has been the smooth transition of UK production to the new Longlands Road site in Bicester and the addition of a bigger reactor. This will enable the coating of larger components. During August 2020, the new 20,000 sq. ft. site became fully operational. One reactor will remain in the former premises to coat aerospace components until Airbus completes its approval process of the new site, which is expected to conclude in spring 2021.

In April 2020, the Group was proud to be honoured with a Queen's Award for Enterprise: International Trade. This was in recognition of the outstanding growth in international sales, which increased by 152% over a three year period. In the year to 30 September 2020, international sales accounted for 51% of revenues.

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A modern, high-tech and efficient production environment that enhances our levels of environmental and energy efficiency.

## COVID-19

The Group's facilities in Bicester and Martinsville continue to operate as normal throughout the COVID-19 pandemic, with considerable emphasis being placed on health and safety measures to protect staff and contractors. The Group has followed official guidelines in the places where we operate and has supported remote working where possible.

The pandemic has brought considerable disruption to our key markets of oil & gas, and aerospace. We have remained close to our customers during this time. So, as the global economy and as our markets adjust to the new normal, we are confident that higher demand will return. The pandemic also paused a number of customers' R&D and test programmes; although we are beginning to see some of these being resumed.

In the UK, where it was operationally appropriate to do so, the Group utilised the Government's Coronavirus Job Retention Schemes to match our workforce to demand and protect employment. In the US, we applied successfully for funds from the US Small Business Association's 'Paycheck Protection Program'.

## FINANCIAL RESULTS

The Group generated sales of £4.8m in the year ended 30 September 2020 (FY2019: £5.1m), despite the difficult economic conditions over the second half of the year caused by COVID-19.

Direct costs, including production salaries, decreased by 8% which was attributable to the 6% reduction in sales.

Group gross profit was £2.3m (FY2019: £2.4m). Despite the lower revenue, gross margin improved by 1% to 49% (FY2019: 48%).

Overhead costs excluding those related to the new premises decreased by 6%. This was due to the receipt of £121k grant income from the National Aerospace Technology Exploitation Programme (NATEP), and also support from the US Small Business Association's Paycheck Protection Program amounting to US$200k. This loan is 'forgiven' and does not have to be repaid as long as certain conditions are met. The Group believes those conditions have been met and have released this amount to the income statement.

Before exceptional items, the Group's EBITDA loss was £0.5m, and included £0.2m of costs relating to relocation to the new building in Bicester (FY2019: £0.6m loss before exceptional items). The Group adopted IFRS 16 with effect from 1 October 2019 and has applied the standard using the modified retrospective approach. Comparative information has not been restated and is therefore still reported under IAS 17 'Leases' and related interpretations. The beneficial impact on EBITDA in FY2020 of applying IFRS 16 is £0.4m. After IFRS 16 adjustments, like for like EBITDA loss in FY2019 would be £0.4m.

Group EBITDA in the first half was breakeven, and a £0.5m loss in the second half reflects the impact that COVID-19 has had, particularly over the last quarter of financial year.

The Group has successfully negotiated a further six-month rent holiday for its lease payments on the Longlands Road building with effect from 28 September 2020, which will have a cash benefit of c.£90k in FY2021. It has also negotiated a 30% reduction in lease payments on the Wedgwood Road premises from January 2021, giving a cash benefit of c.£23k in FY2021. The lease on the Wedgwood Road premises terminates in October 2021.

The only borrowing at the year-end was the asset finance agreement with Hitachi Capital of £0.4m against a new coating reactor. In addition, in February 2021 the Group obtained a CBILS loan for £0.25m. This is repayable over six years, and is interest and repayment-free in the first year.

During the year, the Group repaid US$116k of the original US$170k grant from the Virginia Tobacco Commission. As this had been fully provided for, a release of US$54k has been made to exceptional items. The Martinsville-Henry County Economic Development Corporation in Virginia has converted the outstanding value of their loan of US$182k to a grant, with the Group released from all obligations under the loan agreement, with no further repayments due. This is being amortised to the income statement in line with the remaining life of the reactor which was installed at Martinsville in December 2018, for which the loan was originally made.

A provision of US$150k created in FY2019 remains in place for the likely full repayment of the State of Virginia's Commonwealth Opportunity Fund grant. This is because the Company has not created the required number of jobs in Martinsville. Repayment has now been scheduled in two equal amounts on 31 March and 30 June 2021.

On the balance sheet, net assets at 30 September 2020 were £8.8m (FY2019: £7.7m). This included a cash balance of £2.7m (FY2019: £4.8m). The reduction from 2019 was due mainly to the investment in new plant and equipment, and generally in the Longlands Road facility. There remains c.£0.3m committed for completion of the relocation project. Other working capital balances have reduced overall by £0.2m, with the main factors being a reduction in inventory levels and lower trade debtors caused by the lower activity levels over the final quarter.

The Board believes that its cash reserves will be sufficient for forecast requirements; especially now that on the 1st February 2021, the Group secured additional funds of c.£1.0m comprising a fundraise of c.£0.75m net of expenses and a CBILS loan of £0.25m.

## OPERATIONAL OVERVIEW

### Customers and Markets

Revenue from aerospace customers increased by 19%, flow control by 9% and precision engineering by 4%. In flow control, sales rose to one of our longest standing and largest US customers as they used Hardide-coated parts in new applications, including pumps for medical sanitisers.

### Aerospace

An increase in aerospace sales was due largely to demand for military aircraft, especially for BAE Systems' Typhoon and Lockheed Martin's F35 Joint Strike Fighter. Intense work on approvals has continued jointly with Airbus and their Tier 1 suppliers throughout the year. We were delighted to receive our first production orders from Airbus for the A380 and Beluga transporter aircraft. Hardide-coated compression flap pads are now specified as maintenance replacements on the substantial in-service A380 fleet and regular, long-term orders are expected. The coating has been approved for specific wing components on the Airbus A320 and A321XLR aircraft and the Group is in various stages of testing and approval on parts for the A320, A321, A321XLR, A330, A400M aircraft and the Airbus 'Wing of the Future' programme. Regular production orders for coating A330/A320 components are expected to commence in H2 2021.

We had expected production orders from a large European MRO (maintenance, repair and overhaul) organisation for the Airbus A320 during the financial year. These components are subject to a performance evaluation of the Hardide coating after flying, apparently successfully, for more than 4,000 hours. The pandemic has delayed final evaluation of these parts but is expected to be finalised in the coming months. One of our strategic objectives is to develop further our sales into the global MRO market.

Regular orders for military aircraft are being received for the coating of components on the Lockheed Martin F-35 Lightning II Joint Strike Fighter (JSF) and BAE Systems' Eurofighter Typhoon. Hardide-A has been selected to replace HVOF (high velocity oxy-fuel) thermal spray coatings on the JSF components. In addition to the JSF, we are working on several other aerospace projects where HVOF coatings may be replaced by Hardide-A.

Together with Leonardo Helicopters, we developed a number of coating techniques for innovative parts used in transmission and rotor head systems to reduce in-service costs and extend component life. Final testing of Hardide-coated parts in a transmission assembly was further delayed but is expected to get underway in early 2021.

Multiple test programmes are in progress with OEMs (original equipment manufacturers) and Tier 1 suppliers for a range of civil and military aircraft applications. Other development work for European and North American aerospace companies continues.

Aerospace is a major strategic market for the Group and we see significant opportunities in the MRO industry, as well as with OEMs. In July 2020 we strengthened our aerospace business development team with the appointment of a highly-knowledgeable and well-connected manager who has 17 years' experience in the long-term development of global aerospace markets in the UK, EU and Asia Pacific.

The Group continues to develop digital engagement with webinars, virtual meetings, conferences and exhibitions. We provided video presentations for the 2020 Farnborough Virtual Airshow and continue to develop and roll out innovative approaches during the COVID-19 restrictions, ensuring continued communication with our existing and new customers.

### Energy

The financial year started strongly, with growing demand from oil and gas customers and H1 sales up 30% from H1 2019. When the pandemic began to take hold in March 2020, demand was not affected immediately. Instead, the effects of the lockdown became evident after a few months with order book delays notified to the market in July 2020. Overall sales in the year to oil & gas customers were 14% lower than FY2019. Though volume orders from some major oilfield customers were depressed in the second half, a number of oil & gas applications have proven resilient and revenues from them have grown throughout the year. Also, demand for the coating of industrial diamonds for oil & gas customers rose 56% compared to FY2019, although heavily weighted towards H1. Parts for the large, delayed oil and gas project order originally expected in H2 2019, were received early in H1 2020.

Forecasts of demand from our oil & gas customers remain unavailable. However, we are confident that as the global economy recovers, demand for Hardide-coated products in this sector will return and continue on its previous upward trajectory.

We are encouraged by the high number of new oil and gas applications that we have in development and in test programmes. In particular, these include the coating of mesh and wire-wrap screens for sand filtration. The Hardide coating is ideally suited to this highly abrasive application, which requires the complete coating of very complex layers of interwoven mesh. Also, there are multiple applications beyond the oil and gas sector for this technology that we are developing with specialist manufacturers of filters.

### Renewables

The Board is mindful of the wider global move towards the use of energy derived from non-fossil fuels, and the shift towards a low-carbon and renewable energy future being taken by the major oil & gas companies and other users of our products. Looking beyond the current downturn, we see renewable and clean energy technologies forming an increasing part of our revenue portfolio. Already, Hardide coating is being incorporated into the production process of a solar energy company in Europe, from where we now receive regular orders.

Also, we are making excellent progress on a fast-track test programme with a very substantial, blue-chip, clean energy company in the USA.

### Power Generation and Precision Engineering

The Group is now working with six power generation companies in the UK and Europe on our long-term project to commercialise the recently-patented coating for blades and vanes used in power generation turbines. Product testing is at an advanced stage with EDF Energy who plan in 2021 to have coated a number of blades to field test in a power station in 2022. Meanwhile, we are at various stages of testing for both steam and gas turbines with five other power generation customers.

Demand for our coated components in high speed X-ray baggage screening machines has been maintained at previous levels.

## Marketing Communications

Our plans to exhibit and make technical presentations at both the Singapore and Farnborough International Airshows, as well as at several other international exhibitions and conferences, were prevented by the pandemic. In response, we shifted our focus online and participated virtually wherever this was an option. We increased our digital marketing activities, and made comprehensive use of all traditional and social media channels to connect with potential customers and make new contacts. In May 2020, we launched our redesigned and responsive website with refreshed content and enhanced functionality for technical users and investors. The site is updated regularly and we know through web analytics that it is used heavily as a resource for information on Hardide coatings' technical data. It is also a good source of leads and provides us with feedback on the information that most interests current and prospective users of Hardide coatings.

## Production, Technology, Environment, Research & Development and Accreditations

The new Longlands Road site in Bicester was fully operational from August 2020. It was completed on time and within projected cost. The move has provided the Group with a modern, high-tech and efficient production environment that enhances our levels of environmental and energy efficiency. Energy-efficient LED lighting has been installed throughout the building, which itself is very thermally efficient. During cold periods, process heat from the reactors is fed back into the work areas, thereby reducing the need for space heating.

Hardide has always been environmentally superior to other hard coating technologies but now, the new production and filtration equipment improves further the environmental performance of our processes. The investment in new component cleaning equipment has almost eliminated the consumption of volatile organic compounds (VOCs) used in the cleaning of incoming components. Additionally, all gaseous by-products from the production processes are comprehensively neutralised and cleaned, so ensuring clean discharges to atmosphere. Holding tanks have been installed that have eliminated any unverified discharge of liquid by-products into the drains.

Further significant reduction of the Group's overall carbon footprint has been achieved by having a US coatings facility. Previously, all products coated for North American customers were airfreighted to the UK and back again to the customer.

Three new coating reactors were installed during the year, two in the UK and one in the US, bringing the total in the Group to nine. The UK's new larger reactor was commissioned in September 2020. This, together with the new large pre-treatment line and cleaning machine means the process size capabilities are expanded by a third and can now accommodate components up to 1.5 metres long. We have run successfully the first parts through the new reactor and expect to secure additional applications in the power generation, aerospace and oil & gas sectors based on our increased capabilities.

Completed successfully were two projects to apply the new, ultra-low temperature coating to additional metal types in the aerospace sector and for its subsequent machining. Funded by the National Aerospace Technology Exploitation Programme (NATEP), the work was carried out in collaboration with Airbus, Leonardo Helicopters and other industry partners, and further enhanced our technical credentials with these customers. This coating is now in the late stages of development before being made commercially available.

Before the COVID lockdown, our Technical Director participated in a delegation to South Korea that was sponsored by Innovate UK. This was a strategically significant and productive project – several potential customers were identified, as was a very suitable potential agent to represent Hardide. Following the visit, coated samples were supplied for four applications and these are now being tested by customers in South Korea.

The Longlands Road site has been certified to environmental standard ISO14001 and aerospace quality management system AS9100D/ISO9001. The former Bicester site retains Nadcap (National Aerospace and Defense Contractors Accreditation Program) 'Merit' Status and planning is underway for Nadcap accreditation at Longlands Road site. Aerospace production will continue at Wedgwood Road until Airbus approves the new site, expected in spring 2021. Plans to progress Nadcap accreditation and Airbus approval at the US site are delayed until international travel restrictions are lifted.

## End of the EU/UK Transition Period

Although the Group has a low level of transactions with EU countries, we evaluated the risks across all aspects of the business. We are in dialogue with our EU based suppliers of key raw materials and are experiencing no disruption. Nevertheless, during 2020 we took precautions and built stocks of key materials in the UK. Almost all our customers' components arrive from within the UK or by airfreight from North America. There are currently very few customers' products that travel to or from the EU. All of our staff who are EU nationals have received Settled Status, ensuring no personnel difficulties. We continue to keep abreast of developments and advice from Government and industry bodies.

## Intellectual Property

In October 2019, the UK Intellectual Property Office granted a patent on the further-enhanced Hardide coating and its new applications, particularly in power generation. In 2020, patenting started in 10 leading industrial countries. This is an important achievement that strengthens the Group's IP portfolio. Fundamental research continues into the development of new coating variants and applications are regularly evaluated for patentability.

## STRATEGY

Hardide is a 'technology development' company in which increasing numbers of customers and types of application are proving the worth and robustness of the technology; thereby giving rise to increasing sales in a wide spectrum of industries, and ultimately to high, growing and more-consistent profits.

The Group's high operational gearing has been demonstrated previously by an improvement in EBITDA markedly faster than the rate of increase in sales, albeit the upward trajectory of sales has been set back temporarily by the pandemic induced decrease in demand. Accordingly, high growth in shareholder value demands continued investment in business development, marketing and technological progress - not on reducing costs.

There are considerable benefits to end-users in using Hardide coatings. Such benefits include longer working life of the component and reduced maintenance costs. In many cases it also gives the customer a significant competitive advantage.

There exist strong barriers to entry into Hardide's markets. Foremost among these are a continuously-refreshed patent portfolio and the skills embedded among our staff. Almost as important is the fact that our coating is used often in mission-critical or safety-critical applications, or both. This means that potential customers very often have rigorous approval processes that can last many years.

The Group is making further progress with its successful efforts to diversify and increase its number of customers and target industries, and will continue to do this. In the short-term regular demand from Airbus is expected to commence soon, and the coating of turbine blades for power generation is a realistic medium-term target that has good profit potential. Also in prospect are exciting short- and medium-term opportunities with customers in the renewable energy sector and new applications in oil & gas.

The Company will seek out and develop further opportunities for partnering with end-users of the technology and by this means achieve further technical success and additional revenue.

The Board retains its positive view of Hardide's potential for profitable growth. Although not profit maximising in the very short-term, investment in further marketing, business development, and research & development will continue.

## EMPLOYEES AND STAKEHOLDERS

The Board must thank our employees for their loyalty, commitment, flexibility and hard work. During this most uncertain of times they have worked tirelessly to ensure that the site relocation project was delivered seamlessly and with no interruption in supply to customers, or any reduction in product quality. Production, technical and laboratory equipment was transferred with minimal disruption, and our quality and environmental processes were established at the new site, both on time and efficiently. The Board recognises the hard work and planning that went into achieving this, and that it was further complicated by the disruptive effects of the COVID-19 pandemic on contractor availability and normal ways of working.

The Board also extends its thanks to shareholders and other stakeholders for their continued support and confidence in the future of our business.

## OUTLOOK

The Board remains optimistic and positive about the longer-term growth of Hardide and is committed to the strategy of continued diversification into resilient, emerging and high-volume markets, while at the same time developing our existing high margin markets, where we have proven performance.

The short-term outlook is more difficult to predict as our customers lack firmer forecasts for their own businesses. However, there are good grounds for optimism. The latest market forecasts, together with a higher number of working oil and gas rigs, and the higher oil price, indicate a good recovery in oil demand and production in 2021 and 2022. The Board is confident that, as the global economy recovers and new customers and applications come on stream, demand for Hardide's products will grow significantly and continue on its previous strong upward trajectory. We believe that Hardide has a strong and sustainable strategy and business model; and that financial performance will benefit from our very high operational gearing as revenues recover.

**Robert Goddard**
Chairman

18 February 2021

**Philip Kirkham**
CEO

18 February 2021


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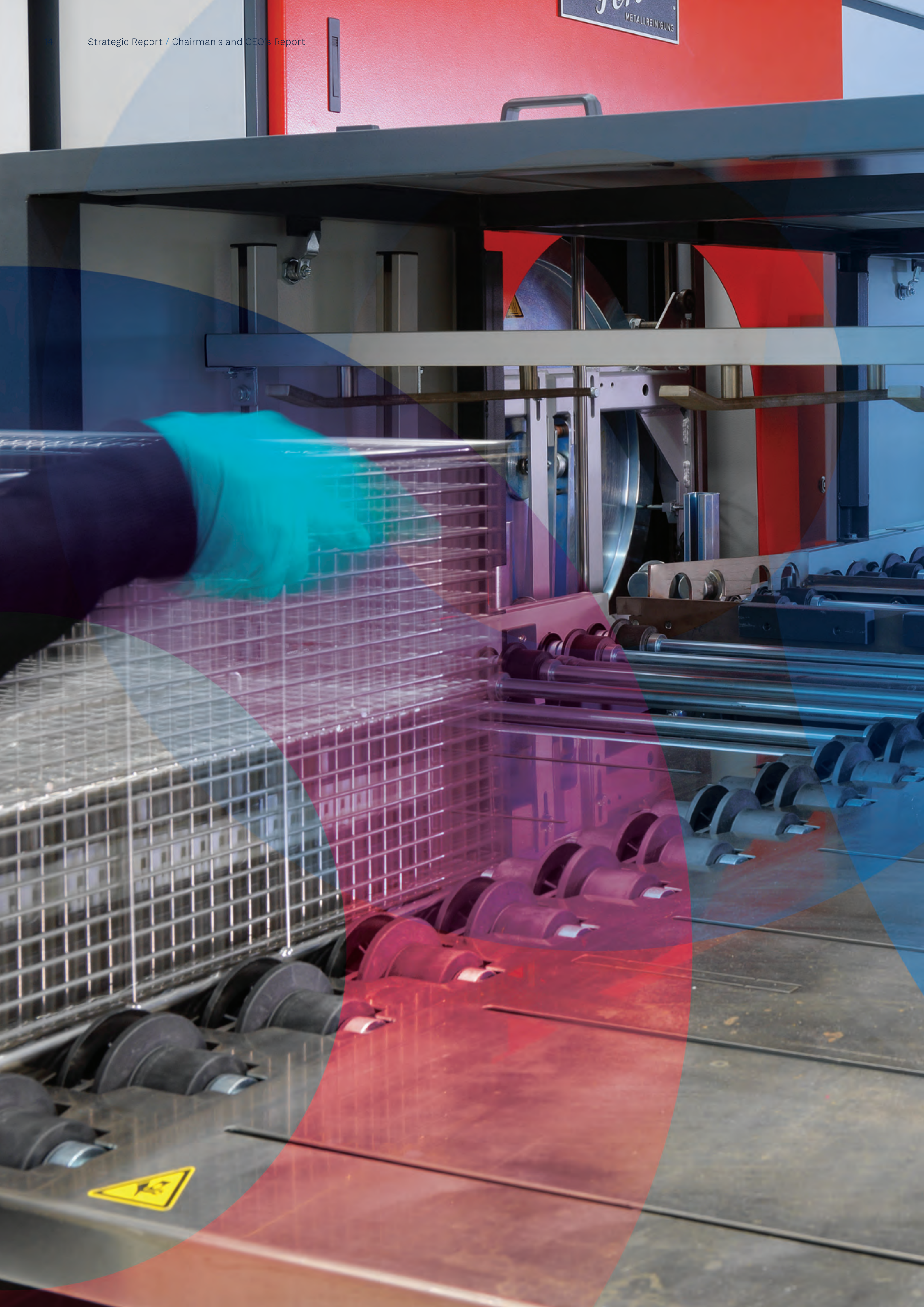
Three new coating reactors were installed during the year, two in the UK and one in the US, bringing the total in the Group to nine.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"New component cleaning equipment has almost eliminated the consumption of volatile organic compounds (VOCs) used in the cleaning of incoming components.

# FINANCIAL REVIEW

## STATEMENT OF COMPREHENSIVE INCOME

Sales revenue for the year reduced by 5.9% to £4.76m, down from £5.05m in the prior year. Record sales in the first half of the year of £3.02m (H1 2019: £2.35m) reduced to £1.74m in the second half (H2 2019: £2.70m) as Covid-19 adversely affected the oil & gas market in particular.

With production salaries a relatively fixed cost, the increased sales in H1 delivered gross margins of 55% in H1. But with the reduction in sales in H2, this was also a factor in gross margins over this period falling to 38%. Overall gross margin for the year was 49% (2019: 48%).

Costs of sales fell by 7.6% to £2.44m (2019: £2.64m), reflecting the reduction in variable costs, primarily the principal gas used in the production process, as a consequence of the lower sales for the year.

Administrative expenses reduced by 5.8% to £2.86m (2019: £3.04m). This was down to the receipt of £121k grant income (2019: £64k) from the National Aerospace Technology Exploitation Programme (NATEP), and also support from the US Small Business Association's Paycheck Protection Program amounting to US$200k.

The Group's depreciation charge on owned assets was £477k, at a similar level to the previous year (£481k). Depreciation on the investment in the new site and equipment was negligible in the year as relocation and then full production did not commence until towards the end of the financial year. The Group also adopted IFRS 16 from 1st October 2019 using the modified transitional approach, which resulted in depreciation on 'right-of-use' assets of £288k in the year, and finance costs on right-of-use assets of £91k. We also made an estimate of £50k in respect of dilapidation costs, which might occur on the new site at the end of the 15 year lease period.

The Group loss before interest, tax, depreciation and amortisation (EBITDA) for the year amounted to £0.54m (2019: £0.62m). The Group broke even in H1 (2019 H1: £0.44m loss) on the back of the record sales over this period, and so consequently all of this loss is attributed to H2 (2019 H2: £0.18m loss). This also included £0.16m of costs incurred for the new site. Our Martinsville facility increased sales by 12.5% from 2019, and as a consequence achieved an EBITDA profit, even before taking into account the impact of IFRS 16.

## STATEMENT OF FINANCIAL POSITION

Non-current assets increased by £5.74m during the year. This is net of the £477k depreciation charge on owned assets and £288k on right of use assets. The main factor was the adoption of IFRS 16 which transitioned £2.42m right-of-use assets onto the balance sheet. In addition, £4.17m was invested in the new site, as well as in new fixtures and equipment, as part of the relocation project.

Inventories were £565k (2019: £691k), a reduction of £126k. The previous year's inventory included the impact of receiving a significant quantity of our key process gas in the USA shortly before the year end which was being offered by a supplier at a significant discount to our usual price. This has been utilised substantially over the year. Trade and other receivables fell by £517k compared to 2019 due to the slow-down in sales in H2, but in particular the final quarter.

During the year, the Group repaid US$116k of the original US$170k grant from the Virginia Tobacco Commission. As this had been fully provided for, a release of US$54k was made to exceptional items. The Martinsville-Henry County Economic Development Corporation in Virginia also converted the outstanding value of their loan of US$182k to a grant and released the Group from all obligations under the loan agreement, with no further repayments due. This is being amortised over the life of the reactor which the original loan was used to finance.

In January 2020, The Group completed a fundraising which raised £2.5m (£2.35m net of expenses). This was to fund the completion of the new site in Bicester, invest in new equipment including additional reactors, and strengthen the balance sheet. Subsequent to the year end, in February 2021 the Group raised £1.0m, net of expenses, through a combination of equity fundraising and a Coronavirus Business Interruption Loan Scheme.

Cash balances at the end of the year were £2.72m (2019: £4.81m).

**Simon Hallam**
Finance Director

18 February 2021

“Revenue from aerospace customers increased by 19%, flow control by 9% and precision engineering by 4%.


Loading capacity:50KG
2# Hot DI Ri


"The new large pre-treatment line and cleaning machine means the process size capabilities are expanded by a third.

# STRATEGIC REPORT

## OVERVIEW

As described in the Chairman's & CEO's Report, Hardide is a 'technology development' company in which increasing numbers of customers and types of application prove the worth and robustness of the technology; thereby giving rise to increasing sales in a wide spectrum of industries, and ultimately to high, growing and more-consistent profits. If near-term profits were sought too aggressively, it would damage the business and so not be in best interest of shareholders. This does not mean that we will not cut costs where to do so would not risk a swift recovery when demand resumes.

In January 2020, Hardide plc raised successfully £2.35m (net) in the form of new equity; together with £0.4m of asset finance. The purpose of these additional funds was to complete the capital works at the Company's new facility in Bicester and to strengthen the balance sheet. The need for the latter is explained below.

The fundraising followed-on from notable successes in the year to 30th September 2019; including record sales of £5.1m. The first half of the year to 31st March 2020 again saw record sales for a half year and the posting of a modest positive EBITDA. At the end of the first half we had little indication from customers or end users of a slowdown in their demand. Nonetheless, we were already bracing ourselves for a slowing of some significance in the second half. The outturn was a decline in revenue to a level last seen three years ago and the resulting EBITDA loss.

The move of facilities to the new site was an outstanding success, and enabled substantial improvements in environmental performance. Important too were considerable improvements in working conditions, production efficiency and Hardide's image; together with an attendant boost to staff morale.

The Board retains its settled view that a strong upward trajectory in gross profit is the primary indicator of growth in the Group's value. Accordingly, a sharp focus is on investing to grow revenues steadily and significantly so that, because of the Group's high operational gearing, gross profit is maximised.

Success in transferring its technology to the Hardide facility in the USA has provided the confidence that further geographical expansion can be made successfully when the time comes. We remain at the early stages of assessing the merits of a Hardide facility in the Far East. Despite the considerable potential in this region, at present, Hardide does not have sufficient management resource to proceed further on this. Also, the current balance sheet would not allow such a move.

It is worth re-stating that substantial opportunities for new applications and new customers or sectors usually take years to develop. However, once qualified, the volumes and margins for the coating from these can be very attractive. It is important therefore that the Group strengthen its balance sheet and has 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 Group has made further progress in its strategic goal of broadening its customer and sector base, and is now less dependent on a small number of customers and markets, and now far less vulnerable to fluctuations in demand. Nonetheless, further diversification can and should be achieved and doing so remains a strategic objective. In the coming year, we expect to widen our base of industry sectors, products and customers. The expected increase in sales to aerospace customers and others, such as in the industrial filtration sector, will help improve the balance of sales among sectors.

The 'push-pull' approach to developing additional revenue has had good success with end-users such as Airbus and their Tier 1 suppliers. This is an important part of our overall strategy and we plan to develop it further; particularly with end-users in the energy and power generation sectors.

## OPERATIONS

Despite the COVID-19 pandemic, the move to new premises in Bicester was achieved smoothly and successfully. There are now five reactors installed in the UK, including one that will accommodate components 50% larger than the others.

The successful establishment some four years ago of our coating facility in the US continues to serve its intended purpose of enabling the Group to address a substantial part of the large North American market that would otherwise not be accessible to us, and to make it 'easy' for customers to do business with us. Additionally, having a geographically separate production facility provides greater security of supply for customers who have effectively 'designed in' or single-sourced Hardide coating 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 fourth reactor was installed there in spring 2020. Space remains there for considerable further expansion of capacity.

## SALES & MARKETING

### Customer contact

Although the Group's coatings have wide applicability in very many industry sectors, it is a specialised and relatively new, problem-solving product. As such, 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, Hardide will continue vigorously with its programme of high-level technical presentations and attendance at trade fairs and conferences (pandemic restrictions permitting). Greater use has been made of email campaigns and, 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 announcement of developing sales to 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 those potential users who have an identified and immediate need.

In North America, our two business development executives, who are professionally-qualified engineers, are making good progress in identifying a wide range of new customers.

### Customer and industry diversification

As well as increasing sales, the customer and industry diversification element of the Group's strategy continues to play a major part in our planning.

Our development of the complex coating process of filter screens used in well completion has led to increased sales of the product and represents an important diversification away from directional drilling and helps spread our oil & gas business across both exploration and production. Importantly, it has led also to interest from potential customers in the industrial filtration sector. This is a large potential market for Hardide.

In the coming calendar year, sales to the aerospace industry are expected to grow, largely on the back of demand from Airbus, Leonardo and others. The rate of growth in these sales may be dependent on the timing of return to normal conditions following the pandemic. Normally, this sector tends to be slightly counter-cyclical to the oil & gas sector and helps balance our portfolio of industry sectors.

Being a utility, power generation is a large non-cyclical industry. Within that, the turbines that drive the generator to produce electricity are large and expensive components. Building on our initial success in developing a protective coating for turbine blades, and supported in this by EDF Energy, we will continue to develop this application. If, as expected, our coating gains the intended approvals, sales to turbine manufacturers and maintenance organisations could be very large indeed and may require new facilities to meet demand. Sales of this newly-patented coating for turbine blades have the potential to diversify considerably our customer base.

### Geographies

Despite slow progress, the Group will continue with its efforts to develop major European 'high-end' manufacturing markets; particularly Germany, Switzerland and Italy. In North America, our new US production facility has meant that customers there are more comfortable with domestic suppliers.

Meanwhile, we recognise that potential customers in SE Asia and China continue to show high growth rates in the aerospace, power generation and energy industries. We will continue to consider where, how best to establish relationships and in what form. However, before detailed planning gets underway, we will stabilise and strengthen our position in North America and Europe.

## PRODUCT RANGES, CUSTOMERS AND MARKET CHARACTERISTICS

The Group classifies its applications into five sectors: Energy (conventional and renewables), 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 it is believed there is a very significant market for the Group to grow into.

### Energy production

Historically, oil & gas has been the dominant sector for Hardide and may remain so; at least for the medium term. However, as demonstrated over recent times, 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 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. Recent product development has led to increased sales in the less-secretive 'production' sub-sector of the oil and gas industry.

Customers in the oil & gas industry are particularly secretive and our agreements with them usually prevent Hardide from revealing their name, and especially not referencing the coating's particular use, which often conveys competitive advantage to the end user. This feature makes development of new customers much harder than otherwise it would be. However, a recent and important example of greater transparency has been with the end-user of Hardide-coated mesh filters.

Recognising the shift towards 'green' production of energy, Hardide has secured sales to a producer of materials used in the production of solar cells. Also, in joint development with a very large manufacturer of environmentally friendly products, Hardide coatings are being tested on that manufacturer's components. Success with this programme will enable the Group to address a wide range of customers not previously accessible.

### Aerospace

In contrast to most of the oil & gas industry, aerospace customers and end-users tend to be much more open, and approvals by Airbus and Lockheed Martin for Hardide have enabled the promotion of the coating to a wide range of other end-users and Tier 1 manufacturers.

The aerospace industry is notoriously cautious 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. Hardide now has approvals for coating a range of aircraft components. Sales have been slow to begin with but as stocks of product without Hardide coating are consumed, it is reasonable to expect that sales to the industry will grow faster.

From a low base, the annualised growth in revenue from the aerospace market sector was 19%.

### Flow control

For the time being, flow control remains our second largest market sector. Sales increased 9% this year; largely to our main North American pump customer. 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 growth in sales was 4% and 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 newly-developed technology, principally for a manufacturer of X-ray scanners, but also for a number of other specialised applications.

Hardide will continue seeking new specialist applications in this market sector.

### Power generation

We are making good progress with EDF Energy 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 very long period.

## INTELLECTUAL PROPERTY, PRODUCT DEVELOPMENT AND R&D

A new UK patent was granted in November 2019 for the protective coating of steam and gas turbine blades and vanes used in the power generation industry. Also for 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 application for international patents has been filed. The granting of this patent also enhances considerably and extends the IP protection of existing patents.

Partly funded by Innovate UK, a project to develop and characterise a new, low temperature 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 coatings will open up opportunities in a wide range of metals commonly used in the aerospace, and subsea oil and gas sectors.

Hardide also received two grants from NATEP[1] for the development of applications and finishing techniques of the low temperature coatings. These projects began in September 2018 and have now concluded. Both had multiple industry partners, including Airbus and Leonardo Helicopters. Hardide was the lead partner in each case.

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

Hardide continues the sponsorship of one of its senior technical staff to pursue a doctorate (part-time) at Cranfield University. In addition, Hardide's technical director is a visiting lecturer at the same institution. Not only does this assist the Group in keeping abreast of relevant technologies, but also provides a means of educating future engineers about the benefits of high-performance coatings, especially Hardide's.

## PARTNERING

Hardide 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 together cannot be provided by other forms of coating. These features help in the strengthening and number 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 cooperation of this kind will develop further.

Another form of industrial cooperation that is proving to be highly beneficial is the relationships with major end-users of Hardide coatings, rather than just with

[1] National Aerospace Technology Exploitation Programme

their Tier 1 suppliers. These end-users include Airbus, Leonardo Helicopters, EDF Energy and certain major US oil and gas companies. By cooperating 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 Tier 1 suppliers. The Group aims to increase the number of end-users with whom we have close cooperation.

## RISK

Despite the greater diversification achieved in the year, the proportion of the Group's sales to relatively few major customers still needs to be addressed. 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. This 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 to test programmes that do not result in sales, or inclusion on programmes that are postponed due to budgetary constraints, furlough of key personnel, or changes in 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 technical risk and revenue potential for Hardide justifies embarking on the programme in the first place. Inevitably, this is not a perfect process.

Loss of key technical personnel is a risk for the Group. In recent times, we have strengthened the technical team and now have a body 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 speculated about various degrees of 'Brexit' and the effect they could have on the Group. Very little business is done by Hardide directly with customers in the EU and raw materials for the UK site are not sourced from the EU, but may travel through it. Substantial stocks of these key process gases were put in place in the UK. The US site is supplied exclusively from US sources where there are multiple suppliers of process gas and there is local production. Therefore, the risk of shortage in the US is low.

A risk also arises from the effect of Brexit on currency exchange rates. However, with its production facility in the US, the Group has a partial hedge against the GBP:USD exchange rate. At present, the Group has sales to Europe of less than 2% of Group turnover; so a reduced demand from Europe would have an insignificant effect.

The current COVID-19 pandemic is still affecting global economic activity and in particular oil and gas drilling and production; this is having the effect of reduced demand. The risk is that the predicted recovery in oil and gas activity takes longer than currently anticipated. This would result in the lower level of demand being experienced for a greater length of time.

A major incident could lead to the temporary closure of a coating plant, resulting in disruption to service. This is a risk that has been reduced further because plant is now better laid out and, much of it being new, is intrinsically safer. In addition, all operations are carried out to the relevant AS9100 Quality Management System and ISO14001 environmental standards. This means that equipment is maintained according to a planned schedule and processes of continuous improvement and '5S' are operated, as well as care for the environment. A full disaster recovery plan and robust health and safety systems are kept up to date. The Group'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; and vice versa.

## THE ENVIRONMENT AND STAKEHOLDERS

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

In the selection of new plant at Hardide's new facility in Bicester, special attention was paid to identifying items of equipment and methods of waste treatment that reduce environmental impact or use less material, or both. As a result, items of old but serviceable machinery have been replaced at greater financial cost but with much-enhanced environmental performance.

Almost invariably Hardide's products greatly increase the life of components. They also help improve efficiency and provide other benefits to end-users that include reduced downtime and extended service intervals. 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 mechanical performance and 'whole life' cost, but also the lowering of their environmental impact. Items coated in the UK for North American customers used to be airfreighted from North America to the UK and back. Mostly, they are now coated in the US and thereby reduce markedly our 'carbon footprint'.

## CASH

The fund raising completed successfully in January 2020 strengthened our balance sheet and allowed capital expenditure to increase and upgrade the Group's processing capacity at the same time as moving to a new site. Further revenue investment in technical and market development has also been enabled, but planned revenue expense has been severely trimmed in response to much-reduced profits in the second half. Until it is clear that sales are recovering, and will continue to grow, discretionary expenditure will be held to a minimum. However, reduction of key staff would damage our rate of recovery and future growth. Accordingly, there is no plan to do this. Management will continue to monitor cash diligently.

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.

### Post balance sheet

Cash projections made at the year-end, and since then on an ongoing basis, have suggested that the level of cash would not become unacceptable. Nonetheless, as a prudent move and as a precaution, on the 1st February 2021, the Group secured just over £1.0m of additional cash. This was made up of a CBILS loan of £0.25m and the rest as new equity.

## PARTICULAR STRATEGIC CHALLENGES

### Planning for increases in capacity

Our customers usually have great difficulty in forecasting their long-term demand and often we see large variances, both higher and lower, in their actual demand relative to their forecast. Therefore, we use 'best estimates' for our future load and capacity calculations. These are based on our knowledge of customers and sectors, together with estimates of the projected value of new applications in our pipeline. Lead time for the installation of new coating capacity is close to 12 months and so we need to plan for new capacity up to two years ahead. Increased throughput will make planning easier because that would reduce volatility of sales overall and make each new piece of plant less risky and at the same time have a proportionately smaller effect on the balance sheet.

### 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 120% increase in sales over the five most-recent years. Increasing gross profit whilst controlling carefully sales and administration costs 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, mean that awareness among potential customers for Hardide, and our awareness of those customers is hard to achieve. The Group has programmes designed to inform a wider range of industries about Hardide and these are increasingly by means of digital promotion.

### Lead time to acceptance

Nearly always, new customers will undertake rigorous testing of Hardide's coating before accepting it. This process usually takes years and the data arising from the test programmes cannot be shared. To help overcome this problem, Hardide commissioned a series of tests at independent laboratories. The findings from these provide additional data for promotional purposes.

### Staff numbers & employee expertise

Employee numbers will not increase nearly as fast as sales, but a few additional, skilled employees will be added, when needed, to cope with the expected increase in demand and to have suitable individuals in place to comply with succession plans. 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 Group. This means that recruits for many of our activities have to be trained by Hardide. This takes time, and so the development of new staff must begin ahead of demand.

## COMPLIANCE WITH SECTION 172(1)

Reporting under this heading is now mandatory and is intended to highlight how the directors have regard to the matters under the seven sub-headings below when performing their duty under section 172(1). These are dealt with below, although essentially they are embedded in the text elsewhere in the Corporate Governance section of this Annual Report.

### Likely consequences of any decision in the long term

Senior managers for part of the time, and directors take part in the Group's strategic planning process. The centre point of this exercise is an off-site, strategic planning meeting that looks out over five years. In this reporting year, the meeting was held using 'Microsoft Teams'. The Group draws a distinction between corporate strategy and business strategy.

The latter is led by the Chairman and dealt with first in the planning meeting. After that the business strategy is reformulated in a way that is compatible with the corporate strategy. Both are written up fully after the meetings and circulated as appropriate. Suitably-edited, parts of the business strategy are passed down to managers for incorporation into their own plans. Six months later the Board may conduct a review. At this time, progress against the strategic plan is checked and 'course-corrected' if needed.

As part of this process, the Group's compliance with the six elements included in company law is set out below.

## Act in the interests of the Group's employees

In addition to a competitive salary, staff enjoy regular health checkups and healthcare insurance. Any grievances may be raised in confidence by the staff member or with any director. Also, employees often have ideas for improvement in the working environment or methods. The Group's new offices and production area provide an attractive space in which to work and there is adequate space for personal distancing. An indication of this can be found in a video of the new facilities.[2]

The Chief Executive holds staff briefings in most months in the year, incorporating a Q & A session; together with improvement proposals from staff. The actions taken by the Group to protect its employees during the COVID-19 pandemic are detailed in the Corporate Governance Statement.

## Foster the Group's business relationships with suppliers, customers and others

A stakeholder map is updated as needed and used as a form of check list in evolving the Group's relationships with all stakeholders.

It is vital that relations with our customers are excellent, which they are, and have to be. This is at least partly because usually it takes the customer some years to finalise its approval of new products.[3] This requires a close partnership and joint development with customers, and often with the manufacturers of the component to be coated.

The most critical 'bought-in' supplies for production are the gases used in the coating process and electricity. Together, these materials account for the great majority of variable production costs. Internationally, the primary process gas is deemed a strategic material. As a result we have formed agreements and close relationships with a number of suppliers with whom the Group must and does maintain good long-term relationships. For critical laboratory equipment and most items of plant, it is vital to maintain close relationships with the suppliers of these; otherwise, production would be halted. As for electricity, this is a commodity, and the Group reviews regularly its supply arrangements. It has not been found useful to develop a particular relationship with any supplier of electricity.

## Take account of the Group's operations on the community and the environment

The move to new premises allowed the replacement of a number of pre-existing pieces of plant with new ones. Some of these items achieved a reduction in emissions to very low levels and even improve on the current environmental rules set by the authorities, thereby reducing the Group's environmental impact.

In cooperation with suppliers and their subcontractors, we are looking to reduce further our carbon footprint. A significant reduction in airfreight[4] has been achieved already by the opening of the US facility in Martinsville.

## Maintain a reputation for high standards of business conduct

Because of its necessarily long-term relationship with suppliers, customers and regulatory bodies, the Group maintains, and must maintain, very high standards of business conduct. To do otherwise would restrict sales, especially new sales. This extends to employees among whom is embedded the Group's very valuable non-patented intellectual property, many of whom must undergo training for about a year when first employed.

## Act fairly between members of the Group

All shareholders are free to raise matters with the CEO, the SID and the Chairman. This is facilitated by the contact details provided. In addition, all shareholders with 1% of total equity of the Group are encouraged annually by way of a personal letter from the Chairman inviting them contact him or the SID if they have concerns that they would rather be dealt with by either of them.

## Generally

Being a fairly small company, its directors and the Board as a whole, would be informed by the CEO and other executive directors in respect of the sets of duties set out above. Also, all directors are free to undertake regular 'walk abouts' in the UK facility and this assists with the compliance process.

The standards set out above also apply largely to the Group's US facility. Senior managers thereof reside in the UK and most purchases for the US are authorised by the UK team. Accordingly, and except for local regulations, our US facility complies substantially with standards set in the UK. Where US standards differ in important respects from those in the UK, the UK based VP Operations for the US company deals with them on a case-by-case basis, making extensive use of real-time video. Overall, standards in the US do not fall below the standards applicable to the UK facility.

[2] This can be viewed on https://www.youtube.com/watch?v=bSMme5_alEk&t=85s or by logging onto YouTube and search for "Hardide Coatings".
[3] About 12 years in the case of Airbus.
[4] As an example, some of the components to be coated by Hardide are shipped both from and to North America.


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The Group has made further progress in its strategic goal of broadening its customer and sector base, and is now less dependent on a small number of customers and markets.

# THE BOARD OF DIRECTORS

## Robert John Goddard

### Chairman

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

Robert has over 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, he has a BSc, an MSc, a DIC and an MBA from London Business School. He has extensive international experience as a senior executive in construction, the oil industry and speciality chemicals; as well as leading or supervising numerous M&A projects. He was Group Development Director of Burmah Castrol until 2000, when the company was sold to BP. Following that, he joined Amberley Group plc in November 2000 as Chief Executive. Here, 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

## 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 and Fellow of the Institution of Mechanical Engineers. 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

## Simon Andrew Hallam

### Finance Director

Simon was appointed Finance Director on 20th April 2020. Simon is Company Secretary and a member of the Risk Committee.

Simon has over 20 years' experience in senior finance roles within industrial manufacturing and engineering companies. He joined from the Doncasters Group, a leading international engineering company, where he was Finance Director of the UK business in the Industrial Gas Turbine Division. Prior to that, he was with IMI plc for nine years as Finance Director of the UK business within the Precision Engineering Division. He was Company Secretary of IMI Precision Engineering Ltd for seven years and of Norgren Limited for five years. He started his career with KPMG where he spent 11 years. Simon holds a BA (Hons) in Accountancy and is a Chartered Accountant.

Current external appointments: None

## 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.

## 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 12.5% 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 interim chairman of Atlantic Healthcare plc, a pharmaceutical company, where he is a member of the Remuneration and Nominations Committee, and as a non-executive 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, a member of the Audit Committee and is Senior Independent Director.

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 holds a BSc in Mechanical Engineering and has an MBA from Warwick University.

Current external appointments: Director - C House Consulting Limited, Trustee – Insight Gloucestershire.

# REPORT OF THE DIRECTORS

## RESULTS

The Group loss for the period, after taxation, amounted to £1,291,000 (2019: £1,136,000 loss). The directors have declared that no dividends will be paid in respect of the 2020 financial year (2019: Nil).

## DIRECTORS

The present membership of the Board is set out on pages 28-29, and changes to the board and the beneficial interests of the directors and their families in the shares of Hardide plc are shown below.

| | Appointed | Resigned | **30 September 2020**<br>**Number of ordinary 4p shares** | 30 September 2019<br>Number of ordinary 4p shares |
|---|---|---|---|---|
| Robert Goddard | 28 January 2008 | - | **406,807** | 369,807 |
| Andrew Boyce | 18 June 2012 | - | **1** | 1 |
| Charles Irving-Swift | 20 March 2018 | 17 August 2020 | **16,792** | 16,792 |
| Tim Rice | 20 March 2018 | - | **17,916** | 17,916 |
| Philip Kirkham | 1 September 2012 | - | **101,490** | 81,490 |
| Yuri Zhuk | 14 March 2005 | - | **157,027** | 365,802 |
| Peter Davenport | 21 March 2006 | 22 May 2020 | **318,191** | 318,191 |
| Simon Hallam | 21 April 2020 | - | **-** | - |

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.

Pursuant to the fundraising exercise in February 2021, certain of the Company's directors agreed to subscribe for new ordinary 4p shares. Their resulting shareholdings are as follows:

| | 30 September 2020<br>Number of ordinary 4p shares | Number of ordinary 4p shares subscribed | 18 February 2021<br>Number of ordinary 4p shares |
|---|---|---|---|
| Robert Goddard | 406,807 | 64,725 | 471,532 |
| Tim Rice | 17,916 | 9,709 | 27,625 |
| Philip Kirkham | 101,490 | 16,182 | 117,672 |
| Yuri Zhuk | 157,027 | 9,709 | 166,736 |

Robert Boyce, father of Andrew Boyce, subscribed for 226,538 ordinary 4p shares, bringing the subsequent beneficial holding of Andrew Boyce and Associates to 6,988,231 shares.

The Group's key management personnel comprise the directors and senior managers who report to the CEO.

## 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 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 a finance lease, 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 37.

## GOING CONCERN

The directors have adopted the going concern basis in preparing these accounts after assessing the principal risks and having considered the impact of reduced sales scenarios due to the COVID-19 pandemic. The major variables are the depth, duration and timing of recovery from the COVID-19 pandemic. The directors considered the impact of COVID-19 on our key markets and in particular the effect of reduced demand from the oil and gas industry is likely to have on the business for a period of at least 12 months from the date of signing the Annual Report. Whilst the situation evolves daily, making scenario planning difficult, we have considered various impacts on sales, profitability and cash flows. We are confident that our operations will remain open and will continue to be able to serve our customers.

The Group has considered how the virus may affect various functions of the business; from the supply chain to the ability of our customers to operate. A major disruption would most likely manifest itself in lost volumes and require significant action in relation to operational cost reductions and additional working capital. Overall, we developed plans for several possible out turns, with volumes dropping significantly and for the impact lasting for a substantial part of our 2021 financial year. The revenue and operational leverage impact of such a volume loss would have a major negative impact on the Group, however the scenario modelling would indicate that the Group would have sufficient cash reserves over the foreseeable future. The directors believe that the Group is well placed to manage its financing and other business risks satisfactorily, and have a reasonable expectation that the Group will have adequate resources to continue in operation for at least 12 months from the date of signing of the Group financial statements. Therefore, they consider it appropriate to adopt the going concern basis of accounting in preparing the financial statements. 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 2020 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) | 7,713,581 | 14.5 |
| Andrew Boyce & Associates | 6,761,694 | 12.7 |
| A Badenoch & Associates | 5,600,000 | 10.5 |
| Amati Global Investors | 4,521,963 | 8.5 |
| Unicorn Asset Management Ltd | 3,179,610 | 6.0 |
| W S C Richards | 2,030,985 | 3.8 |
| T Simpkin | 1,980,544 | 3.7 |
| Rathbones | 1,705,151 | 3.2 |
| Canaccord Genuity Wealth Management (Non-Discretionary) | 1,678,617 | 3.2 |

**R J Goddard**
Director

18 February 2021

# CORPORATE GOVERNANCE STATEMENT 2019-20

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

The Group has formally adopted 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 Group 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 for which they were eligible and members of each Committee Board also attended each meeting for which they were eligible.

| | Scheduled Board Meetings[1] | NEDs only | Audit Committee[2] | Remuneration & Nomination Committee[2] | Risk Committee[2] | Intellectual Property Committee[2] |
|---|---|---|---|---|---|---|
| R J Goddard | 12 | 2 | 1 | - | 4 | 4 |
| P D Kirkham | 12 | - | - | - | 4 | 4 |
| P N Davenport | 8 | - | - | - | 3 | - |
| S A Hallam | 6 | - | - | - | 2 | - |
| Y N Zhuk | 12 | - | - | - | - | 4 |
| A R Boyce | 12 | 2 | - | 11 | - | - |
| T J Rice | 12 | 2 | - | 11 | - | - |
| C Irving-Swift | 10 | - | 1 | - | - | - |

*[1] 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.*

*[2] 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.*

### Meetings of only Non-executive directors

Two '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 and the characteristics of incentive schemes.

### 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 Group Chairman. There have been no instances where redaction was called for. 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.

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 from time to time.

### Formulation of strategy

Towards the end of the financial year the whole Board considers and develops the Corporate Strategy set out in the previous year. The formulation or re-formulation of Corporate Strategy is led by the Chairman but set and agreed to 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.

A summary of Hardide's Corporate Strategy can be found elsewhere in this 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 Group 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. From time to time, directors may call for further analysis of a particular matter, and frequently do.

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

The Board has a formal policy designed to ensure Board leadership of health, safety & environmental matters and institute a board-level review of progress against objectives and KPIs. An important feature of this is normally a joint presentation made at least yearly by the CEO and VP of Operations.

## COMPOSITION, CULTURE AND EFFECTIVENESS OF THE BOARD

### Independence of directors

Each of the directors (except Mr Hallam) 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 Hallam, Dr Zhuk and Mr Goddard has options on ordinary shares of Hardide plc; all as declared in the Annual Report and on the Regulatory News Service (RNS) at the time of grant.

Annually, the Board reviews Mr Goddard's activities outside of Hardide. In 2020, this exercise was repeated at directors' meetings shortly after the end of the financial year. The Board is satisfied that none of Mr Goddard's activities conflicts with his role as Chairman of Hardide. The same applies to the other non-executive directors.

The 'independence' of each non-executive director has been assessed by four, single purpose ad hoc committees of directors. Excluded in turn from these meetings was the non-executive director in question. As before, 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 Group?

ii Has there been any matter affecting the Group 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 Group 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 was 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 Group. Each of the other two non-executive directors is considered by the Board to be 'independent'.

### Number of directors

Following the resignation earlier in the year of Charles Irving-Swift, there has been six directors; three of them non-executive. Tim Rice has been appointed the senior independent director ('SID') in place of Charles Irving-Swift. In addition, and in compliance with the Code, the chair of the Remuneration & Nomination Committee is to be an independent director and Tim Rice has taken that role. The Chairmanship of the Audit Committee has now been resumed by Robert Goddard.

### 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. With the knowledge of the Chief Executive, from time to time the Chairman seeks directly the views of the two other executive directors. Also, the Chairman has 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. The SID is in a position to do the same.

Open exchange and mutual challenge among Board members and staff is a well-established part of the culture of the Group. The Chairman is made aware promptly of matters of substance and style that merit his attention. In addition, each director is free to speak in confidence to the Chairman or the SID; as is any member of staff.

An open exchange of views takes place not only up and down the management pyramid, but also 'sideways' between disciplines. This is vital for a high-tech company that is continually developing new substances and methods. Maintenance of this and other aspects of Group culture is explicitly one of the CEO's important tasks and, implicitly, of each member of staff. Any concerns about corporate culture are raised initially by the CEO with the Chairman.

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

Any director may have access to independent professional advice at Group 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 very well equipped with directors who have experience of the 'growing pains' associated with the organisational changes that result from growth in a technology company, and are well able to support changes that arise and deal with the associated challenges.

Executive directors and senior managers worked closely with external consultants and designers to deliver the expertise for the highly successful layout, fit-out and installation of plant and equipment.

## Roles of CEO, Senior Independent Director and Chairman

Hardide is a small company, hence 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. Also, he designs and implements the sales and marketing plans. By virtue of his experience as a professional chartered engineer, he provides strong support for operations and engineering. Also, he has the principal responsibility for the Group'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 awareness among all staff of the Group's performance and challenges; including increasing their awareness of the Group's environmental and social responsibilities. These briefings are usually held monthly. Ensuring compliance with the quality management systems, adequate staff training, the health & safety of employees and the environmental performance are direct accountabilities of the CEO.

**Senior Independent Director ('SID'):**
The SID is charged with:

- i Being a conduit for concerns of directors, shareholders and other stakeholders who prefer to discuss matters that they have been unable to resolve through other channels;
- ii being available to meet principal shareholders;
- iii being a sounding board for the Chairman; and
- iv 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 Group's Chairman is to:

- i Ensure effective communication with shareholders;
- ii be available for private meetings or calls with principal shareholders;[1]
- 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 the Audit Committee and be an ordinary member 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, 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 directors. These objectives are taken into account when setting remuneration for the CEO. The CEO conducts performance planning exercises for his direct reports. The 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.

At appropriate times, meetings of the three non-executive directors alone may include consideration 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 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. The Group's Finance Director is a Chartered Accountant. Three of the directors have an MBA and at least two of these have the skills needed to chair the Audit Committee. A single director has in-depth knowledge of advanced CVD coating technology. Three directors are Chartered Engineers.

## Company Secretary

At present, the Finance Director (Mr Hallam) also acts as the Company Secretary. The directors have reviewed again this dual role and consider it to be acceptable. This is on the grounds that the Group is fairly small, and its corporate structure is simple. Moreover, Mr Hallam 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

[1] Yearly, the Chairman writes to all holders of shares representing 1% or more of the total. In that letter he makes clear that he or the SID are available for private meetings or telephone calls.

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 Group. What follows is a summary of those terms and conditions.

Annual fees for the Chairman remain unchanged at £50,000, as are those for the other non-executive directors who each receive £25,000. Fees are paid wholly under the PAYE system; except for Andrew Boyce whose fees are paid split between his personal service companies and the PAYE system.

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

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 to the identity of certain customers. Following the end of their appointment, directors may not, for one year, be engaged in any business or technology that does or reasonably may be expected to compete 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 Group's website.

### Remuneration and Nomination Committee

The Committee comprises Tim Rice as chair and Andrew Boyce. It meets at least quarterly. In this financial year it met 11 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 recommend to the Board, 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-related 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 Group, 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 plans for the years ahead and especially with the Group's strategic goals;

vi at suitable times, review the implementation of succession plans; and

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

### Audit Committee

The Audit Committee comprises Robert Goddard as its chairman and Tim Rice. Normally, the Finance Director and CEO will attend by invitation. Whilst no non-executive member of the Board has a full qualification in accounting, Mr Goddard and Mr Rice are both deemed competent by virtue of their MBAs and professional experience.

Normally, the Audit Committee meets at least twice each year with the Group's auditor at appropriate times during the reporting and audit cycle, and in addition as required. The Committee met once 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 Group's external auditor; and

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 certain non-audit services including annual tax compliance. The Board has reviewed its safeguards and policies in place for non-audit services and is satisfied that these are sufficiently robust to ensure James Cowper Kreston maintain their objectivity and independence. James Cowper Kreston report to the Board annually on their independence to Hardide plc. Non-audit services are only provided if such services do not conflict with their statutory responsibilities and ethical guidance

Currently, the Group is too small to justify an internal audit function and so the Audit Committee is responsible for examining the Group'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 Group's auditors, James Cowper Kreston, were reappointed for the year ended 30th September 2020, which was their fourth year acting as the Group's auditors. It is intended that they are 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

Dr Yuri Zhuk chairs the quarterly meeting of the IP Committee, with Robert Goddard and Philip Kirkham as the other members. The Committee is charged with reviewing, and in most cases deciding upon all matters relating to intellectual property, including patents, trademarks and know-how. The Committee 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 Group's Patent Attorneys (Harrison Goddard Foote Ltd) to perform patent searches and provide a range of advice on IP matters. Where the Committee does not have delegated powers, the Committee will make recommendations to the Board.

### Risk Management Committee and the management of significant events

The Board has overall responsibility for the Group'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 Group may be exposed and recommends how these may be avoided, mitigated, insured against, or some combination of these. Risks are ranked by assessing their likelihood of occurrence and their potential impact. Risks 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 Simon Hallam. Reports of the Committee and its assessment of risks are made to the Board and the Audit Committee. Descriptions of the principal risks that the Group has identified are included in the Strategic Report.

The Group 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 Group has a Crisis Management and Disaster Recovery Procedure.

## ENVIRONMENTAL AND SOCIAL GOVERNANCE

The reporting year has seen the transfer of all[2] of Hardide's UK operations to a nearby site in Bicester. The new premises are newly-built on a modern industrial estate and are well away from any residential areas. As a result, the effect of any noise or release of emissions would be less than at the previous site. Nonetheless, and not compulsory, the opportunity has been taken to replace some existing substantial items of plant with types that have a much lower environmental impact, as well as improving the cleansing of by-products of the process. Low energy lighting has also been installed, along with a general upgrading of safety for staff and visitors and general working conditions. It would not have been sensible in the reporting year to attempt the creation of environmental benchmarks such as an estimated 'carbon footprint'. It should be noted that, since the new premises have been equipped with plant having excellent environmental credentials, it will prove difficult to improve on it; at least in the near term. Nonetheless, the Group will seek out opportunities to do so.

Whilst the Group has no ability to constrain its customers, it is worth noting that in most applications, the Hardide coating will reduce the environmental impact of the end-user. Examples include the replacement of hard chrome plating, whose production process uses carcinogenic salts, and the lengthening of service intervals due to reduced corrosion or wear of critical parts.

## COVID-19

The Group has taken precautions to protect all its employees (including those most vulnerable), contractors and visitors at both its UK and US sites due to the COVID-19 pandemic and is complying with the relevant guidelines from both the UK government and the State of Virginia. Measures include education and training, signage, re-organising to ensure social distancing in the workplace, temperature checks, mask-wearing and more frequent and rigorous cleaning regimes. Where appropriate, certain staff have been able to work from home to minimise the number of staff on-site at any one time, and others have been 'flexibly-furloughed' and thus minimising the number of staff on-site at any one time. At all times at least one director has been present in the Bicester office, with operations continuing normally throughout the pandemic. Delivery of product to customers has not been affected.

## CONFLICT MINERALS

The Group has undertaken a due diligence exercise with its suppliers of key process gasses to ensure that conflict minerals are not used in their manufacture. We are pleased to report that all suppliers of these gases have confirmed that conflict minerals are not used in their processes. A statement to this effect may be found on the Group's website.

[2] Just one reactor is to remain in the former premises until Airbus approves the new site, probably in spring 2021.

## 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 and motivate executive directors and senior management of the calibre needed to run the Group successfully, and to retain them;
- 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.

No director has been awarded a bonus for the reporting year; nor had an annual salary review in January 2021.

### 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 longer-term incentive; comprising principally of share options;
- iv medical insurance for employees and their families; and
- v in some cases, a car or car allowance.

### Share Options as a longer-term incentive

The Group does not have a formal long-term incentive plan or share option scheme. The Group instead maintains the following policy regarding share options:

- i The granting of share options should be reviewed at least annually by the Committee, having taken the advice of both the Group's Chairman and its CEO;
- ii share options are recognised as effective means of recruiting, incentivising and encouraging the retention of directors and senior managers;
- iii grants may be made when there has been 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 will vary. They may include different elements such as:
    - a. the period since grant and the achievement of particular share price at a future point that is above that current at the date of grant;
    - b. the growth of sales made by the business; and
    - c. the improvement in gross profit; and finally
- vi the grant of options to executive directors is determined by a single-purpose sub-Committee of the Board, on which only non-executive directors sit. Other grants recommended by the Remuneration & Nomination Committee are at the discretion of the main Board.

Upon award, the particular criteria relating to directors' new share options are disclosed in an RNS notice.

### Directors' Service Contracts

Messrs Kirkham, Zhuk and Hallam have service contracts that are terminable at up to 12 months' notice by either party. The Committee considers, and is advised that these contracts are in line with market practice.

The service contracts for non-executive directors are terminable at one month's notice either way.

### 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 Group 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 conflicted, the Group's auditor provides UK tax advice and prepares returns. It also advises on R&D tax credits. Separate arrangements are made for the US subsidiary;
- v a specialist adviser on company secretarial matters. They also provide advice and look after the Group's statutory books and filings;
- vi employment lawyer; and
- vii advisers on matters related to Health, Safety & Environment in both the UK and US.

The identities of the advisers in the first four above can be found on the final page of the Group'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') AND UNETHICAL BEHAVIOUR

Well before the Act came into force, the Group had in place a full 'Anti-bribery Policy', and this was in parallel with a 'Whistle-blowers' Policy'. Under guidelines set by the Board, a designated 'Group Compliance Officer' manages the processes and procedures that flow from these policies; in particular the areas perceived to be most at risk from bribery or from behaviour that is fraudulent or unethical. Any member of staff may, in confidence with any director, raise concerns about financial or other impropriety. 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 Group policies and procedures appear in the staff handbook. Annually, all staff are required to confirm that they have read, understood and complied with these.

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

## THE MARKET ABUSE REGULATION ('MAR')

The Group 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 closed period of 30-days ahead of the announcement of its interim and preliminary full-year results; as well as a planned event that may have an influence on share price; all in accordance with MAR requirements.

## THE EU GENERAL DATA PROTECTION REGULATION ('GDPR' OR 'REGULATION') AND THE UK DATA PROTECTION ACT 2018

These Regulations 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 Group, with the assistance of an external consultancy began developing its GDPR compliance plan in mid-2017 and continues to do so. All the procedures and proper records are in place to achieve and demonstrate compliance. The Group is aware that the separate UK GDPR came into effect from January 2021.

## 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 Group's Annual Report. A summary of this also appears in the Chairman's and CEO's Report.

The Group 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 Group has a policy of re-visiting its strategies at least annually. The Business Model is derived from the Business Strategy.

## CYBER SECURITY

The Group has strong cyber security systems. It has an ongoing contract with an external specialist cyber security company and is accredited to the government-backed Cyber Essentials scheme.

## COMMUNICATION WITH STAKEHOLDERS

### Shareholders

When there is a significant event regarding the Group, 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 (this year by means of virtual meetings). In addition, the Chairman has regular contact with significant shareholders and they are free to contact him with any concerns. Face-to-face, telephone or video 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 Group'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 Group develop. When it is safe and appropriate to do so, there will be a special open day for shareholders at Hardide's new site. In the meantime, a video has been produced showing the equipment installed which is available on the Group's website.

Hardide's website is comprehensive and, as well as statutory documents, includes profiles of directors and descriptions of a wide range of Group features and activity. An improved and mobile friendly version of the website was launched in May 2020. Hard copies of Hardide's Annual Report are available from the Group on request.

### Other Stakeholders

In addition to shareholders, the Group considers stakeholders to include its employees, customers, suppliers, contractors, the local community and other parties with whom it interacts. As part of its Quality and Environmental Management Systems, the Group has and refers to 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 Group 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 Group 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.

Hardide is accredited to and complies with the international Environmental Management standard, ISO 14001:2015 as well as Quality Management Systems AS9100 RevD, ISO9001:2015 and Nadcap (the National Aerospace Defense Contractors Accreditation Program).

On behalf of the Board,

**Robert Goddard**
Chairman

18 February 2021

# 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 2020 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 2020 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 provides share based incentive plans for directors and employees. During the year the Group 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 completed its relocation in Autumn 2020. As detailed in note 15 to the financial statements, the Group has recognised a provision for dilapidations of £100,000 (2019: £50,000) and a provision for an onerous lease of £51,000 (2019: £51,000). 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 results of our testing were satisfactory and we consider the disclosures surrounding provisions to be appropriate.

## GOING CONCERN

### Risk description

Management are required to prepare the financial statements on the going concern basis unless they either intend to liquidate the Group or to cease trading, or have no realistic alternative but to do so. In assessing going concern, management make estimates and judgements relating to the future that are considered to be reasonable but that are inherently uncertain.

### 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 going concern:

- gained an understanding through walkthroughs performed and discussions with management of the process in place for reviewing going concern;
- reviewed budgets and forecasts prepared by management and considered the assumptions made for reasonableness;
- considered a range of severe but plausible downside scenarios and reviewed the impact on management's assessment of the Group being a going concern; and
- reviewed the adequacy of the disclosures in respect of going concern.

### Key observations

The results of our testing were satisfactory and we consider the disclosures surrounding going concern 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 £71,000 (2019: £76,000). Performance materiality of £50,000 (2019: £53,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £3,500 (2019: £3,000), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

Materiality in the prior year was based on a 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 £66,000 (2019: £52,000). Performance materiality of £46,000 (2019: £36,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £3,300 (2019: £2,600), 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 £30,000 and £66,000.

## 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 31, 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) FCA (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

18 February 2021

# CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

## For the year ended 30 September 2020

| | Note | **2020**<br>**£ ’000** | 2019<br>£ ’000 |
|---|---|---|---|
| Revenue | 2 | **4,756** | 5,052 |
| Cost of sales | | **(2,436)** | (2,635) |
| **Gross profit** | | **2,320** | 2,417 |
| | | | |
| Administrative expenses | | **(2,861)** | (3,037) |
| Depreciation and amortisation of owned assets | | **(477)** | (481) |
| Depreciation of right of use assets | | **(288)** | - |
| Exceptional items:<br>Provisions | 15 | **42** | (101) |
| **Operating (loss)** | 3 | **(1,264)** | (1,202) |
| | | | |
| Finance income | 4 | **11** | 15 |
| Finance costs | 5 | **(12)** | (3) |
| Finance costs on right of use assets | 5 | **(91)** | - |
| **(Loss) on ordinary activities before taxation** | | **(1,356)** | (1,190) |
| | | | |
| Taxation | 7 | **65** | 54 |
| **(Loss) on ordinary activities after taxation** | | **(1,291)** | (1,136) |
| | | | |
| (Loss) per share: Basic | 8 | **(2.5)p** | (2.5)p |
| (Loss) per share: Diluted | 8 | **(2.5)p** | (2.5)p |
| | | | |
| **Other Comprehensive Income** | | | |
| Items that may be reclassified to profit or loss:<br>Exchange differences on translation of foreign operations | | **(73)** | 113 |
| **Total comprehensive loss for the year attributable to owners of the parent company** | | **(1,364)** | (1,023) |

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 2020

| | Note | **2020 £ '000** | 2019 £ '000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Goodwill | 9 | **69** | 69 |
| Intangible assets | 10 | **50** | 30 |
| Property, plant & equipment | 11 | **6,337** | 2,745 |
| Right of use assets | 12 | **2,130** | - |
| **Total non-current assets** | | **8,586** | 2,844 |
| | | | |
| **Current assets** | | | |
| Inventories | 13 | **565** | 691 |
| Trade and other receivables | 13 | **486** | 1,003 |
| Other current financial assets | 13 | **395** | 277 |
| Cash and cash equivalents | 13 | **2,715** | 4,809 |
| **Total current assets** | | **4,161** | 6,780 |
| **Total assets** | | **12,747** | 9,624 |
| | | | |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 14 | **906** | 1,351 |
| Financial liabilities | 14 | **91** | 50 |
| Right of use lease liability | 14 | **193** | - |
| **Provisions** | | | |
| Provision for grant repayment | 15 | **116** | 260 |
| Provision for onerous lease | 15 | **45** | - |
| **Total current liabilities** | | **1,351** | 1,661 |
| **Net current assets** | | **2,810** | 5,119 |
| | | | |
| **Non-current liabilities** | | | |
| Financial liabilities | 16 | **407** | 164 |
| Right of use lease liability | 16 | **2,046** | - |
| **Provisions** | | | |
| Provision for onerous lease and dilapidations | 15 | **106** | 101 |
| **Total non-current liabilities** | | **2,559** | 265 |
| **Total liabilities** | | **3,910** | 1,926 |
| **Net assets** | | **8,837** | 7,698 |
| | | | |
| **Equity attributable to equity holders of the parent** | | | |
| Share capital | 17 | **3,836** | 3,673 |
| Share premium | 17 | **18,196** | 15,987 |
| Retained earnings | | **(13,210)** | (11,964) |
| Share-based payments reserve | | **360** | 274 |
| Translation reserve | | **(345)** | (272) |
| **Total equity** | | **8,837** | 7,698 |

The financial statements were approved and authorised for issue by the Board on 18 February 2021.

**Robert Goddard**
Chairman

# CONSOLIDATED STATEMENT OF CASH FLOWS

## For the year ended 30 September 2020

| | **2020**<br>**£ '000** | 2019<br>£ '000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating (loss) | **(1,264)** | (1,202) |
| Impairment of intangibles | **13** | 7 |
| Depreciation on owned assets | **464** | 474 |
| Depreciation on right of use assets | **288** | - |
| Share option charge | **86** | 62 |
| Decrease / (increase) in inventories | **126** | (392) |
| Decrease / (increase) in receivables | **388** | (266) |
| (Decrease) / increase in payables | **(445)** | 73 |
| (Decrease) / increase in provisions | **(144)** | 116 |
| **Cash used in operations** | **(488)** | (1,128) |
| Finance income | **11** | 16 |
| Finance costs | **(12)** | (3) |
| Right of use asset interest | **(91)** | - |
| Tax received | **76** | - |
| **Net cash used in operating activities** | **(504)** | (1,115) |
| **Cash flows from investing activities** | | |
| Purchase of property, plant and equipment | **(4,166)** | (1,106) |
| **Net cash used in investing activities** | **(4,166)** | (1,106) |
| **Cash flows from financing activities** | | |
| Net proceeds from issue of ordinary share capital | **2,372** | 3,578 |
| New loans raised | **402** | 139 |
| Loans repaid | **(75)** | (27) |
| Repayment of leases | **(221)** | - |
| **Net cash generated from financing activities** | **2,478** | 3,690 |
| Effect of exchange rate fluctuations | **98** | 38 |
| **Net (decrease) / increase in cash and cash equivalents** | **(2,094)** | 1,507 |
| **Cash and cash equivalents at the beginning of the year** | **4,809** | 3,302 |
| **Cash and cash equivalents at the end of the year** | **2,715** | 4,809 |

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

## For the year ended 30 September 2020

| | Share Capital £ '000 | Share Premium £ '000 | Share-based Payments £ '000 | Translation Reserve £ '000 | Retained Earnings £ '000 | Total Equity £ '000 |
|---|---|---|---|---|---|---|
| **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** |
| | | | | | | |
| **At 1 October 2019** | **3,673** | **15,987** | **274** | **(272)** | **(11,964)** | **7,698** |
| Issue of new shares | 163 | 2,209 | - | - | - | **2,372** |
| Share options | - | - | 86 | - | - | **86** |
| Exchange translation | - | - | - | (73) | - | **(73)** |
| IFRS 16 adjustment | - | - | - | - | 45 | **45** |
| Loss for the year | - | - | - | - | (1,291) | **(1,291)** |
| **At 30 September 2020** | **3,836** | **18,196** | **360** | **(345)** | **(13,210)** | **8,837** |

# 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 2020 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 2019.

- IFRS 16 Leases

The impact of adopting IFRS 16 Leases using the modified transitional approach were additions to right of use assets of £2,368,000, depreciation of £288,000 and interest payable of £91,000.

### 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* 1st January 2020

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

Effective date* 1st June 2020

- IFRS 16 – COVID-19 related rent concessions (amendment to IFRS 16)

Effective date* 1st January 2022

- IFRS 3 – Business Combinations
- IAS 37 – Provisions (regarding onerous contracts)
- 2018-2020 annual improvements cycle

* 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.

### 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 have adopted the going concern basis in preparing these accounts after assessing the principal risks and having considered the impact of reduced sales scenarios for COVID-19. The major variables are the depth, duration and timing of recovery from the COVID-19 pandemic. The directors considered the impact of COVID-19 on our key markets and in particular the effect of reduced demand from key customers in those markets is likely to have on the business for a period of at least 12 months from the date of signing the Annual Report. Whilst the situation evolves daily, making scenario planning difficult, we have considered various impacts on sales, profitability and cash flows and 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 13. 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 – IFRS 16

The Group leases property and other equipment for the purposes of its operations. Lease terms contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor.

Until the 2019 financial year, leases were classified as an operating lease. From 1 October 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use.

Assets and liabilities arising from a lease are initially measured on a present value basis. The net present value of the lease liability includes the present value of the lease payments not made at the date of transition and lease payments made before the commencement date less any lease incentives received. The right-of-use asset is measured at this net present value of lease liability plus an estimate of the costs expected to be incurred in returning the leased property to its original condition. Lease payments to be made under reasonably certain extension options are included in the measurement of the liability.

The lease payments are discounted using the rate implicit in the lease agreement. If that rate cannot be readily determined, the lessee's incremental borrowing rate is used.

Lease payments are allocated between their principal payments and the finance cost. The finance cost is charged to the Statement of Profit or Loss over the lease period.

Right-of-use assets are depreciated over the life of the lease on a straight line basis.

Short term leases with a lease term of less than 12 months or leases with low value assets are recognised on a straight line basis as an expense in the Statement of Profit or Loss.

### 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.

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 50% 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 sites in Wedgwood Road, Bicester and Longlands 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.

(f) The implementation of IFRS 16 requires the Group to account for its leases as right-of-use assets over the life of the lease agreement. The present value of the lease liability on inception requires management to assess various factors including the discount rate and the life of the lease and the extent to which any options to extend or break the lease are exercised. These factors have a resulting impact in determining the present value of the lease liability on inception.

## 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 2020

| | UK operation £ '000 | | US operation £ '000 | | Corporate £ '000 | | Eliminations £ '000 | | Total £ '000 | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 | **2020** | 2019 |
| External revenue | **3,192** | 3,632 | **1,564** | 1,420 | **-** | - | **-** | - | **4,756** | 5,052 |
| Inter-segment revenue | **-** | - | **-** | - | **-** | - | **-** | - | **-** | - |
| Interest revenue | **1** | 1 | **-** | - | **10** | 14 | **-** | - | **11** | 15 |
| Interest expense | **91** | - | **12** | 3 | **-** | - | **-** | - | **103** | 3 |
| Depreciation | **436** | 176 | **329** | 305 | - | - | **-** | - | **765** | 481 |
| Income tax | **-** | - | **-** | - | **65** | 54 | **-** | - | **65** | 54 |
| Provision | **-** | 101 | **(42)** | - | **-** | - | **-** | - | **(42)** | 101 |
| **Reportable segment profit/(loss)** | **(344)** | 15 | **(181)** | (513) | **(1,281)** | (1,400) | **515** | 762 | **(1,291)** | (1,136) |
| | | | | | | | | | | |
| Segment assets | **8,041** | 4,217 | **2,761** | 2,952 | **4,677** | 4,910 | **(2,732)** | (2,455) | **12,747** | 9,624 |
| Expenditure for non-current assets | **3,790** | 677 | **376** | 429 | **-** | - | **-** | - | **4,166** | 1,106 |
| Segment liabilities | **4,718** | 688 | **12,460** | 12,925 | **94** | 1,505 | **(13,362)** | (13,192) | **3,910** | 1,926 |

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** | | | | | |
| **2020** | **2,315** | **122** | **2,315** | **4** | **4,756** |
| 2019 | 1,660 | 84 | 3,308 | - | 5,052 |

The UK operation sells to the UK, Europe and some North American customers, while the US operation only sells to North America. During 2020, of the £2,315,000 sales to North American customers, £754,000 originated from the UK operation. All revenue is recognised at a point in time and no revenue is recognised over time.

Two external customers (2019 – five) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2020. The external sales for these customers were £1,377,000 and £1,245,000 which have been recorded within both the UK and US operation reportable segments, excluding central costs.

## 3. OPERATING LOSS

This is stated after charging / (crediting):

| | **2020 £ '000** | 2019 £ '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 | **1,147** | 1,385 |
| Research and development | **526** | 472 |
| Income from grants | **(318)** | (64) |
| Share option expense | **86** | 62 |
| Depreciation and amortisation - owned assets | **477** | 481 |
| - right of use assets | **288** | - |
| Exchange differences | **28** | (17) |

Income from grants includes $200,000 (£155,000) received from the US Small Business Association's Paycheck Protection Programme. This loan is forgiven and does not require repayment as long as certain conditions are met. The Group believes those conditions have been met. The Group has also utilised the Government's Coronavirus Job Retention Scheme during the year, and income from grants includes £33,000 received under this scheme.

## 4. FINANCE INCOME

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Interest on bank deposits | **11** | 15 |

## 5. FINANCE COSTS

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Interest on loans | **12** | 3 |
| Interest on right of use assets | **91** | - |
| | **103** | 3 |

## 6. EMPLOYEES

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

| | **2020** | 2019 |
|---|---|---|
| Technical | **15** | 14 |
| Production | **21** | 21 |
| Sales and marketing | **5** | 5 |
| Management and administration | **6** | 5 |
| | **47** | 45 |

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

| | **2020**<br>**£ '000** | 2019<br>£ '000 |
|---|---|---|
| Wages and salaries | **2,462** | 2,262 |
| Social security costs | **249** | 253 |
| Employer pension contributions | **48** | 39 |
| Share option expense | **86** | 62 |
| | **2,845** | 2,616 |

Of the total share option expense of £86,000 in the year, £65,000 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% (2019: 3%) 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:

| | | **2020**<br>**£ '000** | 2019<br>£ '000 |
|---|---|---|---|
| Philip Kirkham (Chief Executive) | Salary | **191** | 184 |
| | Accrued bonus | **-** | 33 |
| Dr Yuri Zhuk (Technical Director) | Salary | **105** | 105 |
| | Pension | **12** | 10 |
| | Accrued bonus | **-** | 20 |
| Peter Davenport (Finance Director) | Salary | **64** | 83 |
| | Accrued bonus | **-** | 6 |
| Simon Hallam (Finance Director) | Salary | **42** | - |
| | Accrued bonus | **-** | - |
| Robert Goddard (Non-Executive Chairman) | Fees | **50** | 50 |
| Andrew Boyce (Non-Executive Director) | Fees | **25** | 25 |
| Charles Irving-Swift (Non-Executive Director) | Fees | **22** | 25 |
| Tim Rice (Non-Executive Director) | Fees | **25** | 25 |
| **Total directors' remuneration** | | **536** | 566 |

## 7. TAXATION

(a) Tax on ordinary activities:

| | 2020 £ '000 | 2019 £ '000 |
|---|---|---|
| UK Corporation Tax Charge | **(23)** | (56) |
| Adjustment in respect of prior years | **(42)** | 2 |
| | **(65)** | (54) |
| | | |
| Deferred Tax | | |
| Origination and reversal of timing differences | **-** | - |
| Adjustments in respect of prior periods | **-** | - |
| Effect of rate change on opening balance | **-** | - |
| **Tax** | **(65)** | (54) |

(b) Factors affecting current tax charge:
The tax assessed on the profit on ordinary activities for the year is lower than (2019: lower than) the standard rate of corporation tax in the UK of 19% (2019: 19%)

| | 2020 £ '000 | 2019 £ '000 |
|---|---|---|
| Loss on ordinary activities before taxation | **(1,356)** | (1,190) |
| Loss on ordinary activities by rate of tax | **(258)** | (226) |
| Effect of: | | |
| Expenses not deductible for tax purposes | **(49)** | 149 |
| Deferred tax not recognised | **428** | 71 |
| Adjustment in respect of prior periods | **(42)** | 2 |
| Adjustment to opening / closing deferred tax | **(91)** | - |
| R&D enhanced expenditure | **(74)** | (67) |
| R&D surrendered | **21** | 17 |
| **Total current tax (note 7a)** | **(65)** | (54) |

The standard rate of corporation tax in the UK is currently 19% (2019: 19%). The Group has unutilised trading tax losses in the UK of approximately £4.4m (2019: £3.2m) 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 profits 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

| | 2020 £ '000 | 2019 £ '000 |
|---|---|---|
| (Loss) on ordinary activities after tax | **(1,291)** | (1,136) |

Basic earnings per ordinary share:

| | | |
|---|---|---|
| Weighted average number of ordinary shares in issue | **51,911,022** | 46,100,981 |
| Earnings per share | **(2.5)p** | (2.5)p |

As net losses were recorded in 2020 and 2019, the potentially dilutive share options are anti-dilutive for the purposes of the loss per share calculation and their effect is therefore not considered.

## 9. GOODWILL

| | £ '000 |
|---|---|
| Cost at 1 October 2019 and 30 September 2020 | 69 |
| Net book value at 1 October 2019 and 30 September 2020 | 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

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Cost at 1 October | **44** | 32 |
| Additions | **33** | 12 |
| Disposals | **(1)** | - |
| **Cost at 30 September** | **76** | 44 |
| | | |
| Net book value at 1 October | **30** | 25 |
| Amortisation b/fwd | **14** | 7 |
| Disposals | **(1)** | - |
| Amortisation in the year | **13** | 7 |
| Amortisation c/fwd | **26** | 14 |
| **Net book value at 30 September** | **50** | 30 |

## 11. PROPERTY, PLANT AND EQUIPMENT

| | Leasehold buildings £ '000 | Plant, vehicles and fixtures £ '000 | Computer equipment £ '000 | Total £ '000 |
|---|---|---|---|---|
| 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** |
| | | | | |
| Cost at 1 October 2019 | 639 | 5,735 | 104 | 6,478 |
| Additions | 1,121 | 2,937 | 75 | 4,133 |
| Disposals | - | (6) | (4) | (10) |
| Exchange differences | (11) | (118) | (1) | (130) |
| **Cost at 30 September 2020** | **1,749** | **8,548** | **174** | **10,471** |
| | | | | |
| Depreciation at 1 October 2019 | 344 | 3,304 | 85 | 3,733 |
| Provided in the year | 42 | 406 | 16 | 464 |
| Disposals | - | (5) | (4) | (9) |
| Exchange differences | (5) | (48) | (1) | (54) |
| **Depreciation at 30 September 2020** | **381** | **3,657** | **96** | **4,134** |
| | | | | |
| Net book value at 1 October 2019 | 295 | 2,431 | 19 | 2,745 |
| **Net book value at 30 September 2020** | **1,368** | **4,891** | **78** | **6,337** |

## 12. RIGHT OF USE ASSETS

| | Buildings £ '000 | Equipment £ '000 | Vehicles £ '000 | Total £ '000 |
|---|---|---|---|---|
| Cost at 1 October 2019 | - | - | - | - |
| Transition under IFRS 16 | 2,270 | 71 | 27 | 2,368 |
| Provision for future dilapidations | 50 | - | - | 50 |
| **Cost at 30 September 2020** | **2,320** | **71** | **27** | **2,418** |
| | | | | |
| Depreciation at 1 October 2019 | - | - | - | - |
| Provided in the year | 261 | 17 | 10 | 288 |
| **Depreciation at 30 September 2020** | **261** | **17** | **10** | **288** |
| | | | | |
| Net book value at 1 October 2019 | - | - | - | - |
| **Net book value at 30 September 2020** | **2,059** | **54** | **17** | **2,130** |

## 13. CURRENT ASSETS

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| **Inventories** | | |
| Raw materials and consumables | **406** | 497 |
| Manufactured parts for resale | **137** | 127 |
| Work in progress | **22** | 67 |
| | **565** | 691 |
| **Receivables** | | |
| Trade receivables | **474** | 991 |
| Other receivables | **12** | 12 |
| | **486** | 1,003 |
| **Other current financial assets** | | |
| Prepayments | **209** | 128 |
| VAT receivable | **63** | 15 |
| Accrued income | **123** | 134 |
| | **395** | 277 |
| **Cash and cash equivalents** | | |
| Sterling | **2,000** | 3,739 |
| US Dollar | **626** | 779 |
| Euro | **89** | 291 |
| | **2,715** | 4,809 |
| | | |
| **Total current assets** | **4,161** | 6,780 |

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:

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Current | **294** | 656 |
| 1 month | **125** | 296 |
| 2 months | **36** | 15 |
| 3 months | **-** | 25 |
| More than 3 months | **19** | (1) |
| **Total trade receivables** | **474** | 991 |

A total of £180,000 (2019: £335,000) trade receivables are over 30 days old and therefore overdue.

## 14. CURRENT LIABILITIES

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Trade payables | **661** | 969 |
| Taxation and social security costs | **62** | 80 |
| Accruals | **183** | 302 |
| | **906** | 1,351 |
| Lease incentives | **-** | 12 |
| Loans and deferred income | **91** | 38 |
| Right of use lease liability | **193** | - |
| **Total current liabilities** | **1,190** | 1,401 |

In 2019, the Group entered into 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 was fixed at 2% over the term, repayments were due quarterly and commenced in March 2019. The loan was secured against the reactor and Hardide plc acted as guarantor.

In March 2020, Martinsville Henry County Economic Development Corporation determined to forgive the entire remaining loan balance of $182,000 (£142,000) including, without limitation, principal, interest and any other sums due under the agreement. This grant is now being amortised over the remaining useful life of the reactor.

## 15. PROVISIONS

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Provisions bought forward | **361** | 246 |
| Provisions utilised | **(95)** | - |
| Provisions (released) / charged | **8** | 101 |
| Effect of movements in exchange rates | **(7)** | 14 |
| **Provisions carried forward** | **267** | 361 |

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Provision for grant repayment | **116** | 260 |
| Provision for onerous lease | **51** | 51 |
| Provision for dilapidations | **100** | 50 |
| | **267** | 361 |

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Maturity analysis: | | |
| Within 1 year | **161** | 260 |
| 1 to 2 years | **56** | 95 |
| 2 to 3 years | **-** | 6 |
| 3 to 4 years | **-** | - |
| 4 to 5 years | **-** | - |
| 5+ years | **50** | - |
| | **267** | 361 |

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, and have repaid $116,000 in respect of one of the grants in February 2020. The Group will be repaying the other grant, worth $150,000, in two equal instalments in March 2021 and June 2021.

During the financial year Hardide Coatings Limited relocated to its new facilities in Bicester. The Directors have made a provision for a reasonable estimate of dilapidation costs, totalling £50,000. Under IFRS 16, this has been capitalised in the right of use asset value.

## 16. NON-CURRENT OTHER FINANCIAL LIABILITIES

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Lease incentives | **-** | 35 |
| Loans and deferred income | **407** | 129 |
| Right of use lease liability | **2,046** | - |
| | **2,453** | 164 |

### Right of use lease liabilities

| | **£ '000** |
|---|---|
| Total lease liabilities | **2,239** |
| Maturity analysis: | |
| Within 1 year | **193** |
| 1 to 2 years | **196** |
| 2 to 3 years | **180** |
| 3 to 4 years | **177** |
| 4 to 5 years | **159** |
| 5+ years | **1,334** |

### Reconciliation of operating lease commitment balances

| | **£ '000** |
|---|---|
| Operating lease commitments as at 30 September 2019 | **3,202** |
| Impact of discounting | **(834)** |
| Lease liabilities as at 1 October 2019 | **2,368** |

## 17. SHARE CAPITAL

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number 000** | **Value £ '000** | Number 000 | Value £ '000 |
| Allotted ordinary shares of 4p each | **53,219** | **2,129** | 49,146 | 1,966 |
| Allotted deferred shares of 0.9p each | **189,642** | **1,707** | 189,642 | 1,707 |

During the year, the Company raised £2,500,000 before expenses (£2,348,000 net of commission, legal fees and expenses) by way of placing 3,968,254 ordinary 4p shares at a price of 63p per share. Also during the year 104,740 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 2019 | 1,226,840 | 39.5p |
| Exercisable at 30 September 2019 | 1,176,840 | 38.6p |
| Granted during year | 1,923,364 | 56.9p |
| Exercised during year | 104,740 | 23.0p |
| Lapsed during year | 15,100 | 31.9p |
| Outstanding at 30 September 2020 | 3,030,364 | 50.9p |
| Exercisable at 30 September 2020 | 1,057,000 | 40.2p |

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

| | Number | Weighted average exercise price |
|---|---|---|
| Robert Goddard (Chairman) | 237,500 | 48.0p |
| Philip Kirkham (Chief Executive) | 1,241,600 | 50.1p |
| Yuri Zhuk (Technical Director) | 351,008 | 61.0p |
| Simon Hallam (Finance Director) | 300,000 | 29.0p |

During the year, the following options were awarded to directors.

| | Number | Exercise price |
|---|---|---|
| Robert Goddard (Chairman) | 150,000 | 62.0p |
| Philip Kirkham (Chief Executive) | 741,600 | 62.0p |
| Yuri Zhuk (Technical Director) | 338,508 | 62.0p |
| Simon Hallam (Finance Director) | 300,000 | 29.0p |

None of the directors exercised options during the year.

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 58%, a risk-free interest rate of 0.69%, and an expected life of 4 years. The average calculated fair value of options exercised during the year was 34.5p 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 2020 the weighted average remaining contractual life of all outstanding options was 8 years and 3 months (2019: 4 years and 5 months).

The total charge to the income statement for share options during the year was £86,000 (2019: £62,000).

## 19. POST BALANCE SHEET EVENTS

On 26 January 2021, Hardide Coatings Ltd entered into a £250,000 Coronavirus Business Interruption Loan Scheme (CBILS) backed loan facility with Nucleus Cash Flow Finance Limited. The term is over 60 months at an interest rate of 11%, with the first loan repayment instalment commencing in February 2022.

On 1 February 2021, the Company raised £791,000 before expenses (£750,000 net of commission, legal fees and expenses) by way of the issue of 614,886 placing shares and 1,944,986 subscription shares at a price of 30.9p per share.

## 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 $51,000 (£45,000) for the purchase of equipment (2019: £332,000). Hardide Coatings Ltd had capital commitments of £124,000 for the purchase of equipment (2019: £1,574,000) and £11,000 for leasehold improvements (2019: £1,107,000).

## 22. CONTINGENT LIABILITIES

There are no contingent liabilities to be disclosed.

## 23. FINANCIAL INSTRUMENTS – RISK MANAGEMENT

In common with other businesses, the Group is exposed to risks that arise from its use of financial instruments. The Group’s principal financial instruments are financial assets comprising trade and other receivables (excluding prepayments) and cash balances; and financial liabilities comprising trade payables as disclosed in notes 13 and 14. 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 2020 the Group had trade receivables and other receivables of £486,000 (2019: £1,003,000) and cash deposits of £2,715,000 (2019: £4,809,000).

### 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 2020 and the maturity profile of the carrying value of the Group’s financial liabilities are shown in note 14. All financial liabilities will be settled within six months unless stated in notes 15 and 16. 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 loss of £28,000 (2019: £17,000 gain).

### Interest rate risk

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

As at 30 September 2020, 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 2020

| | Note | **2020 £ '000** | 2019 £ '000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Investments | 3 | **1,235** | 1,218 |
| Amounts owed by group undertakings | 4 | **11,868** | 11,886 |
| Provision | 4 | **(11,868)** | (11,886) |
| **Total non-current assets** | | **1,235** | 1,218 |
| | | | |
| **Current assets** | | | |
| Trade and other receivables | 5 | **1,645** | 163 |
| Cash and cash equivalents | | **1,797** | 3,530 |
| **Total current assets** | | **3,442** | 3,693 |
| | | | |
| **Total assets** | | **4,677** | 4,911 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 6 | **94** | 1,505 |
| **Total current liabilities** | | **94** | 1,505 |
| | | | |
| **Net current assets** | | **3,348** | 2,188 |
| | | | |
| **Total liabilities** | | **94** | 1,505 |
| | | | |
| **Net assets** | | **4,583** | 3,406 |
| **Equity** | | | |
| Share capital | 7 | **3,836** | 3,673 |
| Share premium | | **18,196** | 15,987 |
| Retained earnings | | **(17,809)** | (16,528) |
| Share-based payments reserve | | **360** | 274 |
| **Total equity** | | **4,583** | 3,406 |

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 £1,281,000 (2019: loss of £1,400,000) after accounting for a reduction in the provision against the intercompany loan of £18,000 and an exchange rate loss on intercompany loan of £525,000.

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

The financial statements were approved and authorised for issue by the Board on 18 February 2021.

**Robert Goddard**
Director

# STATEMENT OF CASH FLOWS

## For the year ended 30 September 2020

| | 2020<br>£ '000 | 2019<br>£ '000 |
|---|---|---|
| **Cash flows from operating activities** | | |
| Operating (loss) | **(848)** | (707) |
| Share option charge | **69** | 35 |
| Decrease in receivables | **1** | 7 |
| (Decrease) / increase in payables | **(91)** | 27 |
| **Cash used in operations** | **(869)** | (638) |
| | | |
| Finance income | **10** | 14 |
| Tax received | **76** | - |
| **Net cash used in operating activities** | **(783)** | (624) |
| | | |
| **Cash flows from investing activities** | | |
| Net loan to subsidiaries | **(3,322)** | (1,254) |
| **Net cash used in investing activities** | **(3,322)** | (1,254) |
| | | |
| **Cash flows from financing activities** | | |
| Net proceeds from issue of ordinary share capital | **2,372** | 3,578 |
| **Net cash used in financing activities** | **2,372** | 3,578 |
| | | |
| **Net increase in cash and cash equivalents** | **(1,733)** | 1,700 |
| | | |
| **Cash and cash equivalents at the beginning of the year** | **3,530** | 1,830 |
| | | |
| **Cash and cash equivalents at the end of the year** | **1,797** | 3,530 |

# STATEMENT OF CHANGES IN EQUITY

## For the year ended 30 September 2020

| | Share Capital £ '000 | Share Premium £ '000 | Share-based Payments £ '000 | Retained Earnings £ '000 | Total Equity £ '000 |
|---|---|---|---|---|---|
| **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 | **183** |
| Loss for the year | - | - | - | (1,400) | **(1,400)** |
| **At 30 September 2019** | **3,673** | **15,987** | **274** | **(16,528)** | **3,406** |
| | | | | | |
| **At 1 October 2019** | **3,673** | **15,987** | **274** | **(16,528)** | **3,406** |
| Issue of new shares | 163 | 2,209 | - | - | **2,372** |
| Share options | - | - | 86 | - | **86** |
| Loss for the year | - | - | - | (1,281) | **(1,281)** |
| **At 30 September 2020** | **3,836** | **18,196** | **360** | **(17,809)** | **4,583** |

# 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:

| | **2020 Number** | 2019 Number |
|---|---|---|
| Management and administration | **2** | 2 |
| Sales and marketing | **1** | 1 |
| Technical | **5** | 4 |
| | **8** | 7 |

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

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Wages and salaries | **743** | 724 |
| Social security costs | **78** | 93 |
| Share option expense | **69** | 35 |
| Employer pension costs | **22** | 17 |
| | **912** | 869 |

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

## 3. INVESTMENTS

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Investments in subsidiaries | **1,235** | 1,218 |

At 30 September 2020 the company held 100% of the share capital of the following subsidiaries:

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

## 4. AMOUNTS OWED BY GROUP UNDERTAKINGS

The amounts owed by Hardide Coatings Inc amounting to £11,868,000 (2019: £11,886,000) 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 reduction in debt during the year of £18,000 (2019: £1,425,000 increase) has been credited to the profit and loss account in the year.

## 5. TRADE AND OTHER RECEIVABLES

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Prepayments and accrued income | **151** | 163 |
| Amounts owed by group undertakings | **1,494** | - |
| | **1,645** | 163 |

## 6. TRADE AND OTHER PAYABLES

| | **2020 £ '000** | 2019 £ '000 |
|---|---|---|
| Trade payables | **30** | 28 |
| Social security and other taxes | **27** | 53 |
| Amounts owed to group undertakings | **-** | 1,320 |
| Accruals and deferred income | **37** | 104 |
| | **94** | 1,505 |

## 7. SHARE CAPITAL

| | **2020** | | 2019 | |
|---|---|---|---|---|
| | **Number 000** | **Value £ '000** | Number 000 | Value £ '000 |
| Allotted ordinary shares of 4p each | **53,219** | **2,129** | 49,146 | 1,966 |
| 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 2020 or 30 September 2019.

## 9. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 September 2020 or 30 September 2019.

## 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:

| | **2020** | | 2019 | |
|---|---|---|---|---|
| Nature of transaction | **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 | **183** | **-** | 167 | - |
| Transfers of research and development costs | **(60)** | **-** | (89) | - |
| Transfers under licence agreements | **319** | **-** | 363 | - |
| Transfers under finance arrangements | **2,372** | **515** | 50 | 762 |
| Settlement of liabilities on behalf of the entity | **-** | **-** | - | - |
| Balance outstanding at 30 September | **1,494** | **11,868** | (1,320) | 11,886 |

## 11. POST BALANCE SHEET EVENTS

On 1 February 2021, the Company raised £791,000 before expenses (£750,000 net of commission, legal fees and expenses) by way of the issue of 614,886 placing shares and 1,944,986 subscription shares at a price of 30.9p per share.

## 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.

# DIRECTORS AND ADVISERS

## DIRECTORS

R J Goddard
P D Kirkham
S A Hallam
Y N Zhuk
A R Boyce
T J Rice

**Secretary**
S A Hallam

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THE QUEEN'S AWARDS
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INTERNATIONAL TRADE
2020