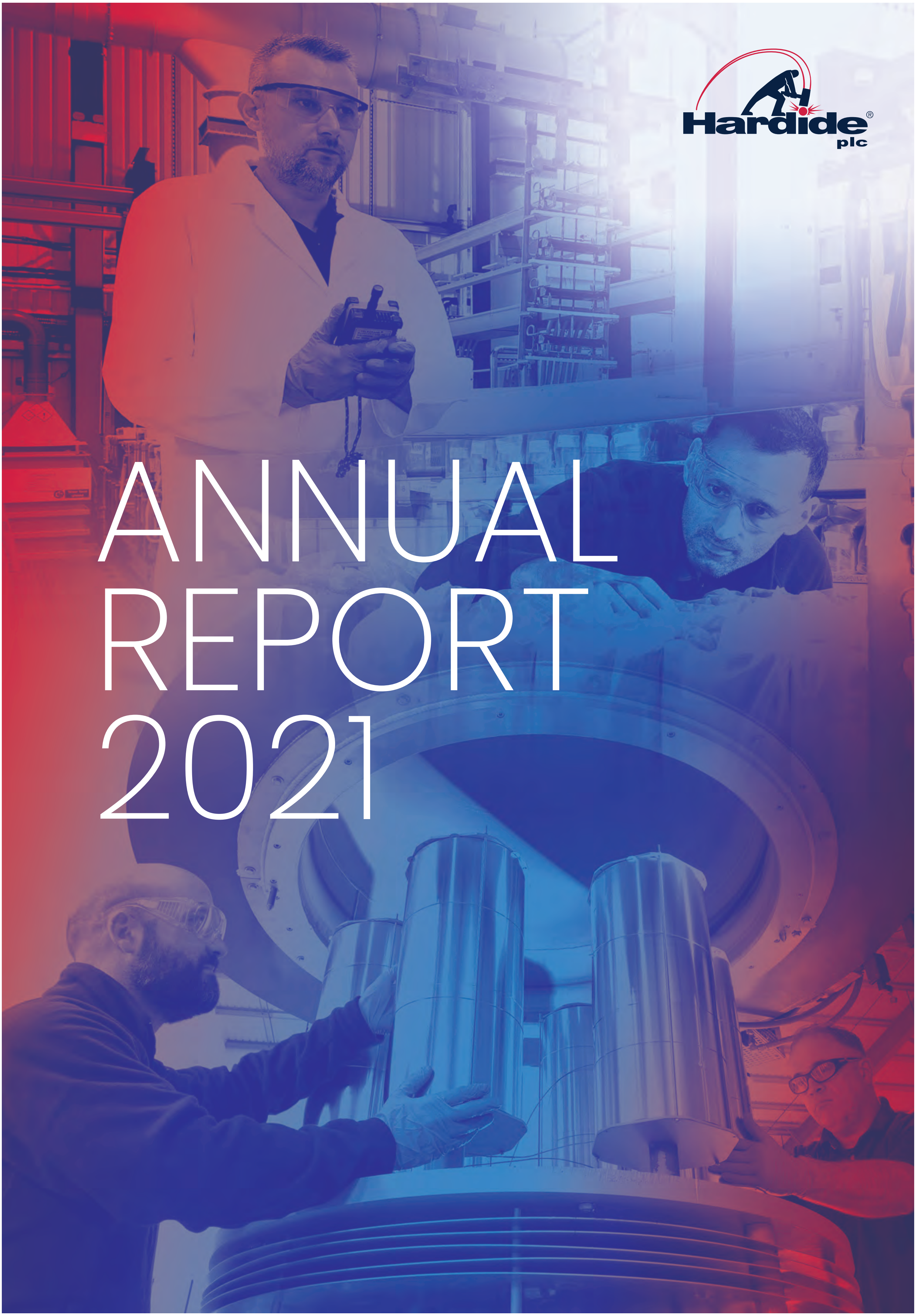
Hardide plc



ANNUAL REPORT 2021

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

£3.6m

Revenue of £3.6m
(FY20: £4.8m)

£1.3m

Gross profit of £1.3m
(FY20: £2.3m)

36%

Gross margin of 36% (FY20: 49%), lower due to the fixed production cost element within cost of sales. Variable margin was 72% (FY20: 73%)

£(1.5m)

EBITDA loss of £1.5m before exceptional items
(FY20: £0.5m loss)

£0.8m

Fundraising of approximately £0.8m together with a Coronavirus Business Interruption Loan Scheme ("CBILS") loan of £0.25m in February 2021 to increase cash reserves. Second CBILS loan of £0.25m received in April 2021.

£1.5m

Cash at bank at 30 September 2021 of £1.5m
(FY20: £2.7m)

BUSINESS & OPERATIONAL HIGHLIGHTS

TRADING

- The value of orders received during H2 FY21 of £2.5m was 52% higher than in H1 FY21 as demand from customers recovers. Compared with FY20:
  - 46% increase in sales to the aerospace sector, from a low base
  - 38% increase in sales to the precision engineering sector, including power generation customers
  - 46% reduction in sales to the oil & gas sector
  - 12% reduction in sales to the flow control sector

STRATEGIC

- Full approval of the new Bicester site for coating flying components received from Airbus. First production order received for Airbus A320 aircraft wing components. Still waiting for Airbus and their Tier 1 supplier to agree final arrangements before a supply agreement between Hardide and the Tier 1 can be signed
- First large production order received for the coating of gas turbine blades for a major European turbine manufacturer
- Leonardo Helicopters successfully completed testing of a new transmission system design that includes Hardide-coated components. Production orders are now expected to begin in FY22
- A testing and development programme is underway with a large US-based manufacturer of electric vehicles (EVs)
- Development of the ESG agenda, including the metrics on which to base our energy usage and CO_2 emissions

TECHNOLOGY

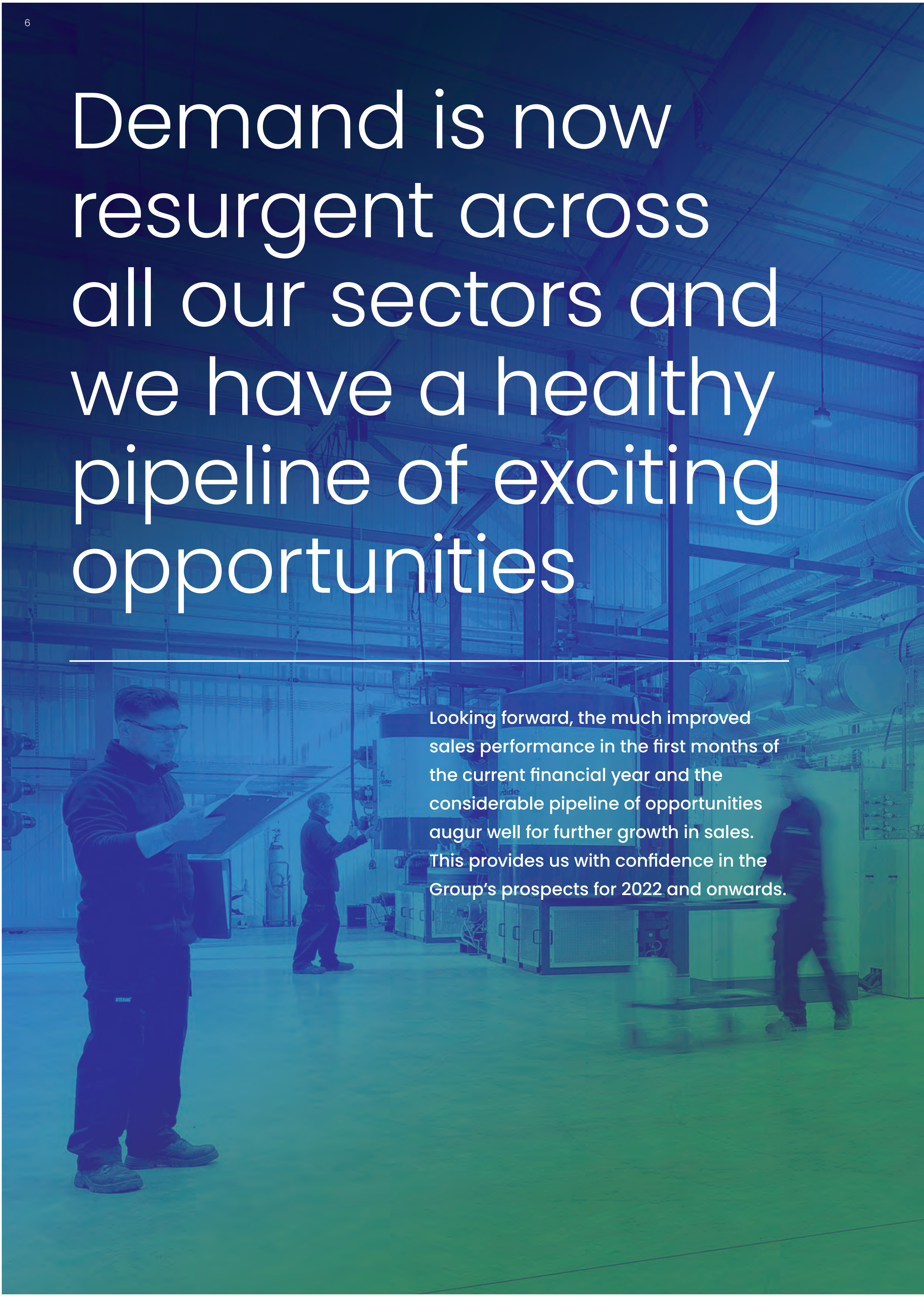
- Equivalent registration of the most recently secured UK patent is underway in ten leading industrial countries. The patent covers further-enhancement of the Hardide coating and new applications, including turbine blades and vanes
- Fundamental research continues into the development of new coating variants with additional properties conveying significant new and beneficial advantages

POST-PERIOD

- Former Bicester site fully vacated just before lease termination on 26 October 2021. Environmental benefits will result from the relocation, as well as saving approximately £100k in dual site running costs
- Stronger trading in the first quarter of the new financial year gives the Board confidence in the Group’s prospects for FY22

Demand is now resurgent across all our sectors and we have a healthy pipeline of exciting opportunities

Looking forward, the much improved sales performance in the first months of the current financial year and the considerable pipeline of opportunities augur well for further growth in sales. This provides us with confidence in the Group's prospects for 2022 and onwards.

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CHAIRMAN'S AND CEO'S REPORT

We are pleased to report on our annual results for the 2021 financial year. Market recovery is demonstrated by the value of orders received during the second half of the year, which are a healthy 52% higher than in the first half. This improvement in order intake has been continuing from all sectors in the first months of FY22.

During the period, the Group raised net new financing of approximately £1.25m to increase cash reserves by way of an equity fundraising and CBILS loans.

The move to the new UK production site at Longlands Road in Bicester was concluded during the year and the final coating reactor was relocated following Airbus' approval of the new facility. The new site provides the opportunity to benchmark our environmental performance and identify areas for further improvement.

COVID-19

The Group has continued to operate throughout the pandemic. It has taken precautions to protect our employees, contractors and visitors at our UK and US sites. 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 received funds from the US Small Business Association's 'Paycheck Protection Programs'.

FINANCIAL RESULTS

The Group generated sales of £3.6m in the year ended 30 September 2021 (FY20: £4.8m).

The value of orders received during H2 FY21 was 52% higher than in H1 FY21, with the upward trend continuing into FY22.

Direct costs decreased by 6%, primarily due to the reduction in the amount of process gases used, as a consequence of the lower sales volume.

Group gross profit was £1.3m (FY20: £2.3m). Gross margin was 36% (FY20: 49%), the reduction being due to the fixed cost of sales (which mainly comprise production salaries) not decreasing in line with sales revenue.

Overhead costs, which are mainly staffing costs, increased by 1% in FY21 on the previous year. Both years have benefitted to varying degrees from US government and UK COVID-19 government support programmes. Excluding the impact of these, overheads were in line with the previous year.

Before exceptional items, the Group's EBITDA loss was £1.5m (FY20: £0.5m loss). This reflected the reduced revenue.

Borrowings increased from £0.5m in FY20 to £0.8m in FY21. Mainly this was due to the receipt of two CBILS loans in February and April 2021, each for £0.25m. The cash balance at the end of the financial year was £1.5m (FY20: £2.7m).

Net assets at 30 September 2021 were £6.9m (FY20: £8.8m).

OPERATIONAL OVERVIEW

Customers and Markets

Aerospace

Aerospace sales increased by 46%. Largely, this was due to demand from BAE Systems for the coating of parts for the Eurofighter Typhoon, together with small production orders from Airbus. The coating has been approved by Airbus for use on parts for the A320, A330, A380 and A400M aircraft and we expect to see orders for coating components for these aircraft during FY22.

The Group is now experiencing further and increased demand. Development projects are underway with a wide range of aerospace customers, including manufacturers of landing gear and from MRO (Maintenance, Repair and Overhaul) companies. During FY21, the Group experienced a marked slowdown of test programmes and commercial discussions, and in some cases their cessation. Now, many of these have restarted and are gathering pace.

We are still waiting for Airbus and their Tier 1 supplier to agree final arrangements that will allow a supply agreement to be signed between Hardide and the Tier 1. The timing of this is outside of our control, but indications are that it should be soon. Other components for Airbus from other Tier 1 suppliers are not affected.

Leonardo Helicopters completed successfully the extended test programme of the transmission assembly incorporating Hardide-coated parts. This is the culmination of a long-standing project to develop a number of coating techniques for parts used in the transmission and rotor head systems to reduce 'in-service' costs and extend component life. Production orders are expected to begin in FY22.

The Group attended many virtual and some face-to-face aerospace-related conferences and exhibitions throughout FY21, thereby making new connections and identifying new applications with OEMs and Tier 1 suppliers. The Group plans to exhibit at the Singapore Airshow in February 2022 and at the Farnborough Airshow in July 2022.

Energy

Demand is returning in the energy sector as market fundamentals improve. Energy consumption is increasing and our major oilfield services customers are reporting growth in their own businesses. As the global economy recovers, the Board is confident that demand for Hardide-coated products in this sector will return to previous levels, if not beyond.

Recent remarks from the CEO of Schlumberger (October 2021) were very positive about the outlook for the oil & gas sector:

'…the strengthening industry fundamentals, combined with the actions of OPEC+ and continued capital discipline in North America, have firmly established the prospects of an exceptional multiyear growth cycle ahead' and '…our confidence in the onset of an exceptional growth cycle is reinforced.'

Also, in October 2021 the CEO of Halliburton stated:

'…I see a multi-year upcycle unfolding.'

Alternative Energy

The Group is committed to increasing the proportion of revenue generated from the alternative energy market. Sales to a manufacturer of product for the solar cell industry are expected to increase as this company expands considerably its production facilities in response to increasing demand. Sales and marketing resources have been allocated to identify technologies and components that would benefit from Hardide coatings. Sectors of interest include solar, hydrogen, geothermal, nuclear, gas and wind turbines.

Power Generation and Precision Engineering

Currently, the Group is working on projects with five power generation companies in the UK and EU. These will be based on our recently-patented coating for blades and vanes used in turbines.

In the first months of FY22, blades are already being coated for a major European manufacturer of steam and gas turbines. These are for installation in early 2022 into a high efficiency, low emission gas turbine. Coating these blades and other applications currently in development, can only be undertaken because of the recent installation of Hardide's new, larger-capacity coating reactor and the larger pre treatment line in the UK.

Field trials of coated steam turbine blades were scheduled by EDF Energy for 2022, but have been delayed by the pandemic. Meanwhile, the customer is conducting further performance tests.

Demand for our coated components for high speed X-ray baggage scanners remained stable throughout the year.

Production, Technology, Research & Development and Accreditations

In August 2021, the last remaining coating reactor in our former site was relocated to the new facility, and this has enabled the Group to reduce its emissions and environmental footprint. New equipment and methods of waste treatment were established in the new facility, thereby reducing significantly the environmental impact of our manufacturing processes. The use of natural gas has been eliminated at the new site and all electricity there is supplied from a REGO-certified (Renewable Energy Guarantees Origin) source. Four electric vehicle (EV) charging points were installed for staff use.

The new UK site and the US facility are both accredited to the aerospace quality management system AS9100D/ISO9001. The new Bicester facility is also accredited to Nadcap's 'Merit Status', and to the environmental standard ISO14001.

Fundamental research continues into the development of new coating variants with potentially revolutionary properties that would open up new markets for Hardide.

Intellectual Property

Registration of our most recent patent is underway in ten leading industrial countries. This new patent covers the further-enhancement of the Hardide coating and new applications, including turbine blades and vanes.

STRATEGY[1]

Hardide is a 'technology development' Group that designs and deploys a range of very high performance coatings for use on metal components that operate in harsh, extreme or safety-critical conditions. New customers, applications and industries are being developed that are proving the worth and robustness of the technology.

The Group's P&L demonstrates clearly a high operational gearing. This means that the rate of change in EBITDA is markedly greater than that for sales. Before the COVID-19 pandemic badly affected demand, sales revenue was on a strong upward trajectory. However, there has been a sharp increase in order intake during the latter months of FY21. This will lead to considerable improvement in performance during the first quarter of FY22. As a result, we are seeing now the positive aspects of operational gearing. In addition, the increased number of customers and diversity of market sectors will lead to much better capacity utilisation and lower volatility of demand.

Operational gearing established clearly over time in the P&L, a more diverse customer base; together with a higher volume and lower volatility of sales, will lead to a much-enhanced financial performance. Therefore, the Group's main objective is to increase volume by continued and strong business development activities at the same time as maintaining high margins.

[1] A more-detailed and forward-looking description of the Group's business strategy is set out in a separate section in this Annual Report

End-users of Hardide's coatings experience considerable benefits. Among other things, these include some or all of: reduced maintenance costs, lower environmental impact, enhanced corrosion resistance and durability. In many cases, these features provide the customer with significant competitive advantage. Moreover, there are high barriers to replacement of many of Hardide's coatings once they are in use. In such cases, there would be considerable switching costs for the end user. Taken all together, these features can make it very hard for a competitor to displace Hardide's coating.

Over recent years, the Group has developed three-way partnerships with end-users of Hardide's coatings and their Tier 1 suppliers, and is seeking further opportunities for such push-pull marketing.

The Group's high operational gearing supports strongly its strategy to continue investment in business development, marketing and technology. Also, there is great strategic advantage in our robust portfolio of patents, coupled with the unique knowledge and skills embedded among our staff and not found elsewhere. Together, these are part of our Core Competence, which creates sustainable competitive advantage.

Core Competence

In summary, the Group's Core Competence is made up of:

- unique and valuable technology;
- strong IP;
- technical and operational knowledge embedded in employees;
- high switching costs for customers; and
- long-term relationships with customers and end users.

In this context, the definition of 'Core Competence' is the set of features or competitive advantages that provide potential access to a wide variety of markets, make a significant contribution to benefits perceived by the end user and are difficult or impossible for competitors to imitate.

Strategic Progress

The Group continues to increase the number of its customers at the same time as diversifying its customer base and target industries. Regular demand from Airbus and other aerospace customers is expected to commence soon, and the coating of turbine blades for power generation has already resulted in our first order from that industry. In addition, the Group is working on a new opportunity with a large electric vehicle manufacturer.

Meanwhile, there is now a strong pipeline of prospects for exciting short- and medium-term opportunities with turbines and in the alternative energy sector; together with new applications in oil & gas industries.

Investment in marketing, business development, equipment and R&D will continue.

In summary, although a good improvement in financial performance has been slow in coming, the Board now has a well-founded and positive view of Hardide's potential for profitable growth.

EMPLOYEES AND STAKEHOLDERS

The last 18 months have been extremely challenging for our employees. They have had to navigate the uncertainty and change brought about by the pandemic, at home and in the workplace. The Board would like to thank our people for their hard work, flexibility and positive attitude in such difficult circumstances. We are pleased that we were able to utilise the support packages available in the UK and US, meaning that we did not have to reduce the number of our employees.

The Board also thanks shareholders and other stakeholders for their continued loyalty and encouragement.

OUTLOOK

Demand is now resurgent across all our sectors, and we have a healthy pipeline of exciting opportunities in current and new markets. Test programmes that have been on hold or slowed by the pandemic are once again gathering pace.

Rising global demand for energy, and the increasing oil price, provide favourable conditions for the return of strong revenues from our oil & gas customers. Recovery in the aerospace market is forecast to strengthen in 2022 and beyond, and the Board expects revenues from the coating of multiple aerospace parts and turbine components. Also, we look forward to successful developments in the EV market.

The continuing growth in our order book and the strong first quarter of FY22 give the Board confidence that revenues will strengthen markedly, and therefore the Group's financial performance will improve significantly in FY22. The Board continues to monitor carefully the Group's projected cash position and believes that its reserves will be sufficient for the foreseeable future.

Robert Goddard
Chairman

14 February 2022

Philip Kirkham
CEO

14 February 2022

FINANCIAL REVIEW

STATEMENT OF COMPREHENSIVE INCOME

Sales revenue for the year reduced by 24.4% to £3.60m, down from £4.76m in the prior year. The impact of the COVID-19 pandemic on our key end markets, in particular oil & gas, saw sales in the first half of the year of £1.78m (H1 2020: £3.02m), increasing slightly to £1.82m in the second half (H2 2020: £1.74m).

With a substantial element of cost of sales relatively fixed, particularly production salaries, the reduced sales had a detrimental impact on gross margins. The delivered gross margin was consistent over both H1 and H2, at 37% and 36% respectively. Overall gross margin for the year was 36% (2020: 49%).

As a consequence of the lower sales, cost of sales fell by 6.2% to £2.29m (2020: £2.44m), reflecting the reduction in variable costs, primarily the principal gas used in the production process.

Share based payment charges of £202k (2020: £86k) have been treated as an exceptional charge and consequently the prior year results have been restated. Therefore, administrative expenses increased marginally by 0.7% to £2.80m (2020: £2.78m as restated). This was down to a number of benefits received in 2020 that were either not repeated, or only partially repeated, in 2021. For instance, there was no grant income (2020: £121k) from the National Aerospace Technology Exploitation Programme (NATEP), and the support from the US Small Business Association's Paycheck Protection Program amounted to US$149k (2020: US$200k).

The Group's depreciation charge on owned assets increased to £854k (2020: £477k) following the relocation and commencement of full production at the new site in Bicester towards the end of the previous financial year. Depreciation on 'right-of-use' assets was £280k in the year (2020: £288k), and finance costs on right-of-use assets were £87k (2020: £91k). A further charge of £30k in respect of dilapidation costs was recognised, which was expected to occur relating to the old premises in Bicester.

The Group loss before interest, tax, depreciation and amortisation (EBITDA) for the year amounted to £1.48m (2020: £0.46m as restated). Despite the impact of the pandemic, our Martinsville facility continued to increase sales, with a 13.5% increase from 2020 (at constant currency), and consequently achieved an EBITDA profit.

STATEMENT OF FINANCIAL POSITION

Non-current assets reduced by £900k during the year. This is primarily driven by the depreciation on owned and 'right of use' assets referred to above, partially offset by a net capital investment of £299k in the new site.

Inventories were £504k (2020: £565k), a reduction of £61k. The most significant element of inventory is process gas, and the movement reflects the timing of deliveries to site compared to 2020. Trade and other receivables increased by £97k to £583k. This reflects an improvement of sales over the final 2 months of the year compared to the equivalent period in 2020.

During the year, the Group repaid the full amount of the original US$150k Commonwealth Development Opportunity Fund grant from the Virginia Tobacco Commission as the directors concluded that the eligibility criteria would not be met.

In February 2021 the Group raised £0.76m, net of expenses, through equity fundraising. It raised a further £250k in February 2021, and another £250k in April 2021 through the Government backed Coronavirus Business Interruption Loan Scheme ("CBILS"). Subsequent to the year end, in January 2022 the Group raised $438k (£325k) through asset finance.

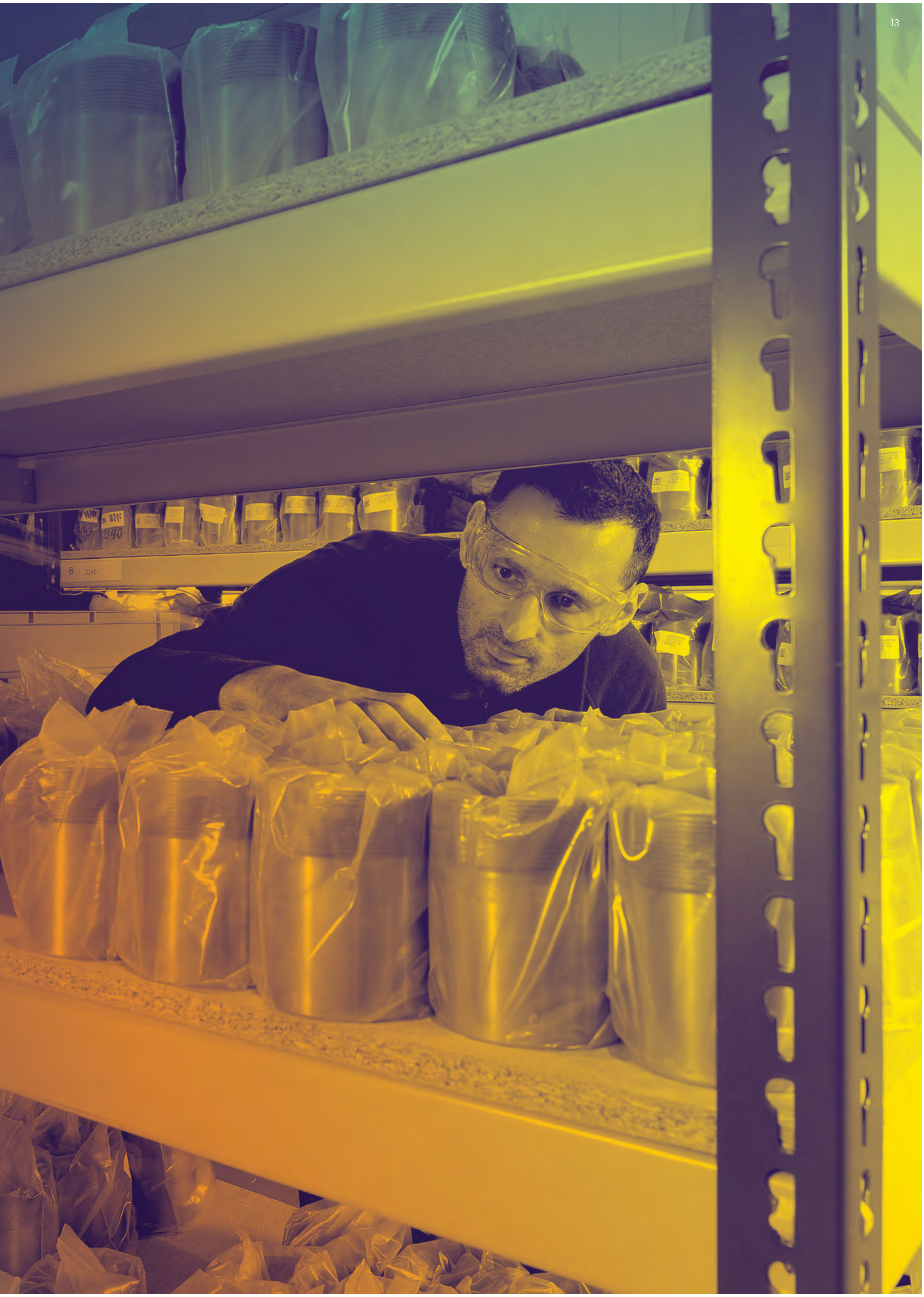
Cash balances at the end of the year were £1.54m (2020: £2.72m).

Simon Hallam
Finance Director

14 February 2022

Hardide is committed to reducing its emissions to the environment in every aspect

Opportunities for the Hardide coating have never been more relevant as the world looks to industry to initiate and support measures to limit climate change, waste and pollution. Use of the Hardide coating increases the life and performance of metal parts in high-wear and high-value applications, thereby reducing waste, energy consumption and end-of-life pollution. Our coatings provide solutions to problems that previously would have required a hazardous and environmentally damaging coating process that is now restricted under EU, UK and US health, safety and environmental regulations.



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, customer industries and customers, and ultimately to high, growing and consistent profits.

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, there is a focus on investing to grow revenues steadily and significantly so that, because of the Group's high operational gearing, gross profit is maximised.

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 so is far less vulnerable to fluctuations in demand from any one customer.

OPERATIONS

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

The successful establishment some five years ago of our coating facility in the US continues to serve the large North American market. Additionally, having a geographically separate production facility provides greater security of supply for customers. 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.

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. However, it is not nearly as well-known as other high-performance coatings. Therefore, Hardide will continue vigorously with its programme of high-level technical presentations and attendance at trade fairs and conferences (pandemic restrictions permitting). Greater use will be made of email campaigns and a range of channels such as trade press and social media will continue to be used to the full extent that resources permit.

Customer and industry diversification

As well as increasing sales, the customer and industry diversification element of the Group's strategy is a major consideration.

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. 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. Normally, this sector tends to be slightly counter-cyclical to the oil & gas sector and helps balance our portfolio of industry sectors.

Power generation is a large non-cyclical industry. Within power stations, 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. An initial order from a large European manufacturer of industrial gas turbines has been received and is currently being processed at the UK site. This has great potential for future business. Sales of the newly-patented coating for turbine blades will diversify considerably our customer base.

PRODUCT RANGES, CUSTOMERS AND MARKET CHARACTERISTICS

The Group classifies its applications into five sectors: Energy (conventional and alternative), Aerospace, Flow Control, Power Generation and Precision Engineering.

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.

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.

Recognising the shift towards alternative forms for 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. Testing is also underway to prove the beneficial properties of our coating for the expanding hydrogen market.

Battery technology for the electric vehicle (EV) market is developing rapidly and we are in the early stages of development and testing with a large US-based EV manufacturer on components used in the battery manufacturing process.

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.

Flow control

Flow control remains our second largest market sector, with sales largely to a very large North American pump customer, whose customers are not in the oil & gas market. Apart from this, the need for 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

The potential for Hardide sales to this very large sector 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 to seek new specialist applications in this market sector.

Power generation

The first large order for coating blades for gas turbines resulted from four years of development with a major European turbine manufacturer. We expect further substantial orders to follow during FY22. We are making progress with EDF Energy and other turbine manufacturers on testing our newly-patented coating; although progress slowed considerably during the last year because of the pandemic. 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 blades and vanes used in the power generation and aviation industries. Equivalent registration of this patent is currently underway in ten major industrial countries. The granting of this patent also enhances considerably and extends the IP protection of existing patents.

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

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.

Joint application developments 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.

RISK

As a proportion of total sales, those to the oil & gas industry will continue to be significant in the short- to medium-term as sales are developed with the major oil & gas customers. Reducing the proportion of the Group's sales to relatively few major customers is an ongoing strategic aim for the Group.

In the past, cessation or delay of customers' test programmes has inhibited Hardide's growth. 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 also a risk that the Group devotes significant application development time and technical resources to test programmes that do not result in sales. 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.

Loss of key technical personnel is a risk for the Group. 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.

A risk also arises from the effect of 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 5% of Group turnover, so a change in demand from Europe would have an insignificant effect.

A major incident could lead to the temporary closure of a coating plant, resulting in disruption to service. All operations are carried out to the relevant AS9100 Quality Management System and in the UK to 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, including IT and 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.

CASH

The fund raising completed successfully in February 2021 together with the two CBILS loans strengthened our balance sheet. Revenue expense has been severely trimmed in response to the reduced revenue. However, reduction of key staff would damage severely our rate of recovery and future growth. Accordingly, there is no plan to do this. Management will continue to monitor cash diligently.

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 for the foreseeable future. Nonetheless, on 19th January 2022, the Group raised $438k (£325k) through asset finance with The American National Bank and Trust Company, Hardide Coatings Inc's US bankers.

PARTICULAR STRATEGIC CHALLENGES

Planning for increases in capacity

Despite their best efforts, 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. The 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. This is particularly important for large reactor capacity at Bicester, where we have only one such reactor. 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. 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 with other potential customers. 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.

SECTION 172

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 duties under section 172(1). These are dealt with below, although essentially they are embedded 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 participate in the Group's strategic planning process. The centre point of this exercise is a yearly strategic planning meeting that looks out over five years. 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. 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. Grievances may be raised in confidence with any director. 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 frequent staff briefings, 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.

The most critical 'bought-in' supplies for production are electricity and the gases used in the coating process. Together, these account for the great majority of variable production costs. Internationally, the primary process gas is deemed to be a strategic material. Since this is a commodity, the Group reviews regularly its supply arrangements. It has not been found useful to develop a relationship with any particular 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 have 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[3] 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 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. In addition, all shareholders with 1% and over of total equity of the Group are encouraged annually by way of a personal letter from the Chairman inviting them to contact him or the SID if they have concerns.

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 those applicable to the UK facility.

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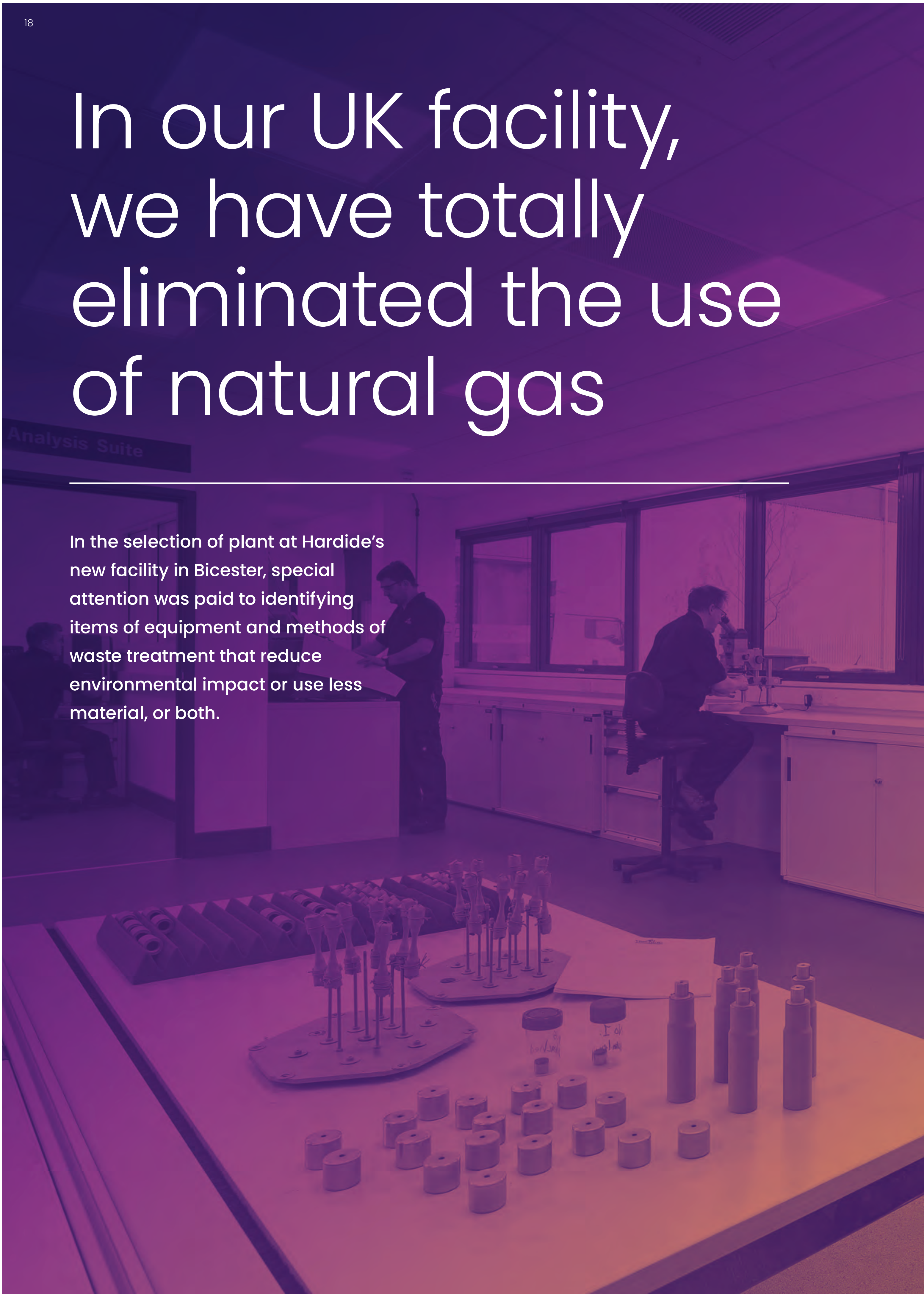
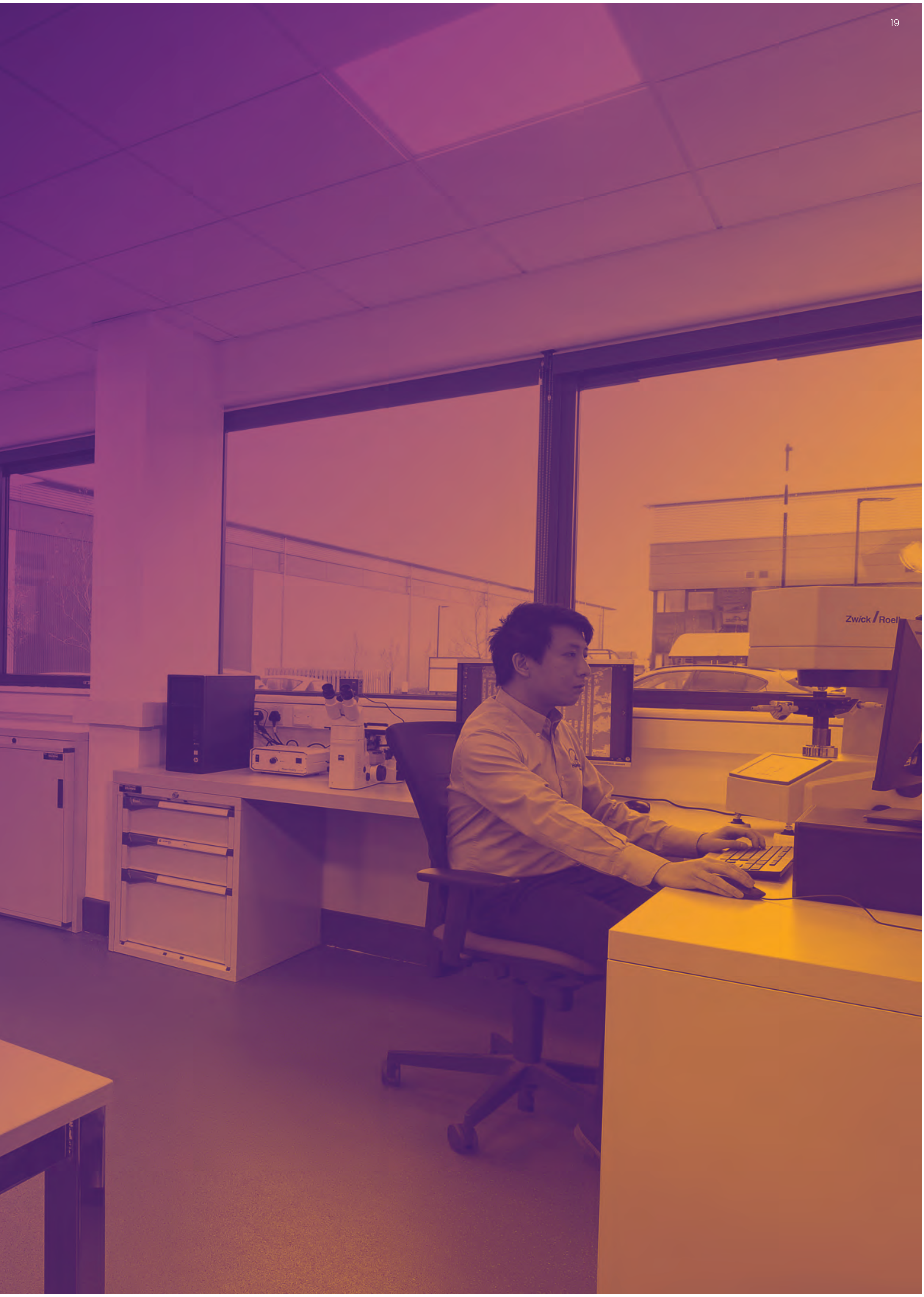
[2] This can be viewed on our website.

[3] As an example, most of the components to be coated for North American customers are shipped from them and then returned.

In our UK facility, we have totally eliminated the use of natural gas

In the selection of 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.

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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 Sustainability & 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 Sustainability & 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 Sustainability & 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 include non-executive director of TDCM Ltd, manufacturer of electric motors for the automotive sector, electric two-wheeler and leisure markets, 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, Director - The International Centre for Birds of Prey.


Hardide
Coatings

In creating our US facility, we have eliminated very large quantities of CO_2 emissions from the supply chain.

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 the overall ‘carbon footprint’.

REPORT OF THE DIRECTORS

RESULTS

The Group loss for the period, after taxation, amounted to £2,802,000 (2020: £1,291,000 loss). The directors have declared that no dividends will be paid in respect of the 2021 financial year (2020: Nil).

DIRECTORS

The present membership of the Board is set out on pages 20-21, and changes to the board and the beneficial interests of the directors and their families in the shares of Hardide plc are shown below.

			30 September 2021	30 September 2020
	Appointed	Resigned	**Number of ordinary 4p shares**	Number of ordinary 4p shares
Robert Goddard	28 January 2008	-	**471,532**	406,807
Andrew Boyce	18 June 2012	-	**1**	1
Tim Rice	20 March 2018	-	**27,625**	17,916
Philip Kirkham	1 September 2012	-	**117,672**	101,490
Yuri Zhuk	14 March 2005	-	**166,736**	157,027
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 6,988,231 shares. No director had, during or at the end of the year, a material interest in any contract which was significant in relation to the Group's business.

The Group's key management personnel comprise the directors 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 Sustainability & Risk Committee, further details about which appear on page 30.

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 continued disruption caused by 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 2022 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 reasonably 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 2021 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)	7,956,299	14.2
Andrew Boyce & Associates	6,988,231	12.5
Executors of A Badenoch & Associates	5,600,000	10.0
Amati Global Investors	4,521,963	8.1
P Evershed	3,185,620	5.7
Unicorn Asset Management Ltd	3,179,610	5.7
Executors of W S C Richards	2,197,652	3.9
T Simpkin	2,088,740	3.7

R J Goddard
Director

14 February 2022

CORPORATE GOVERNANCE STATEMENT 2020-21

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

The Group has adopted formally the QCA Code published in April 2018. It remains the policy of the Board to comply with the Code wherever it is practicable to do so. The following statements set 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.

	Board Meetings[1]		NEDs only	Meetings of Board Sub-committees[2]			
	Scheduled Monthly	Additional		Audit[3]	Remuneration & Nomination	Risk	Intellectual Property
R J Goddard	12	7	2	1		4	4
P D Kirkham	12	7				4	4
S A Hallam	12	7				4	
Y N Zhuk	12	7					4
A R Boyce	12	7	2		7		
T J Rice	12	7	2	1	7		

[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.

[3] A second meeting, applicable to the FY21 reporting year, was held after the end of the financial year

Non-executive director only meetings

Two 'NEDs-only' meetings 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 the 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 for Executive directors.

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 these Committee meetings are included in the papers for the first Board meeting following each Committee 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 may be done by a directors' resolution in writing.

From time to time 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 a Board decision. This includes the appointment of directors, any raising of funds, the setting of high-level targets, approval of budgets, strategy, 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

Each 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 strategy can be found 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, trade 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. 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 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.

Normally, the Board reviews Mr Goddard's activities outside of Hardide. However, there has been no change in Mr Goddard's since the previous year. Accordingly no formal acceptance by the Board of his outside interests has been needed. The Board remains satisfied that none of these activities conflict with Mr Goddard's role as Chairman of Hardide. The same applies to the other non-executive directors.

The 'independence' of each non-executive director has been assessed in FY21 by four, single purpose ad hoc committees of directors. Excluded in turn from these meetings was the non-executive director in question. As in previous years, 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 all the other Board directors to be 'independent'.

Number of directors

In the past year there has been a total of six directors and three of these are non-executive. Tim Rice remains the senior independent director ('SID'). In addition, and in compliance with the Code, Tim Rice is the chairman of the Remuneration & Nomination Committee. The chairman of the Audit Committee is 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 encouraged to contact him outside those meetings. The Chairman or the SID relays shareholder opinion to the non-executive directors or the full Board, as appropriate.

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; together with high-level 'people issues'.

This year has seen the start of the process of face-to-face, one-to-one confidential meetings dealing with the performance of Chairman and each of the non-executive directors. In these meetings the two participants give their views of the other's performance and identifies if there are aspects meriting attention.

These meetings are private and not minuted.

Any director may have access to independent professional advice at Group expense. So long as the matter concerns the business of the Company.

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 and other adjustments that result inevitably from growth in a high-technology company. The directors are well able to support the changes that will arise and deal with the challenges of such growth.

Roles of CEO, Senior Independent Director and Chairman

Presently, Hardide is a small company and so 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 held on a frequent basis throughout the year. 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 the 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 Audit Committee and the Sustainability & Risk 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 undertake a performance planning exercise and agree annually on a set of objectives for the CEO. 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 and responsibility for the skills and behaviour needed to meet those objectives is identified. Thereafter these are taken account of during 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 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

[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.

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 MBAs 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. Two directors are Chartered Engineers.

Company Secretary

At present, the Finance Director (Simon Hallam) also acts as the Company Secretary. The directors consider that to be acceptable. This is on the grounds of the size of the Group, 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 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, each of whom 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 chairman of Board Committees are 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 Andrew Boyce and Tim Rice, with the latter as chairman . It meets at least quarterly. In this financial year it met seven 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. Often, 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 Sustainability & Risk Committee operates, review the work of that 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 that James Cowper Kreston maintain their objectivity and independence. James Cowper Kreston report to the Board annually on their independence from Hardide plc. Non-audit services are provided only if such services do not conflict with their statutory responsibilities and ethical guidance.

Currently, the size of the Group does not 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 2021, which was their fifth year acting as the Group's auditors. 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.

Sustainability & Risk Committee

The Board has overall responsibility for the Group's system of management of sustainability and risk, and does so in cooperation with its Sustainability & Risk Committee. The Committee's role is to identify the strategic, operational, environmental 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 and environmental risks.

The members of this Committee, which meets quarterly, are Robert Goddard (Chairman), Philip Kirkham, and Simon Hallam. Reports of the Committee and its assessment of sustainability and risks are made to the Board and the Audit Committee. Descriptions of the principal matters 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, SOCIAL AND GOVERNANCE ('ESG')

The reporting year has seen the completion of the transfer of Hardide's UK operations to its nearby site in Bicester. The premises are newly-built on a modern industrial estate and well away from any residential areas. Replacement of some existing and substantial items of equipment with types that have much-improved emission control measures and lower environmental impact have been in place for the full reporting year. The same applies to low-energy lighting.

Also during the reporting year, reviews have taken place of procedures for the safety for staff and visitors and general working conditions.

Until now, it would not have been sensible to attempt the creation of environmental benchmarks such as estimated emissions of CO_2 or waste. Now, the benchmarks have been established and these appear in the ESG section of this document.

It should be noted that, since the new premises has been equipped with equipment having excellent environmental credentials, it may prove difficult to improve on environmental performance; at least in the near term. Nonetheless, the Group will seek out opportunities to do so.

Whilst Hardide 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 where appropriate and more frequent and rigorous cleaning regimes. Where still able to fulfil their function, certain staff have been able to work from home and others have been 'flexibly-furloughed' to minimise 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 involved in their processes. A statement to this effect may be found on the Group's website.

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 did they have 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 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.

Non-executive Directors

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

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 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, 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

The Group has in place a full 'Anti-bribery Policy', and this is 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 raise, in confidence with any director, their 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 of 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. Adherence to this regulation is facilitated by software that, among other things, maintains insider lists and can provide data 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 UK GENERAL DATA PROTECTION REGULATION ('UK-GDPR' OR 'REGULATION') AND THE UK DATA PROTECTION ACT 2018

These EU Regulations originally came into effect in May 2018 and subsequently adopted into UK law in January 2021 upon Brexit. All the procedures and proper records are in place to achieve and demonstrate compliance.

FORMULATION OF STRATEGY AND BUSINESS MODEL

A high-level description of the Group's business model and strategy appears in the Strategic Report section of this Annual Report. Also, there is a summary 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 and regularly updated cyber security systems. It has an ongoing contract with an external specialist cyber security company and is accredited to the government-backed Cyber Essentials Plus 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 the 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, or 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. This includes 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. 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. On request, hard copies of Hardide's Annual Report are available from the Group.

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.

From time to time, all staff are invited to briefings where the CEO presents, explains, and responds to questions about, important developments in the Group or its environment.

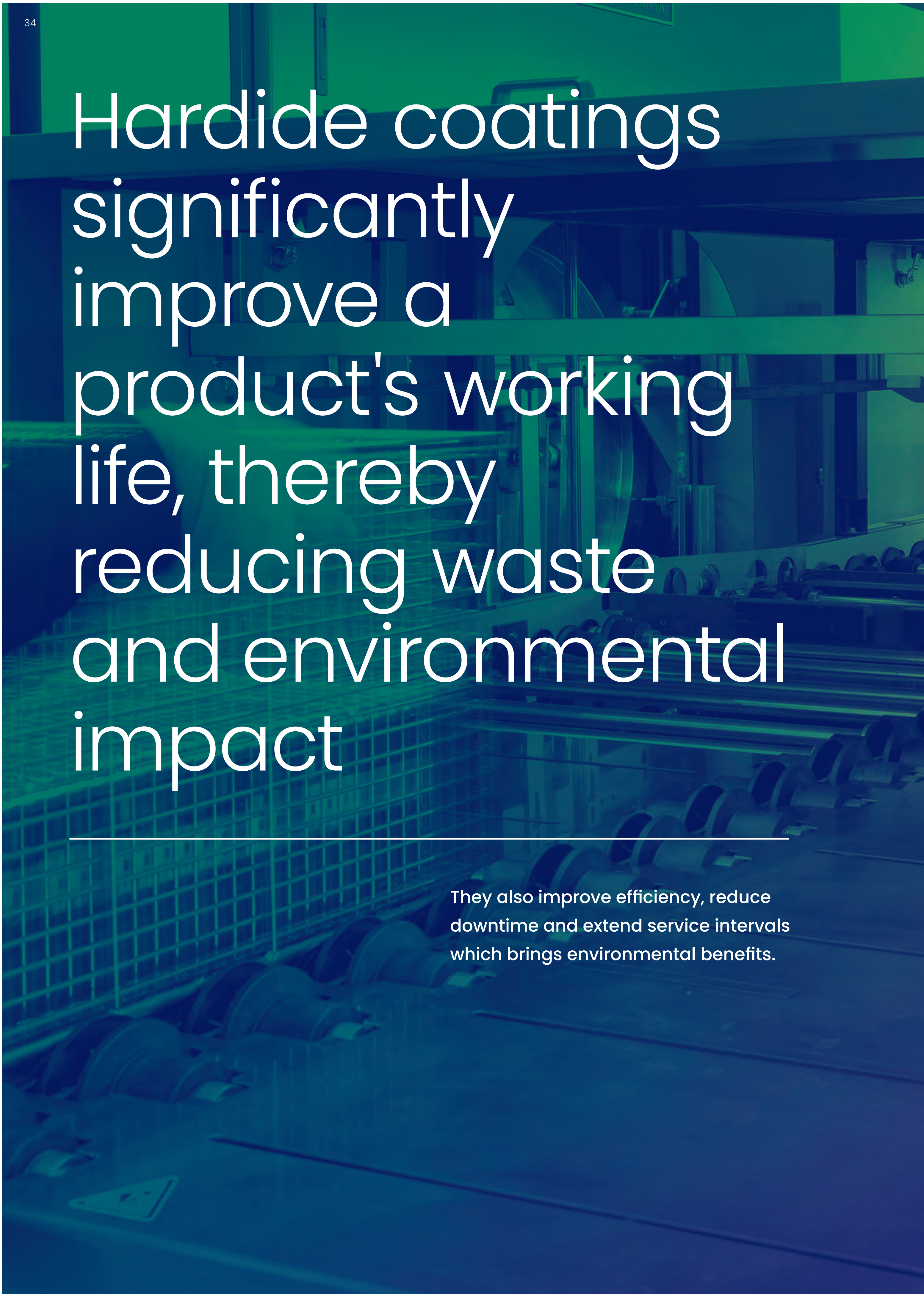
Since Hardide's processes are unique in many respects, new staff are most unlikely to have knowledge of the processes and so require lengthy training. Therefore, the Group attaches great importance to the wellbeing and retention of its staff. All employees have health plan benefits and undergo regular health checks as appropriate to their work activity.

Both UK and US sites are accredited to aerospace Quality Management System AS9100 RevD, and ISO9001:2015. The UK site is also accredited to the international Environmental Management standard ISO 14001:2015 and to Nadcap (National Aerospace Defense Contractors Accreditation Program).

On behalf of the Board,

Robert Goddard
Chairman

14 February 2022



Hardide coatings significantly improve a product's working life, thereby reducing waste and environmental impact

They also improve efficiency, reduce downtime and extend service intervals which brings environmental benefits.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

OUR PHILOSOPHY

At all times, the Group aims to maintain its operations in a safe, environmentally conscious and socially responsible manner, taking into account the needs of stakeholders. These include: shareholders, members of staff, suppliers, customers and the local community.

Our approach considers the effects that we have on the environment and their significance. We set objectives and targets to minimise any impacts.

Governance

We endeavour to follow the Task Force on Climate-Related Financial Disclosures ('TCFD') model on sustainability.

Climate-related risks and opportunities are overseen by our Sustainability and Risk Committee, which reports to the Board on a regular basis.

An important part of our governance is to ensure that our policies, procedures and actions conform to the standards required under our Environmental and Quality Assurance accreditations: ISO14001, ISO9001 and AS9100.

Strategy

In 2021 we undertook a baseline review of our activities and emissions to set our future environmental targets which consider the following key areas:

1. Environmental Management
2. Policy
3. Waste Management
4. Energy & Water
5. Transport
6. Sustainable Procurement
7. Community
8. Health & Safety
9. Staff Welfare

For the purpose of setting objectives and targets the significant aspects are the following areas:

A. The use of electricity

B. Water consumption

C. Use of Volatile Organic Compounds (VOCs)

D. Waste generation

E. Effluent drain discharge

F. Emissions to atmosphere

G. Transport

H. Decommissioning of our former premises

I. Effect on local community

Our environmental objectives and targets are available on the company website.

Risk Management

Hardide does not purchase raw materials, except for process gases and small amounts of various metals used as part of the process. For a few of our customers we buy-in the component in addition to coating it.

Cyber security is an important part of our operations and we have invested heavily in state-of-the-art protection for our IT systems and on staff training. Our IT systems have been certified to the government-backed Cyber Essentials Plus standard.

Metrics

The move to the new UK facility was completed in summer 2020, hence comparisons with metrics that include the old facility are meaningless. As a result, FY21 metrics are considered a baseline against which to compare progress. The metrics shown below are the aggregated values from the UK and US sites.

ENVIRONMENTAL

Hardide is committed to reducing its emissions to the environment in every aspect. In the selection of equipment at Hardide's new facility in Bicester, special attention was paid to identifying equipment and methods of waste treatment that reduce the environmental impact, 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.

In our new UK facility, we have eliminated the use of natural gas, and all electricity is now supplied from a renewable REGO-certified (Renewable Energy Guarantees Origin) source. The only use of natural gas is at our US facility in Martinsville where it is used for workspace heating.

In creating our US facility we now coat parts for North American-based customers in the US, rather than in the UK, thereby avoiding double freight transits across the Atlantic and considerable emissions of CO_2.

Hardide's products greatly increase the life of customers' components by reducing wear and enhancing corrosion resistance, with customer and test reports of over a hundredfold increase in useful operating life. They also help improve efficiency and provide further benefits to end-users that include reduced downtime and extended service intervals. Each of these features bring environmental benefits.

Hardide's coatings are non-toxic and are environmentally compliant. Used to replace hard chrome plating (HCP) on components, they eliminate the health hazard that the production of HCP presents and reduce the amount of toxic chrome sludge in landfills, which pose threats to both soil and groundwater. Hardide can be used instead of high-velocity oxy-fuel (HVOF) thermal spray coatings, which can contain cobalt. The use of cobalt is currently under review by the European Chemicals Agency and is thought likely to be restricted or possibly banned in the future.

Electricity usage

	FY21
Total electricity used (kWh)	1,403,769
Intensity ratio: kWh/£m sales	389.9

CO_2 Emissions

	FY21
Total CO_{2e} emissions (t)	547.8
Intensity ratio: tCO_{2e}/£m sales	152.2

Water

Any water used in the coating process is filtered, stored in interception tanks and before discharged to drain, is analysed to ensure compliance with permitted limits. All gaseous emissions are passed through a series of wet scrubbers to ensure that there are no harmful emissions to atmosphere. The resulting wastewater is treated and tested as above. Regular testing of discharges to drain are taken and analysed by the local water companies.

Water usage

	FY21
Total water used (m^3)	198.4
Normalised usage (m^3/£m sales)	55.1

Environmental Management Systems

Our site in Bicester is accredited to the requirements of ISO 14001:2015 and subjected to regular internal and external auditing. The Martinsville facility complies with the requirements of the local Public Service Authority (PSA) and the State of Virginia Department of Environmental Quality (VDEQ). Regular auditing and sampling of discharges to drain takes place.

Waste

Most customer parts for coating arrive in packaging which is reused to return the parts to the customer. Only a small amount of waste is sent to landfill and consists of such items as general office waste, non-reusable packaging and plastic containers from suppliers.

Metal residue resulting from the coating process and any metal used in masking and tooling of the products is segregated and sold to metal recycling companies.

All chemical process waste is stored and collected by specialist chemical waste disposal companies. All waste is segregated into waste streams and disposed of in accordance with local regulations. Waste transfers are recorded, verified and audited.

Landfill Waste Generated

	FY21
Total waste to Landfill (t)	27.3
Normalised (t/£m sales)	7.6

Volatile Organic Compounds (VOCs)

Prior to processing, Perchloroethylene ('Perc') is used to remove any oils and greases on parts received. This is essential for the coating process to be successful. We have installed a new, sophisticated solvent cleaning machine which cleans and then re-generates the solvent, thus 'top-up' with fresh solvent is required only rarely. VOC usage has been reduced from c.600kg per year to virtually zero. During FY22 we are developing a plan to upgrade the Perc machine at the Martinsville facility also.

Transport

Customers are responsible for the transport of their goods both to and from our facilities, so Hardide has no influence on the choice of transport or routing.

Electric Vehicles

We are encouraging and supporting our employees in the move towards electric vehicle (EV) use and have installed four EV charging points at our Bicester site.

SOCIAL

Health & Safety

Hardide's priority is the health, safety and well-being of its employees, visitors and contractors. In addition to First Aiders, Hardide has trained Mental Health First Aiders to support our staff's mental wellbeing. To maintain physical health, we have an external Occupational Health provider which undertakes regular testing of our employees. We also enrol all staff into a Health Payment Plan which includes access to a 24-hour medical helpline.

Work Related Lost Time Incidents

	FY21
Total lost time incidents	2
Incident rate*	2.37

Lost time incidents are classed as >1 day absence following day of incident. Incident rate is defined as the number of lost time incidents per 100,000 hours worked

Diversity

	Males	Females	Total	Male %	Female %
Directors	6	0	6	100	0
Staff	41	4	45	91.1	8.9
Total group	47	4	51	92.2	7.8

Nationality	Nine nationalities across the Group
Employee turnover rate	10.8%
Pay equity - CEO pay as multiple of median UK earnings	6.13

Local Community

Hardide is a socially-responsible Group and monitors its effect on local communities and society in general.

Our new facility is located at an industrial estate away from any domestic housing, thereby eliminating noise that might otherwise affect the local community.

We work actively with a local school to support Year 7 students with their STEM projects.

COVID-19

The Group has taken precautions to protect all its employees, 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 and more frequent and rigorous cleaning regimes. Where appropriate, and to minimise the number of staff on-site at any one-time, some staff have been able to worked from home and some were 'flexibly-furloughed' during the year.

GOVERNANCE

Key Metrics

Are the CEO's and Chairman's roles split?	Yes
Adheres to QCA Corporate Governance code?	Yes
Percentage of non-executive directors on board	50%
Has an Ethics Policy?	Yes
Has an Environmental Policy?	Yes
Has a Discrimination Policy?	Yes

Responsible Business Ethics

Well before The Bribery Act 2011 (The Act) came into force, the Group had in place a full 'Anti-Bribery Policy', and also a 'Whistleblowing Policy'. Under guidelines set by the Board, a designated Group Compliance Officer, who reports to the Board, manages the processes and procedures that flow from these policies; in particular the areas perceived to be most at risk from bribery or behaviour that is fraudulent or unethical. Any member of staff may raise in confidence, with any director, concerns about financial or other impropriety. 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 Employee Handbook. Annually, all staff are required to confirm that they have read, understood and complied with these. Hardide's anti-bribery policy and guidance thereon may be found on the Group's website.

Conflict Minerals

The Group has undertaken a due diligence exercise with suppliers of its key process gases which has confirmed that conflict minerals are not used in their production.

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 2021 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 2021 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.

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

The Group leases property in the UK and completed a move of premises in Autumn 2020 whilst completing its term of lease on its former UK premises during the year ended 30 September 2021. As detailed in note 15 to the financial statements, the Group has recognised a provision for dilapidations of £80,000 (2020: £100,000) and a provision for an onerous lease of £4,000 (2020: £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 loss-based 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 £54,000 (2020: £71,000). Performance materiality of £38,000 (2020: £50,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £2,700 (2020: £3,500), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report on disclosure matters that we identified when assessing the overall presentation of the financial statements.

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

The parent company does not generate significant sales and incurs significant expenditure. As a result, we believe a loss-based measure to be the most appropriate benchmark to use to calculate materiality. Having regard to both the size of the company and its performance, 5% of the loss before tax, after adjusting for foreign exchange gains and losses on intercompany balances and intercompany charges, was viewed as an appropriate level to set materiality, capped at an allocation of Group materiality. Based on our professional judgement materiality was set at £54,000 (2020: £66,000). Performance materiality of £38,000 (2020: £46,000) was applied for testing and it was agreed with the Board that we would report on all audit differences in excess of £2,700 (2020: £3,300), 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.

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 £54,000.

Materiality in the prior year was based on a pre-tax loss-based benchmark.

CONCLUSIONS RELATING TO GOING CONCERN

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's or the parent Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The other information comprises the information included in the Annual Report other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information contained within the Annual Report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon. 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 course of the audit, or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. 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 pages 24-25, 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.

AUDITOR'S 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 statements.

Because of the inherent limitations of an audit, there is a risk that we will not detect all irregularities, including those leading to a material misstatement in the financial statements or non-compliance with regulation. This risk increases the more that compliance with a law or regulation is removed from the events and transactions reflected in the financial statements, as we will be less likely to become aware of instances of non-compliance.

The risk is also greater regarding irregularities occurring due to fraud rather than error, as fraud involves intentional concealment, forgery, collusion, omission or misrepresentation.

The specific procedures for this engagement that we designed and performed to detect material misstatements in respect of irregularities, including fraud, were as follows:

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

14 February 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 30 September 2021

	Note	2021 £ '000	2020 as restated £ '000
Revenue	2	**3,597**	4,756
Cost of sales		**(2,286)**	(2,436)
Gross profit		**1,311**	2,320
Administrative expenses		**(2,795)**	(2,775)
Depreciation and amortisation of owned assets		**(854)**	(477)
Depreciation of right of use assets		**(280)**	(288)
Exceptional items:			
Share based payments	18	**(202)**	(86)
Provisions	15	**(6)**	42
Operating (loss)	3	**(2,826)**	(1,264)
Finance income	4	**3**	11
Finance costs	5	**(17)**	(12)
Finance costs on right of use assets	5	**(87)**	(91)
(Loss) on ordinary activities before taxation		**(2,927)**	(1,356)
Taxation	7	**125**	65
(Loss) on ordinary activities after taxation		**(2,802)**	(1,291)
(Loss) per share: Basic	8	**(5.2)p**	(2.5)p
(Loss) per share: Diluted	8	**(5.2)p**	(2.5)p
Other Comprehensive Income			
Items that may be reclassified to profit or loss: Exchange differences on translation of foreign operations		**(87)**	(73)
Total comprehensive loss for the year attributable to owners of the parent company		**(2,889)**	(1,364)

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 2021

	Note	**2021 £ '000**	2020 £ '000
Assets			
Non-current assets			
Goodwill	9	**69**	69
Intangible assets	10	**36**	50
Property, plant & equipment	11	**5,700**	6,337
Right of use assets	12	**1,881**	2,130
Total non-current assets		**7,686**	8,586
Current assets			
Inventories	13	**504**	565
Trade and other receivables	13	**583**	486
Other current financial assets	13	**442**	395
Cash and cash equivalents	13	**1,543**	2,715
Total current assets		**3,072**	4,161
Total assets		**10,758**	12,747
Liabilities			
Current liabilities			
Trade and other payables	14	**702**	906
Financial liabilities	14	**208**	91
Right of use lease liability	14	**201**	193
Provisions			
Provision for grant repayment	15	**-**	116
Provision for onerous lease and dilapidations	15	**34**	45
Total current liabilities		**1,145**	1,351
Net current assets		**1,927**	2,810
Non-current liabilities			
Financial liabilities	16	**738**	407
Right of use lease liability	16	**1,911**	2,046
Provisions			
Provision for onerous lease and dilapidations	15	**50**	106
Total non-current liabilities		**2,699**	2,559
Total liabilities		**3,844**	3,910
Net assets		**6,914**	8,837
Equity attributable to equity holders of the parent			
Share capital	17	**3,942**	3,836
Share premium	17	**18,854**	18,196
Retained earnings		**(16,012)**	(13,210)
Share-based payments reserve		**562**	360
Translation reserve		**(432)**	(345)
Total equity		**6,914**	8,837

The financial statements were approved and authorised for issue by the Board on 14 February 2022.

Robert Goddard
Chairman

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 September 2021

	2021 £ '000	2020 £ '000
Cash flows from operating activities		
Operating (loss)	**(2,826)**	(1,264)
Impairment of intangibles	**18**	13
Depreciation on owned assets	**836**	464
Depreciation on right of use assets	**280**	288
Share option charge	**202**	86
Decrease in inventories	**61**	126
(Increase) / decrease in receivables	**(115)**	388
(Decrease) in payables	**(204)**	(445)
(Decrease) in provisions	**(183)**	(144)
Cash used in operations	**(1,931)**	(488)
Finance income	**3**	11
Finance costs	**(17)**	(12)
Right of use asset interest	**(87)**	(91)
Tax received	**96**	76
Net cash used in operating activities	**(1,936)**	(504)
Cash flows from investing activities		
Proceeds from sales of property, plant and equipment	**18**	-
Purchase of intangibles	**(4)**	(33)
Purchase of property, plant and equipment	**(313)**	(4,133)
Net cash used in investing activities	**(299)**	(4,166)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**764**	2,372
New loans raised	**553**	402
Loans repaid	**(101)**	(75)
Repayment of leases	**(273)**	(221)
Net cash generated from financing activities	**943**	2,478
Effect of exchange rate fluctuations	**120**	98
Net (decrease) in cash and cash equivalents	**(1,172)**	(2,094)
Cash and cash equivalents at the beginning of the year	**2,715**	4,809
Cash and cash equivalents at the end of the year	**1,543**	2,715

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2021

	Share Capital £ '000	Share Premium £ '000	Share-based Payments £ '000	Translation Reserve £ '000	Retained Earnings £ '000	Total Equity £ '000
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
At 1 October 2020	**3,836**	**18,196**	**360**	**(345)**	**(13,210)**	**8,837**
Issue of new shares	**106**	**658**	**-**	**-**	**-**	**764**
Share options	**-**	**-**	**202**	**-**	**-**	**202**
Exchange translation	**-**	**-**	**-**	**(87)**	**-**	**(87)**
Loss for the year	**-**	**-**	**-**	**-**	**(2,802)**	**(2,802)**
At 30 September 2021	**3,942**	**18,854**	**562**	**(432)**	**(16,012)**	**6,914**

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 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 2022

- IFRS 3 – Business Combinations – references to conceptual framework
- Amendments to IAS 16 – Proceeds before intended use
- Classification of liabilities as current or non-current (amendments to IAS 1)
- 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.

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 probable 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 53% 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. The Group also considers the expected number of share options expected to vest in relation to share options with vesting conditions linked to the Group's trading performance. The Directors estimate the number of options expected to vest with reference to previous experience.

(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 2021

	UK operation £ '000		US operation £ '000		Corporate £ '000		Eliminations £ '000		Total £ '000	
	2021	2020	**2021**	2020	**2021**	2020	**2021**	2020	**2021**	2020
External revenue	**1,922**	3,192	**1,674**	1,564	**-**	-	**-**	-	**3,596**	4,756
Interest revenue	**1**	1	**-**	-	**2**	10	**-**	-	**3**	11
Interest expense	**96**	91	**8**	12	**-**	-	**-**	-	**104**	103
Depreciation	**818**	436	**316**	329	**-**	-	**-**	-	**1,134**	765
Income tax	**-**	-	**-**	-	**125**	65	**-**	-	**125**	65
Provision	**6**	-	**-**	(42)	**-**	-	**-**	-	**6**	(42)
Reportable segment profit / (loss)	**(1,997)**	(344)	**79**	(181)	**(1,161)**	(1,281)	**277**	515	**(2,802)**	(1,291)
Segment assets	**7,083**	8,041	**2,891**	2,761	**4,732**	4,677	**(3,948)**	(2,732)	**10,758**	12,747
Expenditure for non-current assets	**237**	3,790	**62**	376	**-**	-	**-**	-	**299**	4,166
Segment liabilities	**5,742**	4,718	**12,071**	12,460	**344**	94	**(14,313)**	(13,362)	**3,844**	3,910

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					
2021	**1,257**	**176**	**2,149**	**15**	**3,597**
2020	2,315	122	2,315	4	4,756

The UK operation sells to the UK, Europe and some North American customers, while the US operation only sells to North America. During 2021, of the £2,149,000 sales to North American customers, £475,000 originated from the UK operation. All revenue is recognised at a point in time and no revenue is recognised over time.

Five external customers (2020 – two) contributed more than 10% of the Group's continuing external sales for the year ended 30 September 2021. The external sales for these customers were £1,145,000, £615,000, £445,000, £441,000 and £392,000 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):		2021 £ '000	2020 £ '000
Auditor's remuneration			
fees payable to the Company's current auditor for:			
- the audit of the Group's accounts		**35**	16
- fees payable for tax compliance		**7**	3
Cost of inventory recognised as an expense		**1,006**	1,147
Research and development		**501**	526
Income from grants		**(205)**	(318)
Share option expense		**202**	86
Depreciation and amortisation	- owned assets	**854**	477
	- right of use assets	**280**	288
Exchange differences		**23**	28

Income from grants includes $149,000 (£108,000) received from the US Small Business Association's Paycheck Protection Programme. This loan has been forgiven during the year and does not require repayment. The Group has also utilised the Government's Coronavirus Job Retention Scheme during the year, and income from grants includes £76,000 received under this scheme.

Share based payments were included within administrative overheads in the prior year. For the current year, these have been disclosed separately on the face of the consolidated statement of comprehensive income under exceptional items as the Directors consider the expense to be of significance to the reporting of the financial performance of the Group. There are no changes to the Operating Loss previously reported.

4. FINANCE INCOME

	2021 £ '000	2020 £ '000
Interest on bank deposits	**3**	11

5. FINANCE COSTS

	2021 £ '000	2020 £ '000
Interest on loans	**17**	12
Interest on right of use assets	**87**	91
	104	103

6. EMPLOYEES

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

	2021	2020
Technical	**15**	15
Production	**19**	21
Sales and marketing	**6**	5
Management and administration	**6**	6
	46	47

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

	2021 £ '000	2020 £ '000
Wages and salaries	**2,323**	2,462
Social security costs	**241**	249
Employer pension contributions	**44**	48
Share option expense	**202**	86
	2,810	2,845

Of the total share option expense of £202,000 in the year, £164,000 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% (2020: 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:

		2021 £ '000	2020 as restated £ '000
Philip Kirkham (Chief Executive)	Salary	**193**	191
Dr Yuri Zhuk (Technical Director)	Salary	**118**	117
	Pension	**8**	16
Simon Hallam (Finance Director)	Salary	**100**	45
	Other benefits	**8**	3
	Pension	**1**	1
Robert Goddard (Non-Executive Chairman)	Fees	**50**	50
Andrew Boyce (Non-Executive Director)	Fees	**25**	25
Tim Rice (Non-Executive Director)	Fees	**25**	25
Total directors' remuneration		**528**	473

The comparatives for certain directors have been restated for pension contributions and to include other benefits.

7. TAXATION

(a) Tax on ordinary activities:	**2021 £ '000**	2020 £ '000
UK Corporation Tax Charge	**(87)**	(23)
Adjustment in respect of prior years	**(38)**	(42)
	(125)	(65)
Deferred Tax		
Origination and reversal of timing differences	**-**	-
Adjustments in respect of prior periods	**-**	-
Effect of rate change on opening balance	**-**	-
Tax	**(125)**	(65)

(b) Factors affecting current tax charge:
The tax assessed on the profit on ordinary activities for the year is lower than (2020: lower than) the standard rate of corporation tax in the UK of 19% (2020: 19%)

	2021 £ '000	2020 £ '000
Loss on ordinary activities before taxation	**(2,927)**	(1,356)
Loss on ordinary activities by rate of tax	**(556)**	(258)
Effect of:		
Expenses not deductible for tax purposes	**42**	(49)
Deferred tax not recognised	**836**	428
Adjustment in respect of prior periods	**(38)**	(42)
Adjustment to opening / closing deferred tax	**(361)**	(91)
R&D enhanced expenditure	**(77)**	(74)
R&D surrendered	**23**	21
Other differences	**6**	-
Total current tax (note 7a)	**(125)**	(65)

The standard rate of corporation tax in the UK is currently 19% (2020: 19%). The Group has unutilised trading tax losses in the UK of approximately £11.2m (2020: £7.3m) 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.

Changes in tax rates
On 3 March 2021, the Chancellor of the Exchequer announced an increase in the rate of Corporation tax to 25% to take effect from 1 April 2023 for companies who profits are greater than £250,000 per annum. The impact of the change in tax rate to current tax for the year ended 30 September 2021 is not material. The impact of the change in tax rate to deferred tax not recognised at 30 September 2021 would be an increase in deferred tax assets not recognised of £264,000.

8. EARNINGS PER ORDINARY SHARE

	2021 £ '000	2020 £ '000
(Loss) on ordinary activities after tax	**(2,802)**	(1,291)

Basic earnings per ordinary share:

Weighted average number of ordinary shares in issue	**53,672,622**	51,911,022
Earnings per share	**(5.2)p**	(2.5)p

As net losses were recorded in 2021 and 2020, 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 2020 and 30 September 2021	69
Net book value at 1 October 2020 and 30 September 2021	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.

The Group tests whether goodwill has suffered any impairment on an annual basis. The Directors consider there to be one-cash generating unit for the purposes of assessing for impairment of goodwill. For the 2021 and 2020 reporting periods, the recoverable amount of the cash-generating unit (CGU) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets approved by management covering the following financial year, together with a 3 year strategic plan. The Directors consider the recoverable amount of the cash-generating unit exceeds the carrying value of goodwill under this period of financial budgets and strategic plans and, therefore, have not extrapolated the cash flow projections over a longer period.

The Directors estimate discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific to the CGU. The Directors have a applied a discount rate of 4%.

The key assumptions used by management in setting the financial budget and strategic plan include forecast sales growth rates, expected changes to selling prices, material costs and operating profits. Forecast sales growth rates are based on past experience and expected outcomes of current development work.

The Group has conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount of goodwill. The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount of the CGU is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the CGU.

10. INTANGIBLE ASSETS

	2021 £ '000	2020 £ '000
Cost at 1 October	**76**	44
Additions	**4**	33
Disposals	**(2)**	(1)
Cost at 30 September	**78**	76
Amortisation b/fwd	**26**	14
Disposals	**(2)**	(1)
Amortisation in the year	**18**	13
Amortisation c/fwd	**42**	26
Net book value at 1 October	**50**	30
Net book value at 30 September	**36**	50

11. PROPERTY, PLANT AND EQUIPMENT

	Leasehold buildings £ '000	Plant, vehicles and fixtures £ '000	Computer equipment £ '000	Total £ '000
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**
Cost at 1 October 2020	1,749	8,548	174	10,471
Additions	48	256	9	313
Disposals	(4)	(861)	(17)	(882)
Exchange differences	(11)	(128)	(2)	(141)
Cost at 30 September 2021	**1,782**	**7,815**	**164**	**9,761**
Depreciation at 1 October 2020	381	3,657	96	4,134
Provided in the year	159	649	28	836
Disposals	(4)	(848)	(13)	(865)
Exchange differences	(5)	(38)	(1)	(44)
Depreciation at 30 September 2021	**531**	**3,420**	**110**	**4,061**
Net book value at 1 October 2020	1,368	4,891	78	6,337
Net book value at 30 September 2021	**1,251**	**4,395**	**54**	**5,700**

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**
Cost at 1 October 2020	**2,320**	**71**	**27**	**2,418**
Additions	-	-	23	23
Disposals	-	-	(9)	(9)
Adjustments	37	-	-	37
Exchange differences	(13)	-	-	(13)
Cost at 30 September 2021	**2,344**	**71**	**41**	**2,456**
Depreciation at 1 October 2020	**261**	**17**	**10**	**288**
Provided in the year	244	25	11	280
Disposals	-	-	(9)	(9)
Adjustments	18	-	-	18
Exchange differences	(2)	-	-	(2)
Depreciation at 30 September 2021	**521**	**42**	**12**	**575**
Net book value at 1 October 2020	2,059	54	17	2,130
Net book value at 30 September 2021	**1,823**	**29**	**29**	**1,881**

13. CURRENT ASSETS

	2021 £ '000	2020 £ '000
Inventories		
Raw materials and consumables	**288**	406
Manufactured parts for resale	**177**	137
Work in progress	**39**	22
	504	565
Receivables		
Trade receivables	**572**	474
Other receivables	**11**	12
	583	486
Other current financial assets		
Prepayments	**221**	209
VAT receivable	**68**	63
Accrued income	**153**	123
	442	395
Cash and cash equivalents		
Sterling	**688**	2,000
US Dollar	**839**	626
Euro	**16**	89
	1,543	2,715
Total current assets	**3,072**	4,161

There is no general provision for bad debts. During the year, one specific trade receivable amounting to £1,000 was classified as a bad debt (2020: Nil). 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 other than the one referred to above required impairment. The ageing of trade receivables is as follows:

	2021 £ '000	2020 £ '000
Current	**263**	294
1 month	**284**	125
2 months	**2**	36
3 months	**3**	-
More than 3 months	**20**	19
Total trade receivables	**572**	474

A total of £309,000 (2020: £180,000) trade receivables are over 30 days old and therefore overdue.

14. CURRENT LIABILITIES

	2021 £ '000	2020 £ '000
Trade payables	**460**	661
Taxation and social security costs	**62**	62
Accruals	**180**	183
	702	906
Lease incentives	**-**	-
Loans and deferred income	**208**	91
Right of use lease liability	**201**	193
Total current liabilities	**1,111**	1,190

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.

In January 2021, the Group 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.

In March 2021, the Group also entered into a £250,000 Coronavirus Business Interruption Loan Scheme (CBILS) backed loan facility with Maven Capital Partners LLP. The term is over 48 months at an interest rate of 8%, with the first loan repayment instalment commencing in March 2022.

15. PROVISIONS

	Grants £ '000	Onerous lease £ '000	Dilapidations £ '000	Total £ '000
Provision at 1 October 2019	**260**	**51**	**50**	**361**
Provisions utilised	(95)	-	-	(95)
Provisions charged	(42)	-	50	8
Effect of movements in exchange rates	(7)	-	-	(7)
Provision at 30 September 2020	**116**	**51**	**100**	**267**
Provision at 1 October 2020	116	51	100	267
Provisions utilised	(108)	(47)	(50)	(205)
Provisions charged	-	-	30	30
Effect of movements in exchange rates	(8)	-	-	(8)
Provision at 30 September 2021	**-**	**4**	**80**	**84**

	2021 £ '000	2020 £ '000
Maturity analysis:		
Within 1 year	**34**	161
1 to 2 years	**-**	56
2 to 3 years	**-**	-
3 to 4 years	**-**	-
4 to 5 years	**-**	-
5+ years	**50**	50
	84	267

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 considered that they were unlikely to be achieved by the performance dates currently in place, and repaid $116,000 in respect of one of the grants in February 2020. The Group repaid the other grant, worth $150,000, in two equal instalments in March 2021 and June 2021.

The Directors reviewed the estimate of remaining dilapidation costs for the Wedgwood Road site, and increased the provision by a further £30,000. Under IFRS 16, this has been capitalised in the right of use asset value.

16. NON-CURRENT OTHER FINANCIAL LIABILITIES

	2021 £ '000	2020 £ '000
Loans and deferred income	**738**	407
Right of use lease liability	**1,911**	2,046

Right of use lease liabilities

	2021 £ '000	2020 £ '000
Total lease liabilities	**2,112**	2,239

Maturity analysis:		
Within 1 year	**201**	193
1 to 2 years	**188**	196
2 to 3 years	**184**	180
3 to 4 years	**167**	177
4 to 5 years	**133**	159
5+ years	**1,239**	1334

17. SHARE CAPITAL

	2021		2020	
	Number 000	**Value £ '000**	Number 000	Value £ '000
Allotted ordinary shares of 4p each	**55,876**	**2,235**	53,219	2,129
Allotted deferred shares of 0.9p each	**189,642**	**1,707**	189,642	1,707

During the year, the Company raised £795,000 before expenses (£764,000 net of commission, legal fees and expenses) by way of placing 2,656,959 ordinary 4p shares at a price of 30.9p per share. No employee share options were exercised during the year (2020: 104,740).

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 2020	3,030,364	50.9p
Exercisable at 30 September 2020	1,057,000	40.2p
Granted during year	1,820,108	31.0p
Exercised during year	-	-
Lapsed during year	3,650	30.0p
Outstanding at 30 September 2021	4,846,822	43.6p
Exercisable at 30 September 2021	940,850	37.7p

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

	Number	Weighted average exercise price
Robert Goddard (Chairman)	387,500	41.4p
Philip Kirkham (Chief Executive)	1,983,200	42.9p
Yuri Zhuk (Technical Director)	689,516	46.3p
Simon Hallam (Finance Director)	600,000	30.0p

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

	Number	Exercise price
Robert Goddard (Chairman)	150,000	31.0p
Philip Kirkham (Chief Executive)	741,600	31.0p
Yuri Zhuk (Technical Director)	338,508	31.0p
Simon Hallam (Finance Director)	300,000	31.0p

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 76%, a risk-free interest rate of 0.56%, and an expected life of 8.5 years.

All options have a maximum term of 10 years from date of grant and are settled with equity upon exercise. No options expired during the year. Vesting criteria are a mix of time-based and performance-based. The performance criteria are the market capitalisation or price per share of the Company, or Group profitability, or new business. At 30 September 2021 the weighted average remaining contractual life of all outstanding options was 7 years and 3 months (2020: 8 years and 3 months).

The total charge to the income statement for share options during the year was £202,000 (2020: £86,000).

19. POST BALANCE SHEET EVENTS

On 19 January 2022, Hardide Coatings Inc entered into a $438,000 (£325,000) asset finance agreement with The American National Bank and Trust Company, Hardide Coatings Inc's US bankers. The term is over 60 months at an interest rate of 4%, with the first loan repayment instalment commencing in February 2022.

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 $6,000 (£4,000) for the purchase of equipment (2020: £45,000). Hardide Coatings Ltd had capital commitments of £35,000 for the purchase of equipment (2020: £124,000) and £Nil for leasehold improvements (2020: £11,000).

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 2021 the Group had trade receivables and other receivables of £583,000 (2020: £486,000) and cash deposits of £1,543,000 (2020: £2,715,000).

The Group does not consider the effect of expected credit losses to be material.

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 2021 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 £23,000 (2020: £28,000).

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 2021, 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 2021

	Note	**2021 £ '000**	2020 £ '000
Assets			
Non-current assets			
Investments	3	**1,267**	1,235
Amounts owed by group undertakings	4	**11,632**	11,868
Provision	4	**(11,632)**	(11,868)
Total non-current assets		**1,267**	1,235
Current assets			
Trade and other receivables	5	**2,883**	1,645
Cash and cash equivalents		**582**	1,797
Total current assets		**3,465**	3,442
Total assets		**4,732**	4,677
Liabilities			
Current liabilities			
Trade and other payables	6	**94**	94
Financial liabilities	6	**47**	-
Total current liabilities		**141**	94
Net current assets		**3,324**	3,348
Non-current liabilities			
Financial liabilities	7	**203**	-
Total non-current liabilities		**203**	-
Total liabilities		**344**	94
Net assets		**4,388**	4,583
Equity			
Share capital	8	**3,942**	3,836
Share premium		**18,854**	18,196
Retained earnings		**(18,970)**	(17,809)
Share-based payments reserve		**562**	360
Total equity		**4,388**	4,583

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 £1,161,000 (2020: loss of £1,281,000) after accounting for a reduction in the provision against the intercompany loan of £236,000 and an exchange rate loss on intercompany loan of £514,000.

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

The financial statements were approved and authorised for issue by the Board on 14 February 2022.

Robert Goddard
Director

STATEMENT OF CASH FLOWS

For the year ended 30 September 2021

	2021 £ '000	2020 £ '000
Cash flows from operating activities		
Operating (loss)	**(1,011)**	(848)
Share option charge	**202**	86
Movement in investment in subsidiaries	**(32)**	(17)
(Increase) / decrease in receivables	**(22)**	1
(Decrease) in payables	**-**	(91)
Cash used in operations	**(863)**	(869)
Finance income	**2**	10
Tax received	**96**	76
Net cash used in operating activities	**(765)**	(783)
Cash flows from investing activities		
Net loan to subsidiaries	**(1,464)**	(3,322)
Net cash used in investing activities	**(1,464)**	(3,322)
Cash flows from financing activities		
Net proceeds from issue of ordinary share capital	**764**	2,372
New loans raised	**250**	-
Net cash used in financing activities	**1,014**	2,372
Net increase in cash and cash equivalents	**(1,215)**	(1,733)
Cash and cash equivalents at the beginning of the year	**1,797**	3,530
Cash and cash equivalents at the end of the year	**582**	1,797

STATEMENT OF CHANGES IN EQUITY

For the year ended 30 September 2021

	Share Capital £ '000	Share Premium £ '000	Share-based Payments £ '000	Retained Earnings £ '000	Total Equity £ '000
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
At 1 October 2020	**3,836**	**18,196**	**360**	**(17,809)**	**4,583**
Issue of new shares	**106**	**658**	**-**	**-**	**764**
Share options	**-**	**-**	**202**	**-**	**202**
Loss for the year	**-**	**-**	**-**	**(1,161)**	**(1,161)**
At 30 September 2021	**3,942**	**18,854**	**562**	**(18,970)**	**4,388**

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:

	2021 Number	2020 Number
Management and administration	**2**	2
Sales and marketing	**1**	1
Technical	**5**	5
	8	8

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

	2021 £ '000	2020 £ '000
Wages and salaries	**701**	743
Social security costs	**83**	78
Share option expense	**170**	69
Employer pension costs	**15**	22
	969	912

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

3. INVESTMENTS

	2021 £ '000	2020 £ '000
Investments in subsidiaries	**1,267**	1,235

At 30 September 2021 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 £11,632,000 (2020: £11,868,000) 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 £236,000 (2020: £18,000 reduction) has been credited to the profit and loss account in the year.

5. TRADE AND OTHER RECEIVABLES

	2021 £ '000	2020 £ '000
Prepayments and accrued income	**202**	151
Amounts owed by group undertakings	**2,681**	1,494
	2,883	1,645

The amounts owed by group undertakings are unsecured and interest free, and are repayable on demand.

6. CURRENT LIABILITIES

	2021 £ '000	2020 £ '000
Trade payables	**29**	30
Social security and other taxes	**26**	27
Accruals and deferred income	**39**	37
	94	94
Loans	**47**	-
Total current liabilities	**141**	94

7. NON-CURRENT OTHER FINANCIAL LIABILITIES

	2021 £ '000	2020 £ '000
Loans	**203**	-

On 17 March 2021, the company entered into a £250,000 Coronavirus Business Interruption Loan Scheme (CBILS) backed loan facility with Maven Capital Partners LLP. The term is over 48 months at an interest rate of 8%, with the first loan repayment instalment commencing in March 2022.

8. SHARE CAPITAL

	2021		2020	
	Number 000	Value £ '000	Number 000	Value £ '000
Allotted ordinary shares of 4p each	**55,876**	**2,235**	53,219	2,129
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.

9. CAPITAL COMMITMENTS

The company has no capital commitments at 30 September 2021 or 30 September 2020.

10. CONTINGENT LIABILITIES

There were no contingent liabilities at 30 September 2021 or 30 September 2020.

11. 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:

	2021		2020	
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	**177**	**-**	183	-
Transfers of research and development costs	**(57)**	**-**	(60)	-
Transfers under licence agreements	**192**	**-**	319	-
Transfers under finance arrangements	**875**	**236**	2,372	515
Balance outstanding at 30 September	**2,681**	**11,632**	1,494	11,868

12. FINANCIAL INSTRUMENTS

The financial instruments risk management is disclosed in note 23 of the Group financial statements and applies to the parent Company with the amounts as disclosed in notes 5 and 6 of the Company's notes to the financial statements.

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